Newcastle University

PhD Dissertation

Towards a Cultural International Political Economy of Financialisation: the Transformation of Private Pension Provision in the United Kingdom

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Abstract

In the last two decades especially, the scale, depth and intensity of competitive changes in the financial services marketplace have progressed to new heights. Financialisation, as it has become known, is creating new opportunities and constraints for nations, businesses and 'people', as the circuits of production have become more closely bound up with the innovative dynamics and institutions of the capital market. In an attempt to define, measure and explain the financialisation of the economy, this thesis draws upon a unique theoretical framework to explore the transformations in private pension provision. Using the work of Karl Polanyi as our guide, and particularly of those ideas found in his seminal book *The Great Transformation*, we posit that financialisation has gone through two different stages that we call disembedding and re-embedding. To articulate this proposition and to examine it beyond conventional economic accounts, we draw upon a wide variety of cultural (political) economic scholars, such as Veblen, Foucault, Bourdieu, Giddens, Callon and Thrift, whose ideas collectively help us to understand the cultural processes, strategies, conflicts, interactions and performances underpinning the ongoing evolution of financialisation in society. Applying this framework, we find that the collective pensions that were once part of a unified post-war political economy have come under threat from the new idea that welfare should be linked to the vagaries and anonymous circuits of the stock market. Disembedding has taken its form through the financialisation of pension provision, encouraging an explicit change from collective welfare to individual responsibility. While the individual has become precariously embedded as a financial consumer inside commercial market relations, it is doubtful whether this model is sustainable and practical as a means of delivering social inclusion and political enrichment.

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Dedicated to Mum, Dad, Clare, Marc, Tabby, Mairead, Franky and Striker

Friedrich Nietzsche
Philosopher

> My point is already clear: this ascetic priest, this apparent enemy of life, this man of negation – yes, even he counts among the very great forces which *conserve* and *affirm* life…What is the reason for this sickliness? For man is more sick, more uncertain, more mutable, less defined than any other animal, there is no doubt about that – he is the sick animal: why is that? Certainly, he has also been more daring, innovative, and defiant and has challenged fate more than all the other animals put together: he, the great experimenter with himself, the unsatisfied, unsated one who struggles with animal, nature, and the gods for ultimate mastery – he, the one who remains undefeated, eternally orientated towards the future, who can find no respite from his own compelling energy, so that the spur of the future mercilessly digs into the skin of every present – how should such a courageous and well-endowed animal not also be the most endangered, the most chronically and deeply sick of all the sick animals?...Man has had enough – there are, often enough, whole epidemics of this satiety; but, like everything else, even this disgust, this fatigue, this frustration with himself emerges so powerfully in him that it is immediately transformed into another chain. The No which he says to life brings, as if by magic, an abundance of tender Yeses to light; even when this master of destruction, of self-destruction wounds himself – it is the wound itself which afterwards compels him to live…

On the Genealogy of Morals (1887/1998: 100)

Samir Amin
Academic and writer

> ...by dint of its completely generalised nature, embracing each and every segment of the world system, financialisation has acquired an unprecedented dimension. What future is taking place behind the smoke screen that it puts up? What new system of accumulation is putting itself, or not putting itself, into place? We are here in a field where all – or nearly all – hypotheses are possible, where all scenarios are imaginable; such is the uncertainty of the future and so fragile are our fragments of knowledge concerning the recomposition of the world. The future of globalisation remains a great unknown.

The Challenge of Globalisation (1996: 250)

Adam Tickell
Academic and Writer

> Ultimately, the future of pensions is about the political and economic decisions that our societies make…
>
> ***Pensions and Politics (2003: 1383)***

TABLE OF CONTENTS

PART II: The Financialisation of Private Pension Provision

IX. PREFACE

The motivation for this work was to understand 'financialisation', a relatively new concept in the nomenclature of academia, which has now become the workhorse and the meeting place for many intersecting disciplines (see figure one *Annex B*). I intended to focus on the political economy of financialisation, to go beyond the state-market dichotomy and to see politics and governance in the marketplace. What began as a politics of financialisation evolved into something else, something that required less rules and more epistemological freedom, more creative freedom, which inevitably led to the acquisition of naïve bottlenecks. Like trying to force a melon down a pea shoot, conceptualising financialisation became a creative problem, because the question of politics moved towards questions of culture – questions of meaning; representation; repetition, performativity and reflexivity. This whole project has been a journey of moving 'towards' such questions and never quite reaching their final destination, because in many ways it is futile, if not adolescent, to try and monopolise them, because they are fictitious, they exist in our heads and in a reality that is constantly changing and altering their social forms and significance. This is perhaps another reason why we move 'towards' a Cultural International Political Economy of Financialisation.

How to think about this thesis: imagine Michel Aglietta (1979: 1998), the regulation theorist, the heterodox analyst of the political economy, whom is interested in the systemic connections of production and consumption at the micro, meso and macro levels – the circuits of value creation that connect individuals, governments and institutions into topologies of interaction, output and governance. Now imagine Michel Foucault (1966/2002:1969), the philosopher of history, who turns our world upside down and looks at the propagators of our world, not people, but knowledge – or discourse, that shapes history through the medium and effect of its own meta-narrative, structuring social relations and bodily power without any physical presence what so ever. Discourse is not homogenous, it comes in many forms e.g. science, language or even 'economics'; and so the world that Aglietta describes is the world that Foucault deconstructs. Now finally, imagine Karl Polanyi (1944), the historian, who reminds us of the need for historical understanding and narrative, who looks at the economy as a socially instituted and path-dependent process. In these three scholars, we have the study of norms, the constitution of norms and the transformation of norms. It is between these three scholars that we attempt to situate this work.

The argument: financialisation has gone through a stage and process of disembedding and re-embedding. Anthony Giddens first coined the concept of disembedding, which referred to 'the 'lifting out' of social relations from local contexts of interaction and their restructuring across indefinite spans of time-space' (Giddens, 1990: 21). Giddens's main point was that disembedding bracketed 'time-space by coupling instantaneity and deferral, presence and absence' (ibid.: 25). While Giddens argues that disembedding is inextricably woven into the reflexive and cumulative nature of modernity, it is proposed in this thesis that financialisation is a discursive example of disembedding, with its roots in late-modernity and the Klondike revival of global finance in post-war economic times. We needn't think of financialisation and its qualitative nature as an inevitable process or something that is unquestionably 'progressive', because even the solutions internal to its evolution aspire from fundamental economic assumptions about the good life that privilege individualism over non-competitive ways of life, which may for example – as an alternative, emphasise such things as community, deference and universal social values that we can all agree upon – or at least pursue. The undemocratic nature of financialisation – and its consequences for society, is the main point here and is something that we must address if we are to reconstruct a new politics founded on virtues, as opposed to individualised, fickle, fad-like interests. But to set off on this journey, we must not undermine our opponent, because like a 'soft cage', financialisation is coercive and seductive; it belongs to the historical evolution of the world-system, particularly of modern times, and it compels institutions and people to transform and rationalise their operations and behaviour in such a way as to increase the dominance of finance, as *power* becomes expressed through the medium of the culturally *mundane* economic society. In this case, the post-war institutions, conventions and expectations of *embedded liberalism*, a concept infamously coined by John G. Ruggie (1983), have been 'lifted out' of their historical context and interaction, and restructured to 'fit' the urgencies arising *from within* financialisation itself.

As an observatory note, just think of the many changes in welfare for a while. Since the late 19th century, social movements in Europe urged governments and institutions, and companies, to create benevolent institutions of welfare, not just for the few, but for the many. In the United Kingdom, this call for social justice was consolidated and delivered by Sir William Beveridge in 1942 with the publication of *Social Insurance and Allied Services*; otherwise known as the Beveridge report – where it called for the provision of unemployment insurance, pensions and medical care etc., in order to create a minimum standard of living 'below which no one should be allowed to fall'. This set the post-war paradigm of collective social insurance and traditional responsibility on its way. Out of this momentum in history, great institutions were formed, creating incentives between the employee and employer e.g. final salary pensions; between state and citizen e.g. national insurance and health; between public and private sector. What's more is that the young were responsible, implicitly, for the old – they certainly were not a burden – and the private sector was not necessarily at odds or in tension with the public sector, or the benefits internal to such institutions, because the private sector contributed towards the public sphere from across the fence; it was laden in community relations within a post-war political economy of tripartite relations i.e. labour, capital and state. This is not to say, at all, that this period was utopia or that it was free from ambivalence, because this would not be true. But, for a while, the post-war economy did rest upon a common vision of progress, of wealth creation, where society was respected as an independent, yet mutual partner in the re-stabilisation of the economy, and not, as we increasingly observe today, as an indistinguishable variable of commercial life.

Ironically, the same generations that benefited from the post-war political economy were seemingly seduced by the new frontier of global finance; its institutions and pledges; promises and opportunities; to the extent that we can now talk of financialisation as the *privatisation of positive liberty*. The collective pensions that were once part of a unified post-war political economy have come under threat from the new idea that welfare should be linked to the vagaries and anonymous circuits of the stock market. Disembedding has taken its form through the financialisation of pension provision, encouraging an explicit change from collective welfare to individual responsibility. And so disembedding, the removal of traditional social relations and institutions relates more to the ideas of Karl Polanyi, though Giddens assists in our initial understanding, because disembedding is the prerequisite and the effect of conditions arising from financialisation that are both path-dependent and reflexive.

But as Marx and Engels argued long ago, 'all that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real conditions of life, and his relations with his kind' (Marx and Engels, 1888/2002: 223). It is proposed in the same light as Karl Polanyi that financialisation is also a process of *re-embedding*, where the individual becomes part of the self-regulatory institutions of the free-market society. But unlike Polanyi, it is not necessarily the case that re-embedding is a positive or certain transition i.e. a double movement does not necessarily follow. Though there are a number of possibilities. Firstly, the individual may have learned through his errors in trusting the experts of global finance, and so there could be room for social accountability from the bottom up; *though*, it is doubtful given the freedoms and provisions that finance affords younger generations and people less well off that we will be able to reign in or re-direct value production in ways that restore the linkages between society, community and tradition. In this sense, patterns of re-embedding may also legitimate the very circuits of value production that we see as outside of us and outside of our capacity to transform their kind.

In other words, patterns of re-embedding may take many unforeseen twists and turns revitalising or resolving the residues of crisis left over by disembedding. Or, this secondary stage could be the opportunity for an alternative vision. The post-war movement demonstrated this superbly. Had John Maynard Keynes not delivered his ideas on the post-war international monetary mechanism, we might not be talking of embedded liberalism 'at all'. Ultimately, the pattern of change is 'down to us' as people to explore politics and its many surface outcomes and structural inequalities as part of a deeper, more underlying, less visible pattern of conversations, episodes, routines, perceptions, practices, symbols, semiotics, words and pictures – that connect and initialise action as cultural manifestations of economic life. If we are to handle change for the better, we must understand how it happens, why and what for. The famous International Relations theorist Susan Strange once asked, 'qui bono', and unfortunately, through this academic movement towards 'cultural economy', we might not like the answer we're looking for, because like most things in life – the problem is usually located inside ourselves. To change the economy, we must change our culture – and thus, we must transform ourselves.

Finally, this project is therefore not primarily about the study of pensions. It is about looking at financialisation through pensions. This is an important distinction because while the field of pensions is an articulate and complex discipline, especially to some, it is also highly ineffable to grasp without a microscopic lens that can make sense of its historical and cultural economic significance. This thesis is divided into two main parts. Part I is about understanding financialisation not only as a material process where the graphs literally show finance expanding in every department, but as a process that is historically distinct and peculiar to our modern era – a process that requires a unique framework of understanding that goes beyond conventional neoliberal methodology and methods to explore the initiation and reflexive effect of action from unique standing points. As we delve deeper into the question of financialisation, we should become keenly aware that this concept has many constitutive dimensions that are as much political as they are cultural. And so Part I allows us to journey into Part II, where we apply our Cultural IPE approach to Financialisation by exploring the transformation of private pension provision. It should be noted that we focus on 'private' pensions, rather than strictly state pensions, because while we inevitably touch upon the latter in our analysis, this focus allows us to observe the qualitative changes that have occurred in the vicissitudes of private pension changes. In this novel approach, we explore the macro catalysts of change and the ahistorical re-writing of economic history (Chapter 5); the bottom-up circuits of commonplace saving (Chapter 6); the contingent and fortuitous nature of financial knowledge and 'expert-systems' informing macro transformations (Chapter 7); and lastly (Chapter 8), the reflexive macro consequences of this for the stabilisation of a new private pension policy. Essentially, the case-studies should be seen as slices of history that build up a cumulative picture of financialisation as both stage and process.

Where we end is on the question of our social future and particularly – of what re-embedding means for economic society as our cultural present unfolds, but also how, if possible, we can begin to think of credible alternatives to financialisation, where social accountability is an implicit and in-built by-product of performing connections in the economy, as opposed to an explicit system of democratic surveillance that can only *react* politically inside a cultural economy that it remains inseparable to. This is perhaps the most promising aspect of 'cultural economy'. Given its potential to link micro, meso and macro relations across human, non-human and sensory variables, we have the methodological ability to deliver more sensitive policies based on a much richer comprehension of economic life. Unlike economics or some aspects of economic history, going down the cultural root means bringing together this vast disciplinary space to achieve a much more *intensive* understanding of socio-economic life in particular contexts. In contrast to post-modernism, we can thus aspire to channel economic power for the good based on an empirical understanding of its pitfalls and failings – and especially, to understand how they are created and how they can be adapted to foster and maintain what is one of humanity's greatest achievement yet – the Enlightenment.

XIV. ACKNOWLEDGEMENTS

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During my time at Newcastle University, I worked part time at the Small Enterprise Research Unit (SERU) at Newcastle University. My time at SERU really contributed to this work in more ways than one and I am grateful to Professor Pooran Wynarczyk for many great opportunities and all her encouragement of my work. Also at SERU, I would like to thank the staff and particularly Jonathan Brown for his support and the occasional chat about finance. Other important people at Newcastle have been Ella Richie. Ella has always been a keen supporter and I am grateful for her cheerful help along the way. Many thanks go to Olivia Grant for her support and encouragement from the very beginning. While I cannot mention everyone by name, I would like to express my thanks to all those who have helped me at Newcastle University, including Caroline Mclean and all of her colleagues.

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XVII. CHARTS

XVIII. ABBREVIATIONS

ALM	Asset Liability Model
AVC	Additional Voluntary Contribution
BIS	Bank Of International Settlements
BISA	British International Studies Association
BBC	British Broadcasting Corporation
BP	British Petroleum
BSP	Basic State Pension
BT	British Telecom
CBI	Confederation of British industries
CIPE	Cultural International Political Economy
DMO	Debt Management Office
ELAS	Equitable Life Assurance Society
EMAG	Equitable Life Members Action Group
ERM	Exchange Rate Mechanism
EPS	Earnings Per Share
ESRC	Economic and Social Research Council
EU25	Group of Twenty-Five European Nations
FSA	Financial Services Authority
FSSU	Federated Superannuation Scheme For Universities
FT	Financial Times
GAR	Guaranteed Annuity Rate
GDP	Gross Domestic Product
GM	General Motors
G7	Group of Seven Nations
HSBC	Hong Kong Shang Hai Banking Cooperation
ICT	Information and Communications Technology
IFA	Independent Financial Advisors
IPE	International Political Economy
IPO	Initial Public Offering
IS-LM	(Macroeconomic) Investment-Savings/Liquidity (Preference) Money (Balances)
IFA	Independent Financial Adviser
IT	Information technology
IVA	Individual Voluntary Arrangements
LME	Liberal Market Economies
LSE	London Stock Exchange
MTFS	Medium Term Financial Strategy
NAPF	National Association of Pension Funds
OECD	Organisation For Economic Co-Operation and Development
PFI	Private Finance Initiative
PHSO	Parliamentary and Health Service Ombudsman
PPS	Personal Pension Scheme
PPF	Pension Protection Fund
PRE	Policyholders Reasonable Expectations
RAC	Retirement Annuity Contract
SERPS	State-Earnings Related Pension Scheme
SME	Small Medium Enterprises
UK	United Kingdom
US	United States of America
WP	With-profits Annuity Policy

Chapter One

Life outside the Cave

Introduction

Thomas Hobbes long ago complained that life was 'nasty, poor, solitary, brutish, and short' and required an absolute sovereign state, the infamous 'Leviathan' to protect its citizens and to enforce law and order in return for their rational obedience (see Bronner, 2004: Jacob, 2001). Today, life could be described as 'pernicious, inegalitarian, individualised, ambivalent and long'. The deliverance of parsimony in Hobbes' vignette denotes the confidence in its uncontested realism and even probably the assumed support for its solution in the form of the state. The modern-day description is less striking and confident. It is entirely contestable. The world today is more civilized and prosperous, but its frustrated lacks are more defying in an age of heightened expectations. The modern-day description assumes a reality complicated by its less visible discrepancies, injustices and inequalities, but it would presuppose that those realities somehow work together to propound present conditions that may not resolve themselves easily. There is another comparison. In Hobbes' day, it was the lack of a legitimate social structure that allowed anarchy and 'self-imposed non-age to reign' (Kant, 1784/2001). The hopes and possibilities of Liberal Enlightenment were positive, wide and varied (see Bronner, 2004). Today, the converse is true. It is perhaps the dominant philosophy, structure and 'cultural international political economy' of modern day society that has become all imposing and limiting of the range and possibilities of political action. Broadly speaking, the scope of the political and its effectiveness in the global economy has been narrowed and it has become a significant question to ask how this narrowing has taken shape and why, what propels it and what are its consequences? If anything, there is an inkling that the solution or tonic to this lies not in the state, but in the cultural economy of society. A fresh democratic consciousness and culture of collective accountability is needed that contains a level of systemic awareness and empathy that is open and sensitive to alternative ideas of what should constitute the good life for all and a willingness to debate and pursue such ideas at the national and global level.

Economy, Culture and Politics

In Plato's most famous allegory, prisoners were tied down facing a wall inside the depths of a cave (Plato, 1955: 255). Upon the cave wall that they faced, they saw moving shadows, which became the object of the prisoners' discussions. Outside the cave and far from the prisoners' imaginations, people moved between the entrance of the cave and a burning fire. To the prisoners, the reality that they experienced and talked about was truth, but it concealed a 'hidden' reality that confounded and contradicted their notion of freedom and truth. Unlike the prisoners in the cave, 'we' stand in the open air – inside economic reality, a world smothered in darkness, despite the twinkling of the economic stars that we ponder; their cycles, dips and crashes; their flashing inventiveness; their boldness and wealth to the skies that divides the vastness of space, which engulfs the bright lights with blackness that can only distract us from the pleasures of our gaze. While we focus on the stars, we remain trapped in the darkness with only meagre light upon which to understand the relations, recklessness and plights of human contact. What remains hidden to us is our truth, our basis point, but this conceals an 'unhiddeness'. As Martin Heidegger[1] argued, 'the Greeks understood what we call the true, as the unhidden, as what is no longer hidden, as what is without hiddenness and, as it were, been robbed of its hiddenness. For the Greeks, therefore, the true is something which no longer possesses something else, namely hiddenness, and is freed from this' (Heidegger, 1988/2002: 7).

The darkness is also our light; hiddenness has become what we can see and it has become commonplace to describe this given perception, this unequivocal reality as economic globalisation. Martin Wolf, the eminent financial journalist of our times and a protagonist of liberal economic freedoms, describes the stars before us;

> Globalisation is defined in what follows as integration of economic activities, via markets. The driving forces are technological and policy changes – falling costs of transport and communications and greater reliance on market forces. The economic globalisation discussed here has cultural, social and political consequences (and preconditions). *But those consequences and preconditions are neither part of its definition nor a focus of our attention'* (Wolf, 2004:19, *my emphasis*).

As an economist and aesthetic priest of globalising modernity, Martin Wolf provides our light, but he controls our darkness. It is because these consequences and preconditions are not part of any comprehensive definition of economics that the epistemological consequences of this knowledge, while socialised, remains depoliticised and hidden from view. As Wolf narrates to those in the darkness the advantages of the twinkling stars, he attempts not to understand why we remain in the darkness, for he focuses our attention to an appreciation of the light. For 'if we want a better world, we need not a different economics, but a better politics' (ibid.: 12). By describing our hiddenness, Martin Wolf conceals our unhiddeness, he conceals the causes of the darkness, by attributing it to the darkness; an area of insecurity, folly, confusion and disaster; areas of complexity, culture, society and politics that provide, it would seem, ruination to the economy and the final prospect of peace. From Wolf's perspective, it is the darkness that spoils the light. More light is needed in conditions of darkness. But where does this come from when the lights have gone out – when the light has become finite, when the light has reached its limit? The 'fault dear Brutus is not in the stars, but in ourselves'. We need not a different politics, *but a better international cultural political economy.*

Martin Wolf (2004) fails to see the relationship between liberalism and the economic ideas that have shaped contemporary society towards three political extremes: political and social passivity; social ambivalence with the consequences of (global) economic management; and political and religious extremism, both in method and principle, against the ethical casualness and hypocrisies of Western market society. As Wolf argues,

> A liberal society is endemically restless and, for those who treasure the unchanging and the traditional, consequently insecure, however wealthy it may become. It does not merely accommodate novelty, but welcomes it. The merchant makes profits by seizing an unperceived opportunity for gain, thereby changing the economic world. The intellectual makes a reputation by arguing something new, thereby changing the beliefs of the world. Traditional hierarchies, deference, ways of life and beliefs are all subject to the solvent action of liberty. *Liberalism means perpetual and unsettling change.* Most of its enemies have, at bottom, hated it for that reason (Wolf, 2004: 25, *my emphasis*).

Who would rightfully deny the Enlightenment principle of progress as 'an attack on the illusion of finality: closure, certainty, and utopia' (Bronner, 2004: 18). But who would rightfully defend perpetual change as the ultimate expression of freedom, if the 'lightness and fluidity of the increasingly mobile, slippery, shifty, evasive and fugitive power' (Bauman, 2000: 14) of private-led change de-limited the space of public accountability and contestation, in ontological as well as practical terms, and therefore our ability to re-invigorate the Enlightenment challenge of 'transforming the invisible into the visible, the ineffable into the discursive, and the unknown into the known (Bronner, 2004: 19).

Martin Wolf's conception of the liberal society provokes a series of questions: should we question change in a liberal society, or should we let it be? If we question change, does this naturally mean that we are giving into fear of what it might bring, better the devil you know springs to mind – and if we let change be, are we not assuming, in some small sense, that things will continue just as they are? Writing over sixty years ago, Karl Polanyi (1944) challenged the same liberal beliefs now supported by Martin Wolf, with his own sentiment that an inert scepticism towards economic change, far from being anti-liberal, was indeed a practicable and sensitive measure of liberal checks and balances. As Polanyi argued,

> The rate of change is often of no less importance than the direction of change itself; but while the latter frequently does not depend upon our volition, it is the rate at which we allow change to take place which may well depend upon us. A belief in spontaneous progress must make us blind to the role of government in economic life (Polanyi, 1944: 37).

If we read into Polanyi's insights correctly, the systemic chaos of economic order as it unfolds in its random complexity, continually demands our response based on our present state of knowledge, the consequences of which are inherently unknowable and uncertain, and which no doubt carry a momentum of their own. By controlling *the rate*, we thereby have the reigns of *its direction*, in some small measure, because we can reflect upon what is useful to us and what is not, what we are ready for and what we are not. Without controlling the rate, we acquiesce in the changes that force us to adapt without question or debate, and so history is allowed to roll over us like a wave, as if we could only prepare for its affects 'accurately' until the very last minute. With this Polanyian insight, we may not be able to prevent the waves of history from occurring, but we can control how and in what way they can affect us if only we improved our long term vision. In other words, it is not the rate of change that is essentially dogmatic, it is our unwillingness or inability to understand and control its nature that is. With this in mind, we may ask, what causes our blindness? Is it our blindness that causes our belief, or our belief that causes our blindness?

Marx and Engels famously argued long ago that 'life is not determined by consciousness, but consciousness by life' (Marx and Engels, 1846/1970: 47). Are we so bogged down by the superficial priorities of life, that we cannot see the complex reasons for their existence? As a general insight into this, a religious woman visiting England from West Africa profoundly stated that the people in 'England live by the clock. But we keep the time'[2]. This appeared to suggest that the nature of clock time, in those countries most influenced by 'advanced' economic change, has narrowed the priorities and sensitivities of human life to economically motivated demands and opportunities, down to our scheduling of leisure and work time, even down to the laughter prompts on TV comedies, all of which heightens our cyclical sense of self-importance and mastery, our position and relation to others in the economic hierarchy, our uncontrollable narcissism and discomfort with the contradictory impulses of ego, if not the compulsion to resolve the lacks that this creates, sometimes through economic mediums that we cannot escape. Whereas, with a pinch of salt of course, those most distant to this kind of economic life contain in themselves a sense of completion, subordination to the serendipity and fortuity of nature, where time and the self is regulated, not by an instrument of economic self-sufficiency, but through bonds to nature and to people, that are intuitive, routine, loyal, enduring, and which are grounded in tradition and cultural continuities of belonging.

Taking Marx and Engels at their word, we must admit however, that there is an odd contradiction between our economic world and the theoretical world of the economy. In our economic world, freedom centres around the clock. Culturally speaking, 'time is money', 'time waits for no man', 'another day, another dollar', are all references, or 'euphemisms', that conceal our own ironic surrendering to the imminence of clock time, in creating freedom (leisure) through wealth. And yet, orthodox economics, the spectacles for our world, indulges in its own tautological frameworks. For example, demand and supply, the Hicksian IS-LM model and the world of rational expectations, all have one thing in common: *they have no concept of time.* Economics is time-less and thereby rules out all those messy, random factors of reality that are not important to the cleanly parsimony of time-less explanation. In this Western centred time-less theory of life, individuals rule themselves through the expectations imposed by clock time, whereas those most distant to this compulsion, it would seem, are governed through otherness.

These are simple, modest observations, but they draw us closer to an understanding of cultural political economy and what this concept means. For example, it would seem that we are not altogether governed or encouraged to self-govern by reality in its essence, but through our own spectacles of knowledge. Let us remember here what Fredric Jameson, the eminent cultural theorist, said of our contemporary times more than twenty years ago,

> I believe that the emergence of postmodernism is closely related to the emergence of this new moment of late, consumer multinational capitalism. I believe also that its formal features in many ways express the deeper logic of that particular system...namely the disappearance of a sense of history, the way in which our entire contemporary social system has little by little began to lose the capacity to retain its own past, has begun to live in a perpetual present and in a perpetual change that obliterates tradition of the kind which all early social formations have had in one way or another to preserve (Jameson, 1985: 125).

For one thing it is interesting to find an economist and a cultural theorist who agree on something, albeit from different perspectives, that there is an apparent congruence between our experience of 'unsettling change' and the 'perpetual present'. But is the point not that they agree, but that their ideas mirror one another? For it would seem that the economic perspective of liberalism mirrors the cultural observation of the economy. Or, to put this another way, the emergence of the post-modern economy reflects the modern project of liberal economism. In political terms, however, Jameson's conception of the 'perpetual present' seems to be a concerning symptom of perpetual change, because it suggests that our memory of history – collective, intellectual and individual, is being subject to a process of dilution by our focus on what is ahead – and by its very nature, what is ahead shapes how we see the past, to the extent that all change is novel and unique and has no reference or comparison in history. Without historical comparison or understanding, we clasp on to change without any certainty of its direction, as if history and change transcended our being, because the future is how we administrate and prepare for it, not how we shape and build it. We therefore have to ask, is the modern life of the liberal economy, also by its very nature, the realisation of the post-modern in it physical form?

Let us remind ourselves, briefly, what the life of the post-modern means? For Anthony Giddens, post-modernity takes us away from the institutions of modernity 'towards a new and distinct type of social order' (1990: 46). In one very important sense, it suggests that we have awoken from the broken promises of the indisputable, 'one-dimensional' (cf. Marcuse, 1964/2002) and teleological force of modern historical progress, because we have finally acknowledged our fait as autonomous agents in a world of structure that is within us and not beyond us. But as Bauman stated, 'post-modern men and women' have 'exchanged a portion of their possibilities of security for a portion of happiness' and the 'freedom of pleasure-seeking' (Bauman, 1997: 3). As a result, we are now presented with opportunities and dangers (Beck, 1994: Giddens, 1990: 1994) that are 'multidimensional' in scope and ever-expansive in spectrum; that are in continual and fleeting transformation; where we are forced to place trust in our own conscious understanding of knowledge to determine private and public security matters to determine our fait (Beck, 1992: 1999), as the mastery of modern science undercuts the embedded certainties of industrial society, revealing uncertain personal and collective risks that can only, it is assumed, provoke what must be made globally transparent and accountable (Beck, 1999: 1-47). This either rests on a cognitive conception of reflexivity, a Beckian 'I am I', devoid of the aesthetic environment and its strategies (see Lash, 1994), or else, it feeds into a post-structural myth itself. Here, the agent can never escape the bounds of knowledge/power and so the method and practice of continual escape is virtuous and necessary as long as the last thread of Liberal Enlightenment retains its strength. But do these approaches also not encourage the simulacra between liberalism and post-modernism rejected above?

For some, there is no escaping the contradictions of Enlightenment and so we should accept the 'post-modern condition of fractured perspectives and groundless practices as a historical fate' (Gray, 1995: 146). This might lead to the positive conclusion that we can revert to a *modus vivendi* of competing perspectives – a retreat to idealism no matter how sensible its pursuit, because it far too easily abandons 'the challenge' of re-claiming the Enlightenment from Coxian 'problem-solvers' (see Cox, 2002) whom already believe it has reached its full potential. If we are to reach any solution, realistically, society must be convinced through a battle of wits, and so we must avoid the temptation to collapse and confuse the *methodology* of post-structuralism with an *ontology* of the post-modern. For it is the case that the method of escape *al a Sartre* (1943/2003) may not always guarantee its expectation in reality, especially within an epochal theory that has no prescriptive control over its direction or consequence, or any physical assurance that its tendency is grounded satisfactorily in institutions of historical comparison. Without this separation, the post-modern notion of freedom and progress, the cause of alterity, lasts only as long as the liberal tendency to commercialise its post-structural voice.

Martin Wolf and his colleagues believe that they still carry the torch of the Enlightenment project and attack post-modernists and other 'anti-liberals' for their repudiation of economic globalisation. But their modernisation project is no longer linked, as Habermas would argue (1985b: 1-23), to the 'completion of modernity', because the aesthetic priests of our time believe that the limits of Enlightenment have been achieved through the final flouring of (neo)liberalism. As the famous International Relations theorist Robert Cox (2002) reminds us, to give up the challenge of Enlightenment is to end what is political about modernity (cf. Bronner, 2004). This echoes in Habermas' notion that the Enlightenment is dead (see Habermas, 1985a), but the consequences live on, which is why from Cox's point of view at least, the world has been washed over by a wave of post-modern liberalism – an ironic game of logistics.

> Decision-making is now the realm of bureaucrats and lobbyists and is fragmented into innumerable confrontations between specific interest groups. Politics has become a game of management, in which there are no conflicts of values, only adjustments of interests. Politics in this sense of choice by political subjects among different social projects is disappearing. The death of politics is the death of the citizen, which is the death of democracy. What for Fukuyama seemed the apotheosis of the West, for this author is the end of the dream of active citizenship that the European Enlightenment inspired – the end is post-modern non-politics (Cox, 2002: 141).

Robert Cox is not alone in his thinking. Zygmunt Bauman (2000) too believes that we have reached a stage of high modernity that he describes as 'liquid modernity'. Nothing much changes in a world driven by a plethora of global commercial interests, where time has conquered space, where individuals and companies all compete and hope for solutions that either resolve certain lacks or advance what already exists, so that politics becomes the expression and output of individual interests, consumerism and life-style choices, as opposed to a set of collective values and ideals that strive for social alternatives and betterment through systemic reflection. But perhaps, we haven't gotten there yet. Perhaps this post-modern feeling, this apparent slow death of politics is about to take a cultural turn, which could either be responsible for this kind of politics or the source of new powers of social politicisation. Here we must mark out the historical and political position or assumption directing this thesis.

Historically speaking, we appear to be in an 'in-between' stage of global political economy that we could call *global limbo economy.* Since the Enlightenment, it is evident that the twin forces of socialisation and nationalisation have moved in tandem creating a phase of embedding that we could tentatively call *nationalising modernity.* The deliquescence of this period has also witnessed a period of what we call in this thesis as disembedding (cf. Bauman, 2000). For some, the cause of this *is* the 'risk society' (Bech, 1992: 1994: 1999), for others it is 'de-traditionalisation' (Giddens, 1994) or 'liquid modernity' (Bauman, 2000), but what is clear is that our national structures are limiting of the range of the political, especially as capital has taken on the imagination of the transnational i.e. global connections of financial and techno-consumerism (cf. Sennet, 2006). In other words, we are in a period of 'political limbo' between *nationalising modernity* and *globalising modernity*, where there is transnational market governance without government (cf. Amin, 1996: Hewson and Sinclair, 1999). This one foot in one era (*disembedding*) and one foot in the next (*re-embedding*) seems in many ways part of the problem and what's more is that this problem appears to be contained, stabilised, repeated and subsidised by the expansion of the global financial economy that we believe was meant for us.

In Dante Alighieri's epic masterpiece – *the Devine Comedy*, Limbo was a place of self-administered punishment for the wise old pagans of reason, who were 'neither rebels against God nor faithful to him' (Musa, 1971:27-28). Just like Dante's Limbo, contemporary political decision-making is informed by logic and reason, but it would seem that something is missing, something like faith, not in God per se, but in a common social framework that can unite and protect people through institutions and cultures that stave off the relentless pressures and competitive urges of our unconstrained technological future. Today however, we remain trapped due mainly to our own surrendering to a transnational economy that asks questions we dare not to oppose or struggle against. As Dante recounts Virgil's regret of the pagan souls stuck in Limbo, 'for this defect, and for no other guilt, we are lost. In this alone we suffer: cut off from hope, we live on in desire' (Musa, 1971: 28).

Financial Crisis: in Retrospect and Prospect

In many respects, the rise of the global financial economy is presented to us, especially by economists as a novel extension of the market economy, something that has evolved out of economic exchange, technology and the necessity to make the allocation of capital more efficient, transparent, competitive and risk-averse. Defending the rise of the global market economy, Martin Wolf talking head for the Financial Times, proposes that 'the arrival of an economy dominated by sophisticated markets with secure property rights, long-term investment and constant innovation has brought about a revolution in human life' (2004: 57). In many respects, the global sophistication of the financial economy and its re-organisation of human life on a planetary scale is something that cannot be doubted. But the notion that human history has not witnessed this before and that economic globalisation can restore peace and prosperity in the world by *excluding* political, social and cultural 'preconditions' and 'consequences' is seriously misled (cf. Wolf, 2004: 19).

For those who have attempted to examine the birth and evolution of the capitalist economy from a 'world-systems' perspective (e.g. Arrighi, 2003), periods of financial expansion – the kind that we are experiencing today, including sophisticated practices of lending, intermediation, innovation, calculation and commodification, have triumphed at different stages throughout world history (Arrighi, 1994). According to the findings of this literature, the global economy as we know it has evolved out of a succession of central capitalist regimes beginning with the Republic of Genoa in the 16th century, passing on to the United Provinces in the 18th century, through to the United Kingdom in the 19th and early 20th centuries, and then finally to the United States in the 20th and 21st centuries (Arrighi and Silver, 2001: 264: Langley, 2002). We will go into much more detail as we progress, but generally speaking, the quantitative and qualitative dominance of financial capital has tended to expand and retract at different stages in the evolution of world-capitalism (Arrighi, 1994). All four capitalist regimes have been witness to the ascendancy of financial capital – economically and politically, but only three have so far experienced the conditions of its involution.

What is fascinating about this historical analysis is not only the suggestion that human history has experienced *extended* financial markets before, but the prediction that our contemporary experience and perception of the financial economy is *less* economically, socially and politically stable as an 'advanced' form of human betterment than what we might think (Arrighi and Silver, 2001: 274). In fact, world-systems' historicity forecasts the dissolution of the global financial economy as we know it – and specifically, the Anglo-American centres, institutions and practices of accumulation that constitute its globalising hegemony. For economists such as Martin Wolf, it is possible to tame and control the global financial beast through more *economic* understanding of its institutional make-up and deleterious tendencies (Wolf, 2004). But for those with an understanding of history over the course of the *longue durée*[3], this maybe like throwing pebbles into a river to control a momentum of force built up long before.

The puzzle of course is that there is not even the slightest hint that the end is in sight for the global financial economy, despite many apocalyptic claims and concerns to the contrary (e.g. Arrighi and Silver, 2001: Warburton, 2000). What is truly unimaginable for the contemporary generation of *googlers* and *gamers* is a global financial crisis on the same scale as the Great Crash of 1929 and its intertwinement with the Great Depression (1929-31) that stood in its wake. Today, financial crisis has become a soft sell, a headline – that seemingly provokes the ethical or effected hearts of the few, while titillating the disinterested heads of the many. For those who witnessed the Great Crash and lived through the Great Depression, financial crisis sharpened reality into a more primitive set of human instincts and social needs, not just for the few, but for the many. Writing in 1930, John Maynard Keynes wrote,

> The world has been slow to realize that we are living this year in the shadow of one of the greatest economic catastrophes of modern history. But now that the man in the street has become aware of what is happening, he, not knowing the why and wherefore, is as full to-day of what may prove excessive fears as, previously, when the trouble was first coming on, he was lacking in what would have been a reasonable anxiety. He begins to doubt the future. Is he now awakening from a pleasant dream to face the darkness of facts? Or dropping off into a nightmare which will pass away? (Keynes, 1963:135).

The 'nightmare' began famously on 'Black Thursday' October 24th 1929 when the New York Stock Exchange teetered on the brink of collapse. On 'the blackest of Black Tuesdays' five days later, a 'tidal wave of sell orders inundated the market. Neither men nor machines could keep up' (Fraser, 2005: 371). On the same day that Winston Churchill apparently visited the exchange 'expecting pandemonium' and 'taken aback by the slow motion decorum that prevailed instead' (Fraser, 2005: 370), the exchange had traded 16,400,000 shares in one day, 'a record that stood for almost forty years' (Kindleberger: 1973: 118).

One significant aspect of the crash that still has enormous relevance today was the way in which the implosion of one financial centre created a series of cumulative and systemic financial failings throughout the world. Within two to three years of the crash, the entire international monetary system was in crisis as countries around the world desperately tried to stem the outflow of foreign capital and gold reserves, which created desperate strains on the ability of governments to prevent domestic banks and industries from collapsing (Eichengreen, 2004). As the economic historian Charles Kindleberger put it, 'the stock-market crash is less interesting for the irony it permits the historian, bemused by the foibles of greedy men, than for starting a process which took on a dynamic of its own' (1973:127). No matter how tempting it is to characterise the Great Crash as an example of the inherent and capricious flaws of global capital, it is impossible to disentangle the systemic financial panic that gained momentum after the crash from the historical peculiarities and instability of the inter-war gold standard era (Eichengreen, 1996: 2004).

Without going into too much detail, it would seem that in the midst of a temporary breakdown in the gold standard as a result of World War I, the emerging financial centre of New York was encouraged by foreign orders of short term capital to fund war debts. During the interwar years when the gold standard was re-established, it is also apparent that a frenzy of lending and investment opportunities opened up for domestic and foreign capital in the US as property and consumer durable markets expanded in the 1920s, inspiring a speculative search for yield in a period of cheap money[4] (Eichengreen, 2004: 7). As the Federal Reserve raised interest rates to quell the speculative excesses of Wall Street 'too late' (Eichengreen, 2004), it would seem that this provoked a series of bank failures based on bad loans making it necessary for commercial banks to liquidate foreign loans made to European and Latin American countries (Kindleberger, 1973). As countries in Europe and Latin America suffered from weak balance of payment positions in comparison to a resolute American trading partner and because 'credibility was the causality' (Eichengreen, 1996: 75) for states acting in the context of the inter-war gold standard, countries were forced either to raise interest rates or create capital controls in order to prevent international economic arbitrage (ibid.). As interest rates increased and as output and prices fell in response to deflationary policies and conditions, 'it follows that the main engine of deflation was the banking crisis in the United States and the currency crisis in other countries' (Eichengreen, 2004: 15).

With the benefit of hindsight, the nail in the coffin is ultimately attributed to 'gold-standard mismanagement' (ibid.: 11), because the 'international system was rendered unstable by British inability and United States unwillingness to assume responsibility for stabilising it' (Kindleberger, 1973: 292). Putting the historical specificity to one side if we may, what cannot be ignored however, is that this systemic financial crisis was stimulated by the over-extension of cheap credit and the concentration of unaccountable capital into speculative areas of investment and international arbitrage, induced by precisely the same philosophy and reality that we are witnessing today. There is therefore some irony in Kindleberger's assessment of matters when we compare what he stated earlier with his summary argument that 'it is difficult to maintain that the stock market was a superficial phenomenon, a signal or a triggering, rather than part of the deflationary mechanism' (1973: 127).

The second significant aspect of the Great Crash was the extraordinary way in which the collapse, as alluded to earlier by Keynes, translated into real economic hardships for the common man with political consequences for the entire world. As Keynes noted in his *Essays of Persuasion*, 'the extreme violence of the slump is noticed. In the three leading industrial countries of the world – the United States, Great Britain, and Germany – 10,000,000 workers stand idle' (Keynes, 1963:136). As noted by Keynes, unemployment was perhaps the biggest issue facing governments during the Great Depression in a climate of piecemeal or nonexistent social security systems and complete failure of governments to stimulate the gaps left open by over-production (Hobsbawm, 1995). Writing about the cultural mood in the aftermath of the Wall Street crash, Fraser (2005) observes that 'the thing that no previous panic or slump had managed to do, however, was produce a foreboding that the whole system of production and distribution had reached a state of terminal breakdown' (2005: 368). This is no surprise. Unemployment rates among industrial workers reached half-century highs in between 1931 and 1936 right across Europe and other developed countries such as Australia, Canada, Japan and the US (Bairoch, 1993:11). The lowest recorded figure of unemployment during this time was France with 15.4 per cent in 1932 and the highest figure was Germany with 43.8 per cent in 1932, with the US not too far behind with 37.6 per cent in 1933 (loc. cit.: 1993). According to economic historian Paul Bairoch, a series of protectionist measures reduced the volume of trade by 30 per cent and the value of trade by 60 per cent between 1929 and 1932 (1993: 9). Within this time, the flow of international capital dropped by over 90 per cent (Hobsbawm, 1995: 89).

For Eric Hobsbawm (1995), historian in the tradition of *Annales School of History*, the Great Slump was of colossal importance in shaping the political history of the 20th century or what Hobsbawm described as the 'Age of Extremes', which makes it all the more fascinating that Churchill was to stare 'into the economic abyss'[5] that was

Keynes' nightmare and see it through until morning sixteen years later. With complete candour and in all academic seriousness, Hobsbawm remarked, 'but for it, there would have been no Hitler', 'no Roosevelt' and it is 'extremely unlikely that the Soviet system would have been regarded as a serious economic rival and alternative to world capitalism' (Hobsbawm, 1995: 86) If anything, Hobsbawm captured the political significance of this period quite superbly when he reflected on the times in comparison to modern financial changes;

> The Great Slump confirmed intellectuals, activists and ordinary citizens in the belief that something was fundamentally wrong with the world they live in. Who knew what could be done about it? Certainly few of those in authority over their countries, and certainly not those who tried to steer a course by the traditional navigational instruments of secular liberalism or traditional faith, and by the charts of the nineteenth century seas which were plainly no longer to be trusted. How much confidence did economists deserve, however brilliant, who demonstrated, with great lucidity, that the Slump in which even they lived, could not happen in a properly conducted free-market society, since (according to an economic law named after an early nineteenth century Frenchman) no overproduction was possible which did not very soon correct itself? In 1933 it was not easy to believe, for instance, that where consumer demand, and therefore consumption, fell in a depression, the rate of interest would fall by just as much as was needed to stimulate investment, so that the increased investment demand would exactly fill the gap left by the smaller consumer demand. As unemployment soared, it did not seem plausible to believe (as the British Treasury apparently did) that public works would not increase employment at all, because the money spent on them would merely be diverted from the private sector, which would otherwise have generated just as much employment. Economists who simply advised leaving the economy alone, governments whose first instincts, apart from protecting the gold standard by deflationary policies, was to stick to financial orthodoxy, balance budgets and cut costs, were visibly not making the situation better. Indeed, as the depression continued, it was argued with considerable force not least by J. M. Keynes who consequently became the most influential economist of the next forty years – that they were making the depression worse. Those of us who lived through the years of the Great Slump still find it almost impossible to understand how the orthodoxies of the pure free market, then so obviously discredited, once again came to preside over a global period of depression in the late 1980s and 1990s, which, once again, they were equally unable to understand or to deal with. Still, this strange phenomenon should remind us of the major characteristic of history which it exemplifies: the incredible shortness of memory of both the theorists and practitioners of economics. It also provides a vivid illustration of society's need for historians, who are the professional remembrances of what their fellow-citizens wish to forget (Hobsbawm, 1995: 102).

Why is it that we have forgotten? In one very important respect, our forgetfulness of the past is born out by our 'ahistoricism' (*see chapter five*). There are other reasons why we have forgotten the significance of the Great Slump. Simply put, we no longer believe it is possible in the modern world. For many of us, it is now automatic to think that the global political economy has reached an advanced stage of globalised production that far surpasses the more primitive, inflexible and embryonic global political economy that existed in the 1920 and 1930s. While it seems complacent and ahistorical to accept this argument, can we really dismiss it out of our respect for the past? We must admit, free-market capitalism has proved far more robust than originally thought. For example, it has outlived Karl Marx (1887/1995), disproved Keynes (1936/1973), evaded Karl Polanyi (1946) and perplexed John K. Galbraith (2004). Has present-day capitalism evolved to such an extent that it is impossible to return to the conditions of the Great Slump? It's not necessarily true that present-day capitalism is more advanced or even that we are beyond systemic crisis. We can never rule out history repeating itself. But perhaps, like a bar of wet soap, present-day capitalism has become more slippery, as we will try to understand.

Capitalism at the turn of the 20th century, through the inter-war and post-years, was dominated by the organisation of capital and labour into mass tailorised industrial production (Aglietta, 1979: Harvey, 1990:). Without an effective mechanism of demand, capitalism, as noted by Keynes and Marx before him, was susceptible to bouts of over-production and mass unemployment. The Great Slump demonstrated two things. Firstly, that markets could not be relied upon to clear themselves in the short-term. As Keynes famously remarked, 'in the long run, we are all dead'. Secondly, the slump confirmed that it was highly difficult to re-organise and restructure 'organised capitalism' in a short space of time (see Lash and Urry, 1987). Besides the logistical complexities of mass economic re-organisation during this time, it should also be noted that the free-market had become much more effectively politicised as a result of the Great Slump (Hobsbawm, 1995). For example, corporatism, economic planning, stable exchange rates and universal welfare coverage were all seen to be peripheral or radical policies until the 1930s recession brought them to the foreground of mainstream policy (Cox, 1987: 152-209: Hobsbawm, 1995). As Ruggie (1983) and others have noted about this time, the economy became re-embedded into society enabling, at least in Western Europe, what some have described as the 'post-liberal' (Cox, 1987) or 'post-ideological' state (Judd, 2005: 362). Rallied by these fresh initiatives, the post-war period, otherwise known as the 'Golden Age of Capitalism' repaired and absolved many of the cracks and tensions of organised capitalism (cf. Aglietta, 1979: Glyn et al, 1990). Re-inspired by the military work ethic, universal welfare provision, wage bargaining, US foreign aid, productive investment, nationalised industries, stable exchange rates and a mass market for consumer durables, the 'Fordist model of growth' – as it became later known, provided a stable and coordinated mechanism of demand to the extent that the 'policy problem for much of the golden age appeared to be how to damp down excess demand rather than how to boost it to maintain full employment' (Glyn et al, 1990: 60). Unfortunately, the mechanism worked too well and relied too much on the stabilising powers of the US, not only in foreign policy terms, but also economically, in terms of how the US approached the 'Triffin Dilemma' which was written into its 'exorbitant privilege'[6] (Eichengreen, 1996). The 1970s, 'the decade of diminished expectations' (Judt, 2007: 477) reversed the Fordist logic of accumulation as inflation eroded income and caused recession and unemployment at the same time (see Brenner, 2001). As an economic and political philosophy, Keynesianism had been discredited and was soon replaced by an older, more robust liberal philosophy, which had managed to strengthen the empirical credibility of *laissez faire* during its interregnum.

This change in economic and political philosophy promoted one defining idea: for an economy to enjoy prosperity consistently in the long term, it must find efficiency in the short-term through the proactive creation of competitive conditions and full information. Excessive government intervention, control and regulation of the economy were seen to be part of the problem, not the solution. De-nationalisation, de-regulation, liberalisation, privatisation and de-industrialisation were all part of a general process of returning political economy back to the discipline of the free-market. From this point on, the supply of money would not be influenced by the need to maintain demand conditions. Instead, money capital would be set free – and this newfound freedom from the constraints of state regulation would develop a mechanism of allocation and private governance according to its own competitive logics.

As far as possible, the neoliberal state would assist the efficient supply of money in two ways. Firstly, states would now base their investment decisions based on three conditions: that it did not crowd out private investment; that it did not upset the free-market through external shocks and cause uncertainty; that it did not encourage an inefficient supply of money leading to inflation. Controlling the rate of inflation through the interest rate would be central to this policy because inflation had become the enemy of purchasing power, economic stability and asset values. But this could only be made credible if politicians passed this power over to an impartial and technical authority (see Baker, 1999). Central bank independence became a common sense idea that reassured the intentions of free-markets on all three counts. Secondly, governments would help to build a more transparent market culture between consumers and producers outside of the traditional framework of citizenship. In this new transparent culture of full market information, governments too would be scrutinized by free-markets. Just like ordinary people in the street, governments would receive a credit rating in a world of disintermediated market governance and this would have a significant impact on fiscal and monetary policy (cf. Sinclair, 1994: 2000: Leyshon *et al.*, 1998). For example, a careful balance would need to be struck between low inflation and low interest rates. Too much inflation would require high interest rates to quell money growth; high interest rates would slow investment; too much state borrowing to fill the gaps left open by low investment would fuel inflation expectations and higher interest rates, sounding the alarm for uncertainty and capital flight (see Kirshner, 2003).

In this sense, capitalism was re-organised, not on the basis of priorities emanating from the social context, but from priorities determined by the pecuniary interest. For Cerny amongst others, this has led to an 'embedded financial orthodoxy' where 'economic production and exchange is shaped first and foremost by financial and monetary imperatives' (Cerny, 1994a: 226). The post-war emphasis on full employment has been replaced with the post-Bretton Woods emphasis on creating suitable conditions for capital mobility. Summing up these changes, Jonathan Kirshner has argued,

> Domestic or international, policy target or regulatory framework, there are no 'neutral' choices about money. Rather, every macroeconomic phenomenon and monetary policy has significant, inevitable differential and political implications. Within the plausible set, the difference between the aggregate economic consequences of one choice over another will typically be ambiguous, or so modest as to be dwarfed by its considerable differential and political consequences. Money Rules – now more than ever – but rules serve political masters. The contemporary salience and excitement of huge, influential financial markets has obscured this underlying, formative and consequential reality. In their disparate inquiries, students of money in general and political scientists most particularly must return to that basic starting point – *money is politics* (Kirshner, 2003: 657, *my emphasis*).

However, if money rules and serves political masters, it is not obvious anymore exactly who are the political masters and who are the followers of this embedded financial orthodoxy. There is a tendency to see financial markets as operating above the level of the commonplace, recreating the representation of global finance as an elite, technical and esoteric space devolved from the actions or inactions of people in society (cf. Langley, 2002b: Sinclair, 1999). But there are strong grounds for adding another dimension to Kirshner's maxim: *money politics is ordinary.*

For example, unlike the interwar and post-war days, the extraordinary mobility of capital enables the global economy to achieve a level of productive flexibility so that supply and demand can re-adjust more quickly than at any other period in history. We should remember what Harvey argued as early as 1990,

> I am therefore tempted to see the flexibility achieved in production, labour markets, and consumption more as an outcome of the search for financial solutions to the crisis-tendencies of capitalism, rather than the other way round. This would imply that the financial system has achieved a degree of autonomy from real production unprecedented in capitalism's history, carrying capitalism into an era of equally unprecedented financial dangers (Harvey, 1990: 194).

Capital mobility ensures that the profit motive and its performance either improves through the restructuring of production, or else it moves elsewhere (cf. Froud et al, 2000a: Grahl, 2001: Green, 2000: Minns, 2001: Watson and Hay, 1998). In other words, it is against the rules of efficiency to pump-prime what has reached its limit. Demands for transparency in corporate governance between managers and their shareholders (or stakeholders) facilitates the all-seeing eye of mobile capital (cf. Aglietta, 2000: Bauman, 2000). It is no surprise therefore that we should observe similarities between the liquid interests of capital and the highly flexible and technological nature of goods and services (Castells, 2000). The tiny, irritating differences and nuances between goods and services has shattered consumerism into a vast spectrum reflecting the fetishism of individualisation, which unlike Fordist production, serves to accelerate competition and adaptation between producers and their consumers. The flexibility achieved in production is also becoming a natural or given part of employment security and risk – social security systems are becoming individualised and flexible (Taylor-Gooby, 2000), even working practices are becoming the aforementioned (Amoore, 2004), because 'flexibility' achieves one goal: it reduces the amount of time for productive capital and financial capital to re-organise their priorities at the least possible cost, so that markets really do become 'market clearing'. Therefore, a lot of effort has gone into building, 'planning' and radicalising the self-regulating market so that it clears itself (cf. Polanyi, 1944).

We can observe this most clearly in the financial markets. As the financial expert Patrick Young put it, 'the capital market revolution is born of new technology and is driven by new technology; and it will ultimately change the lives of every individual on the globe' (Young, 2003: xxv) leading to a future in financial markets that will bring 'Liquidity! Accessibility! Transparency!' (ibid: xl). As a result, financial markets rest on a procedural tautology: investment is only allocated on the guarantee of financial returns and the knowledge that financial losses or expected risks can be minimised through liquidity (cf. Green, 2000). At its most superficial level, money capital is not interested in the means or the ends with which production is realised, but whether expectations of performance can be fulfilled (Golding, 2001). Reduced to its pure form and without incident, the movement of capital manages to ride the surf of ethics because it is protected by a fickle and narrow concept of accountability – as it chases after whatever is in the public's imagination of success, either in society or in the markets. Immanuel Castells could not have put it better when he argued,

> There is a growing decoupling between material production, in the old sense of the industrial era, and value making. Value making, under informational capitalism, is essentially a product of the financial market. But to reach the financial market, and to view for higher value in it, firms, institutions, and individuals have to go through the hard labour of innovating, producing, managing, and image-making in goods and services. Thus, while the whirlwind of factors entering in the valuation process are ultimately expressed in financial value (always uncertain), throughout the process of reaching this critical judgement, managers and workers (that is, people) end up producing and consuming our material world – including the images that shape it and make it. The new economy brings information technology and the technology of information in the creation of value out of our belief in the value we create (Castells, 2000: 160).

However, the innovations that make liquid capital possible and risk-averse mean one thing: flexibility achieved through capital mobility creates social costs and consequences for society that are neither discussed nor up for reasonable debate. Lawrence Summers, former US Treasury Secretary to the Clinton Administration once argued in a public lecture that the benefits of financial innovation outweigh the costs with a rather revealing analogy,

> How best to think about financial innovation? An analogy may be helpful. The jet airplane made air travel more comfortable, more efficient, and safer, though the accidents were more spectacular and for a time more numerous after the jet was invented. In the same way, modern global financial markets carry with them enormous potential for benefit, even if some of the accidents are that much more spectacular. As the right public policy response to the jet was longer runways, better air-traffic control, and better training for pilots, and not the discouragement of rapid travel, so the right public policy response to financial innovation is to assure a safe framework so that the benefits can be realized, not to stifle change (Summers, 2000: 3).

This statement by Summers reveals the contradictory reality of modern financial markets: despite spectacular financial accidents that are repetitive and social in their consequences, the structural nature of the financial system continues to evolve as a teleological manifestation. Unlike the Great Crash that caused the social politicisation of the economy, financial crisis in the contemporary period encourages 'more' not less innovation despite the recurrent paradox that it recreates. It's almost as if we now accept periods of creative destruction as market corrections that belong to the cycles of economic nature. In this sense, we can understand what Summers means: only by understanding the empirical flaws of the economy can we perfect its beneficial functions. But as John Gray argued, the 'hegemony of liberalism has gone with an apologetic mode of theorizing' (Gray, 1995: 144).

As a society, would our complete and utter disengagement with the causes and consequences of financial crisis imply that we continually accept the apologies of economists, or have we accepted that the benefits outweigh the costs and decide not to pursue their underlying structural reasons? In this sense, what Grey should also say is that society has become very forgiving lately. But forgiving of what exactly? In recent history, core nations of the liberal West have not yet experienced the hardships and anxieties of a full-scale systemic financial collapse. For example, we have experienced nothing like the dramatic scenes in Argentina or Russia, where inflation sky-rocketed, where social order broke down, where people actually stood hungry on the streets with no access to money. Instead, financial crisis in the West has been experienced in individualised pockets, due to sporadic domestic incidents and their imbrication to global financial developments in distant lands e.g. East Asian crisis. It is therefore important to ask a vital question: why is financial innovation a normal and necessary function of creating 'enormous potential for benefit, even if some of the accidents are that much more spectacular'? And why do we readily accept the assumption that the evolution of financial markets will create *more* benefits and *less* financial dangers to society? How do we now measure benefits and costs – in economic and pecuniary terms – or social, cultural and political terms?

We should at least remind ourselves at this point that international financial accidents do have serious consequences, that their *causes* and *effects* are not just economic, but social, cultural and political – making any separation between these fields of understanding seem potentially naïve and disastrous. For example, the last historical figure to call for a 'new World Order' in international financial governance was Vladimir Putin (FT, 2007b). Before him, it was Adolf Hitler. As Van Dormael put it plainly,

> In October 1939, after conquering Poland, Hitler offered peace to France and Britain, on three conditions: one of them was the settlement of the international currency problem. But the governments of France and Britain had reached a point of no return. After a long period which had been neither peace nor war, the only way out was war (Van Dormael, 1978: 3).

However, it is not necessarily that fellow-citizens accept the technical assurances of economists or even that they have 'chosen' to forget the blunders of history, because this would suggest some sort of insight into the past that would emphasise, even more greatly, the profound sense of social naiveté that economists bestow to the common (wo)man. It's more likely, based on Plato's simile of the cave, that what remains unhidden is also hidden, that 'hiddenness' – what we cannot see or know, has become a form of truth that continually evolves and reflects the appearance of essence with the ideas that describe what essence is (Heidegger, 1988/2002). Employing the language of Antonio Gramsci to explain the social acceptance and acquiescence of Thatcher's neoliberalism, Robert Cox – the famous International Relations theorist argued that we have all succumbed, in a matter of speaking – to neoliberalism as a form of 'hegemony': not only has a group interest and philosophy become dominant, but the ideas underpinning this dominance, such as *homo œconomicus,* have become shared experiences for institutions and individuals throughout society. In this sense Cox argues that 'hegemony' is like a 'soft pillow: it absorbs blows and sooner or later the would-be assailant will find it comfortable to rest upon' (Cox, 1983: 139). It's almost as if the pillow has become our cave, our resting place, our place of ease and truth, but this situation is assumed only to continue given that the pillow retains its comfort. As Hobsbawm argued,

> Democratic systems do not work unless there is a basic consensus among most citizens about the acceptability of their state and social system, or at least a readiness to bargain for compromise settlements. This, in turn, is much facilitated by prosperity...Where governments have enough to distribute to satisfy all claimants, and most citizens' standard of life is steadily rising in any case, the temperature of democratic politics rarely rises to fever-pitch (Hobsbawm, 1994: 138-137).

Thus, it is not only that we believe that our global political economy has reached an advanced stage of globalised production, or even that we accept economists as the new aesthetic high priests. It's more likely that a certain trade-off moves in tandem and holds hands, so that our political economies are prevented from slipping off into an abyss, not just through economic advancements, but through the crude, common and perpetual aspirations of material satisfaction – facilitated of course by the new economy's circuits of value production that are constantly in motion. Yet, this sentiment requires us to make clear why we believe our global economy is at a superior stage of development and why it is structurally repetitive. In other words, why does politics bubble beneath the level of fever-pitch? Or more poignantly, why do we think our pillow is comfortable to rest upon?

Financialisation: a comfortable pillow, a hidden politics

The proposition here is quite simple: financialisation is the source of our comfort and ambivalence with the circular de-politicisation of wealth-management. But what does financialisation mean exactly? Before we develop an understanding of financialisation, let us afford ourselves the early curiosity of mind to think about exactly what financialisation suggests in abstract terms. When we think of the concept of 'globalisation' for example, we can imagine a world that is shrinking in time and space, a world that is having to face up to the challenges of global diversity. In many respects, globalisation appears to be a homogenising-ideological process in cultural, economic and political terms. For example, 'Americanisation', 'McDonaldisation' or 'Neoliberalisation', are all expressions that we can come across in newspaper articles, academic papers or everyday conversation that help describe the precise nature of globalising influences. But on the other hand, globalisation can also suggest with some optimism that the world is open to difference, that we can imagine a world governed *through* difference, by more global democracy, transparency and accountability, not less. In this sense, economic, cultural and political globalisation is the means by which differences can be confronted and resolved through global linkages and institutions that are socially purposeful. In contrast, financialisation implicitly suggests that the means-ends relationship is far less open and confused. Financialisation presupposes that the economic world *should* and *will* be governed by financial criteria.

For example, Ronald Dore describes financialisation as the '*increasing dominance* of the financial industry in the sum total of economic activity, of financial controllers in the management of corporations, of financial assets among total assets, of market securities, and particularly of equities among financial assets, of the stock market as a market for corporate control in determining corporate strategies, and of fluctuations in the stock market as a determinant of business cycles' (Dore, 2002: 116, *my emphasis*). If we read into Dore's notion correctly, then financialisation is a cumulative and all encompassing process whereby financial actors, symbols, modes of truth and practices of control become more dominant in quantitative terms, and this physical dominance alters the surrounding economic reality, what it prioritises, how it interacts and how these inputs lead to new influences that create qualitative outputs in an economy that is represented as new and uncertain. There is no suggestion that financialisation is for the greater good and there is no apparent explanation to its cause; it is merely a fact of life. But what is perplexing about the very notion itself is its tautological suggestion. Like globalisation, it assumes that there is a non-financial space to be financialised; that financialisation will continue relentlessly and that this is a natural part of progress in human history. It is noticeable too that financialisation is expressed purely as an economic phenomenon that is responding to its own internal logics and the external environment out of necessity, otherwise it wouldn't exist. As an objective phenomenon of the social world, financialisation therefore implies that it is stretching the challenges of progress and the methods of human manipulation to catch up, get ahead and respond to economic nature. In other words, we cannot avoid the suggestion that it is a transformative condition of historical inevitability, a modernising influence prevailing through its self-contained logic outside and separate from traditional relationships and functions in society, culture and politics.

It is important to understand that financialisation has so many other coordinated dimensions and so we should expand Dore's *shareholder* inspired definition to include all those other ingredients that make-up its systemic character, such as: the transnational extension and diversification of the financial services sector across nations, city-spaces and off-shore centres (Cohen, 1998: Langley, 2002a: Martin, 1999a: Sassen, 1999:

Palan, 2002); the decompartmentalisation of finance, insurance, investment, consumption and production (cf. Cerny, 1993: 1994a/b: Martin, 2002: Nitzan and Bichler, 2000); the sophistication of disintermediated forms of calculation and re-regulation (cf. Sinclair, 1994: de Goede, 2001: Knights, 1997); the 'securitisation of all potential sources of value' (Castells, 2000: 155), that has broadly contributed to the proliferation of all sorts of debt, both secured and unsecured, belonging to households, corporations and governments (Warburton, 2000); the growth of the asset-management industry, including investment brokers, hedge funds, insurance firms and pension funds (cf. Clarke, 2000: Harmes, 1998: Ericson et al, 2000), for the responsibility of controlling and protecting the influx personal savings and idle capital through the careful management of financial risk; 'risk', that is attached to the strategic creation and trading of *global* asset claims and debt securities; the very same liabilities that have emerged from the creation of debt, their underlying liabilities, in addition to their asset price volatility (cf. Ben-Ami, 2001: Green, 2000: Strange, 1998: Tickell, 2000).

The key observation from this is the web that financialisation completes and leaves behind, not just something that skims the transnational surface, but something that reaches into the depths of society from where its architecture can be admired from a more holistic vantage point. For example, transnational capital and off-shore trading – the full expression of liquid capital, links in with changes in the relationship between production and consumerism along the lines described above, facilitated naturally by the shareholder revolution, disintermediation and re-regulation, enabling greater access to the global institutions of the capital market, either directly or indirectly, affording individuals, companies and governments the opportunity to off-load their savings and liabilities or simply to gain better credit terms.

This broad definition *describes* financialisation as an economic, institutional and surface level phenomenon that we can observe and experience in our daily lives. But while we can understand the quantitative dominance of financial actors, practices and instruments in the global economy, we have not quite yet drawn out their qualitative significance. For example, in 2001 there was $1500 billion worth of daily foreign exchange transactions in the international financial economy and only 2 percent of this related to trade and investment in goods and services. As the Economist argued 'the rest is, in some sense speculative. But it is hard to distinguish between the two' (Economist, 2001a: 105). The extraordinary production and circulation of financial asset values above and beyond that produced by real economic production, even the obfuscation between financial and productive variables, suggests that there is a financialisation of the global economy. The fact that Tesco, an ordinary supermarket chain, obtained profits from personal financial services worth £202 million in 2005 is evidence that financialisation is altering our whole notion of shopping and consumerism (Times, 2005). There is even a website called *Financialization.com* dedicated to the whole idea of the online financial supermarket. Its 'motto is simple, why pay high rates of interest to the bank and credit card companies each month? Why not get the best deals available and keep your money *working for you*'.

Today, we can now obtain credit so much easier than in the past and this also suggests that financialisation is really influencing our daily lives. For example, the national household debt to income ratio reached 160 percent in 2006 (FT, 2006: 3). Of the 1.4 million debt problems dealt with by Citizens Advice, 360,000 cases resulted from credit cards (Guardian, 2006: 27). Due to the amount of personal debt in the economy, worth more than £1 trillion in 2006, the rate of personal bankruptcies has increased. In 1986, Individual Voluntary Arrangements (IVAs) were introduced in order to lessen the financial burden of personal debts without the stigma of bankruptcy. Since 2002, the number of people entering personal bankruptcy arrangements with debt management companies more than doubled in four years to 11,105, potentially reaching 100,000 cases annually according to industry experts (FT, 2006: 3). Noticing the trend, the Chair of the Consumer Credit Counselling Service stated, 'over the last four years, there has been an industrialisation of the IVA process from it being a cottage industry' (FT, 2006: 3). But is this last example evidence of financialisation too? For it would seem that the hard edges of capitalism are being worn away by the soft solutions of *what* – financialisation? Based on this last example, could we really postulate here, with any ounce of sense, that financialisation occurs because it feeds off and reacts to financialisation?

Herein lies our first problem. It would seem that the concept of financialisation can describe real world phenomenon, but it does not explain *what* it is, *how* or *why* it is happening, or indeed, why it is political and exists 'at all'. Our second problem is that financialisation describes real world observations that are economic in nature, but which can't be explained solely by economic determinism or rational economic explanation alone. For an economy that encourages the notion of easy money and easy bankruptcy 'simultaneously' confounds rationality. In the first instance, facilitating a course of action that would risk personal bankruptcy and the implications thereof, cannot be explained entirely by the poverty of individual reason, a corollary that economism would tend to reach, for even if the decision was the result of sound mind, it is quite easily the case that bankruptcy, based on pecuniary criteria alone, is the more profitable option over repaying the debt. We must remember therefore that rationality does not stand alone from the historical and social context of its execution, or the extra-economic dimensions that explain the more subjective, non-rational causes of particular decision-making, that would tend to refute 'objective' rationality. Besides the economic problems of sustainability that this kind of situation throws up, such economic activities are post-philosophical: the social, ethical, moral, even existential dilemmas that financialisation creates appear not to matter until they have occurred.

It is therefore important not to forget that the germination of financial ambiguity, thrown up by instances of financialisation, is deeply embedded in the fertile soil of Western economic rationalism. For example, the will of economic freedom is based on the apolitical, ahistorical and essential notion of 'man' as a competitive and rationally calculative being. As Nietzsche (1887/1996), Marx (1887/1995), Foucault (1966/2002), Polanyi (1944), Sennet (1978) and Giddens (1994) all realised in their different ways, this type of economic revisionism whitewashed the traditional, craft-centred, pre-modern representations of man as a social, collective and imperfect being – and made modern man a 'reflexive personality' (Sennet, 1986: 151-153) of capitalist society and the 'self-regulating market' (Polanyi, 1944). Continuing the spirit of this ideal and the lineage of the classical utilitarians through to the modern day, scholars such as Friedrich Hayek (1944) further institutionalised Adam Smith's notion of the 'invisible hand', effectively helping to delimit the space of metaphysical curiosity to mechanistic empirics. As Hayek (1944) argued, a free – self-organising society is determined by automatic and self-equilibrating tendencies that are brought about through competition and natural adaptation to the external economy. All around us, we can see, that this is not just some idea buried in history, but an lived reality, an economic life in motion (cf. Miller, 1998).

There is a distinct sense in this argument that as ordinary human beings in this market driven society, we have far more control over our economic destiny than what we might think, not in the sense that we can adapt and anticipate economic changes more efficiently or even calculate more effectively, because these are 'reactive' responses to economic nature that we hold as natural, external and beyond our political control. In contrast, there is a gleam of light here that suggests that our response to the economy does not have to be exogenously reactive, but endogenously 'proactive', thoughtful, measured, philosophical, subjective and debatable, provoking the question, what can the economy do for us and our needs as a society in order to fulfil the good life for all and as best as possible, *not*: what can society do for the economy? The common mistake that we find in neoliberal economic argument, which is also by its very nature conventional wisdom, is that society, politics, culture and psychology are often taken to be variables of the economy, that tag along like dogs to a master that is superior in thought to his silly mutts (Wolf, 2004). When things go wrong, naturally, it is the mutts' fault, for they did not pay attention to the order or the training. But there are always lessons to be learned for the master, for the mutts' reacted in ways that were not anticipated at the time. It begs the obvious question, should we lie down like dogs to this economic master, should we place trust in his role and argument, or should we listen to our own experiences, our own political voice that demands a more ecumenical relation and eclectic methodology amongst the social disciplines? We should not be frightened of opening up this subjective path to scrutiny because it is a democratic process – through the very nature of dialogue we re-learn the reflexive responsibility of ideas and the importance of balanced judgement in their contribution to society. In this, our subjective experiences of the economy, in whatever way they appear to us, is more valuable than what we have traditionally thought, because it opens up all those 'other' areas that have been excluded from explanation and suppressed in epistemological terms. In order to accomplish this however, our ideas towards the economy need to escape the bounds of economic orthodoxy and determinism, so that our ideas question the necessities demanded by reality, instead of learning to manage them better.

Towards a Cultural International Political Economy: Theory, Concepts and Methods

Given the conditions of our present existence and the imbrication of economic knowledge and practice, it is important that we demystify, deconstruct and re-politicise what is lost in our daily musings, so that we regain control of production and the anonymous circuits that is musters, not as a matter of efficiency, but as a matter of repairing the responsibility to our future-as-past, to the public space that fosters this continuity and the consociational ties that it encourages. In what follows, we will attempt to outline an approach to knowledge and practice that delivers a sharp, yet subtle reading of the 'political' for an age that diffuses the pointed edges of its many shades. Within reason, part of the aim is not to get too bogged down by the nuances and questions that the approach of Cultural International Political Economy (CIPE) throws up, for there are many burrows and prospects within it. Our aim is to throw caution to the wind, to contribute a position amongst many in an ongoing debate (Amin and Palan, 2001: Carrier, 1998: Daly, 1991: de Goede, 2003: du Gay and Pryke, 2002: Jessop, 2001a: Laffey, 2004: McKenzie, 2004: Miller, 1998: Palan, 2001a/b: Steinmetz, 1999: Thrift, 2005), to suggest a move 'towards' questions of culture in IPE, rather than setting a definitive stall. What shall be important about the following, is to be specific about the importance of Cultural IPE as a way of knowing the world; and as way of changing the world by expressing its central facets and implications, and by drawing up a pedagogical framework of concepts or frames of reference – that shall help the reader progress from these foundations with, at the very least, an ineffable grasp of their implications. Thus the groundwork laid out here will be elaborated in more detail as we fashion a concept of financialisation in Part I of this thesis.

The reader will have noticed that the concepts of politics, society, globality, economy and culture, up until this point, have been articulated as self-referential domains in their own right. *Politics,* is traditionally understood as the world of government, public administration, citizenship and the rule of law; what we might call 'the modern apparatus of power' – and is concerned with such issues as power, legitimacy, accountability and social justice (cf. Cerny *et al.*, 2000); *Society,* is usually understood as the study, not just of individuals, but of the social relationships between individuals, of what we call society: its relations, functions, oddities, norms, organisation(s), interaction(s), sometimes in historical context, sometimes not (cf. Giddens, 1990). *Globality* or the international, is the study of international relations and institutions, as well as a study of the connections between local/national and transnational spheres of influence (see Scholte, 1997); *Economics,* has been defined as 'those activities and processes [that] involve a means to an end, satisfying external goals to do with provisioning', wealth and distribution (Ray and Sayer, 1999: 4-6). *Culture* has been defined by those 'practices and relationships to which meanings, symbols and representations are central' towards creating 'signifying practices', where such 'patterns give meaning to, and orient social behaviour' (cf. Ray and Sayer, 1999: 4-6, Williams, 1981). In simple terms, there has been a tendency to separate out questions of culture and economy into separate parts and to see their relationship as 'asymmetric' (Ray and Sayer, 1999). Such a dichotomous approach has even been used in relation to politics and culture (see Steinmetz, 1999: 20: Lane and Ersson, 2002), or politics and economy (cf. Gilpin, 2001: Chavagneux, 2001:).

In many ways, it makes sense to separate out their forms; it simplifies their meaning into effable representations and renders their relationships into controlled areas of systematic 'problem-solving' (Cox, 1983/1996). But, it achieves this function at the great expense of reducing our complex world into facile gestures. It shatters the matrices splicing together all the aforementioned domains into parsimonious units, which ironically, limits our ability to fathom and to attain rapprochement between the slippery questions of our time i.e. wealth, distribution and power; the historical and relational reasons underpinning such privileges; the transient representations that support them; the consequences that they euphemise; the conventions that they trivialise; and most of all: the latent potential to control 'the rate' at which they evolve (Polanyi, 1944: 37). As Foucault demonstrates the point;

> If power were never anything but repressive, if it never did anything but to say no, do you really think one would be brought to obey it? What makes power hold good, what makes it accepted, is simply the fact that it doesn't only weigh on us as a force that says no, but that it traverses and produces things, it induces pleasure, forms of knowledge, produces discourse. It needs to be considered as a productive network which runs through the whole body, much more than as a negative instance whose function it repression (Foucault, 1980:119).

This is precisely why a move towards Cultural International Political Economy is significant and purposeful, to see 'that what is accepted as self-evident will no longer be accepted as such. Practicing criticism is a matter of making facile gestures difficult' (Foucault, 1988: 155). It will be noticeable that we are slowly moving away from self-referential categories of knowing and moving towards a form of knowing, an epistemology, and in turn a way of looking at the world – an ontology, that is rather chaotic, transient and rebellious (cf. Amin and Palan, 2001: Daly, 1991/2004: Jessop and Sum, 2001); especially, in comparison to rationalist epistemologies like economics, that demands order, continuity and formal rules in its methods of information gathering; so that it can understand the world objectively, as if man is a lab rat in this world scurrying beneath the eye of the economist's disdainful microscope. It isn't just economists whom engage this privilege, but sociologists, political scientists even ironically, historians, whom intend to extract definitive truths from the big wide world, as if this extraction of knowledge is like a gold mine that we know exists, but for the minute, it is beyond our methods, beyond our comprehension. In one way such rationalist epistemologies accept reality as essence, as truth; but actually, sometimes this is employed as a convenient assumption, a practical method, which derives itself from a lineage of empiricism, which is mobilised as a 'means of separating the disorder from the orderings in social life. Thus, rationalism at least in some of its variants, does not deny 'irrationalities' but seeks to banish them as ontological noise' (Amin and Palan, 2001: 562).

The cuts of flesh that rationalists exclude as waste or noise to lucidity – are precisely the forms of soft or qualitative data that the cultural historian is interested in (cf. Bauman, 2000: Williams, 1981: 29). Noise is an uncontrollable, if not sometimes, a spontaneous outlet and spasm of the human condition; it speaks to us – though we may not listen, it implores our attention – though we may not see it; it is the impenetrable 'shadow cast by man' in modern thought and the 'blind stain by which it is possible to know him' (Foucault, 1966/2002: 356). However functional it maybe, it is therefore a vain project to singularly end 'man's alienation by reconciling him with his own essence' (loc. cit.), because the shadow of humanity will forever produce darkness over those who bellow in its contradictions. The cultural historian can only bring light to the shadows, if he first tunes in to the noise; and so the analyst is compelled to listen for noise in the present; those utterances of tiny disgrace that we flippantly discuss; to seek out their double or equal-opposite; to demystify their charms; to investigate their weaknesses; to understand their origins through the 'backward gaze' (Thrift, 2005: 2); to seek out their contingent arrival on a platform that stabilises the equal and the opposite, the light and the shadow, the rational and the irrational into disparate parts; and which motivates new forces of cultural history that will forever escape our comprehension. 'That change is endless and that freedom can never fully be achieved does not invalidate progress. Quite the contrary: it renders the idea more important than ever' (Bronner, 2004: 40).

The notion of 'culture' is therefore central to an understanding of history as an unfolding drama of small incidents with macro significance. As Raymond Williams helps us to understand,

> What the cultural sociologist or the cultural historian studies are the social practices and social relations which produce not only 'culture' or 'an ideology' but, more significantly, those dynamic actual states and works with which there are not only continuities and persistent

determinations but also tensions, conflicts, resolutions and irresolutions, innovations and actual changes (Williams, 1981: 29).

We have suggested that the cultural historian is interested in the soft vicissitudes of modern living, which contrasts widely to the project of rational empiricism (cf. Amin and Palan, 2001: Langley 2002). And now it will be important to understand how the noise presents itself and how we should study it. The notion of 'cultural historian' is used here to denote an interest in the *culture of present history* and the *history of cultural presents* (cf. Thrift, 2005: Williams, 1981). But we proceed now to introduce the next layer of understanding, because culture is inseparable to questions of economy; in fact, we go as far as to say here that the economy is a cultural episode (cf. Amin and Thrift, 2004: du Gay and Pryke, 2002). As Clifford Greetz famously argued 'man is an animal suspended in webs of significance he himself has spun, I take culture to be those webs, and the analysis of it to be therefore not an experimental science in search of law but an interpretive one in search of meaning' (1973: 5).

This throws us into the deep end of what it means to study the economy through cultural spectacles, not to turn hard data into unequivocal facts and knowledge into immutable wisdom, but to understand the temporary compulsions of economic agents and the qualitative imprints on history that they leave behind. 'Temporary compulsions' is an interesting expression and one that highlights the transience of economic being (see Harvey, 1990: 3-38), of acting economically in the world; because it suggests that the motivations precede the impulses of acting, that the motivations are of a different time, a time in the near or distant past, where experience precedes essence, and where essence is the mirage, the object of (our) affection, the attraction to something that has not yet been acquired (cf. Hall, 1996: Palan, 2001b). It denotes the discursiveness of economic agents (de Goede, 2003); the indeterminacy of one foot in the past, one foot in the present; but also in relation to history as something that can never escape its past, no matter how persuasive the present can be in this endeavour (Amin and Palan, 1996). It denotes the ephemeral quality of *being* economic, doing economics; for the compulsions that drive actors somehow loose their impetus, their inspiration, as the next catalyst formulates itself in the imagination; an idea that is connected only by its affect (cf. Bourdieu, 1998). 'Though ideational', cultural political economy 'does not exist in someone's head; though unphysical, it is not an occult entity' (Greetz, 1973: 10). Thus, economic agents acquire what is not already theirs through a series of confrontations with materiality, with others in the spectrum of the economy, which is shattered into different positions, different dispositions (Bourdieu, 1998), that can reveal themselves in the form of violent revolutions e.g. Bolshevism, or what we may call the *diminutive revolutions of the commonplace* i.e. when I do not get my morning paper.

This necessarily requires us to understand what the motivations for activeness are, where they have come from; how they have been inspired; how they relate in a field of otherness; how they are situated in historical and social context; how they will change through time; and what they will produce. If we step back for a minute and imagine our own circumstances – and look to the space that occupies us, wherever we might be; we will find that the world around us speaks to us through its many forms; that these forms, these manifestations of materiality, are also ideas that we hold as our own, and which we share with others, who may or may not always agree that our ideas are true (cf. Polanyi, 1957). The subject, the economic actor, even the rationalist, is intertwined with a reality that they may (or may not) hold as being true. The subject is not separate or independent from this reality, the object of our vision; we do not look at our neighbour as a person, but as an idea, a representation that alters and shapes how we behave in relation to him or her. And the person is one of many different representations, which make up the distinctiveness and connectiveness of materiality; because representations only make sense in relation to others in a diverse spectrum of 'differentiation' and 'distinctiveness' (cf. Bourdieu, 1998). For example, it is not as if we would suddenly decide to walk naked down the high street, because this is a form of communication to others, one that is specific to our history and not essential to it, that perceives it as unacceptable and 'mad'; and even if we did this in spite of its associations, it would denote an intention – and as an intention it belongs to something, something in the fleeting past that has been inscribed in the subject, the agent, who is activated by its lingering presence (cf. Hall, 1996). As Michael Polanyi argues,

> All these inarticulate achievements are guided by self-satisfaction. The adaptation of our sense organs, the urge of our appetites and fears, our capacity for locomotion, balancing and righting, as well as the processes of learning which an inarticulate intelligence develops from these strivings, can be said to be what they are and to achieve what they are said to achieve, only to the extent to which we accredit their implied assent to their own performance, shaped by them in accordance with standards set by themselves to themselves. Therefore, at each of the innumerable points at which our articulation is rooted in our sub-intellectual strivings, or in any

> articulate feats of our intelligence, we rely on tacit performances of our own, the rightness we implicitly confirm (Polanyi, 1957: 100).

Hopefully, through this reading, our ideas are already beginning change how we see the economy; not as something ontologically given, where prices go up and down; where market institutions such as Tesco create new jobs; where economists speak in a language we do not understand; *but,* as something that we create ourselves, something that we constantly engage with and perform (Thrift, 2005); no matter how significant or insignificant the performance; because in our tiny efforts to confirm what we know and to derive simple pleasures from the *act* of knowing, or not knowing, – we reaffirm the historical specificity, trajectory and social constitution of the economy in its many forms and relations; its institutions and products; its priorities and outputs; its privileges and inequalities; its adverts and commentaries; its consumer fashions and celebrities; its epistemic artisans and aesthetic priests; its relations to government, community and the self; and even its social consequences, which sometimes affect us, but sometimes not. 'All the world is a stage' Shakespeare once said – the economy of our times is no different. Thus, we should see cultural economy as an attempt,

> ...to identify the varied impulses and articulations through which value is formed, added, and circulated; summing to what can only be described as a cultural economic ensemble with no clear hierarchy of significance. These impulses and articulations are not only plural mixed, but also performative, since they involve not only following the rules of the game but also constantly establishing new rules (Amin and Thrift, 2004: XV).

The economy that *we* perform and confirm is also the economy that seduces us, that charms us into unspoken submission (cf. Foucault, 1980: 109-133). We must not forget however, that the economy of our time is culturally and historically specific (Thrift, 1997). For example, if we were to massively simplify the history of the economy for didactic reasons only; then we could say that the emergence of capitalism, taking Marx as our reference point, represented the *expanded economisation of cultural traditions and relations*; produced through people of faith and of a religious calling: the 'spirit of capitalism' (Weber, 1930/2001). As Weber argued – this spirit was the motivation of puritan asceticism, which 'did its part in building the tremendous cosmos [and cloak] of the modern economic order' as 'fait decreed that the cloak should become an iron cage' (ibid.: 123-124). However, the economy of 'specialists without spirit, sensualists without heart' (ibid.: 124) gradually transformed itself, taking Polanyi (1944) and Hobsbawm (1995) as a our frame of reference, through the *socialisation of economic industrialisation* – ironically leading to an existential war and a post-war period that promised to contain all promiscuity, subversion and decent throughout its coldest stages (Harvey, 1990). And since the collapse of the Berlin wall, we have seemingly passed into a new stage, where capitalism is again celebrated, where anything can become a commodity; a stage that we could describe as the *expanded culturalisation of economisation* (cf. Thrift, 1997: 2001b). Contrast for example, as a matter of comparative literature, the difference between Thorstein Veblen's *Theory of the Leisure Class* (1925) with Pierre Bourdieu's *Distinction* (cf. Bourdieu, 1998). In the former, Veblen persuades us that the leisure class i.e. the upper class, invest in goods not only for their material pleasure, but for what they say about the person's class and moral distinction. Today, there is evidence of this e.g. fine-dining; but there is also less evidence of this, not because it doesn't exist, but because the economy now moves in such unpredictable, non-linear ways, that it is not a question of class, but one of *taste* – the central idea of Bourdieu's *Distinction* (*passim*. Bourdieu, 1998).

Outlining a Framework of Understanding: Knowledge, Belief and Disposition

Unfortunately, we have reached the stage where the reader will be unimpressed to find that none of the ideas expressed above are 'new'. Like Bourdieu's *Distinction*, the cultural historian floats upon a sea of methodological and epistemological nuances, which force us to reach 'social positions' not as a matter of taste, however, but as a matter of navigating the search for hidden truths. Before we go on, we must remember that the purpose of this specific project centres upon one defining interest: *to understand the motivations for social change and their consequences*. Within this general enquiry, it is proposed here that there are three broad categories of motivation that defy and enable social change: *knowledge, belief and disposition.*

Taking Michael Polanyi (1957: 69-124) as our frame of reference, the first category refers to the method of knowing, which can be effable or ineffable, so that knowledge derives from the perception of the world and its inter-dependence with the social and historical context. But knowledge also translates into signs and representations, which the knower can make sense of, either through articulate or inarticulate means, so that their meaning can be manipulated and confirmed so as to create judgement. Thus, knowledge is a way of understanding the world, but also a way of representing it (de Goede, 2003). The second category belongs to the first in the sense that our beliefs are part of a tacit coefficient, but in order for belief to be instilled autonomously, it first has to be produced, initiated and rationalised. It is readily acknowledged as a starting point of this thesis that 'knowledge and rationality make *real* material distributions and effects possible' (de Goede, 2003: 95). But the Foucaultian understanding of discourse lacks the ability to assess the nature of social change, unless of course, it is carried out by the method of genealogy. Instead, it is proposed in this thesis that there needs to be a greater understanding of the 'subtle interactions between 'agents in institutions' and 'institutions in agents'' (Amin and Palan, 1996: 211) so that we can examine the dialogue of subjectivity inside economic discourse. The reader will of course detect an overlap, but the point is to suggest that the constitution of belief needs to be deconstructed 'not' as a static affect in time; but as moving target through time, which necessarily asks us to focus on the actors *acting* on belief and the consequences that this creates. The third category which Bourdieu calls *habitus* belongs to the past, belongs to identity in the past, and the instances that formulate memory as a lineage to belonging, so that the very performance of identity, of self, is a product not of choice, but of taste; and taste is an equal opposite of distinction, 'because being inscribed in the space in question, he or she is not *indifferent* and is endowed with categories of perception, with classificatory schemata, with a certain *taste*' (Bourdieu, 1998: 9). This takes on a material dimension, because its history precedes essence, and in preceding essence the enactment of taste is also path-dependent and a 'blind stain' difficult to remove. None of these concepts make sense however without providing a skeletal framework of analytical concepts from which to put 'their' flesh on to the bones. In what follows, it is argued that the cultural political economy is organised by the relations between the following: *governmentality; expert-systems; reflexive economic practices.*

Governmentality

We begin broadly with the notion that we cannot escape our history, our structural history, the history of territory and of state, which has moved from panoptic forms of deliberate and explicit forms of bodily control (Bauman, 2000: 11) to a reversal of this logic; where man is governed not by man nor by government, but through himself; through 'technologies of the self' (Foucault, 1997: 223-251); technologies deployed in civil society, where control has become the subtle art and fantasy of the watcher, the economic citizen, who engages in the pre-discursive forms of structural power, by enacting his own micro-power, his own bodily power and sense of self; his own sense of taste within a market economy – a culturalised economy that has more subtle, seductive and pernicious forms of power running through its exchange relations. For those unconvinced by this, just go to the supermarket and keep watch of your reactions and emotions to the symbols of material goods. The economy is therefore part of a macro system of what Foucault and others have called 'governmentality' (cf. Foucault, 1978: Miller and Rose, 1990: Lemke, 2001); where government and the market structures informing the logic of the state is produced by the mentality of its citizens. It is proposed, as is consistent with others in this academic field (ibid.), that the morphology of relations enabled by governmentality is a prior condition for knowledge, belief and practice. This comes in the homologous form of distinctive-signs, such as policy briefings; white papers; green papers; tax changes; interviews; media commentary; statistics; charts; bill boards etc., so that 'political rationality is not pure, neutral knowledge which simply 're-presents' the governing reality; instead, it itself constitutes the intellectual processing of the reality which political technologies can then tackle', e.g. 'agencies, procedures, institutions, legal forms' etc' (Lemke, 2001: 191). In simple terms, governmentality refers to the initiation of action and personal self-conduct through the very presence of connective representations across a diverse spectrum of governance that help to normalise and abnormalise certain forms of behaviour. While governmentality is fractured among many different authorities and representations, such diverse units are also connected making up the spatial whole, which is subject to constant scrutiny and reflection by those who reinforce or challenge its unified emergence. Like a kaleidoscope, governmentality circulates different patterns and colours of light creating images that are constantly adapting to the desire for more stimulation – or even more pleasure.

Expert-Systems

However, the conditions of governmentality are also enabled by expert-systems, which not only help to produce the politico-ethical structures of governmentality, but which are in turn influenced by the wider territorial conditions that augment their transient forms. Such expert-systems are also miniature governmentalities acting in a social field of competitive value creation. 'By expert systems I mean systems of technical accomplishment of professional expertise that organise large areas of the material and social environments in which we live today' (Giddens, 1990: 27). Taking Giddens's highly useful concept to hand, an expert-system can be a 'theoretical class', as in a group of academics working within a specific field (Bourdieu, 1998: 10-13), or it can be an institution, such as a commercial organisation, which takes on a physical form and yet like a theoretical class, its boundaries are fictitious and porous. Scott Lash helps us to understand the significance of 'expert-system' as an analytical concept,

> And however one might want to dispute the normative implications of Giddens's theory, its purchase on late modernity's empirical reality is considerable. Though Giddens's largely positively valuated expert-systems seem to be very much the same as Foucault's (wholly negatively valuated) 'discourses', they are in fact a much broad concept. Whereas Foucaultian discourses are frameworks regulating the systematic occurrence of serious speech acts, expert-systems are much wider in scope. They refer at the same time to the practices of say professionals and other experts; they have a strong institutional aspect; they can also refer to the expertise objectified in machines such as aeroplanes and computers, or in other objective systems such as monetary mechanisms (Lash, 1994: 117-118).

Very much like governmentality, expert-systems provide innovative methods of social organisation, mental and physical tools that facilitate *being* in different social contexts. They 'entangle' individuals through the production of belief, a prior condition of knowledge and autonomous action (Callon, 1998). Unlike governmentality, expert-systems operate in a competitive social field of differentiation in order to attract certain dispositions or 'habitus', that are prior to innovations and exist in materiality. One of the advantages of employing this concept is that we can determine the changing forms of the expert-system, within itself i.e. the debates within *the expert*, and secondly we can understand the inter-subjective dynamism between these debates in relation to their wider contexts. Thirdly, this injects politics in to the *cultural economy* concept/debate as we highlighted above, which has been lacking, because we now see expert-systems as part of a *struggle* to create a certain type of economic value and production.

Reflexive economic practices

It is proposed that the concept of 'practice' bears more analytical fruit over the concept of discourse in an enquiry concerned with social change; especially the Foucaultian sense of the term, because we are interested not only in how identities are regulated through initiated structures of language and knowing, but how identities put their own carefully selected habits or dispositions into practice, creating change unpredicted by the Foucaultian affect. An economic practice is also a space of mediation between the expert-system and the lay consumer. To 'engage in cultural practice means to utilise existing cultural symbols to accomplish some end...so that the important theoretical question...is how to conceptualise the articulation of system and practice' (Sewell, 1999: 47).

There is also an emulative dimension to economic practices in society that identities tend to follow, not only of performing consumer tastes, but of creating their own personal forms of 'ontological security' (Giddens, 1990). We cannot avoid the many economic practices in society e.g. everyday consumption patterns, and the notion of 'practice' affords us the privilege of being able to describe and deconstruct the specific forms that it takes, so that we understand the seductive powers motivating the very practice itself. But it is important to understand that 'system and practice constitute an indissoluble duality or dialectic' (Sewell, 1999: 47), so that we must also consider the changing forms and meanings of economic practices, and what they mean also for society as a whole.

Thus, before we develop an understanding of reflexivity, it will be important to open up a parenthesis to what Bourdieu (1998: 1-13) means by his concept of 'capital' as it has some bearing for our analysis later. Heuristically, Bourdieu suggests that different agents and social groups have different combinations of cultural and economic capital at different times and in different contexts. While Bourdieu (1998) makes a conceptual separation between cultural and economic capital, we would be wrong to think that he fits into the same category of Ray and Sayer (1999). For Bourdieu (1998), it is futile to make this methodological separation if one is to assess the sociological and political significance of discursive structures, power and change. For example, those activities and processes involved in the 'means' of provision are also culturally informed and endowed with meaning for agents acting in a context that can equally facilitate or constrain the reproduction of certain forms of provisioning, depending on the forms of representation that they accumulate. In separating cultural from economic capital, Bourdieu is simply making the hypothesis that those activities that are traditionally thought of as cultural, such as going to the cinema, taking a siesta, even mannerisms, are only thought of as cultural because they represent distinctions. But secondly, such cultural distinctiveness is not only endowed with economic meaning to the 'other', it is also economically underpinned and influenced. While we can separate culture and economy into separate parts, temporarily, it becomes futile if we are to explain why and how agents enact their own tastes. For example, corporate executives or civil servants may have similar levels of economic capital, more access to provisioning than say office workers, but they may alter in their mannerisms or attitude towards activities that define their identity e.g. fine dining, which could invariably alter their access to higher levels of capital. The differentiated positions that these cultural-economic assemblages project, creates a dynamic topology or social 'field' that is also a 'structure of the distribution of different kinds of capital, which are also weapons, commanding the representations of this space and the position-takings' in a struggle, as we suggested above, to conserve or transform it (Bourdieu, 1998: 12).

Finally, Bourdieu's notion of distinction; the idea that life is a struggle of representation and enactment within the social field, is also, we propose here; a reflexive process. In order to understand the significance of social change it is necessary to have a conceptual understanding of reflexivity. Anthony Giddens (1990) argued that late modernity, the contemporary period, has been 'radicalised' due to the consequences of modernity. Giddens as well as his German colleague Ulrich Beck (1992: 1994) observed that the character of late modernity is captured by a new phase of modernisation described as 'reflexivity'. As Giddens argued, 'the reflexivity of modern life consists in the fact that social practices are constantly examined and reformed in light of incoming information about these very practices, thus constitutively altering their character' (Giddens, 1990: 38).

However, there are different conceptions of reflexivity. Ulrich Beck (1994: 1999) for example, argues that the industrial society of the solid modernity that once was during the 19th and early 20th centuries has been undermined by the self-undercutting of modernity, creating uncontrollable dangers to society that we cannot avoid, and must render controllable if we are to re-invigorate our own sense of social control and destiny that is no longer just an 'appendage of the machine'. Beck (ibid.) describes this new reality as the 'risk society', a manufactured society in as much as such risks need not exist. But Beck takes as his starting point an ontological perspective of risk, which necessitates him into a false-positive i.e. to assert that the only way forward, is to face our reality, which will compel us to rein in risk. But Beck does not consider the alternative position put forward by Scott Lash (1994), which is to raise two main issues: (1) that man is imbedded in his own historical and aesthetic pleasures creating greater expectations of the means that channel them; (2) that man will inevitably carry out his dispositions as a matter of reformulating his past experiences through more secure ones in the present. In contrast to Beck and Giddens, Lash's notion of 'aesthetic reflexivity' (1994) means, quite possibly, that modernity will bend in ways not necessarily defined by a final end such as social justice, but possibly, aesthetic reflexivity is an extension, an evolution of what previously existed, a radicalisation of market relations that 'lock-in' productive circuits of problem-solving devolved of any 'idealistic' proposal to counter them.

Methods of Knowing, Methods of Understanding

Cultural IPE offers us a deeper, more complex explanatory system of tools from which to deconstruct and demystify, describe and examine, reflect and intervene, not so that we pin down what causes the effect, because this is implausible in a world of ontological complexity, indeterminacy and path-dependency; but how causality itself is imbricated in institutional relations of context and interaction, between the subjects of capitalism and their objects, between the ideas that they hold dear and the distinctive forms that they represent. In so doing, we are interested in the nature of transformation, but also what transformation means for the human condition. We are interested, as analysts of cultural history, to explore the inputs of change and the outputs that they create and normalise. This is not to denigrate, to shun, to depreciate or patronise how people think about the world, but to provide a wider spectrum of understanding than what currently exists in neoliberal accounts of knowledge; to show people how history moves by a sleight of hand, based on an illusion of necessity, urgency and teleology of inevitability, a path that economic agents so easily tread by themselves. This is not a subversive project, or even a subjective one at that, because in assembling the systemic tools of understanding, which derive from historical understanding and not from ideas alone, we engage ourselves inter-subjectively with propositions about the world, which speak to us objectively or not at all (Polanyi, 1957). In this sense, research is such that we act as intermediaries between the text and our reading of the text (Chambers *et al.*, 2004), which requires an incessant responsibility, if we are to situate ideas in reality knowing the potential of their consequences. Michael Polanyi could not have articulated this research method better,

> Such is the personal participation of the knower in all acts of understanding. But this does not make our understanding subjective. Comprehension is neither an arbitrary act nor a passive experience, but a responsible act claiming universal validity. Such knowing is indeed objective in the sense of establishing contact with a hidden reality; a contact that is defined as the condition for anticipating an indeterminate range of yet of unknown (and perhaps inconceivable) true implications. It seems reasonable to describe this fusion of the personal and the objective as Personal Knowledge (Polanyi, 1957: VIII).

Thus, we cannot avoid the proposition or the circumstance that tests its stability or instability. And in this sense, research is a two-way dynamic that formulates ideas, holds them to the light of the day, until the funnel of doubt gradually reduces itself in a temporal process that flows from epistemological uncertainty to ontological implication. For example, the notion that financialisation is a cumulative process has to be tested and understood first of all, which requires also, an understanding of transformation, not just as narrative, but as ontological deconstruction. Along this journey, a cultural historian necessarily observes 'facts' more as reference points, as milestones that constitute an historical disposition and a specific cultural context. For example, 'texts themselves, as well as having an abstract form, are an aspect of a larger socio-cultural practice' (Chambers et al., 2004: 42). In contrast, conventional methods distinguish mainly between Primary and Secondary sources of data, but this thesis considers that 'methods are often most productive when their rules and conventions are transgressed or combined' (Chambers, 2004: 42). For example, there have been two uses of primary data in this thesis. Firstly, a research project cannot survive without dialogue, without questioning people inside of reality, which requires in some instances 'experts' from a specific field, but also lay people in a wider field of ordinariness. The two are just as important as each other, not for what they are, but for how they see the world before them; what they say about it and how the world interacts from their own perspective. This institutes a formal and an informal process of recording data, which we could tentatively call 'detection' and 'extraction'.

In the first instance, expert-systems and lay-systems can direct the observer to realities previously unheard of, like a detective following a chain of evidence, it is incumbent that he or she asks the questions and records the answers, not to denote fact, but to dispel myth, to acquire material worthy of interest that can either extend propositions or rebuff them in ways unanticipated. This informal practice of acquiring knowledge through the simple art of conversation is constant, cumulative and anthropologically intended, as a way of quiet, reflective observation so that we enhance our responsibility to ideas, theories and concepts on the one hand and to materiality on the other. The second dimension is a formalisation of the first dimension, what some describe as 'the interview technique'. It is not superior in content or method, but more simply as way of recording, historicising and standardising on paper, findings that can be physically manipulated, analysed and understood in their relational context. This research carried out both informal and formal techniques of primary observation, which we will now discuss in stages.

The first stage of this thesis, the stage of frightening uncertainty, could be described as foundational knowledge, setting forth an experiment of ideas and propositions, which led in this case to a PhD saving conference paper. This paper entitled: '*Not such an Equitable Life? Unpacking the social, cultural and political from Financialisation'*, was delivered to an audience at the British International Studies Association (BISA) conference at Birmingham University 2002. It was built upon an inter-relationship between background knowledge and detection work, pressing the buttons, squeezing the pressure points – in order to resolve and to amalgamate the uncertain gap between theory and practice. Inter-personal relationships are inevitably created as a result, especially if the object of investigation is controversial and especially if those under investigation see in your work a means to an end. But we must understand that case-study analysis is one specific level of analysis that rests beneath two levels above: (1) the top layer is the theoretical lens, the theory of knowledge i.e. epistemology and methodology; (2) the second layer (in this case) is the object i.e. financialisation; and the third layer (3), as we have mentioned is the case-study, that intends to say more about the middle and top layers, than it does about the infinite and infinitesimals detail of the bottom layer. This is primarily the value of foundations built upon epistemological and ontological deconstruction. The bottom layer, the ineffable, is made effable by recourse to a framework of understanding that corresponds to a wider set of academic 'expectations', both tacit and explicit. It is then possible to 'arrive' at conclusive implications, which then suggest a direction for change.

Detective work in this case and in others involved e-mails, telephone calls, formal letters to organisations e.g. the Financial Services Authority (FSA) and the Parliamentary and Health Service Ombudsman (PHSO). On other occasions, it involved actually going to people's homes; business conferences e.g. the Institute of Directors; central bank meetings e.g. Newcastle and London; financial planning seminars e.g.

Dublin and Newcastle upon Tyne – upon where observatory mental and physical notes were taken of the speakers and in some cases their audiences, their information packs, even down to the representations of gender and body language, whether it made a difference or not. Going to financial planning seminars proved to be extremely fruitful, if its employment could not have been acquired earlier, because in many ways financial planning seminars are 'points of sale', not neutral sites of learning, but places of entanglement, from where the researcher can become an 'actor', to pretend to be someone else i.e. a young person who wants to (and probably should) save for a pension, which is interesting when you're 'not' interesting or 'profitable' to their business.

The more formalised method of this dimension culminated in 'proper' style interviews, upon where the researcher writes a letter, waits for feedback, a rebuttal, but is often happy to find a lending hand, an inquisitive person, whom also seeks a wider outlet in your work, but whom often never wants to be formally recognised or quoted in the public arena. It is therefore better to hold the pretence of a researcher, rather than a PhD student, a tactic that is buttressed by putting the recorder to one side, pen in hand, poised to listen rather than to threaten. Nine such formal interviews took place: one former cabinet Politician; one high ranking civil servant working for the Parliamentary Ombudsman; one pension trustee; one actuary; four lay people working on the Equitable Life case, and countless follow up e-mails; in addition to one London investment practitioner.

The second formalised method of primary enquiry came in the form of a web questionnaire (*Please see Annex A*). This was a qualitative questionnaire designed for Equitable Life policyholders, past and present – and the purpose was to understand why people invested in Equitable Life as a vehicle for their savings. At the heart of this questionnaire was to understand the significance that people attached to the products that Equitable was selling; the reasons why Equitable was their preferred choice; the expectations they had towards their products; and why expectations provided the drive to acquire more. It also asked the respondents to be clear about the information they drew upon. For example, was it effable or ineffable forms of knowledge that initiated and stabilised their calculation? This questionnaire also asked respondents to describe how they felt, focusing on the emotive side of financial products, both before the crisis and after the crisis, in an attempt to understand how the morphology of relations kept Equitable Life going, but also why it fell apart making calculation unstable. Lastly, it also considered the transience of identity. As savers invested in their products, they were principally financial identities, but after the crisis, they revolted and turned into politico-financial identities. The questionnaire remained on the web for one whole year, not just in one place, but in two different places. It was on the Equitable Life Members Action Group (EMAG) website and it was on a sister site belonging to the Equitable Life Trapped Annuitants action group (ELTA), a different class of saver effected by the company. On the negative side, I received only twenty questionnaire responses, but on the plus side, I received a lot of valuable and rich information, which I used throughout my thesis.

Finally, this research project drew upon secondary information sources. This included: (1) literature e.g. self-help literature and financial magazines; (2) academic papers e.g. the archive of actuarial papers provided by the British Institute of Actuaries provided a rich source of data from which to compare historically and to understand contextually the changing nature of financial knowledge informing pension transformations; (3) commercial and public policy documents both public and confidential; (4) adverts e.g. a collection of Equitable Life's adverts was acquired from the PHSO after vain attempts with the company. Such data are not drab artefacts for us to describe as if our intelligence aspires from what our heads can empty on the page; but they are representations of context, of history unfolding, society in progress and action, which necessarily requires us always to situate these references, their significance into context e.g. their wider politico-ethical relationships and consequences. But this does not come easily without, firstly; a fertile framework of understanding, an epistemology that asks us to shed our preconceptions of the world, a lonely business, one that manifests itself initially in cynicism, but which nevertheless sews ideational seeds, new didactic powers of analysis that correspond not to this school or to that school, because the practice and intention of demystification and analytical narration is transdisciplinary.

Testing propositions does not make us scientists of the social world, we are not trying to extract laws out of reality, but we are trying like scientists to understand the world better, to know it better even though it evades us, even though modernity is a 'perilous act' (Foucault, 1966/2002: 357); and in the same vain as those in the Enlightenment, we are trying *constantly* to make the world a better place to live, no matter how 'asymptotic' (Bronner, 2004) or 'feeble' (Habermas, 1985a) the project of modernity is. In this sense, we are not trying to create a finality, an ending to history, but more modestly to 'reclaim' the Enlightenment project by 'fostering the will to know and fight against prejudice' to 'insist upon tolerance and reciprocity', to demand 'a public democratic sphere, and the accountability of institutions'; effectively, to create the possibility of 'personal liberation, popular empowerment, and overcoming the spell of myth and nature' (Bronner, 2004: 29).

Reflections: Outline of the Thesis

The first part of this thesis has been an important step towards understanding Cultural (International) Political Economy on the one hand and financialisation on the other. We have yet to clasp hands, to understand how our theoretical approach of the economy applies to our distinct approach to financialisation. Part of the novelty of this thesis is to develop a notion of the economy as a cultural life in motion, where the variables of action are extensive, contingent and interdependent, creating historically distinct social contexts that merge as if like a chaotic pattern or art piece made of different concepts, colours and materials that somehow come together and make 'sense'. From this point of view, culture is a constitutional notion; we make sense of it by understanding what formulates it and with this we need to understand that there are so many disparate parts that make up the sum of the whole, enabling certain forms of action that reproduce consequences for society. While we have outlined a turn towards questions of culture in IPE, we have yet to be specific about what culture means, especially in relation to our subject area. As a result, Part I of this thesis will therefore be an attempt to construct a Cultural IPE approach to Financialisation, which we will discuss further below.

Part of the aim of this thesis is to examine financialisation in depth and to explore its dimensions through the lens of Cultural IPE. To do this, we need to ask ourselves what financialisation is and what it means. In Part I of this thesis, we will journey through three different chapters on financialisation passing from the material to the theoretical. Chapter two provides an in-depth background and analysis of Britain's financialised economy. It demonstrates the extent to which financialisation has become embedded in the British economy and it explores some of the interrelations between work, consumerism and financial production. What we find broadly is that financialisation is indispensable to the sustainability of Britain's economy, even though it is responsible for fuelling the inequality, instability and trivialisation of modern British politics. This chapter is important because we need to understand the surface layer of our economy, to understand its systemic linkages and the connections that require or even 'demand' financialisation as an implicit aspect of socio-market regulation. This is important because we focus on the outputs of an economy that is facilitated by inputs, an infrastructure committed to the reproduction of this system, made up – not just of foreign institutional investors, but normal domestic pension funds, commercial institutions that serve the public, intermediaries that channel ordinary savings into a financial system that essentially maintains the politico-ethical nature of Britain's modern-day political structure. By understanding financialisation in material terms and by exploring the significance of its contribution, we can then begin to understand how financialisation works, why and what for.

In chapter three, we will attempt to situate financialisation in historical context and examine its novel features. Economists tend to see financialisation as a relatively new phenomenon dating back to the 1970s when the Bretton Woods exchange rate mechanism collapsed (Eatwell and Taylor, 2000: Stockhammer, 2004: 2005). Furthermore, economists and politicians alike look upon global finance as an extraordinary provider of wealth and distribution, something that is unquestionably part of our world and here to stay for the long term. In this sense, global markets are usually constructed in the political imagination as institutional networks that float above our heads. Chapter three of this thesis intends to deal with these questions and asks principally, how and why does financialisation manage to sustain itself? Once we begin to situate this question in historical context and break it down into its component parts, we will begin to reveal a hidden politics in financialisation that manifests itself as 'crisis-management' – a repetitive regime in motion.

From this chapter we will have a foundation from which to move to chapter four, which tries to establish fixed parameters for measuring the financialisation of the economy and the potency of the above proposition. Polanyi's central observation in the *Great Transformation* was his feeling that the economy was qualitatively different as a result of central political changes that had conspired to make the industrial machine the epicentre of 19th century social relations. 'Instead of economy being embedded in social relations, social relations are embedded in the economic system' (Polanyi, 1944: 57). Using Polanyi as our guide, it is suggested that financialisation encourages the transition from disembedding to re-embedding, where social relations become released from traditional values and socio-economic relationships, and moulded around the pure incentives of the free-market, from where individuals are expected to navigate the economy more efficiently according to the reflexivity of individual tastes between consumers and producers. It is in this chapter that we try to flesh out some propositions regarding financialisation using a cultural IPE approach within the confines of a framework that draws upon Polanyi's major study. In this sense, what we propose is that financialisation is a cumulative process because while it encourages disembedding it also encourages re-embedding, which facilitates even more greatly, the expansive repetition of the regime based on the commercialisation of solutions. Whether it is merely a question of repetition is an empirical question, because as we have made clear, it is quite possible, as in Polanyi's study, that new powers of social accountability will become evident as financialisation progresses.

In Part II of this thesis, we move on to the next stage. Armed with our understanding of financialisation from a cultural IPE perspective, it is now possible to explore the financialisation of private pension provision. We take this in four steps. Firstly, it should be noted that private pension provision is in the midst of a transformation from a collective approach with its origins in the post-war period towards an individualised approach with its ambitions firmly rooted in the hopes and promises of commercial-cultural life. The most obvious starting point of this transformation is the 1980s and in Chapter Five we attempt to understand how economic history was re-written through the emergence of a new private pensions policy. What we find in this chapter is the gravitation towards a coherent set of policies designed to stabilise financial change and along with it, the idea that individuals should be free to choose their own economic destiny, even their own financial future.

In Chapter Six, we delve more deeply into this subject, by going beyond the macro constitution of neoliberal governmentality to explore the activities of the expert-system within this aspiring context. In this chapter, we look very carefully at Equitable Life and understand how the oldest, most credible life assurance company in history warped the ethical and commercial boundaries of financialisation to deliver the most favourable returns for captivated savers – ordinary middle class people who bought into a consumer dream of money for nothing with a producer that was equally influenced by the reflexivity of taste and disposition. Importantly, the ordinary saver and the institution, were part of an overall momentum that drove financialisation down avenues that are now shrouded in controversy, culminating in a series of legal stand-offs between state and citizen that has now escalated to the level of the European Union.

To understand the motivation for financial innovation and the consequences of Labour's Third Way proposal to commercial pensions' regulation, in Chapter Seven we attempt to understand the historical evolution of actuarial knowledge and its relation to key changes in private pension provision. In particular, we examine the discursive and fortuitous nature of actuarial knowledge in the 20th century leading up to the tech-stock crash of 2000, which provides us with a more critical understanding as to why companies are closing down their final salary pension schemes. In the penultimate chapter, our question is to understand why new Labour's Third Way solution to private pensions' policy failed giving way to a reflexive governmentality that enhances and reinforces a laissez faire approach to commercial regulation that facilitates, even more greatly, the idea of flexible stock market investment for the social masses.

In our final concluding chapter, we reflect upon the qualitative changes within financialisation and ask whether it is a socially repetitive regime of accumulation, or whether, repetition has been informed by new powers of socialisation and re-politicisation. In addition, we reflect upon an alternative model of economic life regarding pension provision and funding – that also outlines a more equitable and ethically motivated economic system for re-synthesising society and economy inside a more responsible framework of social accountability.

PART I

Towards a Cultural IPE of Financialisation

Chapter Two

Destiny, Economic Power and the 'New World Order': Britain's Financialised Economy in Critical Perspective

Rt. Hon. Gordon Brown MP,

> ...200 hundred years ago a famous British foreign secretary said that the new world had been called into existence to redress the balance of the old. In 1990 another old world ended dominated by the cold war and people talked then in 1990 of a new world order. What they actually meant then was a new political order and what was not foreseen then, but is obvious now from everything that we see and do, what we experience in everyday of our lives, is the shear scale, speed and scope of globalisation, and it's only now that we can begin to understand that the world order that globalisation brings and what its going to look like is driven forward not just by the balance of military strength, the cold war times, or ordinary political power, its being driven by a seismic shift in economic power that we see around us. But what does the new world order mean for countries like ours who are looking to succeed. I suggest that the countries that are going to succeed are those that combine flexibility, free trade, open markets, with proper stewardship of the environment and investment in education, infrastructure and innovation, and the question for us is how we meet and master all these challenges to ensure that Britain enhances its competitiveness in the process and realises what I believe is our destiny of success in this new world order.

New World Order speech, 15th of May 2007, CBI annual dinner

Introduction

For Gordon Brown the new world order is one of a seismic power shift in favour of economic globalisation. Just like a wave that escalates in the distance and draws closer and higher with each blink, it provokes the question, are we to sink or swim? Those who might stand up to the wave will invariably fail, but for those who use the wave's propulsion will be carried by its destiny to a shore of success. From Gordon Brown's perspective, Britain maybe awash with economic globalisation, but its power can at least be directed, 'used' in favour of meeting the challenges of the economy and its global competitiveness. In this sense, Gordon Brown's statement about drawing success from the new World Order is significant because it identifies the 'object of power' and in objectifying this power, Gordon Brown insists that Britain is separate to its structure and its unfolding. For example, Brown constructs an idea of 'the problem' and then seeks to address it through means that are internal to its logic; and even in material terms, the effect of this power is yet to make itself known to us, because it is built upon fait or 'faith', as even Brown himself makes clear. And this is why we turn to a material if not cursory understanding of the linkages and circuits that make up the house that Gordon help build. Though we must recognise that this chapter forms *only* a background to an appreciation of what 'we' reproduce through our daily economic performances, and how they are facilitated in the world-system as if they were immutable and designed only for us. This chapter is therefore part analysis and part commentary – an attempt to connect the dots between production, work, consumerism and finance and to explore these relationships in a wider global context. The primary reason for doing this is to illustrate that Britain is a platform that benefits from the ripened fruits of emerging market industrialisation and financialisation. It is perhaps from this point of view that we really can understand 'not' why globalisation is our destiny; but why it *must* be our destiny. This is where the power lies.

This chapter is divided into four parts. Firstly, we closely examine the make-up and constitution of the British economy and ask what it produces and what it employs if it is indeed – the fifth largest economy in the world. Having looked at the some of the relationships and linkages between employment and production, we ask a fundamental question: how does the British economy sustain itself? In the second section, we explore the industrialised linkages between Britain and the world-system and outline some emerging patterns that have serious long-term implications for the continuity of Britain's economic competitiveness. Thirdly, we look at the expansion in global debt and particularly of securitisation, which as we make quite plain, is responsible for the growth in consumer finance, investment banking and hedge fund business, which is driving London's leading position as a world financial centre. Finally, we return to the main point, which is that financialisation is a self-perpetuating process and is an essential part of how Britain regenerates its privileges, inequalities and disparities in a model of sustainability that requires stabilisation or perhaps even cultural economic regularisation: a political act with no visible or obvious explanation, until now.

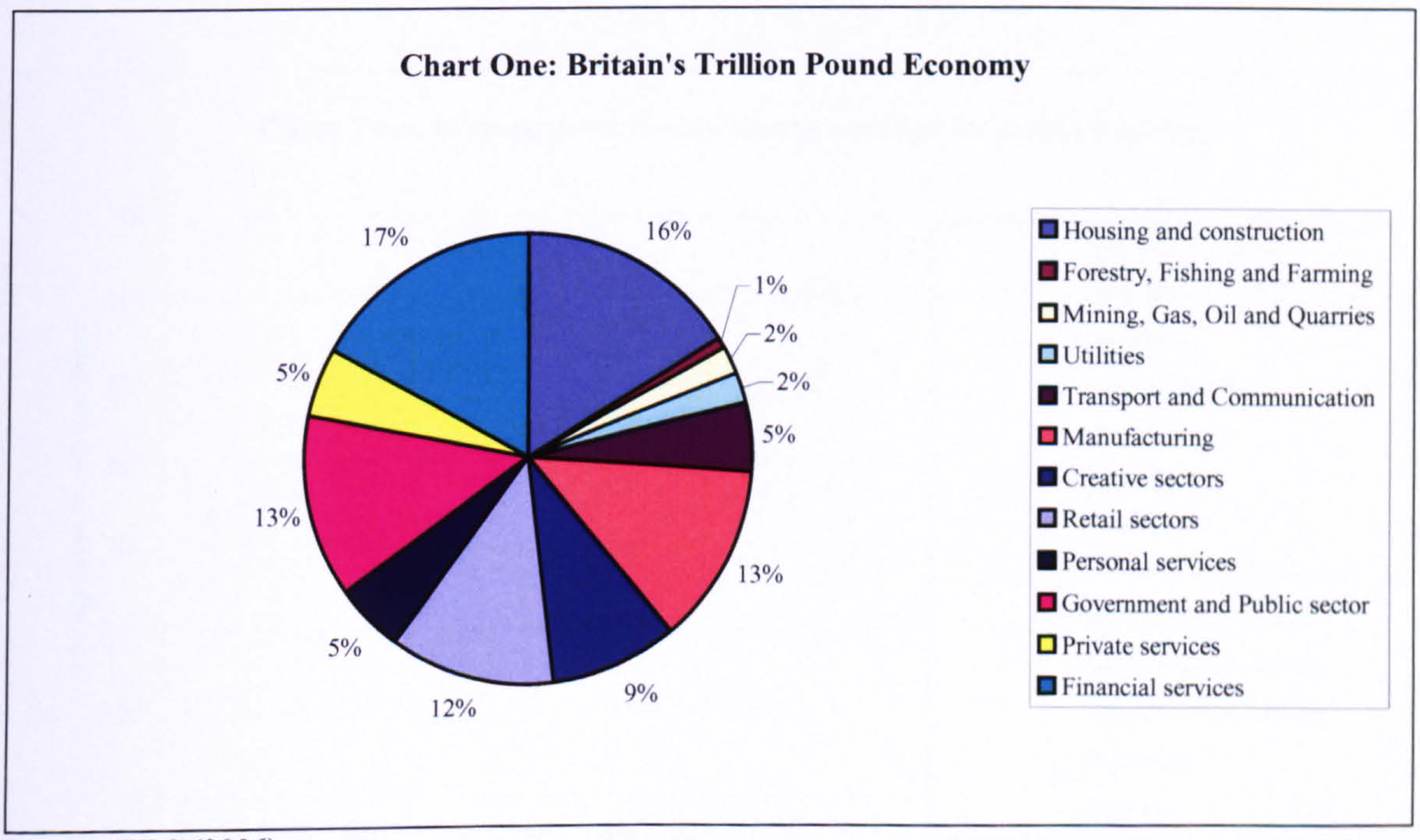
The British Economy: a model of progress?

According to the Economist magazine Anglo-Saxon countries – such as America, Canada, Britain, Australia and New Zealand, have the lowest levels of household saving in the world and the latter two have negative rates of saving. But even in thriftier nations such as Japan, France, Germany and Italy, national savings have fallen. As a percentage of GDP, net national saving rates for Japan, Germany, Italy, France, Britain and the United State hovered below and just above the meagre 5 percent mark in 2003. Japan, known for its exceptionally high saving rates saved 5 percent of after-tax household income in 2004 compared with 15 percent in the 1990s. This compares with America which saved less than 1 percent of after-tax income. According to one estimate for the UK, the annual shortfall in saving amounts to £27 billion every year (Economist, July 13th 2002: 29). What is happening? Why are the advanced industrial countries saving too little and what is the significance of this?

The British economy is held up as a model of progress in the globalised world for every nation to follow and it is in this country that we can highlight a level of comfort at its most advanced level (cf. Hirst and Thompson, 2000). In a timely documentary presented by Peter and Dan Snow called *What Makes Britain Rich* (BBC, 2006), it is revealed that Britain's economy is the 5th largest in the world turning over one trillion pounds a year. If we examine the pie chart compiled from this documentary (*see chart one*), then it is not difficult to see that Britain has not only gone on a spending spree, but it has become a nation of consumers in a transnational service driven economy. For example, 22 percent of Britain's economy is unambiguously produced by services in *retail*, such as wholesale outlets and shopping malls (12%); *personal services*, defined by the program makers as hairdressing, sports clubs, restaurants, hotels and tourism (5%); and *private services*, somewhat less defined as private health care services (5%). As can be seen, the contribution of the service sector to Britain's trillion pound economy has overtaken manufacturing by 9 percent, which has declined since the 1950s from 36 percent to 13 percent, even though Britain's economy has grown three times larger (BBC, 2006). In the heydays of the old economy, sectors of relative importance such as *Forestry, Fishing, Farming,* collectively contributed 5 percent to the economy in the 1950s, whereas today they contribute only 1 percent in a much larger new economy. *Mining, Oil, Gas* and *Quarries* contribute just 2 percent. But Britain has become a nation titillated by its various consumption of media, software technology and mobile phones, which is facilitated by R&D and unique approaches to design.

According to the documentary makers, the *creative sector* contributes 9 percent towards Britain's economy. None of this would be possible of course without the *transport, communication and the utility* sectors, which contributes 10 percent. Unsurprisingly, in light of Britain's property boom in recent years, the property business makes up 16 percent or £160 billion of Britain's economy and is strongly service sector orientated as at least £100 billion or 10 percent is made up of income from 'rent, housing market sales and estate agent fees' (BBC, 2006).

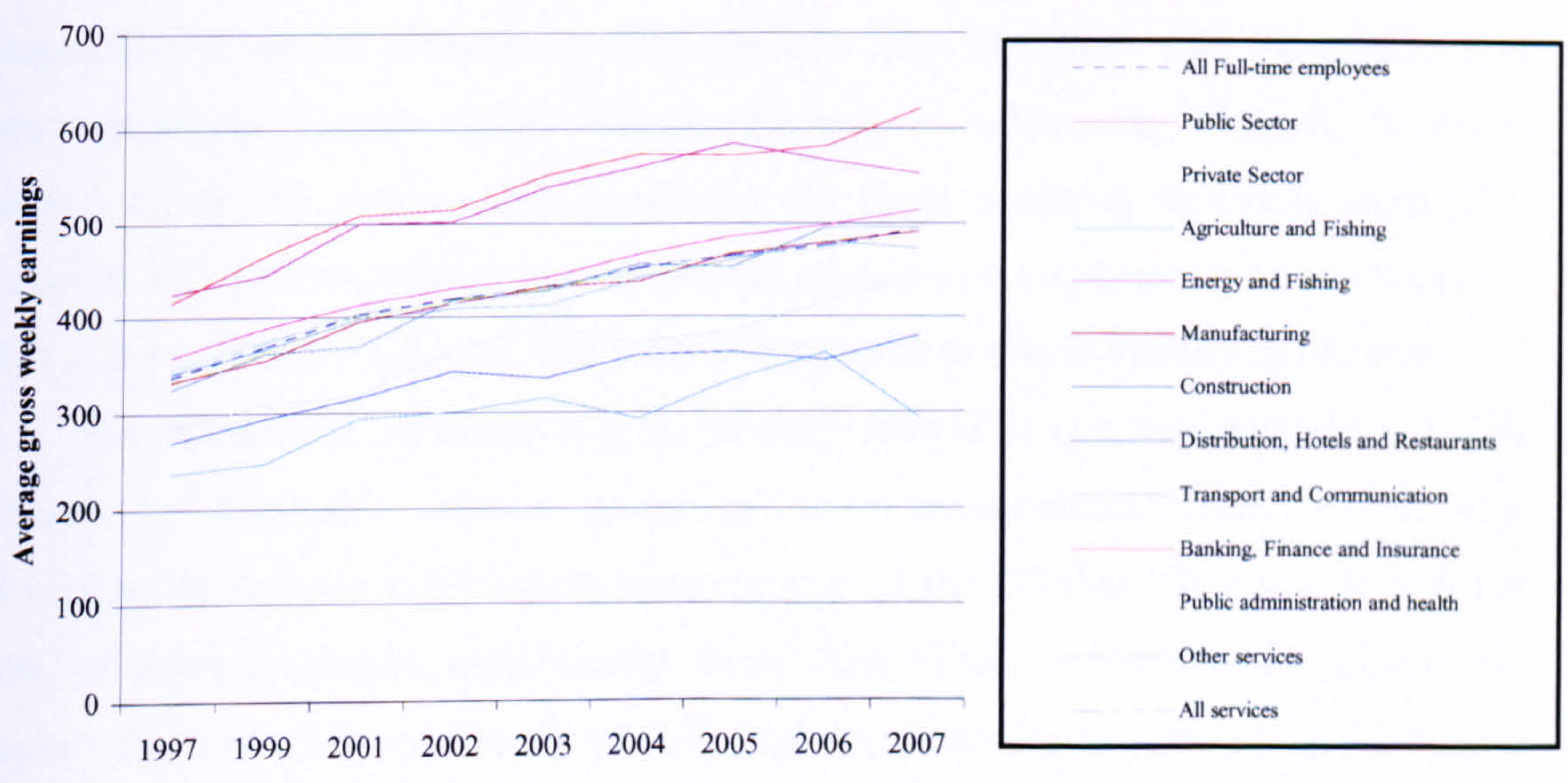
The *Government* (13%) could not be entirely described as a service, without mocking, but it is strongly public service sector orientated in the way that it invests and controls fiscal priorities in areas such as education and health. But perhaps the most staggering facet of Britain's economy is the size of the *financial services* sector. With a collective make-up of insurance firms, pension funds, hedge funds and business consultants, this sector contributes a massive 17 percent to Britain's trillion pound economy. For the programme makers, Britain is an economy of the future, because the old tangible industries making up productivity such as mining, farming and manufacturing, have been replaced by much more intangible areas of production to the extent that Britain has been described as a model of the 'knowledge economy'.



Source: BBC (2006)

If the emergence of the knowledge economy represents a structural shift from the old economy to the new economy, then where does the money come from to support its continuity? One explanation is that the Labour government has reinforced the economy through economic reform, new jobs and a minimum wage. Since Tony Blair's reign began, employment has increased by 3.5 million, an increase of 15 percent since 1993 and the jobless rate has also decreased during this time by 10.5 percent to 5 percent (Economist, 2006: 33). Discounting inflation, we can also see from *chart two* that average gross weekly earnings have increased right across the spectrum of Britain's employment sectors. Government spending on public services, such as the NHS, has also increased year on year since 1996 at an average rate of 4.9 percent, outstripping the average GDP growth of 2.8 percent between 1994 and 2004 (ibid.). We might take from this that sustained Government investment and a greater proportion of jobs in the economy paying higher average weekly wages have combined to create more disposable income, which has had the effect of creating greater consumer demand for services and techno-commodities. As far as optimistic problem-solvers are concerned, Britain is one of the wealthiest nations with a GDP per head of around £17,880 – ranked 13th in the world for living standards and ranked 21st in the world for its population of 59.4 million (Economist, 2007). Based on this very simple and optimistic review of the economy, it's no wonder that Britain has so much money swimming around. But actually, the reality is much different.

Chart Two: Average gross weekly/hourly earnings by industry sector



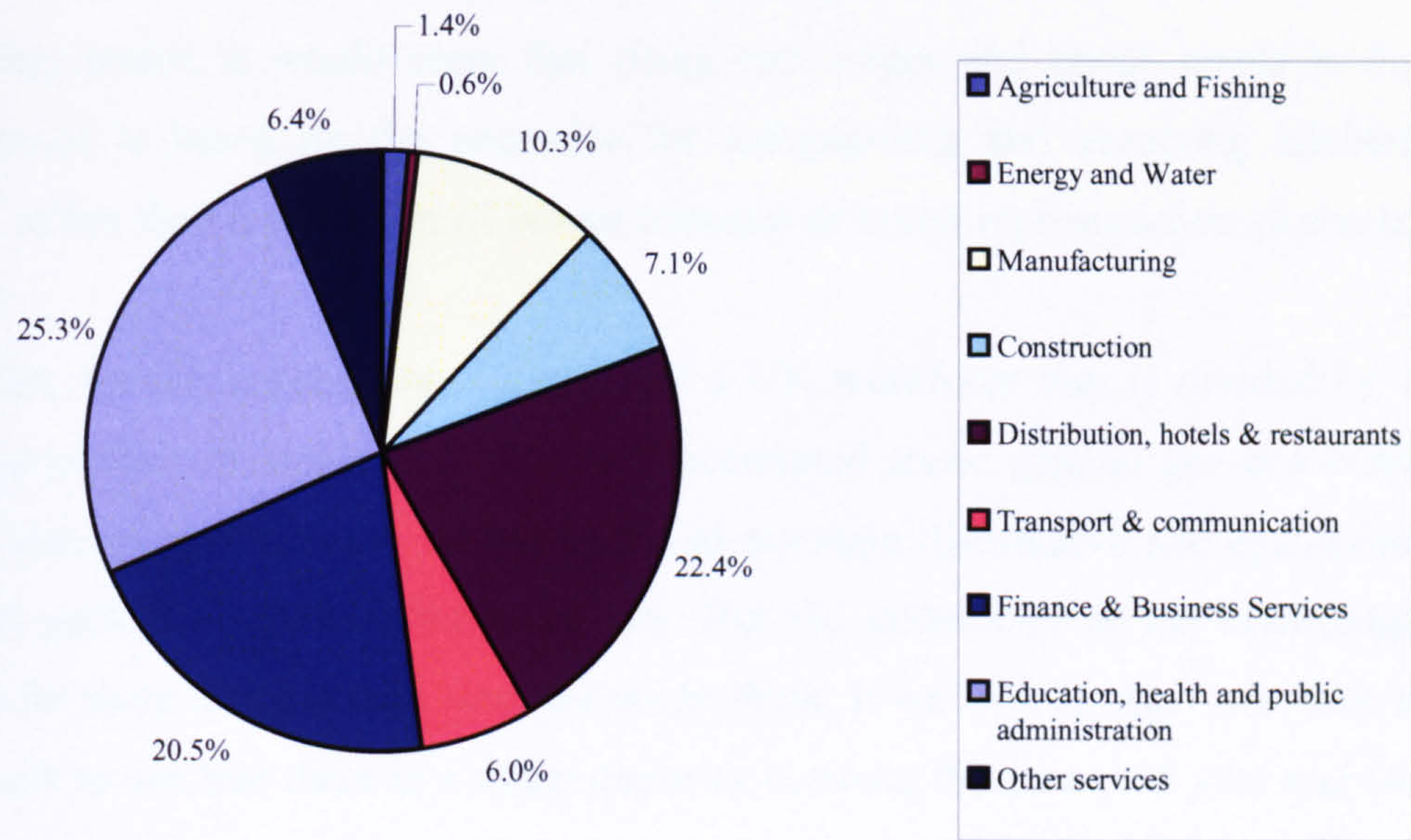
Source: Office for National Statistics, Labour Market Statistics, http://www.statistics.gov.uk/downloads/theme_labour/LFSHQS/Table37.xls

In exciting new comparative research, Pontusson[7] (2005) finds that 'rising inequality of disposable household income is a rather pervasive trend across the OECD countries in the 1980s and 1990s' (2005: 38). Using the latest figures to calculate the Gini coefficient to measure income inequality, Pontusson found that the Gini coefficient increased in Britain from 27 percent at the earliest possible recording to 34.5 percent between 1979 and 1999 (ibid.). This effectively means that 34.5 percent of Britain's total national income would have to be redistributed in order to achieve perfect income equality. To put it crudely in terms of Britain's trillion pound economy, this means that £345 billion would have to be redistributed from households with the highest income to those of the lowest. In 1961, the Gini coefficient for income before housing costs was 0.260 (George and Wilding, 1999: 134) and considering that Britain's economy was three times less the size in today's money (BBC, 2006)[8], 1961 would have needed £83.2 billion worth of re-distribution, a crude figure that is still more 4 times less the contemporary figure. For those who might argue Britain has cleaned up its act, it is also worth noting that inegalitarianism has been a sustained feature in Britain since the 1980s, just like the US, as the Gini coefficient has risen year on year in average annual increments by about two-fifths (0.38%) (Pontusson, 2005). To put this in context, Britain shares its experience with other Liberal Market Economies (with the exception of Ireland) such as the US, Australia and Canada where the average Gini coefficient for disposable income increased from 29.3 percent to 33 percent with an annual average change of 0.24 percent (Pontusson, 2005: 36-44). This compares with the smaller and more egalitarian Nordic Social Market Economies (Denmark, Finland, Norway, Sweden) where the average Gini coefficient for these countries rose only from 22.1 percent to 25.2 percent with an average annual change of 0.18 percent between the early 1980s and late 1990s (ibid.: 36). But what is the source of this inequality in income?

For Pontusson, 'increases in gross earnings inequality correlate very closely with increases in disposable income inequality on a cross-national basis' (ibid.: 41). Astonishingly, Pontusson finds with the exception of the US that 'Gini coefficients for gross earnings increased significantly more than Gini coefficients for disposable income' and especially in Britain (0.62% highest, Australia lowest 0.2%), lending a 'great deal of plausibility to the claim that growing inequality of income from employment represents the primary reason why the distribution of disposable income became more unequal in these countries between 1980 and 2000' (ibid.: 41). However, it should be noted that the Social Market Economies appear to be much better at offsetting 'inegalitarian labour market trends' than their Liberal Market counterparts such as Britain, the US, Canada and Australia (ibid.: 36). The general feeling here, which is supported by Pontusson's research, is that Liberal Market Economies seemed to have accepted the trade-off between 'equality and efficiency' despite how Social Market Economies 'exemplify policies that seem to mitigate the trade-off' (ibid.: 13). Interpreting the general philosophy guiding public policy within LMEs, Pontusson argues that 'distributive egalitarianism' is seen to 'distort market forces and efficiency', 'leading to slower growth, less employment and lower average standards of living' (ibid: 4). Instead, Britain like other LMEs, has embraced ideas such as the 'knowledge economy' in order to strengthen national competitiveness in a global economy, by enabling *transnational* capital to be more efficient, dynamic or 'uninhibited'; less constrained by rigid labour markets and red tape and yet more inspired by a more entrepreneurial or 'creative class' of worker (Florida, 2002). But the implication of Pontusson's work is the suggestion that the composition and 'quality' of employment has changed and become more unequal, leading to the further suggestion that the means-ends relationship has been served, but *not* unproblematically.

As we begin to look under the rock that buffers the land behind it, it is possible to glean quite a different understanding of the knowledge economy in terms of understanding how Britain's trillion pound economy is supported. If we examine *chart three* that divides Britain's total workforce of 31.5 million by industrial classification, then we can see that the *Public sector* employs over 25 percent of Britain's workforce. The Public sector, including education, health and administration, is ranked highly in terms of average weekly wages and is also the sector that has greater flexible working practices, more retirement benefits and a more robust Union representation for today's standards. On the other side of the spectrum, manufacturing employs only 10 percent of the working population and as this sector has declined over the years and as more foreign companies have taken over British companies with the threat of either restructuring or moving abroad for reasons of cost (BBC, 2006: Economist, 2006a: 14), this has tended to sap labour pressure on companies to provide employment benefits and rising real wages, where the impetus for both has fallen against lower rates of profitability (*see below*). As the General Secretary of the Trade Union Congress put it: 'low redundancy pay, limited consultation arrangements and few, if any, obligations on the departing employers make the UK the easy option for any multinational boardroom looking for a jobs cull' (FT, 2006i: 15).

Chart Three: Total UK Workforce by industrial classification 2006



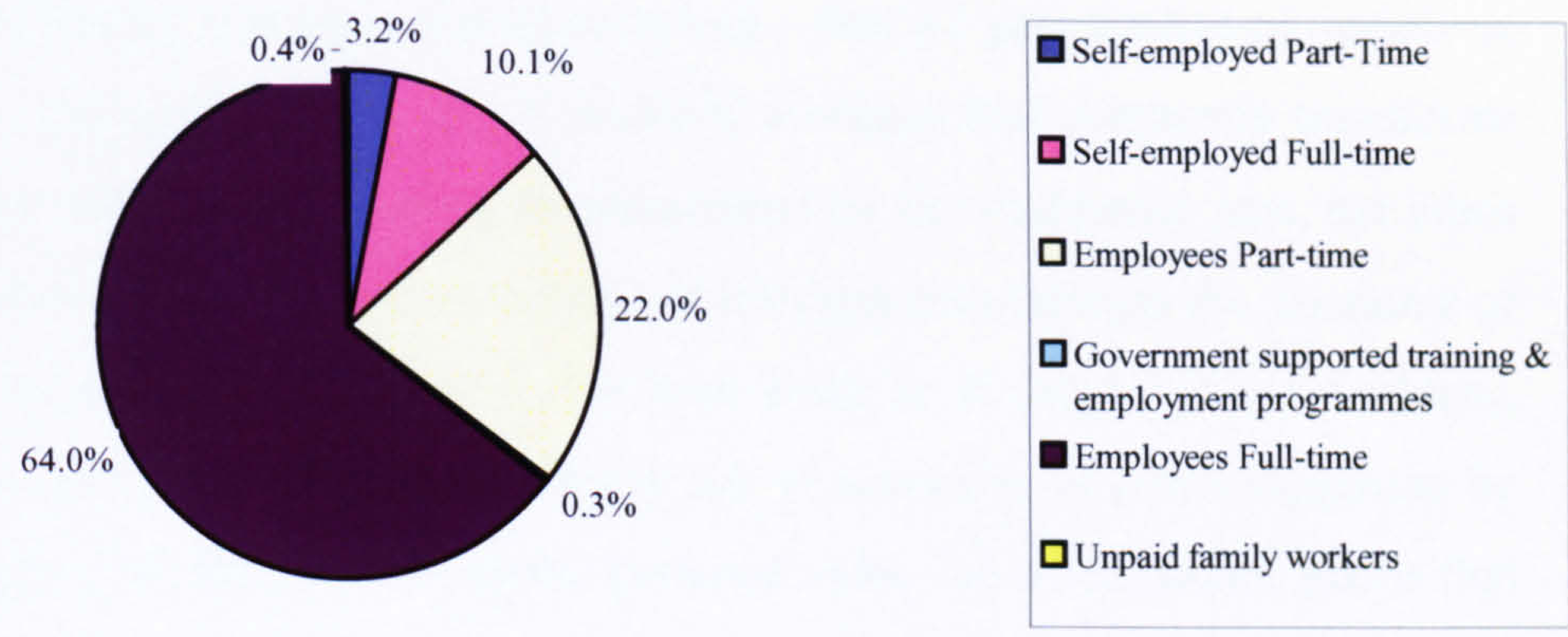
Source: Office for National Statistics, *Labour Market Statistics*, First Release: 16th May 2006, http://www.statistics.gov.uk/pdfdir/msuk0507.pdf

From *chart three* we can also see that the service sector is by far the largest sector of employment providing 51 percent of total employment. Just under half of the service sector jobs are provided by the *Finance and Business Services* sector which contributes 21 percent of Britain's total workforce. Amazingly, one in five people in the UK are now employed in the financial services sector. One could be forgiven for thinking this is a good thing, because if we look at *chart two* this is also the sector that pays the highest average weekly wages where the increases in pay have far outstripped those flat-lining increases in manufacturing and other sectors. But we should be cautious with such averages for two reasons. Firstly, geographically speaking, a third of Britain's trillion pound economy is generated by workers in London and the South East (Daily Mail, 2006). 87 percent of London's economy and 80 percent of the South-East economy is made up by the service sector, where the average yearly salary is £24,100 and £20,400 respectively (Daily Mail, 2006). In comparison, the average yearly salary for the North East is £14,000, for Yorkshire it is £15,400 and for Scotland it is £16,400 (Daily Mail, 2006). Secondly, averages tend to mask the wage disparities within the financial services sector itself. For example, the Guardian reported that City bonuses had increased in 2006 by £2.5 billion taking the net figure of financial rewards for the City's employees to £19 billion, 'equivalent to the country's entire annual transport budget' (Guardian, 2006). While financial services bonuses accounted for £10 billion, a good chunk was left over for a smaller group of financial specialists. In comparison to the manufacturing sector, it would seem that rising real wages and bonus levels in the financial sector is based on the necessity for safeguarding and attracting talented employees, rather than a reflection of labour pressure or union representation (Roberts, 2004: 8-11).

So far, we are building up a picture of a UK workforce that is divided by a concentrated number of highly paid jobs in concentrated areas; general geo-economic disparities; and unequal pressure on employers to maintain distributive and egalitarian employment packages across different sectors. But the underbelly of the knowledge economy is far more unequal than what we might think. If we look at *chart two*, then it is not difficult to see that there is a sharp disparity between the best paid jobs and the least paid jobs. It is also worth considering that averages tend to conceal the wage and geo-economic disparities within each sector. For example, this point comes more sharply into focus when we compare the *Finance and Business Services* sector with those sectors that specialise in leisure and retail. Making up more than half the service sector and employing 30 percent of the UK workforce, *Distribution, Hotels, Restaurants and other Services* provide the lowest weekly average earnings in the UK (*see chart two and three*) below *Agriculture and Fishing*. This could even be attributed to the minimum wage that provides a guideline that some firms, especially ones in the service sector, may stick to. Alternatively, one of the implications of the service sector is that the workforce has been far less inclined to apply pressure on companies to increase wages and benefits in line with profitability. One of the reasons for this is that service sector jobs, especially in leisure and retail, do not require high-level qualifications. It is interesting that the expression 'McJob', referring to low-paid and monotonous forms of employment, has recently been accepted into the Oxford English dictionary despite the oddity that it is rarely, if ever, used in everyday conversation. Perhaps this is rather like a Freudian slip, an unspoken truth that reveals the subconscious concerns of the nation that the service sector has gotten too big and needs justification. Or else, people do use 'McJob' in everyday language and why not: some parts of the service sector are known for their high turnover of employees, high rates of part-time employment and little Union representation.

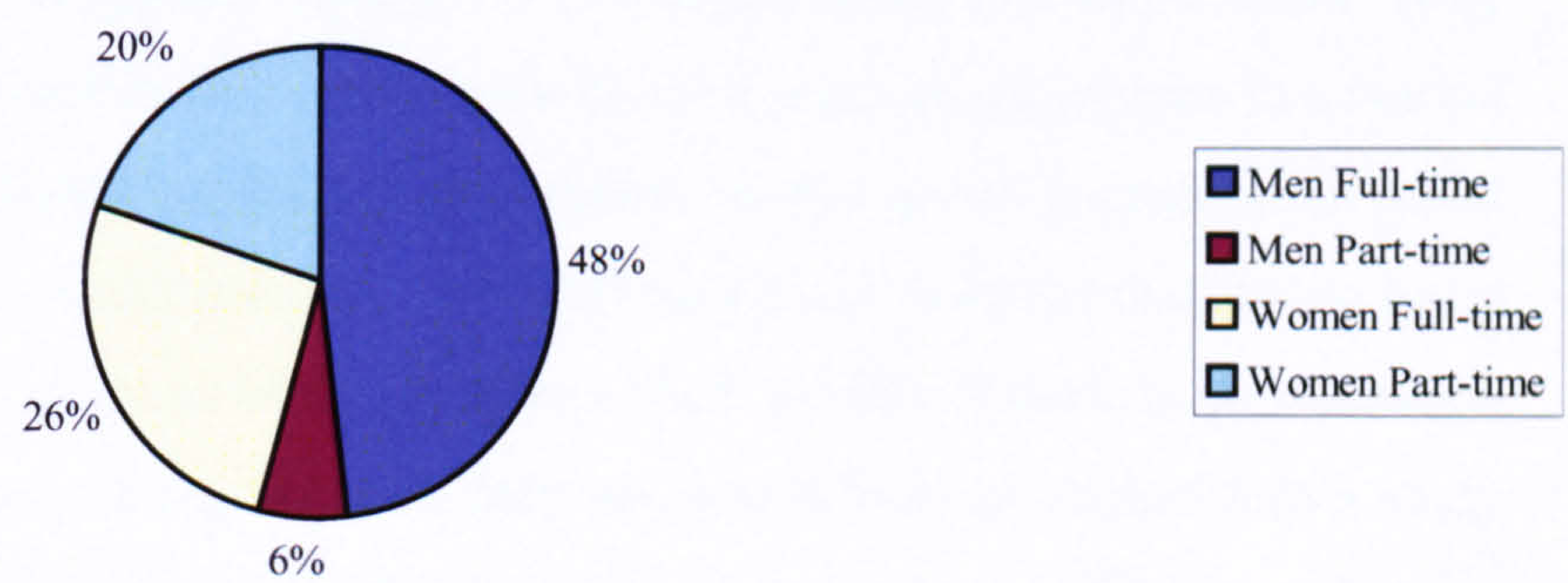
On this matter, if we look at *chart four*, then we can see that part-time employees represent over 25 percent of the total workforce once we factor in self-employed part-time workers. If we weigh this up against *chart five*, then we can see women make-up well over three-quarters of part-time employment or 20 percent of all part-time employment, in comparison to men, a gender group that takes up less than a quarter of part-time jobs making up only 6 percent of total employment. Excluding overtime, part-time workers make only 62.1 percent of median hourly earnings of full time employees. It is surprising to learn that part-time female employees earn 67.8 percent of full time hourly earnings in comparison to men who earn only 57.5 percent 'due to a higher proportion of females working part-time throughout their careers and particularly in the higher income age groups' (Dobbs, 2006: 49). Nevertheless, the increasing proportion of females in the workforce and the high proportion of females in part-time employment has been a source of wage restraint and this has surely been compounded by the growth in economic migration. Additionally, the amount of self-employed people has grown to over 13 percent, where the level of job security has been described as 'precarious' as individuals in this sector take responsibility for their employment, tax returns, retirement security and all the other psychological pressures that come from working without certainties or working from home[9]. The implication of all this, is that while the amount of people employed in Britain's knowledge economy has gone up, the quality of those jobs has been diluted, not only in terms of what they pay out and how they are protected and insured, but in terms of their comparative value and skill level which is judged far more unforgivingly in a much more fluid and competitive global labour market place, as we shall understand in more detail.

Chart Four: Total percentage of Full-time, Part-time and temporary workers in the UK



Source: Office for National Statistics, *Labour Market Statistics*, First Release: 16th May 2006, http://www.statistics.gov.uk/pdfdir/msuk0507.pdf

Chart Five: percentage of Women & Men in Part-time & Full-time jobs in the UK



Source: Office for National Statistics, *Labour Market Statistics*, First Release: 16th May 2006, http://www.statistics.gov.uk/pdfdir/msuk0507.pdf

If income and wage inequality is such a pervasive feature of modern Britain, why is consumer spending in the economy on services, houses and tax-deductible commodities so large and sustained? One theory that remains on the margins of economic analysis is that the modern liberal economy is also informed by an economic culture of consumerism. The notion of consumerism is an important concept to this thesis and its employment will be used differently as we proceed to different chapters, but for now, it should be suffice to say that a whole burgeoning literature explores the qualitative reasons why consumerism has become such a formidable feature of advanced economies and their cultural workings (cf. Baudrillard, 1996: Storey, 1999). For example, one theory is that consumerism is based on the need to perpetually construct and belong to an identity that we compose ourselves – that we gain control of ourselves, so that it creates a distinction in a sea of aesthetic averages that constantly transforms itself (e.g. Storey, 1999: 128). In being unconstrained by the traditional past, the ethos of another esteemed theory, we find meaning and introspection through the discourse of economic consumerism around us, no matter how weak or ill fated it is (cf. Giddens, 1994). In other words, we consume not merely out of necessity, in terms suggested by Marx's 'use-values', but because we derive personal value out of consumer goods that describe and enable our sense of character to flourish or relax under competitive conditions. This literature is but a sophisticated extension of the ideas of Thorstein Veblen (1925) whom observed in the late 19th century that capitalism, far from being a mechanical system of class conflict or an economic effect of *homo œconomicus* was actually a more banal reality informed by everyday people engaging in 'conspicuous consumption'.

In simple terms, Veblen (ibid.) observed an emerging group in society called the 'leisure class', Marx's bourgeois. Afforded a privileged status and more throw away time, this group were quite able to experiment with their material aspirations in a market society, so that the individual aspirations and desires of this group became intertwined with their consumer habits and motives, constructing certain fashions that would build the road for the rest of society to follow (Veblen, 1925: 60-80). If there is an indication that this theory has come in from the cold, then we should look no further than a study in the *Economic Journal* that recently investigated 'the importance of Veblen effects in the determination of work hours, namely the manner in which a desire to emulate the consumption standards of the rich may influence an individual's allocation of time between labour and leisure' (Bowles and Park, 2005: 397). Taking a broad cross-section of both LME's and SME's, to use Pontusson's concepts, Bowles and Park's (2005) research suggested that 'increased inequality induces people to work longer hours' where the 'underlying cause is the Veblen effect of the consumption of the rich on the behaviour of those less well off' (Bowles and Park: 2005: 410). This is no surprise either. According to a study of wills by William Rubinstein at Aberystwyth University, the super-rich have increased their wealth by between 500 and 600 percent and during this same time, the retail price index has risen by 60 percent at the same time that social attitudes to income disparities has softened (Economist, 2006: 33). Even a curious glance at employment figures for Britain would support Bowles and Park's research. For example, even since 2005 total weekly working hours have increased from 919.9 million to 927.1 million in 2007 with an annual increase of 2.7 percent. Those with second jobs now account for 3.7 percent of the total working population, an aggregate change of 4.4 percent since 2005[10]. A recent poll on happiness even suggested that the poorest region, the South-West, has a population far happier, more relaxed and less stressed than the second richest region, the South-East, which is also said to be the most miserable region due to commuting and work hours (FT, 2006b). The suggestion from all this is that consumers are working harder in order to consume, either directly or indirectly, which is actually driving the wedge of inequality actually deeper. But why doesn't the bottom fall out beneath the wedge? How does the whole remain intact socially, politically and economically, and why?

The best of both worlds

The argument here is that Britain's unequal knowledge economy of consumerism has been supported by two formidable considerations, one deemed to be more politically significant than the other (especially to this thesis). But actually, if we interpret these two factors carefully, they are actually interlocking and part, possibly, of the same historical process in the world-system. As we understood earlier, Britain's financial sector plays a prolific role in terms of its contribution towards the general economic output of the economy. Even national employment is dominated by the financial and business services sector. Uncontroversially, the old headquarters of the National Coal Board, the bastion of the industrial economy, is now a leading hedge fund – the centerpiece of the new financial economy (BBC, 2006). In many ways, the rise of London as an omphalos to the global financial economy is like a twisting hurricane that sucks life in around it, replacing the old industrial society and its cultural edifice with a new more dynamic logic, social organisation and cultural understanding that has set radical modernity free. This global financial logic and its sacrosanctity inheres in the cultural fabric of everyday life. But what is important to understand is that this is part of an overall balancing act in the global economy between mass financial accumulation and mass industrial accumulation in two competing regions of the globe. For world-systems theorists examining changes in the nature of capitalist accumulation over time (Arrighi, 1996: 2003: Arrighi and Silver, 1999: 2001), hegemonic instability has a strong historical association with the rise and follies that usually occur with the excesses of international financial expansions of one financial centre (cf. Arrighi, 2003). In this historically supported theory, the hegemonic instability of financial accumulation in one state-centre is usually underlined by the incremental emergence of competing 'cash-boxes' of productive accumulation that amalgamate into world hegemonies e.g. London (Arrighi and Bello, 1999: 2001). While we have recently observed cracks in the US centred model of capitalist hegemony e.g. Enron and the like, we have neither seen a shift of hegemonies or even a shift in the nature of accumulation from finance to production one primarily focused in commodity production. Instead, it is more accurate to say that the current financial expansion of Anglo-American dominated disintermediation and securitisation, is neither state-centred in its hegemony nor global in its representation as a global marketplace. It is constituted by an inclusive spatial or regional flow of capital between city-states that is best captured by Germain's notion of 'decentralised globalisation' (1997) or even 'globalising hegemony'[11]. Many authors have talked, for example, of a global financial triad existing between Wall Street, London and Tokyo (Martin, 1999a: Langley, 2002)[12]. But such colossal financial city-centers are also now competing with the likes of Dubai and Shanghai which are beginning to adopt Western approaches to finance (2004a).

However, the institutional and ideational dominance of this Anglo-American financial expansion has been off-set and facilitated by a shift in the regional hegemony of productive accumulation from the West to some of the strongest emerging economies such as China, India and East Asia (Economist, 2006a). As financial services and the centres of their financial control have gathered momentum, driven in part by a crisis of Western centred industrialisation in the 1970s (Brenner, 2000: Arrighi, 2003), emerging economic regions of the world have pursued nationalised initiatives of high economic growth and industrialisation. In fact, as the Anglo-American financial expansion has intensified and globalised, so too has the pace and contradictions of emerging market industrialisation. The East Asian crisis, in many ways, was the first detonation of their cataclysmic concrescence. But far from a hegemonic and productive shift, emerging nations have tended to stabilise and regulate, for a time, the globalising hegemony of Western dominated financial accumulation that has been superincumbent on Eastern centred industrialism. The key observation however is that there has been a serious intensification of financial accumulation in the regional centres of financial control, and an intensification of industrial accumulation in the major regional centers of industrial control. Before we move on to a much more in-depth understanding of the contemporary Anglo-American financial expansion, we will briefly examine the significance of emerging market industrialism.

In dealing with the least significant consideration (to this thesis) first, it is important to recognise that fledgling consumerism in the richest nations such as Britain and the United States, has been facilitated by the changing nature of production and the shifting geopolitical centres of productive accumulation, which are in fact interrelated. Today, we are in the midst of a revolution and evolution in Information and Communications Technology (ICT), which has in quantitative and qualitative terms, expanded the capacity to increase and interpret information at speed (Castells, 2000: Economist, 2002). For Immanuel Castells 'a *converging set* of technologies in micro-electronics, computing (machines and software), telecommunications/broadcasting, and opto-electronics' are 'process-orientated' technologies of 'information processing and communication' that have been central to mind-boggling developments in mobile phone technology, internet services, data-processing and nanotechnology, which are all collectively part of the 'digitization' of the economy (Castells, 2000: Economist, 2002a). Some such developments have emerged as real inventions, but others have been encouraged by the romance and momentum of technological evolution and the urgency for 'real time' technologies (Economist, 2002a), if not the expectation of their imminent arrival. For Castells, 'the new economy brings information technology and the technology of information together in the creation of value out of belief in the value we create' (Castells, 2000: 160).

As a result, there is an increased pace to commodity adaptations that are incremental, gimmicky and innovative, rather than inventive. It is noticeable for example that a lot of companies such as Gillette, Nokia and others have tapped into the idea of technological urgency and inventiveness. For example, it is reported that Gillette spent $750 million developing its three-bladed Mach three razor over seven years (Economist, 2001b). This type of innovation has also become a point of competition as less well known companies have been able to emulate and compete, far more effectively, on the basis of gimmicks and innovations at cost price, which has placed even more emphasis on the importance of branding and its maintenance. Just think of the many Gillette razors that have spun off as result of the Mach three and the many copied versions that are available from supermarkets. Effectively, the overall result is that it has been possible, of late, to purchase a DVD player from as little as £40 to as much as £200. The internet is also very much like a virtual market-place that tailors almost every kind of product to whatever cost and aesthetic specification that is needed. It's not just technology either. Supermarkets such as Asda and Tesco have been able to develop their own brand names in clothing fashion too at competitive prices. But what has augmented this? The suggestion here is that there is another development in the new informational economy that is driving consumerism, besides the technological and branding commodification of competitive exchange values. As Immanuel Castells argued,

> Thus, while the informational, global economy is distinct from the industrial economy, it does not oppose its logic. It subsumes it through technological deepening, embodying knowledge and information in all processes of material production and distribution on the basis of a gigantic leap forward in the reach and scope of the circulation sphere. In other words, the industrial economy had to become informational and global or collapse (Castells, 2000: 100).

It is important to understand that the global economy of today is quite different from the global economy of the 1930s or even 1950s. In many ways global production has been turned on its head. For example, agriculture accounts for 4 percent of world GDP, industry and manufacturing accounts for 28 percent and services accounts for 68 percent (Economist, 2007). In terms of the structure of employment, agriculture accounts for 4 percent of employment, industry 26 percent and services 70 percent (ibid.). At the most recent G8 summit, Vladimir Putin reminded the world that 50 years ago 60 percent of world gross domestic product came from the Group of Seven industrial nations. Today, Putin reminded his colleagues, 60 percent of world GDP comes from outside the G7 (FT, 2007b). In terms of the origins of trade for some of the G7 nations, 38.1 percent of the world's trade is exported from five of the G7 countries (US, UK, Japan, Germany and France), which provide 33 percent of the world's imports (Economist, 2007). In recent times, the emerging market economies of Europe, Asia, South America and East Asia have expanded their dominance in the world economy. According to an article in the Economist (2006), emerging countries contribute over 80 percent of the world's population, contain 60 percent of the world's foreign exchange reserves, provide over half of the world's GDP and export over 40 percent of the world's trade, an increase of 20 percent since the 1970s. Asia alone provides 30 percent of the world's GDP, which has doubled over four decades (ibid.). It is also highly significant that east Asian emerging economies have become 'creditor nations', generating current account surpluses from export orientated growth and amassing huge volumes of excess capital (FT, 2007a). For example, East and South East Asian countries have $3,280 billion worth of foreign currency reserves between them, up by $2,490 billion since 1999 (FT, 2007a). That is almost 77 percent of the world's entire foreign exchange reserves. This is partly explained by the East Asian financial crisis of 1997-1998, where East Asian nations decided, quite contrary to the Washington consensus that promotes flexible exchange rates and competitive financial markets, to buffer and insure export orientated growth through well oiled competitive exchange rates (ibid.).

Besides the deeply embedded historical reasons for this development, in recent times, the combination of ICTs and techno-hype have accelerated the *interdependency* between Western and emerging centres of global informational accumulation. This globalisation argument suggests that this has occurred because technology has enabled the structures of production to be much more efficient, decentralised and flexible, but also because the globalisation of production is taking advantage of cost-efficient, amenable and competent emerging market economies. Part of the East Asian crisis is actually explained by the over-investment in industrial capacity that over-flowed into areas such as property creating speculative opportunities led by Western portfolio capital. But underlying this general trend, which is illustrated by the economic rebound of East Asia, is a far more simple and intricate global shift from Western centered industrialism to emerging market industrialism, from the West's geopolitical monopoly of informational accumulation to its global *spread*[13].

For example, India has been described as the 'world's back office' as it accounts for 80 percent of the world's low cost off-shore market. To put this into some sort of context, India's economy has transformed itself to the extent that over 51 percent of its GDP is produced by the service sector, despite this sector contributing only 23 percent of India's total employment (Economist, 2007). In 2003, India also had $80 billion worth of foreign exchange reserves, almost 12 percent of its GDP suggesting it has become an important exporter to the world (Economist: 2003a). Based on upper estimates, India's export market in IT enabled services is expected to total around $65 billion or 9.4 percent of India's total GDP[14] (2004d). Secondly, it's not just that global firms are spreading their supply chains and importing goods from emerging markets, they are actually moving to emerging economies too. For example, China has now become the central productive regime in the world economy. China's total imports and exports account for 70 percent of its GDP and it's estimated that China now accounts for 10 percent of world trade (Economist, 2004c: 2006a: 2007). China's current account surplus has grown to an astonishing £217 billion, the equivalent of 8.2 percent of its GDP and its foreign exchange reserves have reached over a trillion (FT, 2006a: 2007d) (*a quarter of the world's total currency reserves*).

However, a good chunk of this trade surplus is created by foreign owned companies which contribute 58 percent of China's total exports and especially high-value added products (FT, 2006g: 17). For all this, there is something quite omnipotent about China's rise as the world's industrial giant. In 2004, China's economy accounted for a quarter of global GDP growth and this was sustained over five years (Economist, 2004a/b). What seems to be happening in China is that its economy is sustained by export led growth, which is creating a trade surplus that is heavily dependent on the US, Japan and Europe. Meanwhile, the huge foreign reserves that are accumulating as a result, a rate of $50 billion a month in the first quarter of this year (FT, 2007a), are helping to undervalue China's currency that is tied to a weakly valued US dollar, which is enabling Chinese state banks to benefit from their 90 percent focus on lending as a source of revenue to fuel borrowing at a low cost of capital (FT, 2006a). Such low interest rates have encouraged the stock market to inflate, encouraging speculation and a gambling appetite even amongst ordinary people, and an investment rate worth 40 percent of GDP that is sustained, not just by China's high saving rate, but by retained earnings from company profitability (FT, 2006a). The accumulation of surplus capital resulting from competitive exchange rates and low interest rates is encouraging foreign investment, merger activity and takeovers, even a Chinese withdrawal of domestic investment to foreign lands (Economist, 2005b).

Thirdly, it's not just the spread of informationalism, it is the shear scale of emerging market industrialism that has had two noticeable effects on LME's such as Britain. Firstly, in between 1995 and 2005, Britain experienced the oddity where consumer spending (3.5% annually) zoomed ahead of GDP growth (2.8% annually) by about two fifths annually over ten years without facing problematic issues of inflation (2006b). Beyond the EU25 and the US, the UK depends on imports from 36.2 percent of the world's emerging economies, but it is important to understand that more than half of the EU25 are considered as emerging countries (Economist, 2007). Additionally, Britain like the US, has tended to import (£460 billion) significantly more than it exports (£350 billion) over the years, and finished and semi-finished manufacturing products have taken up a significant percentage of gross imports (56.3% and 23.9%) (ibid.). Britain's main exporting destination is the US (15% of total), which heavily depends on Asia and China for its imports (ibid.). For example, in 2005 32 percent of China's merchandise exports went to the US, Japan's export contribution was 23 percent and 22 percent of India's exports went to the US (FT, 2006e/g). The suggestion is that Britain like other LMEs have benefited from the low cost of commodities from emerging market competition, and from the success of the American economy that has helped to stabilise British and European economies. One compelling argument is that the shear size and scale of China's economy and its huge export market to Asia, the US and Europe has played a much larger influence in determining the nature of global competition than previously thought. As Economist magazine argued,

> Cheaper goods from China do not just reduce the prices of imports, but the prices of all goods sold in competing domestic markets. And competition from emerging economies holds down inflation not just in traded goods but also in non-traded ones, by restraining wages...By running current-account surpluses, these economies are currently adding more to global supply than to demand, so their net effect on the rest of the world is disinflationary (Economist, 2006: 24).

Secondly, only now that Asia is demanding more of the world's resources are Western nations beginning to feel inflated prices not only through the petrol pumps but also in the supermarkets. The significance of emerging markets and their facilitation of the structures of Western economies is now becoming greatly appreciated. There is therefore the suggestion that emerging markets have not only restrained inflation, but have enabled the 'combination' of moderate inflation levels and cumulatively lower levels in the cost of borrowing since the 1990s (Economist, 2006a). Thus, the theory is that disinflation in commodity markets has cancelled out or assisted inflationary forces in asset and financial markets. For example, consistently low interest rates have fuelled a borrowing binge in mortgage and credit arrangements throughout the US and the UK, increasing the dependence on stable property values. This will all make more sense as we continue, but from a real economy point of view, it's not necessarily true that emerging markets have kept inflation low in LMEs such as Britain and the US, it's more likely that they haven't caused an economic effect, until now, creating fears and prospects of sustained inflation in vital commodity and consumer markets and placing pressure on financial markets to maintain what they have created – especially as the knot tightens on credit conditions. For example, the Financial Times recently reported that 'retail food prices are heading for their biggest annual increase in as much as 30 years' and there is a serious concern that this change is structural rather than cyclical (FT, 2007c). Economists represent this as an exogenous and sectoral 'shock' that the system needs to absorb, but this rather conceals the wider diagnosis which is that economic symptoms felt in the West, especially related to price changes of this nature, emanate from a general process of polarisation in the productive and wealth generating centres of emerging countries. Not only are emerging countries such as India and China becoming wealthier at the top of the income spectrum, but their populations are becoming better educated, more extravagant and more expectational.

Let us briefly look at some of the broad changes that characterise emerging market developments. For example, according to an article in the Financial Times, even if the top 10 percent were creamed from the top of India and China's combined output of 1 million engineering graduates per year, which compares to the Euro-US output of 170,000, 'the two Asian giants now graduate more quality engineers than from the West' (FT, 2006h). Secondly, if China is an important proxy of emerging market trends, then it is significant that the retail industry in China estimates that there are between 10 and 13 million mainland customers for luxury goods (Economist, 2004f). According to the Economist, Armani hopes to open 20 to 30 new shops in the mainland by 2008 (Economist, 2004f). Car sales in China have increased four-fold from 1 million in 2001 to 4 million in 2004 (FT, 2006g). With the luxury car market growing at 2-3 percent per year, inward investment in China's car industry totaled $13 billion in 2004 (Economist, 2004g).

But the combination of industrialisation and urbanisation in both China and India has placed significant strains on infrastructure. Both countries have experienced demand strains on rural resources and agricultural products, which has had the effect of dwindling rural incomes and magnifying migration or the 'push-effect' from the countryside to over-sized city slum populations (FT: 2006c: FT: 2006d). For the first time in history, more people live in urban areas than rural areas and one-quarter of this urban population (560 million people) lack access to clean water and sanitation (FT, 2006c). According to recent figures, an estimated 300 million Indians survive on less than $1 everyday and 160 million lack access to clean water (cf. Economist, 2004a/e: 2006d). According to a recent report by the Financial Times, India's urban population will increase from 575 million by 2030 from 285 million today (2006d). With up to 70 percent of the population living in the countryside living with severe financial constraints (Economist, 2004a: FT, 2006d) and with an estimated 40 million looking for work (Economist, 2004a) such internal dynamics will place greater strains on the Indian government and the economy to expand and distribute its highly concentrated sectors of growth. It has recently been estimated that India will have to spend $150 billion on infrastructure in the next five years, with a third of this investment in cities (2006d). While India's urban trend is creating a huge supply of untrained cheap labour, China is experiencing the contradictory trend of labour shortages in a period of demand. As healthcare provisions and social security arrangements have reached their limits in manufacturing areas such as Guangdong province and as rural incomes have increased through demand at higher prices, migrants have been returning to rural areas (Economist, 2004h). The combined effects of industrialisation and urban bifurcation are precisely why China, a nation more equipped financially than India, accounted for 85 percent of the world's increase in energy demand, a third of the increase in world oil consumption (Economist, 2006a), a greater reliance on oil imports which increased 30 percent in 2004 second only to America (Economist: 2004b/c), and a greater reliance on agricultural imports which doubled between 2001 and 2004 to $33 billion (FT, 2007d). More than anything, this is a sign of a gradual re-balancing of China's economy from export-orientated growth towards mass consumerism, a trend that India and other emerging economies soon hope to adopt.

What we have tried to illustrate here is the point that emerging market industrialisation has partly offset and subsidised the composition and continuation of Western consumerism, especially in the UK and US, which has created four long-term implications. Firstly, the high composition of low paid and insecure forms of employment in Britain has been partly encouraged and yet counter-balanced by competitive commodity prices in food, goods and services from emerging economies. Secondly, this direct form of wage restraint could also have acted as an indirect form of wage restraint, as unskilled wage labour is seen to be compensated through plentiful commodities at competitive prices. Thirdly, the increasing flexibility of international capital and employment both in the West and abroad has also provided a much more fluid and competitive labour marketplace (*although this is different across Europe*) (see FT, 2006i). Emerging countries are beginning to provide a source of well-qualified employees. The threat of capital flight provides both a muzzle to labour's political voice and provokes a sense of social invidiousness to emerging trading nations such as China in a global regime of free trade. For example, Britain's manufacturing base and domestic labour market, just like the US experience, has been judged far more intensely in relation to countries with budding competencies. It is no surprise therefore that the hollowing out of industrial forms of employment in the West, partly created through productivity gains, has nevertheless been filled in with other sectors of dominance such as service-led consumerism. For the US and the UK especially, immigration has been a necessity of economic growth, creating somewhat of a disinflationary force on wages. While Britain is a special case, it is not surprising that the financial sector has replaced industrial accumulation as the main form of national production. Only in the financial sector, the workhorse to the world, has there been a sufficient rise of wages as a reward for highly lauded skills and productivity that have managed to soak up a modicum of the monetary excess in the world's financial system.

Fourthly, the Anglo-American centres of accumulation founded upon financial informationalism and consumerism are that much more prone and susceptible to the contradictions of emerging market industrialisation and urbanisation, given the shear scale and speed of the populations and processes involved. It is apparent that the emerging markets are suffering from the contradictions in their export orientated growth patterns and are accumulating large foreign reserves, savings and surplus capital as a result. Despite the emerging nations being described as 'creditor nations' to the world, it would seem that there are limits on the ability of such emerging countries to re-invest and supply badly needed infrastructure at the same pace that urban industrialisation demands. What is more is that the West has grown an appetite for low cost productive facilitation, while the emerging nations have developed an appetite for investing their surplus assets of foreign reserves and savings into reserve currency denominations such as US treasury securities and other reserve currency denominated securities such as Sterling in order to provide and protect export orientated growth at competitive exchange rates. The United State's gigantic capital account deficit has acted as a holy reservoir for thirsty borrowers and mortgage intermediaries over a consistent period of seasonality. So far, the rain and the foreign capital have not dried up, allowing consistently lower interest rates in the US and elsewhere through international financial arbitrage.

In one very important respect then, the emerging nations rely on export orientated growth for capital expansion to feed their domestic demands and the Anglo-American dominated financial expansion has become deeply reliant on the creditor nations to ingratiate Western excesses and inequalities. Thus, there seems to be a structural impasse of sorts that is developing between the developed nations and the emerging nations, between mass financial expansion and mass productive industrialisation. There is a profound concern that this capital recycling mechanism could very well be a source of instability as policymakers and politicians try desperately to wean China and other emerging countries off their surplus investment strategies and secondly, their Western (as opposed to Asian regional) export orientated strategies. Not much consideration however has been given to the issue of what happens if the emerging nations divest from the US deficit. For now, this impasse could very well be a mechanism of capital recycling stability, but it could also very well be a source of instability and profound political conflict if handled recklessly.

We began this analysis by trying to understand how Britain produces its trillion pound economy. Looking at Britain's employment as a whole, we hinted at great inequalities and discrepancies emerging from the quality, composition and visible wage disparities of Britain's labour force. The nature of Britain's unregulated inequality, just like many other countries, is supported by the argument that economic freedom is good, because surplus capital is re-invested and inevitably creates a 'trickle down effect', so that social distribution is a natural outcome of profit maximisation. Quite the contrary to economic reason, this analysis suggests that income and wage inequality in Britain is part of the self-fulfilling logic of inequality. In this reasoning, greater income inequality creates greater spending on consumer goods and services, which maintains, if not encourages the structural momentum of Britain's employment composition. In other words, the concentration of wealth at the top of the income spectrum and its concentration geographically, encourages the structural composition of the service sector founded upon consumerism, increasing the necessity for low cost facilitation (e.g. technology and emerging markets) and a public policy of competitive labour markets and flexibility, which attracts tax averse mobile capital, creates wage restraints, suppresses trade union politicisation and increases the level of social dependency on mobile sources of wealth creation for employment, government spending, private investment and social security. The point here is that inequality is a double-edged sword: something is catalysing it, but something is subsidising it too. Consumerism and low inflation conditions emerging from techno-hype and emerging markets is not enough to explain the functional and sustained relationship between inequality and consumerism. There is something else that is propelling and regulating Britain's consumer society and it is proposed here that it has something to do with the eminent rise of the global financial economy.

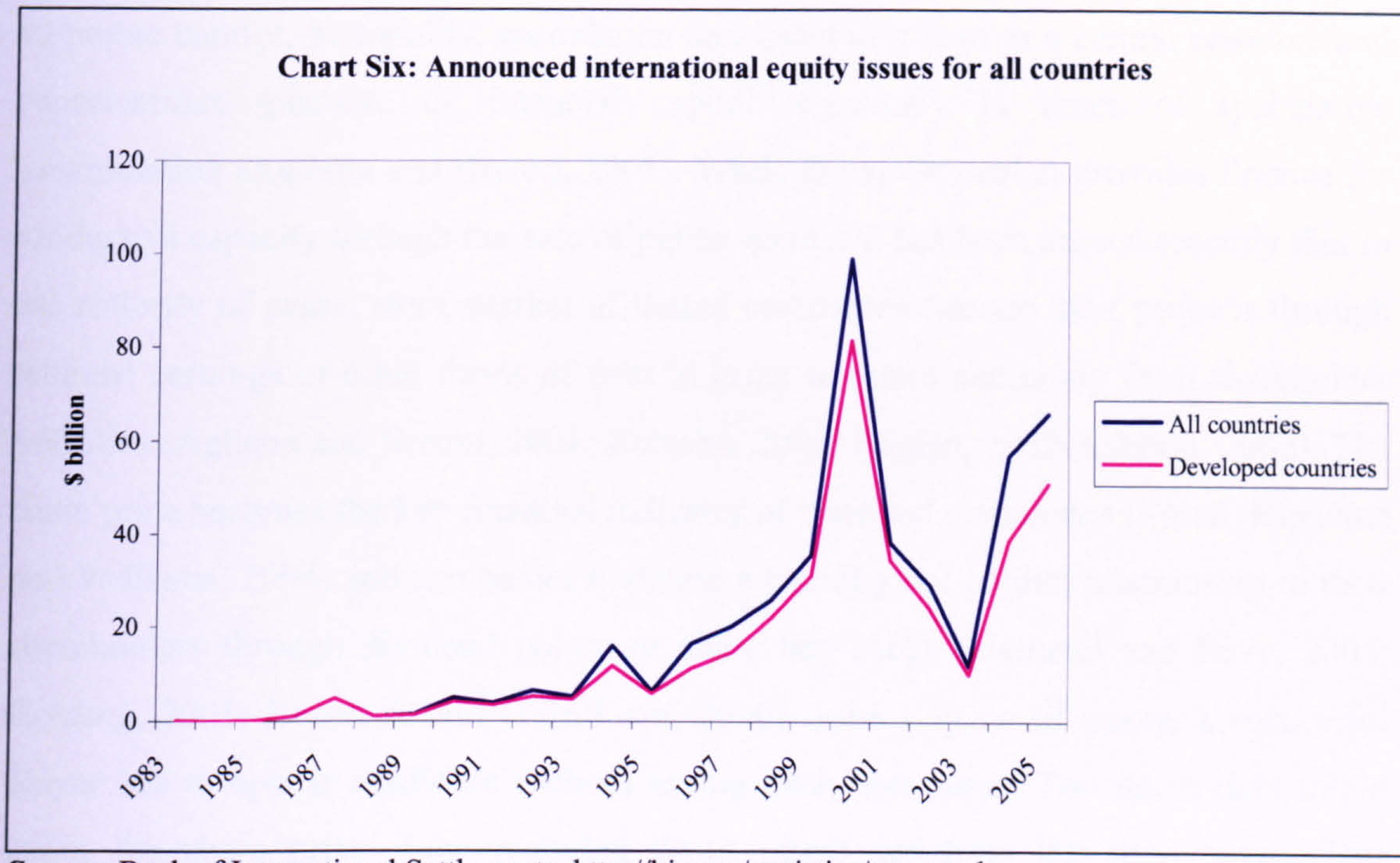
Anglo-American Financialisation

Broadly speaking, what are the financial markets about? In a nutshell, the financial markets invent new forms of credit and debt. Plain vanilla bank capital is useful but unexciting, because credit and debt in the financial markets can also be a claim of ownership, or more simply a form of investment, that supplies borrowers with a source of funding at rates of interest, or expected dividends, that provide a yield for investors. With all sorts of different flavours of debt finance available, there is also the market for financial derivatives, the candy toppings that provide a fungible means of speculative insurance against asset price changes. Borrowers have acquired an appetite for the long-term, lenders and other financial intermediaries have acquired an appetite for asset-management and then there are hedge funds, arbitragers, who make money for rich clients or corporations by making lightening bets and trades, through derivatives, on even the slightest asset price differentials. Very much like a merry-go-round, the borrowers or the intermediaries acting on behalf of the borrowers, are always able to sell their horse to the next buyer and for every horse available – no matter how rickety it seems, there is always – at least theoretically speaking, a paying customer ready to exchange their horse before the ride has finished. It's only when the ride jitters, stops or when there is no paying customers that things tend to become awkward and unfair. While on this merry-go-round, the market players are so confused and over-lapping, but like any organized mess the financial market is rather like an eco-system, where the investors are also the borrowers, where the manufacturers are also the traders, where the bankers are also the speculators.

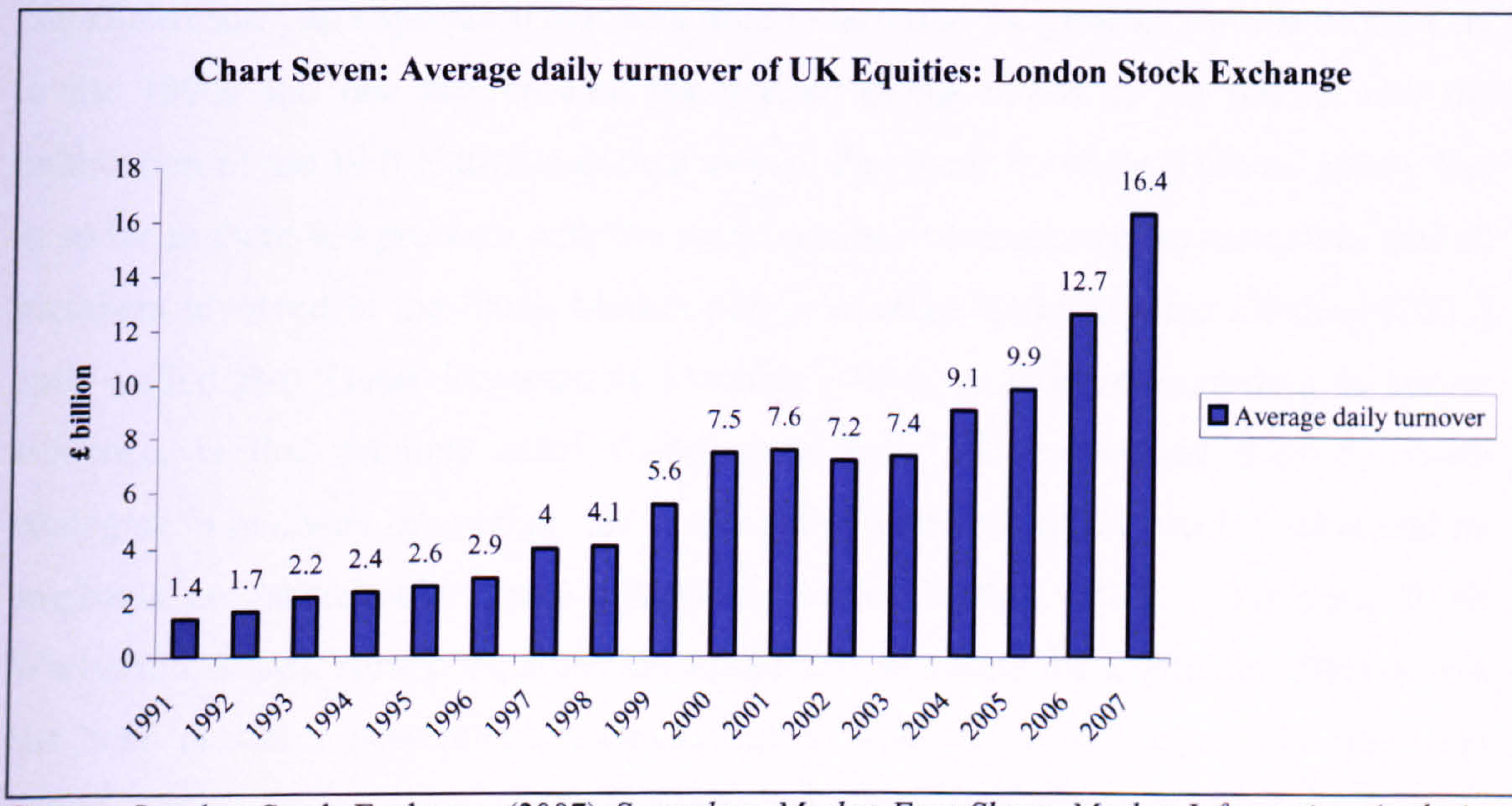
The financial wilderness, just like its animal kind, is a world of symbolic meaning, structure and hierarchy, with different financial animals of sorts sniffing around each other picking up scents of different kinds; making their physical identity known; allotting a Darwinian pecking order; constantly anticipating their chance of success; using their vibrancy to sex up their attractiveness to possible mates and knowing intuitively if their identified prey is too big to catch or swallow. Sometimes animal symbols, instincts and calculations work, but sometimes they don't. Like any eco-system there are dominant predators like hedge funds that hover over their prey or behemoths like states that are just too big to tackle, though George Soros would probably disagree[15]. But such a food chain misses the most fundamental point: they are all part of the same momentum of historical energy and discursive structure that is peculiar to the ongoing Anglo-American financial expansion. Like any form of competition for success and in this case 'profitability', the market players are constantly inventing and competing to acquire the most (*strategic*) amount of financing, including revenue or credit, at the least possible cost. And it is this perpetual competition between market players, be they governments, investment banks, local governments, car manufacturers or hedge funds, that constantly look to the market to see how they can tap into and benefit from the vast circulation of debt and expectation. However, one thing is certain about the rise of the financial market economy. There are no gentlemanly rules or textbook guidelines that help determine how finance *should be done properly* anymore. There are only thinly regulated opportunities and dangers which are an octane function of calculation, credibility, blind luck or a combination of all three.

A lay understanding of the stock market inspires thinking about volatile share prices and caffeine fuelled financial traders shouting down telephones. Some may even be forgiven for thinking that the stock market is ancillary to the real economy, where the mechanism of the financial heart pumps money and credit around the circulatory system, providing vital organs such as the brain with oxygen and energy that then allow it to perform key tasks. Just as it would be unusual for the heart to play more than a mechanistic role in the control of the body, it is also unusual to suggest, with good reason, that the financial markets have grown out of and evolved beyond the intentions of their original design to become the harbinger of economic and social life. But perhaps, as it is the suggestion here, that we are also talking of quite a different economic animal in historical terms, not just as a matter of scale, but in terms of the nature and organisation of this scale as an institutional, normative and historical influence. It is therefore not so unusual to describe the financial economy or new economy as an 'ecosystem' (Feng *et al.* 2001) where the boundaries of control have been blurred, where finance plays much more of an institutional and cultural role in the economic and political governance of the economy. But to appreciate this, it is necessary to understand that the financialisation of the economy is based on the technical development and proliferation of the bond and equity markets as a source of credit and control. But with this, we may face a few misconceptions.

For example, most lay interpretations of the financial markets usually hone in on the relationship between companies in the real economy, the stock market and information surrounding the share price. Firstly, this tends to belie a common and traditional view of looking at the economy, where productive companies in the real economy are separate and distinct from institutions in the financial economy. But the reality is far from black and white. Productive companies are no longer just manufacturing firms or industrial companies. They are service sector firms such as Tesco or technology related firms such as Google. It's not just productive companies that belong to the stock market either, it is financial companies too. What's more is that publicly scrutinised and so-called productive companies listed on the stock market have all developed much more robust financial and accounting departments, and in a lot of cases – their own financial services e.g. General Electric. The financialisation of the economy has tended to facilitate companies and demand more of their products and the interests that protect them (Borsch, 2004: Froud et al., 2000: Gibbon, 2002: Jurgens et al., 2002: Kadtler and Sperling, 2002: Reiter, 2003). Secondly, a common presumption is that the stock market acts definitively as an intermediary between borrowers of financial or equity capital on the one hand and lender-savers of shareholder capital on the other. A lay understanding of the stock market might suppose that companies in the real economy raise finance *primarily* through the public sale of company shares on the stock market, in the form of an initial public offering (IPO)[16]. To an extent, this is quite true. From 1993 to 2003, £171 billion was raised from the public sale of company equity on the London stock market (Roberts, 2004: 73). As we can see from *chart six*, the allocation of equity in the international market has also followed an upward trend since 1983, increasing spectacularly at the peak of the equity bull market in the year 2000 and dramatically recovering from the tech-stock crash after 2003. The secondary trading of equities on the stock market has followed a consistent upward trend despite the tech-stock crash. As can be seen from *chart seven*, the average daily turnover of UK equities has increased year on year hitting £16.4 billion in 2007. In 2003, secondary-market turnover of UK equities totaled £1,876 billion, 'a fourfold increase over the previous decade' (Roberts, 2004).



Source: Bank of International Settlements, http://bis.org/statistics/secstats.htm.



Source: London Stock Exchange (2007) *Secondary Market Fact Sheet: Market Information Analysis*, London Stock Exchange, 11th of May, 2007, http://www.londonstockexchange.com/en-gb/about/statistics/

However, in recent times, the stock market has come under heavy flack from political economists critical of the financial economy and its general direction (Aglietta, 2000: Cutler and Waine, 2001: Dore, 2002: Dumenil and Levy, 2001: Franco, 2003: Golding, 2001: Henwood, 2001: Shut, 2005: Stockhammer, 2004: Warburton, 2000). One of the key criticisms that is made from this broad but mutually sceptical literature, either explicitly or implicitly, is that the stock market is more effective as a mechanism of corporate control, incredulity, speculation and instability than as a central resource and conscientious guardian of financial capital, especially in times of speculative accumulation (Aglietta and Breton, 2001). While the stock market provides finance for productive capacity through the sale of public equity, it has been argued recently that in the majority of cases, stock market affiliated companies finance their projects through retained earnings or other forms of debt in order to retain autonomy from shareholder priorities (Aglietta and Breton, 2001: Borsche, 2004: Englen, 2002: Gibbon, 2002). The share price becomes the key financial indicator of financial confidence (Froud, Papazian and Williams, 2004) and companies maintain a cunning but cordial relationship to their shareholders through dividend policy or share buy-backs (Dumenil and Levy, 2001: Golding, 2001: Lazonick and O'Sullivan, 2000). Like a game of poker, a successful player has to appear confident without giving away too much. Too much debt might lower the share price. Low recorded profit might constrain the share price. This representation reiterates, in many respects, the stock market as the evil monster of 'short-termism', an expression that was used to describe the general attitude of the City in the 1990s and one that became popularised in the minds of the public with the publication of the Will Hutton's critical sweep, *The State We're In* (Hutton, 1996). But in so far as there is a problem with the stock market, it is important to remember that all members involved in the Stock Market play a strategic game in what Golding (2001) aptly called the 'Great Expectation Machine'. What is evident according to recent evidence, is that publicly rated corporations have all re-designed their corporate strategies in one way or another due to the added influence of the stock market and its emphasis on 'shareholder value' (Aglietta, 2000: Golding, 2001: Williams, 2000: Warburton, 2000). How companies have done this and what the aggregate effect of this has been is still a contentious question (see O'Sullivan, 2003), especially when the Anglo-American experience has been compared to the European continental experience.

As a macro question of political economy, compelling evidence suggests that the stock market, especially in the US and UK, has been based on a 'capital market double standard' (Feng *et al.*, 2001) that has rewarded, especially in recent times, companies with inflated earnings and expectations surrounding 'new technology' products and services, totally independent of real product market activity, while punishing older companies with high costs associated with more rigid productivity, high labour costs and lower turnover creating a new finance-led productive pecking order (Feng *et al.*, 2001: Froud *et al.*, 2000a/b). It is interesting for example that the best performing firms in the stock market have been financial and consumer related firms, while the least performing firms have been the industrial and utility sectors (*please see chart ten, eleven and twelve*). From a financial point of view, the stock market has encouraged a clean new chapter in how the new economy interacts with the financial market. Under this perspective, efficiency creates its own rewards as well as greater access to capital. But from a political economy perspective, it has encouraged the size of the corporate 'equity' coupon pool to shrink, concentrate (Froud *et al.*, 2001a: 2002), or become more laden with debt and exposure to volatile financial markets (Aglietta and Breton, 2001). For example, it is widely known that trading in the FTSE 100 companies comprised 85 percent of UK equity turnover in 2002, compared with 57 percent in 1996 (Roberts, 2004: 74). The proportion of UK equities owned by institutional investors more than doubled rising 28 percent to 61 percent between 1963 and 1992 (Roberts, 2004: 113). Those critical of the financial optimists, such as those group of scholars called the social accountants (Froud *et al.*, 2002a) or the regulation theorists (Aglietta, 1998: Boyer, 2000), put forward the case that institutional investors, acting on behalf of the privileged 40 percent of high income class savers, search for yield in the equity markets by trading performance margins, which has the counter-effect of shrinking the corporate sphere of productive capacity and hence tradable secondary equity coupons (Froud et al, 2001: 2002a). As the demand for productive performance intensifies by institutional investors, it causes a counter-effect on productivity, economic growth and capital gain (Aglietta and Breton, 2001: Froud et al, 2002: Stockhammer, 2004). As the social accountants argue, 'expectations of the stock market have done no more than establish a long term operating contradiction between what the capital market requires and what management can deliver from competitive product markets' (Froud *et al.*, 2002: 137). This naturally conflicts with conventional wisdom that the stock market attracts and finances new companies on the investment side, while providing consistent yield for savers on the savings side. Under the financial view, the stock market is a force for the productive good, whatever happens.

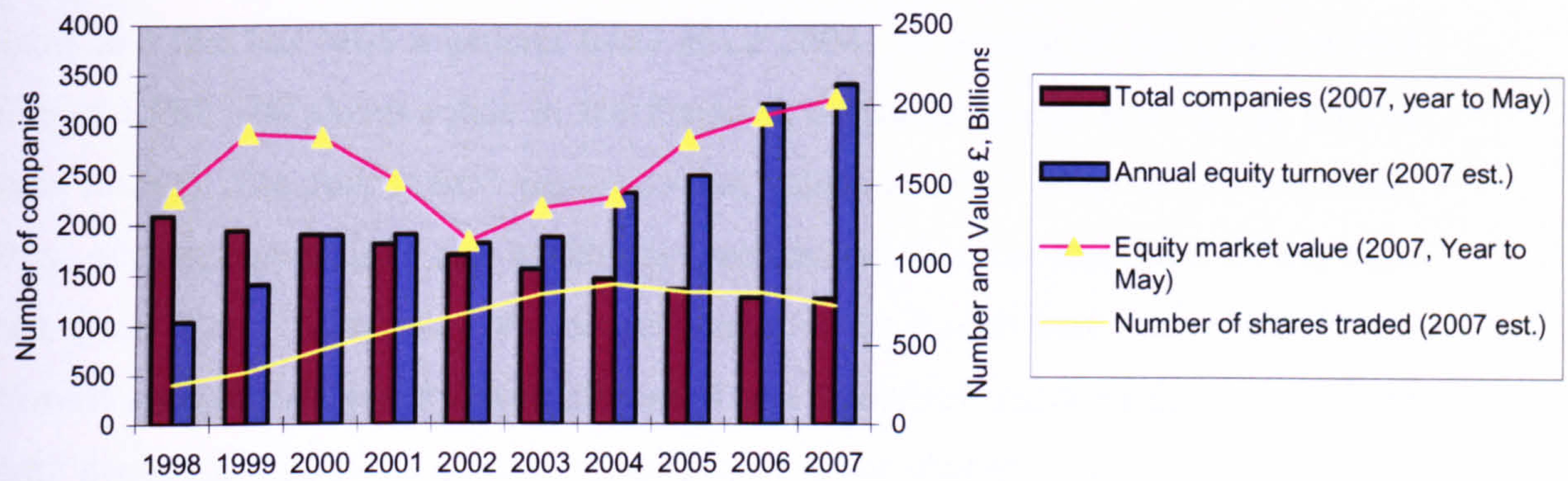
Turning the coin of conventional wisdom on its head, the alternative and more specific argument propagated by critical political economists is that the cyclical pressures of stock market performance encourages firms to restructure their labour costs and their employee benefits in an effort to reduce operational costs and long-term liabilities (Froud *et al.*, 2000a: Cutler and Waine, 2001: 2002: Lazonick and O'Sullivan, 2000); to buy back shares in order to inflate company earnings (Golding, 2001:

Lazonick and O'Sullivan, 2000); to replace equity financing with alternative sources of debt financing (Aglietta and Breton, 2001); to use their retained earnings for the acquisition of financial assets creating the illusion of productive expansion (Krippner, 2002); for example, to encourage horizontal mergers and acquisitions (Froud *et al.*, 2000b); to invest in areas that help company earnings rather than expand productive capacity (ibid, 2000b); and to base financial investment decision-making based more on the expectation and probability of results, rather than the resolve to build results cumulatively over time (Feng *et al.*, 2001). This political economy approach to the stock market even possibly explains, to a certain extent, why the UK continually transforms itself as a result of its capital market sponsors, based on the image or vision of the knowledge economy, without necessarily thinking of its consequences. From a political economy perspective of the financial markets, and the following is only mutually exclusive to the literature highlighted, there is a 'one step forward, two steps back' logic to stock market inspired activity that is inherently iniquitous and destabilising over its cyclical highs and lows.

Without going into too much detail, *charts eight, nine and ten* lend some piecemeal illustration and support to this critical view of political economy. As we can see from *chart eight*, since 1998 the number of companies listed on the UK stock market has sharply dwindled in 10 years by 40 percent from 2087 to 1264. This reflects two things: the changing composition of the economy from old to new and the consolidation of the new economy firms based on best performance. From 2002, when the financial economy began to recover from the tech-stock crash, the value of annual equity turnover has sharply increased year on year, almost doubling from £1.8 trillion to £3.4 trillion within five years. What is noticeable from this point onwards is the development of an inverse relation between the value of the equity market and the number of shares traded. The number of shares traded has actually fallen by just under 16 percent while the value of the equity market and the level of equity turnover has risen by over 30 percent in both cases, suggesting that the coupon pool has retracted or else become more concentrated. If we examine *chart nine* that looks at equity turnover by trade size, we can see that there has always been an appetite for trading in large volumes and particularly buying and selling in large volumes.

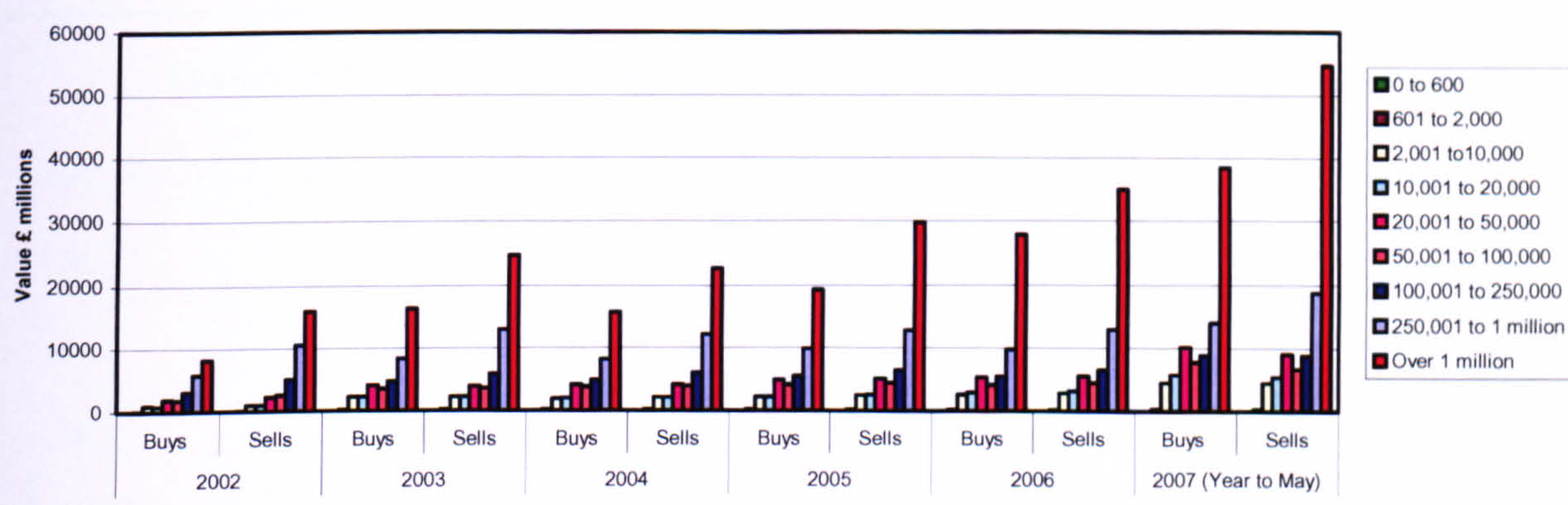
However, as we can see from *chart nine* the level of concentration has increased over time. In 2003, 43.9 percent of all 'sell' trades were carried out in volumes over 1 million pounds. In May 2007, this figure was 54.7 percent, accounting for less than half the year! This level of concentration, especially on the sell side may account for the slide in the number of shares traded, which has had the effect of inflating the equity value and turnover of shares.

Chart Eight: A comparison of Stock Market Activity: UK listed companies



Source: London Stock Exchange, *Primary Market Fact Sheets: Market Information Analysis*, LSE years 1998-2007; *Secondary Market Fact Sheets: Market Information Analysis*, LSE years 1998-2007, http://www.londonstockexchange.com/en-gb/about/statistics/

Chart Nine: Total UK equity turnover by trade size

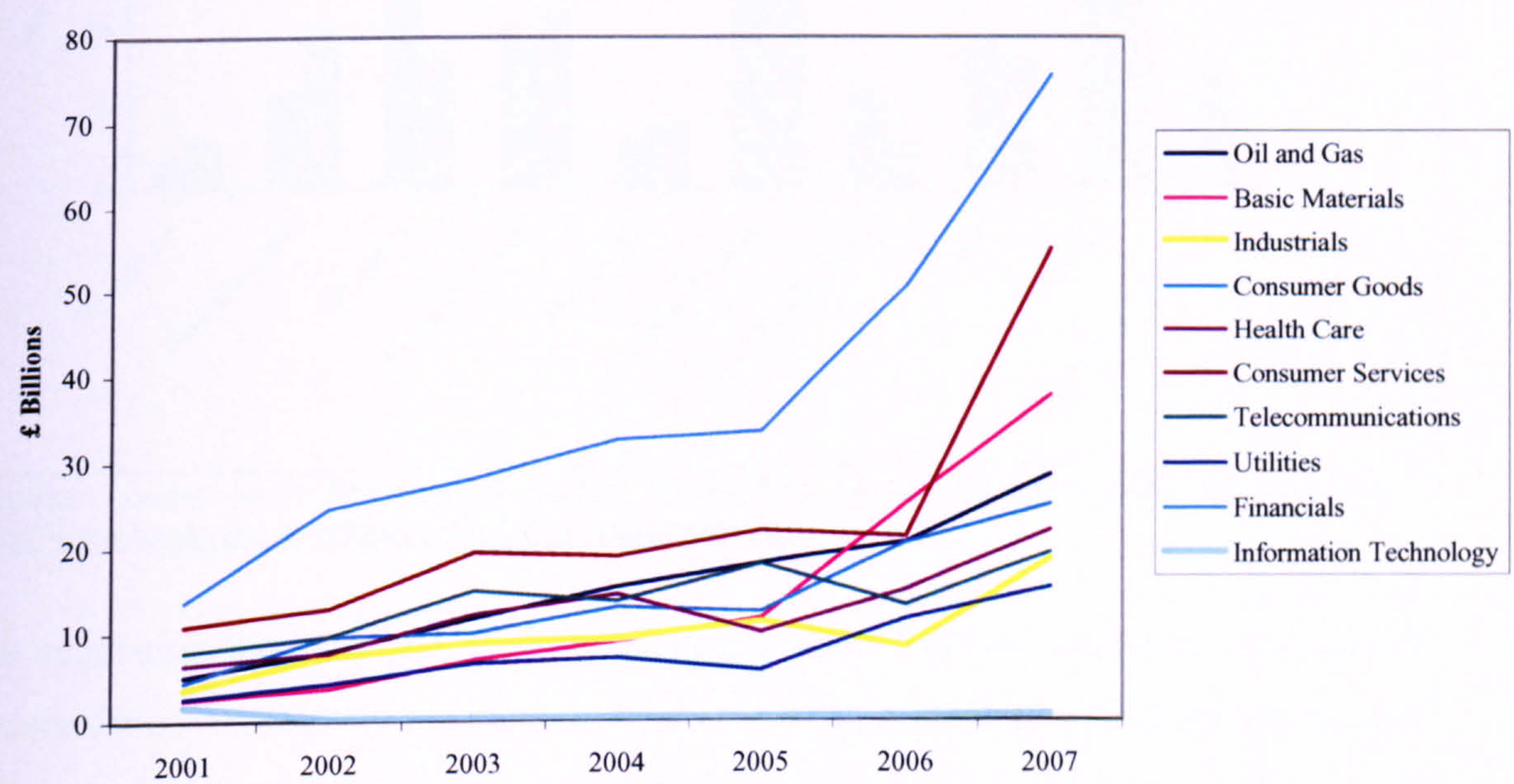


Source: London Stock Exchange, *Secondary Market Fact Sheets* 2002-2007; http://www.londonstockexchange.com/en-gb/about/statistics/

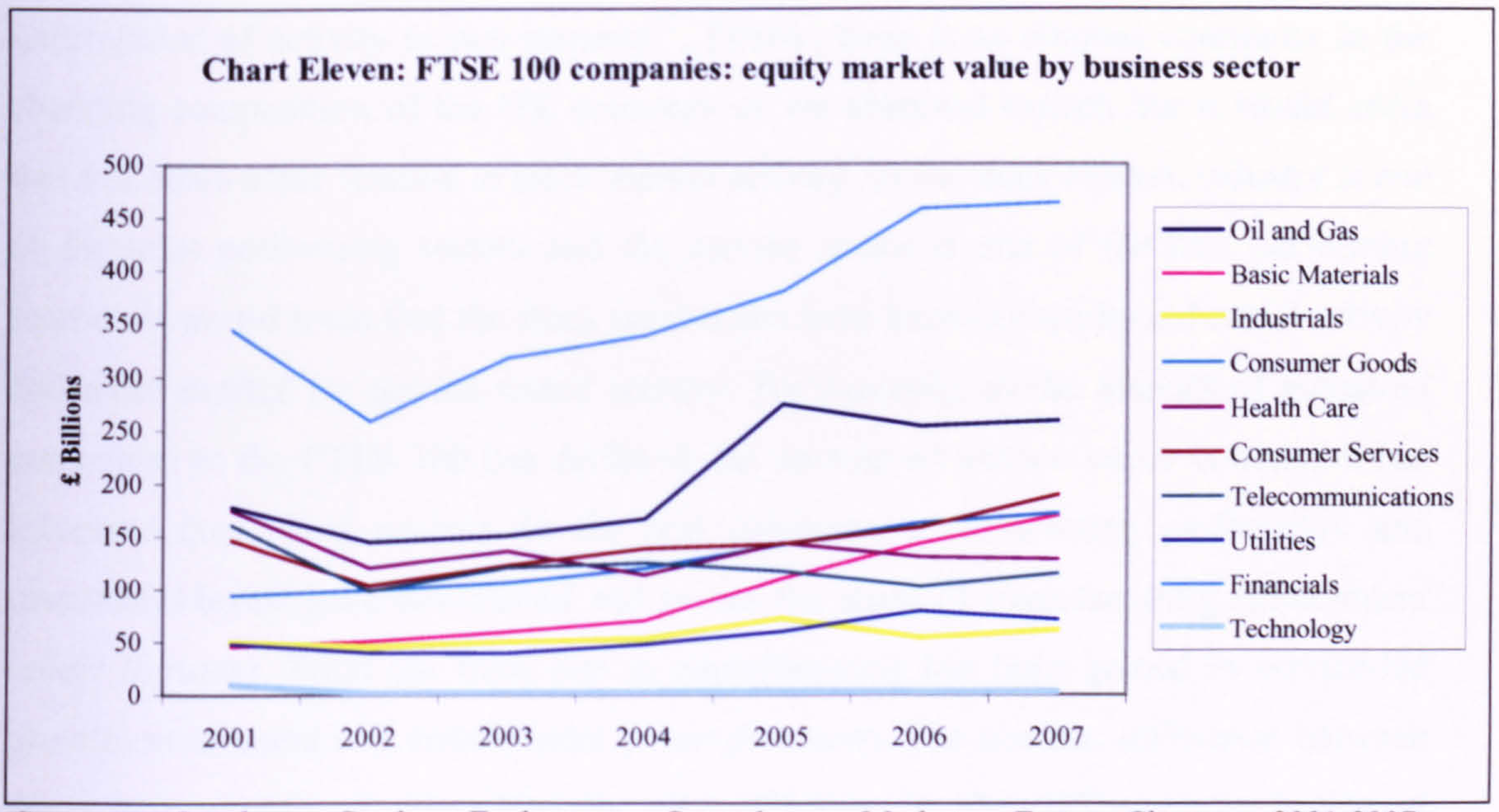
It is entirely possible that the concentration of share trades is also based in sectors of best performance. If we look at the sectoral performance of the FTSE 100 companies by equity turnover and market value, we can see that the four highest rates of equity turnover relate to the financial, consumer service, basic materials and energy sectors (*see chart ten and eleven*). However in May 2007, the financial and service sectors accounted for 43.7 percent of all equity turnover in the FTSE 100 index (*chart ten*).

What is striking from *chart ten* below is the sharp and expeditious increase of equity turnover in the financial and consumer service sectors (*chart ten*), which contrasts to the flat line rises of their equity market values (*chart eleven*), suggesting that these two sectors are where the 'sell' trading action is. The three lowest have been the IT, utility and industrial sectors. Turning to *chart eleven*, we can also see that the four highest equity market values correspond to the financial, energy, service and consumer good sectors and this has been a general trend since 2004. 50 percent of the entire market value of FTSE 100 shares relate to the financial, consumer goods and service sectors (*chart twelve*). The four lowest equity market values in 2007 relate to the industrial, utility, telecommunications and health care sectors and this has also been a long-term trend since 2001, discounting the equity value of the health care sector which has followed a downward trend (*chart eleven*). These historical trends in the value of the equity market and its turnover correspond highly to the changing sectoral composition of the FTSE 100 index (*chart twelve*). In 1999, 55 percent of the FTSE 100 index was made up by financial, consumer retail and service sector companies. In May 2007, this figure was 63 percent. Those sectors that have reduced their share of the FTSE 100 index have been industrial, telecommunications and IT companies (*chart twelve*).

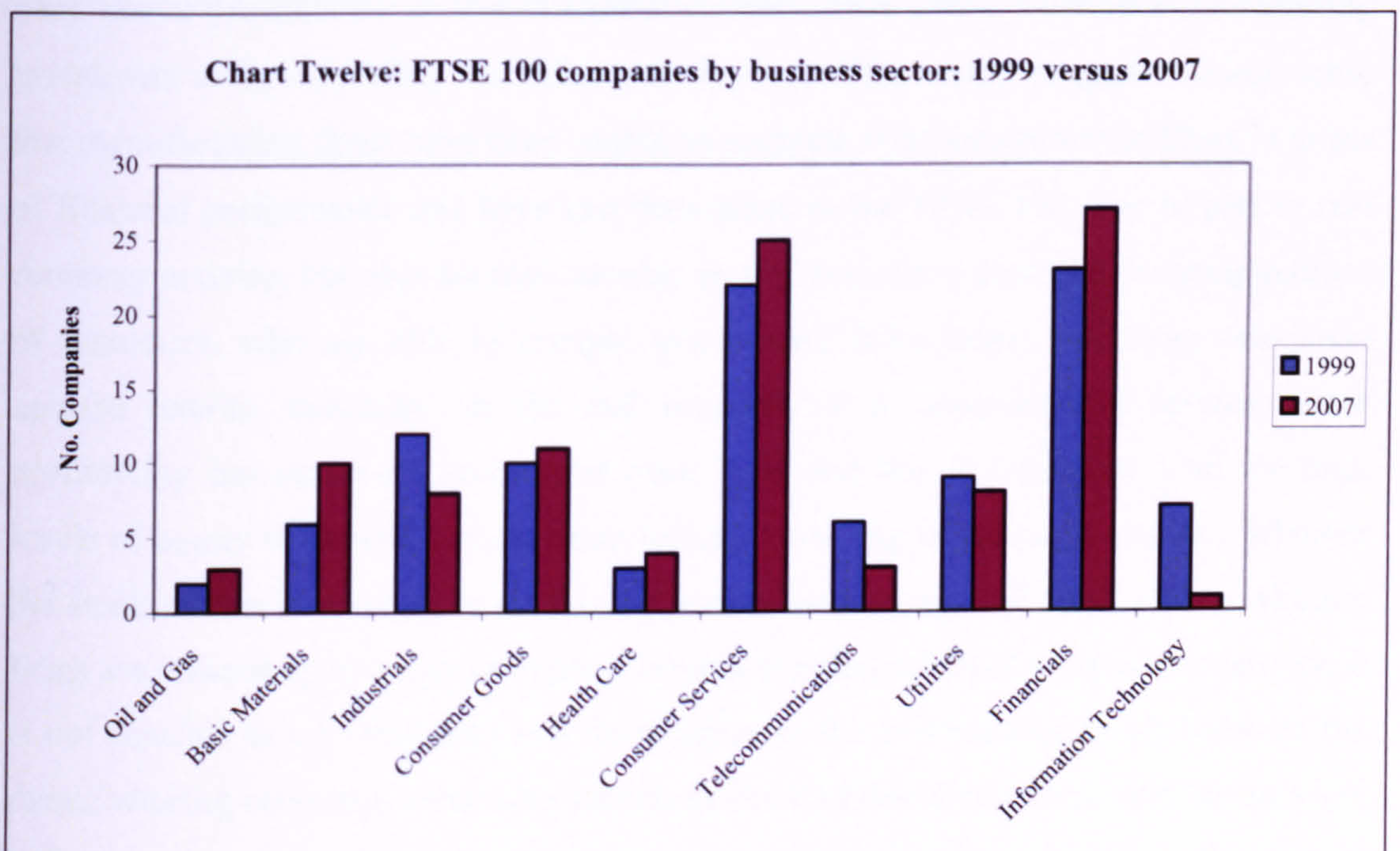
Chart Ten: FTSE 100 companies: UK equity turnover by business



Source: London Stock Exchange, Secondary Market Fact Sheets 2001-2007; http://www.londonstockexchange.com/en-gb/about/statistics/

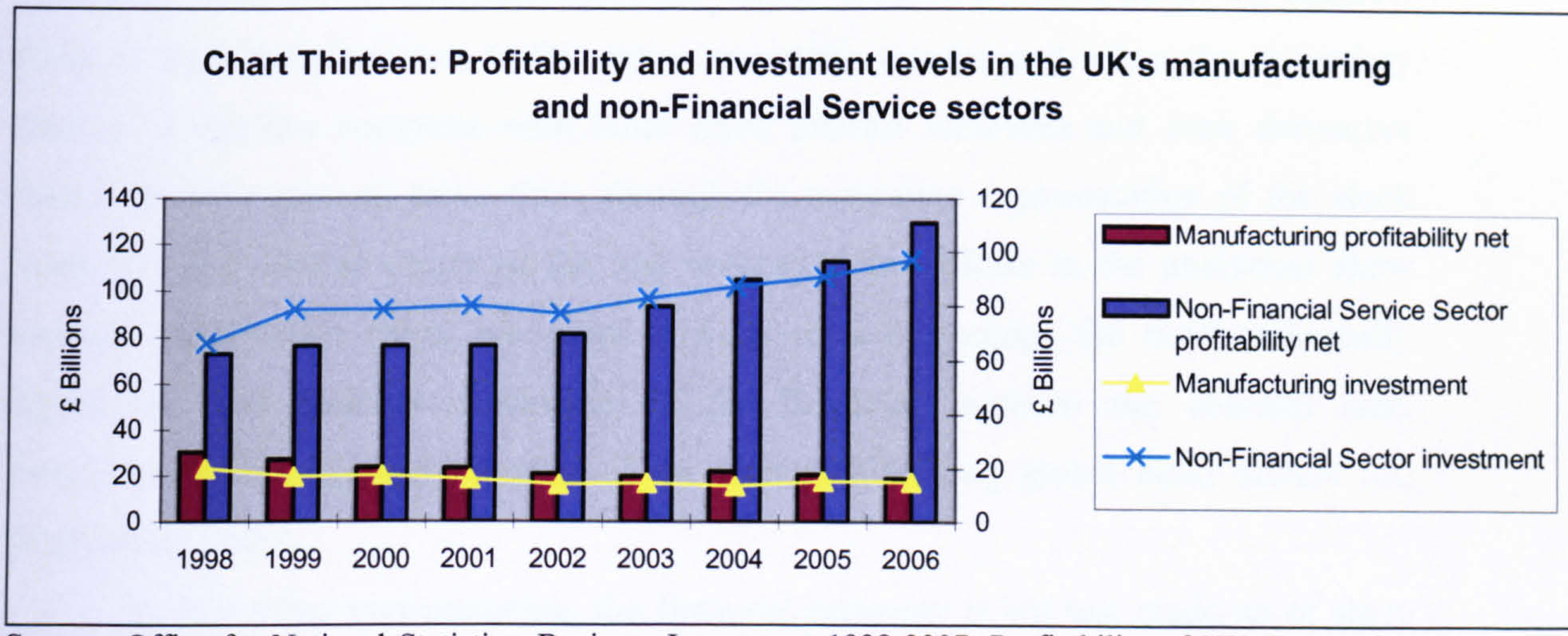


Source: London Stock Exchange, Secondary Market Fact Sheets 2001-2007; http://www.londonstockexchange.com/en-gb/about/statistics/

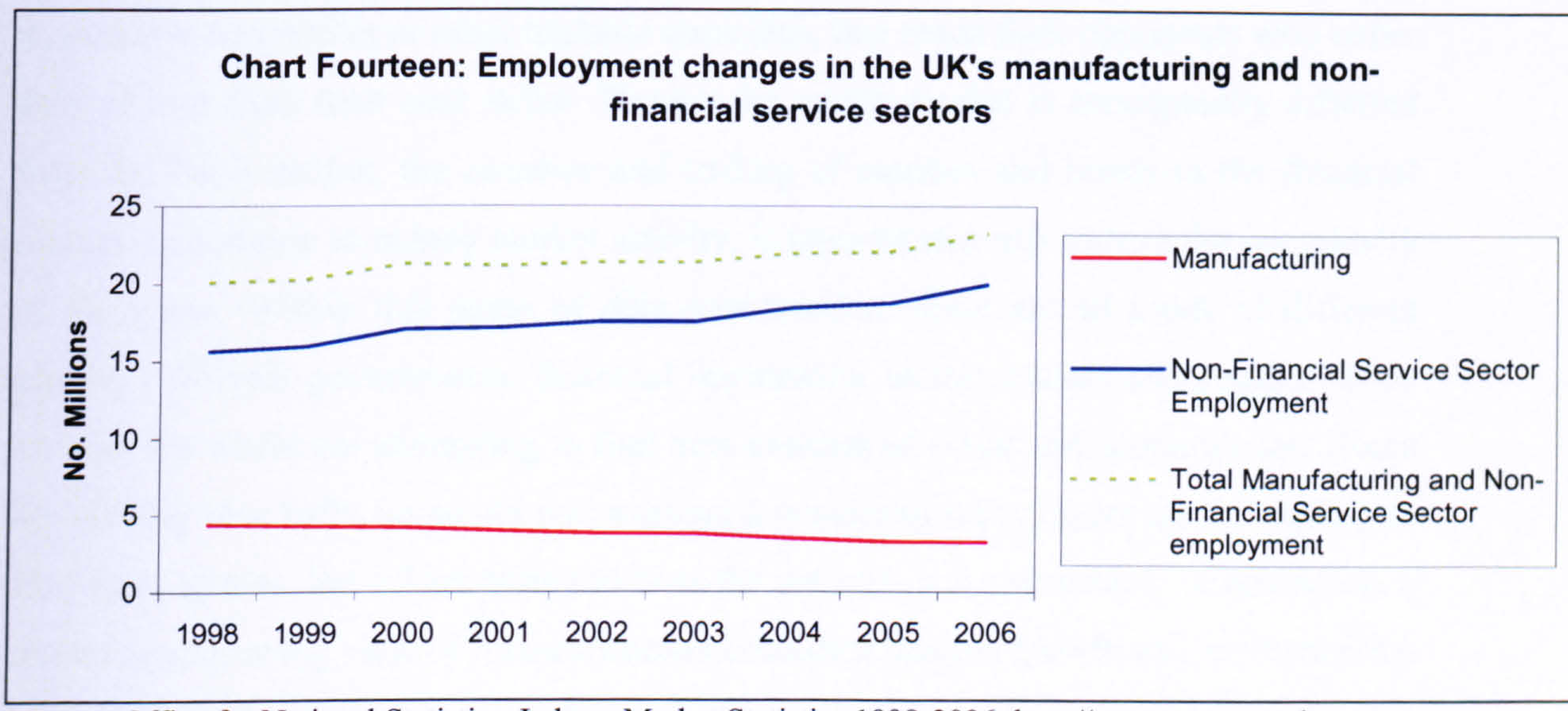


Source: London Stock Exchange, Secondary Market Fact Sheets, December 1999 and May 2007; http://www.londonstockexchange.com/en-gb/about/statistics/

For regulation theorists and social accountants alike, this intensification of financial accumulation is precisely the moment when the stock market adversely influences and regulates the behaviour of firms and households involved in the coupon pool. We cannot accurately measure what effect the financial economy has had on the real economy or what the direction of causation is, this is a job for an economist. But we can see an interrelation of activity in two respects[17]. Firstly, there is an obvious continuity in the changing composition of the UK economy as we observed earlier, but it would seem that this bears some relation to stock market activity. In the stock market, industry is one of the least performing sectors and the service sector is one of the best performing sectors. It would seem that the stock market has been least excited by industrial activity and more excited by service sector activity. For example, as the amount of industrial companies in the FTSE 100 has declined, the amount of service sector companies has increased (*see chart twelve*). In the real economy, manufacturing profitability and investment levels have diminished and so has the share of manufacturing employment (*chart thirteen*). What has been lost in manufacturing has been gained in service-led growth, investment and employment (*chart fourteen*). The obvious difference between these two sectors, as illustrated by chart thirteen, is the difference in levels of profitability, but what is more significant perhaps is that service sector investment has risen above profitability in five consecutive years since 1998, whereas manufacturing investment and profitability has fallen year on year. This would suggest in some sense that manufacturing firms have been unable to compete with service sector firms in terms of financial performance and have lost their place in the FTSE 100, due in part to real economy activity, but also because service sector firms have captured the imaginations of financiers, who are able to prosper much more from larger and more consistent upward returns. Secondly, in the real economy it is apparent that service sector profitability has outgrown investment from 2004 and this is consistent with the high levels of equity value and turnover that we are observing in the stock market. Whether the stock market is reacting to increasing performance in the real economy, or whether firms are competing to create or express surplus at a time of rapid shareholder activity, it is not possible to tell. But there is a discrepancy in the performance levels between the manufacturing economy, otherwise known as the traditional economy, and the service-led new economy, where the financiers seem to be trading rapidly on the instant expression of surplus capital, rather than the expectation of financial results from investment. Based on this short analysis, those firms that can produce expectations of results or high operational surpluses, such as financial institutions or service sector firms, are more likely to have high equity values and a guaranteed place in the finance-led hierarchy, a reminder that the organisation and tastes of the financial economy are a simulacra of the hopes, necessities and desires of ordinary people acting in the everyday economy.



Source: Office for National Statistics, Business Investment 1998-2007, Profitability of UK Companies 2007; http://www.ons.gov.uk



Source: Office for National Statistics, Labour Market Statistics 1998-2006: http://www.ons.gov.uk

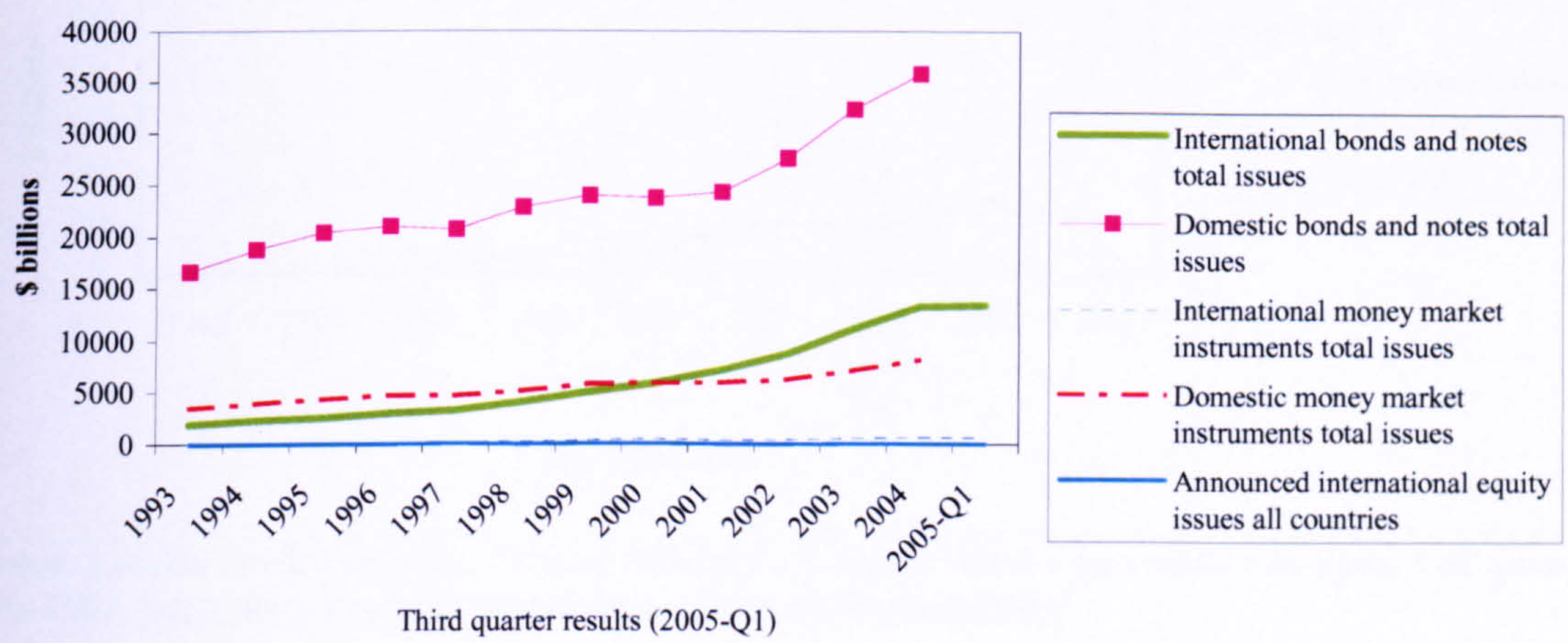
Indebted to Global Debt

The relationship between stock market listed firms and the secondary trading of equities is a crucial dimension of the financial system. The shear market value of equities in response to their demand by institutional investors demonstrates their regulatory importance and influence over households, financial institutions and governments. However, the connection between the stock market and publicly listed corporations is but one dimension of the financial system and the over-emphasis on shareholder value has tended to exclude how this dimension fits into the financial ecosystem as a wider context of social analysis[18]. The additional problem is that this analysis focuses too much on the notion of the coupon pool as being solely constituted by the issuance and trading of equity related coupons, when the 'equity' coupon pool is perhaps the smallest form of financial provision in the entire monetary system; and when the secondary trading of equities competes with other fixed interest securities and their derivative forms. In more general terms then, through the masculine representation of the stock market as the control center of the real economy, in addition to the analytical skew towards shareholder value, we possibly miss what is perhaps the most technically significant and political dimension of the financial markets: the colossal size, institutional make-up and turnover of the ever proliferating global bond market (cf. Warburton, 2000).

In this wider understanding, the financial economy is not just made up of share deals and stock prices, but is akin to an enormous game of tennis with multiple players on each side hitting *debt* balls of different colours and sizes, in the form of bonds, marketable derivatives or other tradable securities, that reach their opponents who either gain or lose from their next strike. Though the equity market is conceptually different from the bond market, the issuance and trading of equities and bonds in the financial market, in addition to money market activity, is inter-related and adds to the complexity of the game. Within this game of debt proliferation, there are all kinds of different players involved: governments, financial institutions, manufacturers and pension funds all over the world are attempting to find new avenues of credit and accumulation. Some are serving new balls, some are just wanting a consistent rally, others are attempting to find open spaces, but *all* are trying to beat the net and gain the reward. In this sense, a more encompassing view of financialisation considers that the growth and sophistication of equity and bond finance, in addition to the institutions and instruments surrounding their cycles and perennial development, is an ongoing challenge of *transcendent intensification* that is fuelled by its own contradictions and appears to accelerate and expand without a final limit.

In practical terms, the size of the bond market and its daily turnover is unprecedented as we shall observe and it is important to understand that the bond market far surpasses both money market lending and equity issues as the major form of financial provision and intermediation. *Chart fifteen* provides us with a breakdown of the three main types of financial provision in the international monetary system. What is immediately noticeable is the difference in size between the bond and money markets. If we examine *chart fifteen*, we can see quite a formidable difference between the size of the domestic bond market at an outstanding level of issuance approaching $36 trillion and all outstanding instruments in the domestic money markets standing at around $8 trillion. From this table, we can also see that bond market finance is far more significant than money lending even in the international market sector. The international issuance of equities is a drop in the ocean in comparison. Unfortunately, it is not possible to compare the domestic level of equity issuance with the bond and money markets, but it is possible to suggest that equities, as a source of primary market provision, is dwarfed in comparison by the provision of marketable debt securities in the domestic and international markets.

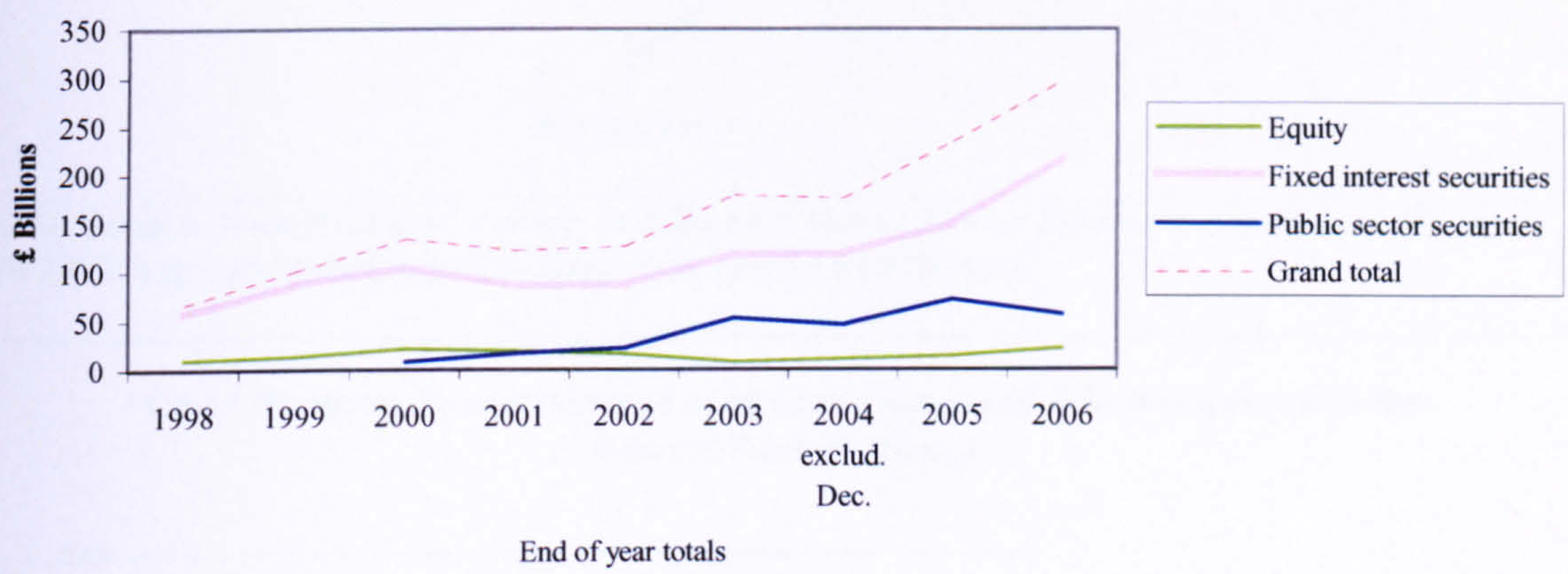
Chart Fifteen: The world bond, money and equity markets compared



Source: Bank of International Settlements, http://bis.org/statistics/secstats.htm.

If we examine *chart sixteen* that provides an understanding of how money has been raised on the London Stock Exchange (LSE), we can see that fixed interest securities have been a popular way of raising money from 1998. In 2006 over 73 percent of all money raised on the stock market was in the form of fixed interest securities. Money raised by equity issuance was just 7 percent. Turning to *chart seventeen*, we can see that shares make up only a small fraction of total capital issuance, compared to bonds (52%) and commercial paper (43%). In the international market of the Stock Exchange, over 92 percent of money raised was through debt securities in 2006, while only 5 percent was raised through equity issuance (*chart eighteen*). This resonates in the global economy too. For example, looking back at *chart fifteen*, the total issuance of international equities stood at $66.1 billion in the first quarter of 2005, in comparison to the total amount of outstanding international bonds standing at $13.4 trillion in the same period. Perhaps, the significance of shares and their extremely large values make their mark in the secondary market as we have shown above. As *chart nineteen* illustrates, the turnover of shares in the UK and international market is exceptionally high, especially in comparison to fixed interest securities, due to the liquid nature of this type of investment. But looking at *chart nineteen*, the turnover of fixed government securities has still been far more significant than equity turnover over the last decade.

Chart Sixteen: Primary money raised on the domestic market of the London Stock Exchange

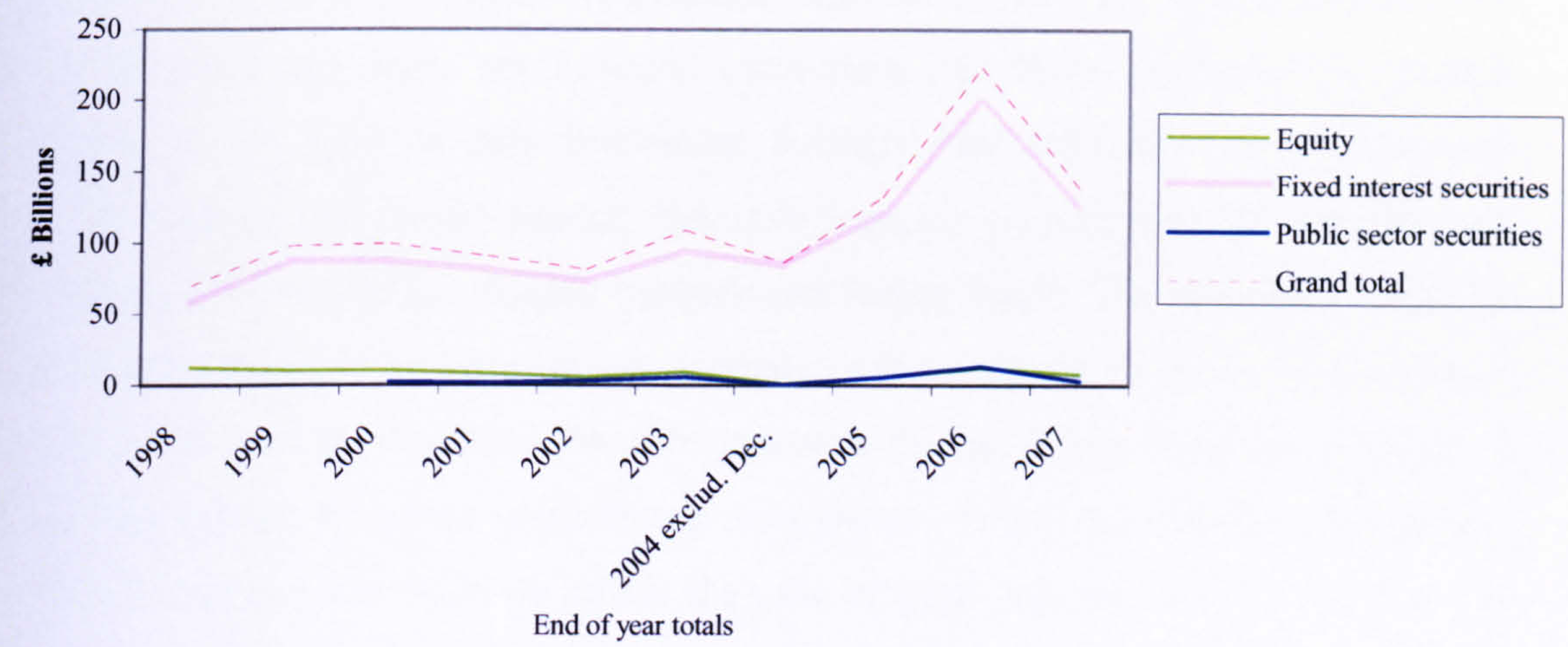


Source: London Stock Exchange, *Primary Market Fact Sheets: Market Information Analysis*, LSE years 1998-2007; http://www.londonstockexchange.com/en-gb/about/statistics/

Chart Seventeen: Capital issuance by instrument in 2006 (UK residents, all currencies)

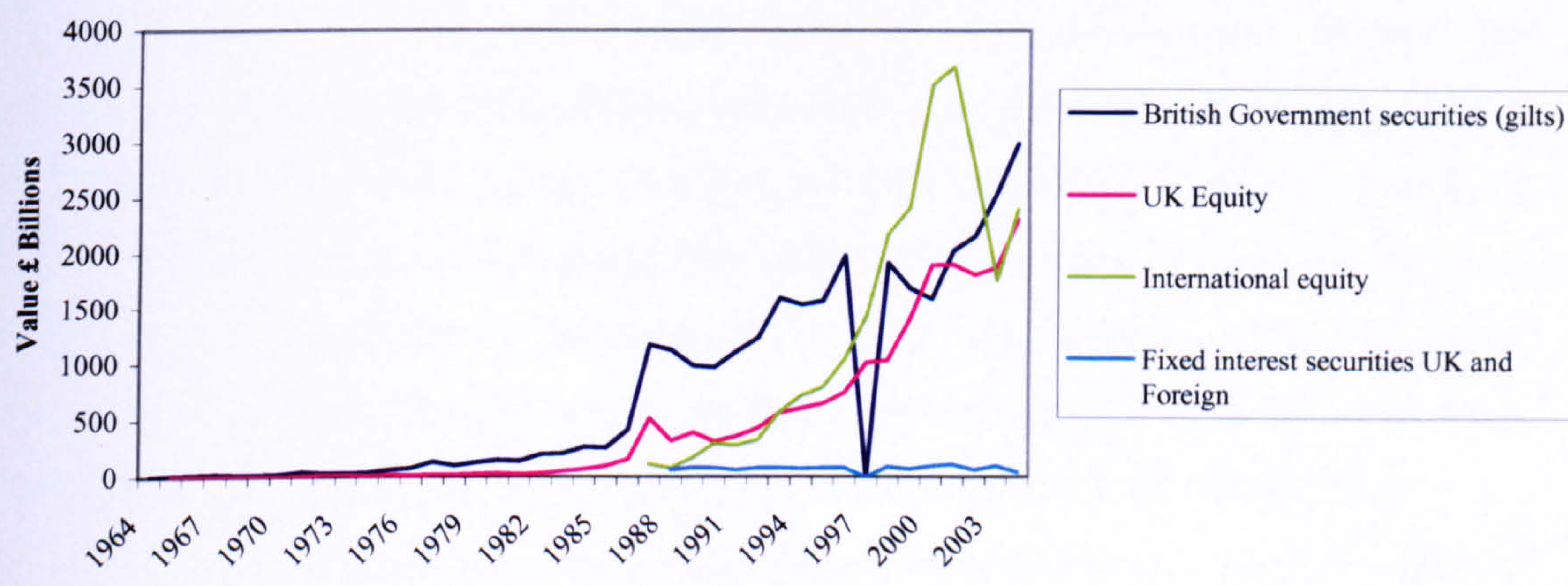
Source: Office for National Statistics (2007: 123) *Financial Statistics*, June No.542, http://www.ons.gov.uk

Chart Eighteen: Primary money raised on the international market of the London Stock Exchange



Source: London Stock Exchange, *Primary Market Fact Sheets: Market Information Analysis*, LSE years 1998-2007; http://www.londonstockexchange.com/en-gb/about/statistics/

Chart Nineteen: Annual turnover of all equity issues and debt instruments on the London Stock Exchange

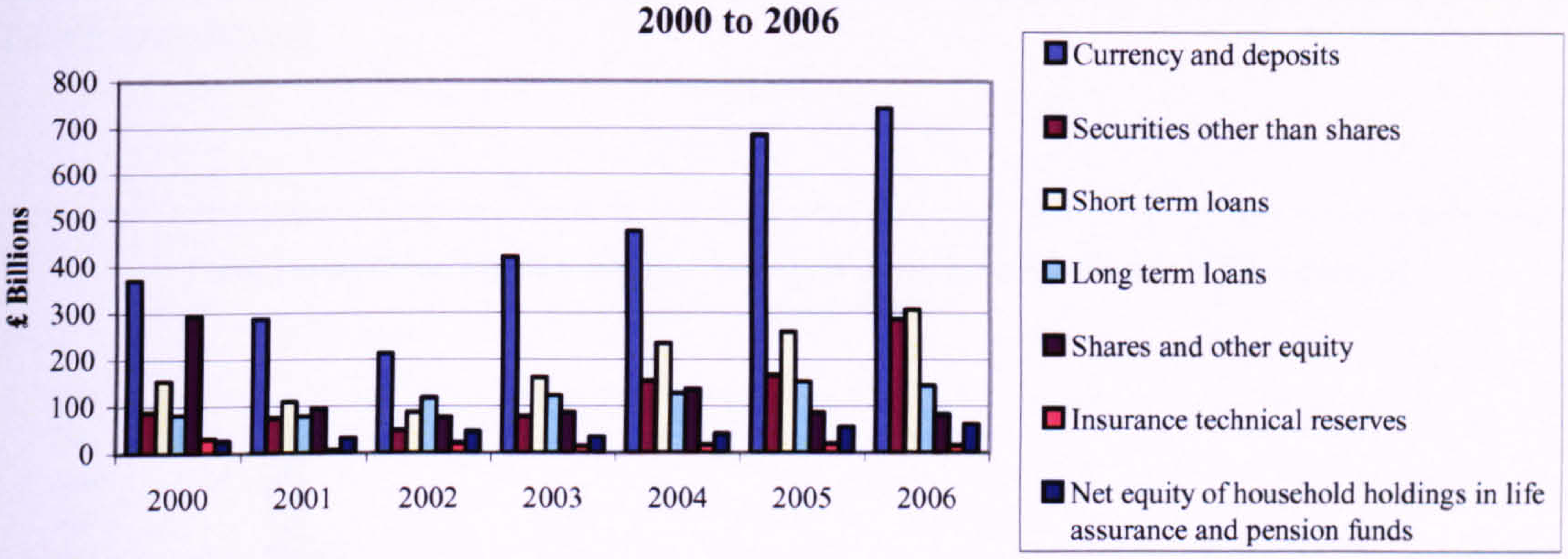


Source: London Stock Exchange, *Secondary Market Fact Sheets: Market Information Analysis*, LSE years 1998-2007, http://www.londonstockexchange.com/en-gb/about/statistics/

Chart twenty provides us with a more in depth understanding of financial affairs in the UK. In 2000, the peak of the bull market, equities represented 28 percent of all net financial acquisitions in the UK. Today this figure is just 5 percent. But other things have overtaken equities. For example, the amount of money domiciled in the UK or belonging to UK institutions has increased exponentially (see currency and deposits, *chart twenty*) reflecting the growth of the UK financial sector and the importance of Britain, and more specifically London, as the financial control centre to the world. The amount of short-term lending has increased considerably reflecting the boom in consumer and mortgage borrowing, but also the growth in asset-management and financial arbitrage. Curiously, if we examine chart *twenty-one*, the largest borrowers of short and long-term loans are financial institutions and those that have the greatest exposure to this type of debt instrument through their liabilities are not financial corporations, as one might expect, but non-financial corporations, households and investment intermediaries, namely brokers and hedge funds. The liabilities faced by non-financial corporations ties into an anomaly in the issuance of shares. If we look at the pie chart (*twenty-two*) below that deconstructs the net figure of capital issuance, a figure that represents capital issues minus repayments, we can see that there is a greater amount of repayments made on shares than the original amount issued, reflecting the amount paid back to shareholders through equity buy backs to an estimated value of £3.8 billion. This type of activity has been commonly associated with three explanations. Firstly, that firms buy back their equity stakes in order to reduce the amount of shares available and thereby increase their earnings per share (EPS) or secondly, that firms use equity buy-backs as an alternative to dividends for rewarding their shareholders. Thirdly, private equity firms have become extremely popular and controversial in recent years for offering corporations an alternative to the vagaries and transparencies of the stock market. In effect, it would seem that the corporate sector is relying more on money market and private equity in conjunction with buy-backs in an attempt to avoid performance pressures in the stock market or else they are simply finding 'more' private arrangements of financial governance in a financial competition of 'all against all' (Williams, 2000: 6), as predicted by Aglietta and Bretton (2001).

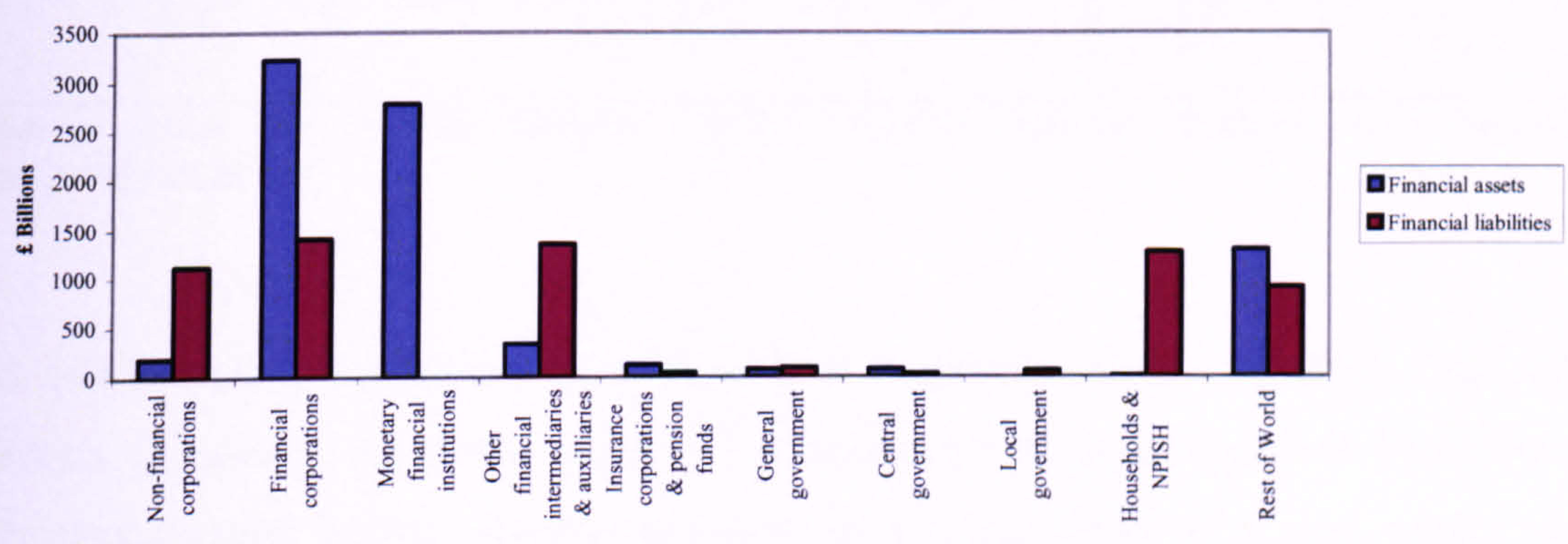
If we re-examine chart *twenty-three*, the amount of securities has also increased year on year and this growth has been spurred on again by financial institutions of various kinds, reflecting the demand for long-term maturing assets by the likes of hedge funds, that like to borrow short (hence their liabilities from loans) and invest long (Warburton, 2000: 152), or international banks and pension funds that demand a longer maturing asset for protecting their debt and retirement liabilities (more detail below). Chart *twenty-three* illustrates which institutions have the greatest demand for this debt instrument and what their exposure is. While the financial sector as a whole has a great appetite for debt securities of different maturities, it is the government sector, non-financial corporations and auxiliary financial intermediaries, such as investment banks and hedge funds, that have incurred the greatest number of liabilities. While there is a greater amount of liabilities from loans amounting to £6.3 trillion, there is a greater exposure to liabilities emerging from securities. For example, for every lending liability that financial corporations have on their books, there are assets worth 2.3 times as much. For every security liability that financial corporations have on their books, there are assets worth just 1.5 times as much. In this more subtle reading, liability exposure to securities tends to be that much more than liability exposure to loans and this is across the board for the financial sector as a whole (ONS, 2007: 164-167).

Chart Twenty: Financial account UK: net acquisition of financial assets from 2000 to 2006



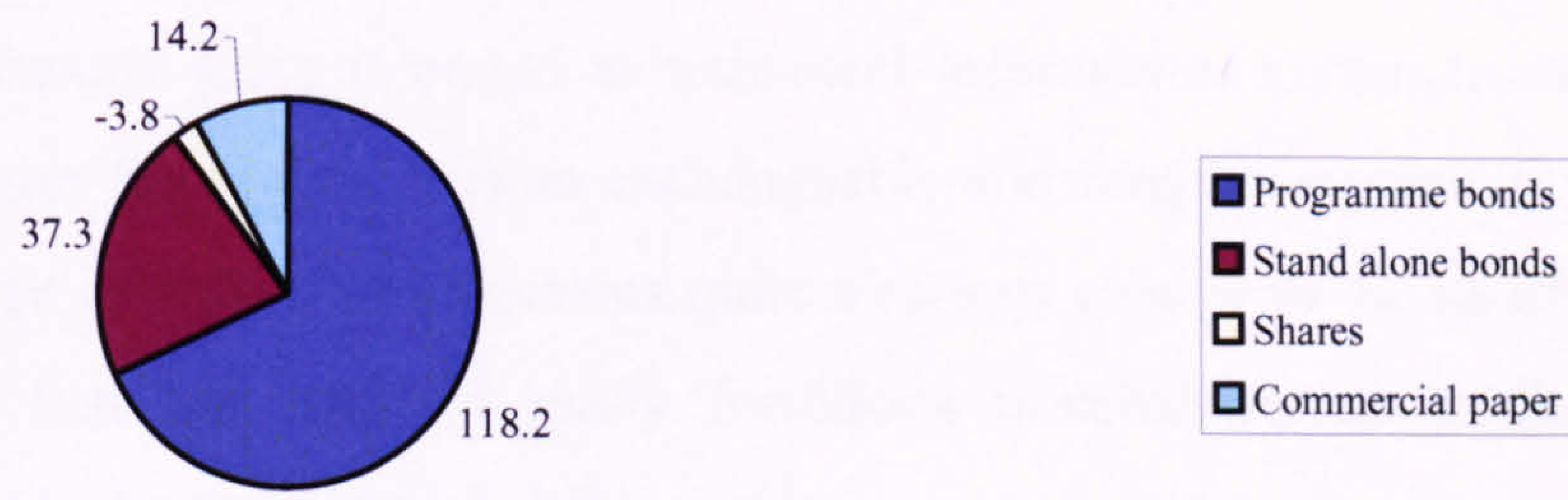
Source: Office for National Statistics (2007: 168) *Financial Statistics*, June No.542, http://www.ons.gov.uk

Chart Twenty-One: Total UK loans in the fourth quarter of 2006: financial assets versus liabilities



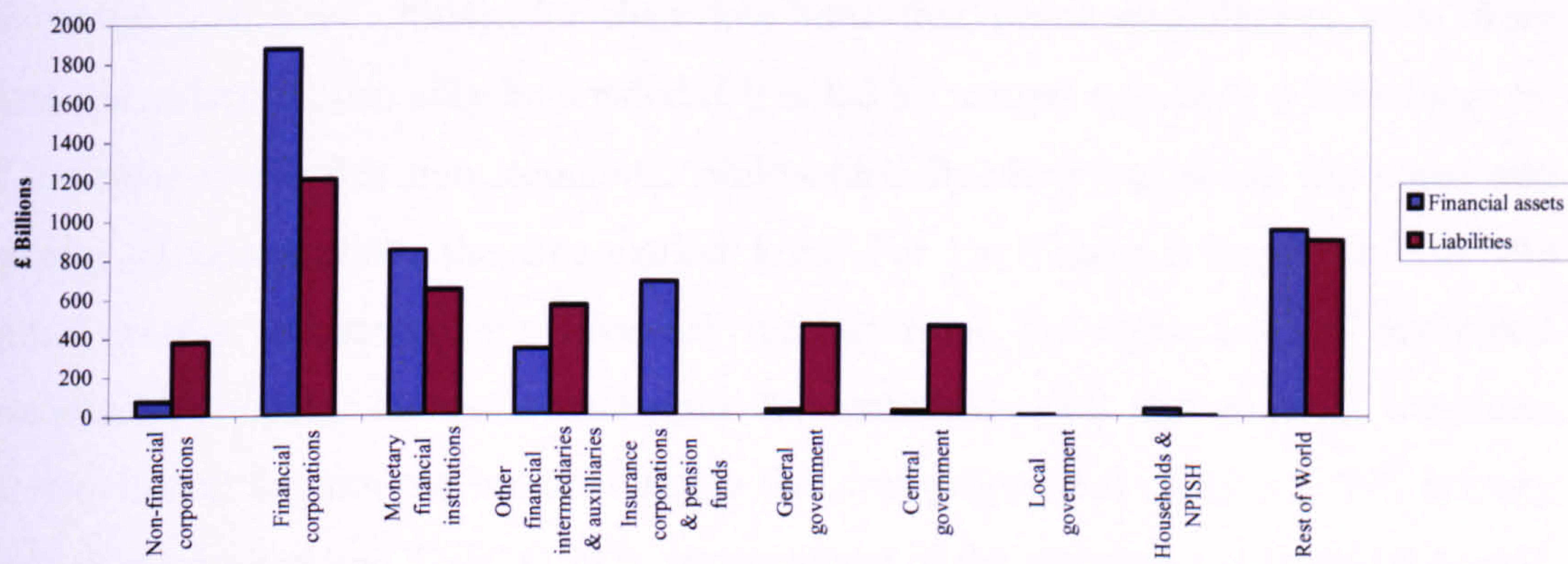
Source: Office for National Statistics (2007: 164-167) *Financial Statistics*, June No.542, http://www.ons.gov.uk

Chart Twenty-two: Net issuance 2006: capital issuance by instrument (UK residents, all currencies)



Source: Office for National Statistics (2007: 123) *Financial Statistics*, June No.542, http://www.ons.gov.uk

Chart Twenty-three: Total UK securities other than shares in the 4th Quarter of 2006: financial assets versus liabilities



Source: Office for National Statistics (2007: 164-167) *Financial Statistics*, June No.542, http://www.ons.gov.uk

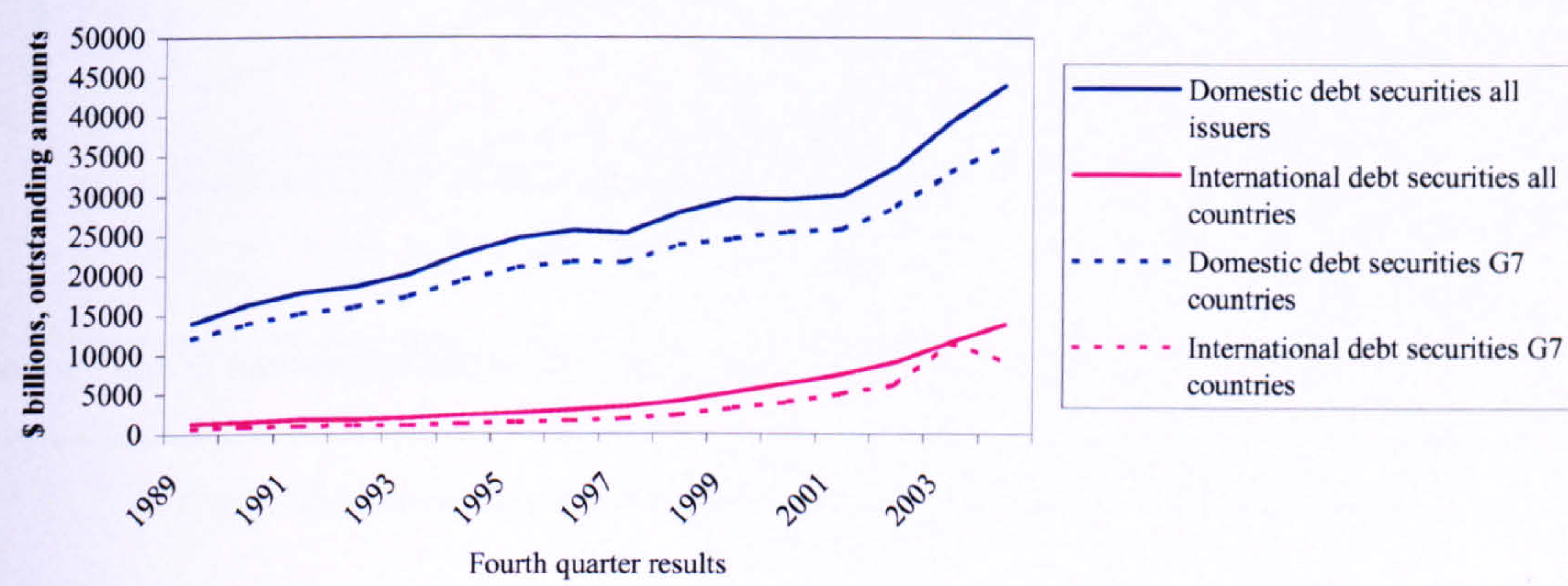
All this reveals a significant truth about how money is raised in today's financial markets. In essence, the global economy has observed a structural transition away from debt denominated banking intermediation to *security denominated capital market re-intermediation*. The significant difference is that the provision of debt is no longer based primarily on a *private* model of intermediation between depositors and borrowers, but debt is issued as a security, floated, priced and traded in the *public* capital markets. The traditional banking model has been quite literally turned inside out and on its head. The depositors are also now the savers, the lending intermediaries are also now the investors or the consultants, the big borrowers are now the investment intermediaries or governments, and the merry-go-round spins round so fast it is unfathomable sometimes to understand just who are the real risk-takers. In the traditional bank-based model, banks took on the risks of lending in a world of asymmetric information. But today, developments in global finance have intended to transcend information asymmetries, because lending is no longer cautionary, it is an exchangeable and fungible commodity that is priced as a reflection of risk. This represents quite a serious change in the nature of the financial system that has inspired many fortuitous transformations in the institutional and organisational nature of global finance[19].

For example, it is important to consider that the unravelling of the post-war period in the 1970s, the end of Bretton Woods, the rise of offshore financial markets, two energy shocks, mass unemployment and global inflation created a profound sense of global economic turmoil, revolution and the need to control it. Out went the post-war ideas of Keynesian economic philosophy and in came the reprieved, the 'I told you so' people of 'fiat finance' (Polanyi, 1944), revamped as game theorists, monetarists and neoliberals (see Hay, 2004), for their key idea that peace and liberty, even from economic volatility, can only be created if it is led by natural selection; a Darwinian rip off, because under this new economic philosophy, freedom was to be the equal and opposite of competition; the free-market kind. For the financial sector and for the general public influenced by financial restructuring, the execution of neoliberal economic philosophy did not create quite the straightforward and peaceful transition that was hoped for, nor the political utopia that was propagated under this 19th century idea[20]. For Leyshon and Thrift (1997), restructuring of the international financial system has become distinguished by 'four motifs':

> ...an intensified level of *competition* between financial agents; increasingly sophisticated means of issuing and using *debt*; financial innovation linked to the management and exploitation of *risk*; and the importance of *volatility* as a means of amplifying both profits and losses. To this extent, the global financial services industry can perhaps be seen as an example of an industry in which a *modus operandi* based upon notions of 'allocative efficiency' was replaced with one based more upon 'market efficiency' (Leyshon and Thrift, 1997: 206).

The net effect of this has been to let debt roll out like a never ending carpet, except greater risk has called for greater resources, expertise and more sophisticated tools 'to push the envelope' in all areas of finance, an expression often used in mathematical circles, but one now increasingly heard in financial ones too. Before we explore the reasons why bond finance has ballooned it is important to comprehend the geopolitical and sectoral source of issuance for bond market finance. If we look at *chart twenty-four*, compiled from the databanks of the Bank of International Settlements (BIS), we can see quite conspicuously that the raising of debt securities is concentrated amongst the G7 countries. 83 percent of all domestic securities and 67 percent of all international securities raised in the world originate in the G7 countries. The second observation is that the domestic market for debt securities is far larger than the international market and this has something to do with the emphasis that governments worldwide, especially developed countries, have placed on their domestic bond markets for raising long-term finance.

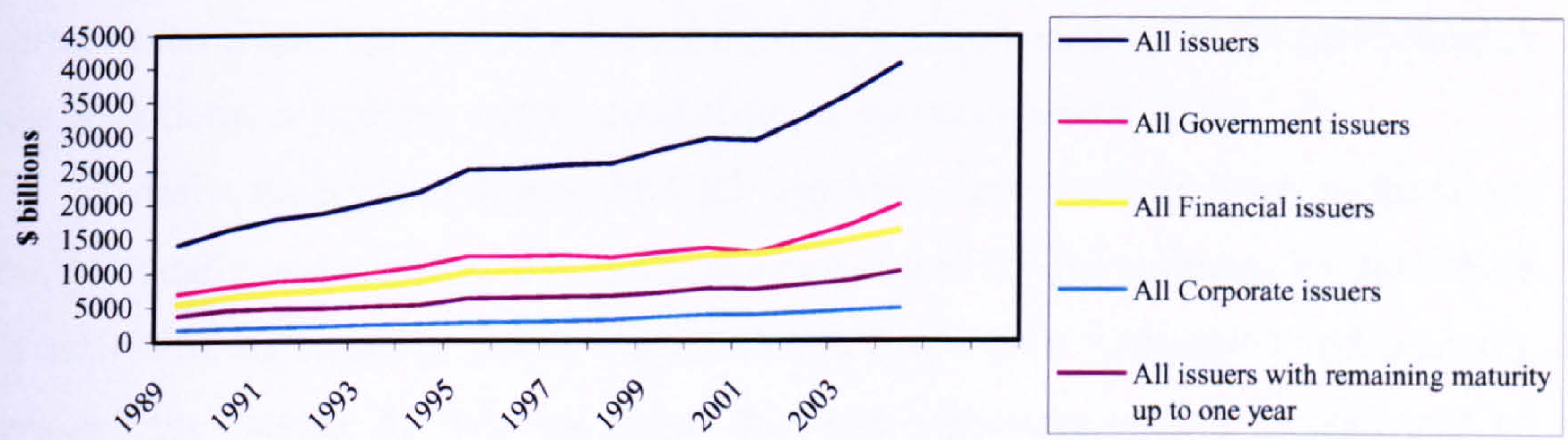
Chart Twenty-four: G7 debt and geopolitical concentration: outstanding amounts of domestic and international debt securities



Source: Bank of International Settlements, http://bis.org/statistics/secstats.htm.

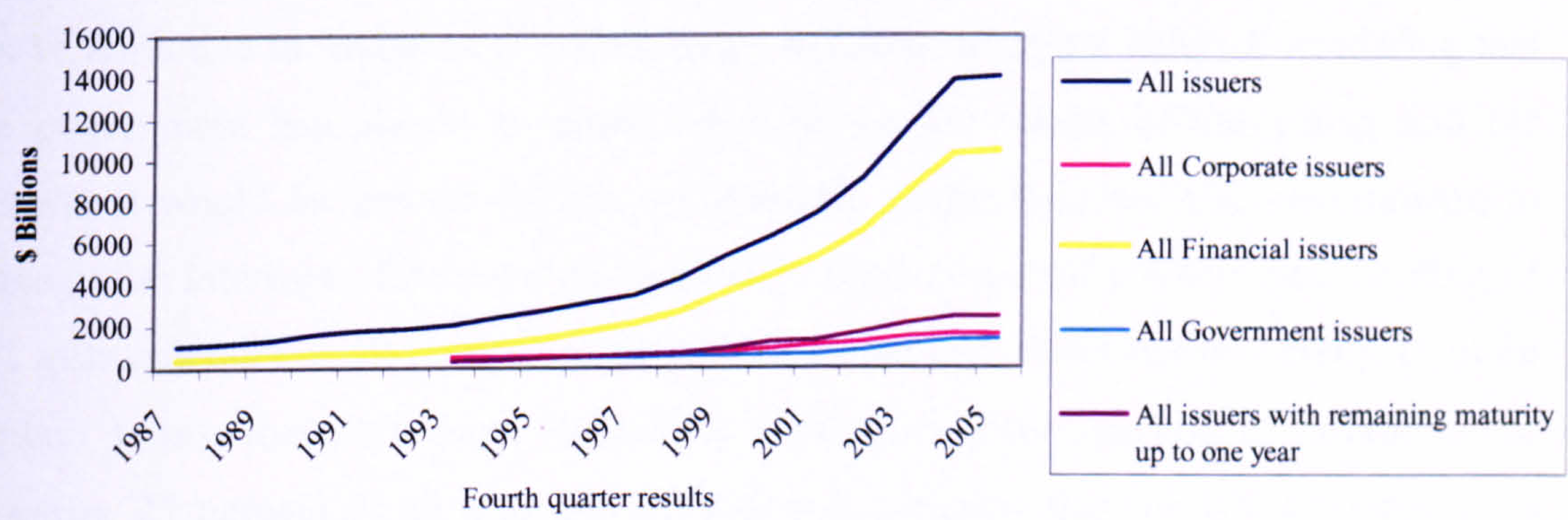
If we examine table *twenty-five*, which provides a sectoral breakdown of all securities issued domestically (in the world), we can see that governments are by far the largest long-term borrowers of financial capital. Of all domestic securities issued and traded in the bond markets, government issuance makes up just under 50 percent of all bonds issued by various institutions worldwide. Britain's Debt Management Office (DMO), an executive arm of HM Treasury that manages the UK government's financial affairs, provides a rather perspicuous history of gross national debt since 1855 in the form of a diagram[21] (*Please see Annex D, Diagram Two*). Since the mid 1940s, the diagram shows that there has been an inverse relationship between the percentage of debt to GDP and the nominal amount borrowed. For example and understandably, in 1946 debt to GDP was 252 percent, an unprecedented exposure of liabilities that nevertheless fell dramatically to 40 percent within 34 years. But as debt to GDP has fallen, and today the figure hovers above 40 percent, the nominal amount of money raised through government bonds has risen from 629 million in the year 1900, the lowest recorded nominal value in the 20th century, to over an estimated £480 billion in 2007. This represents an 80 percent increase since 1980 in nominal terms. This is a reminder that Britain's economy has grown three times larger, especially since the 1950s, and that this expansion of GDP to over one trillion pounds annually coincides with the emergence of London as a world financial centre and Britain as a transnational knowledge economy.

Chart Twenty-five: Outstanding amounts of domestic debt securities by sector and maturity



Source: Bank of International Settlements, http://bis.org/statistics/secstats.htm.

Chart Twenty-six: Outstanding amounts of international securities by sector and maturity

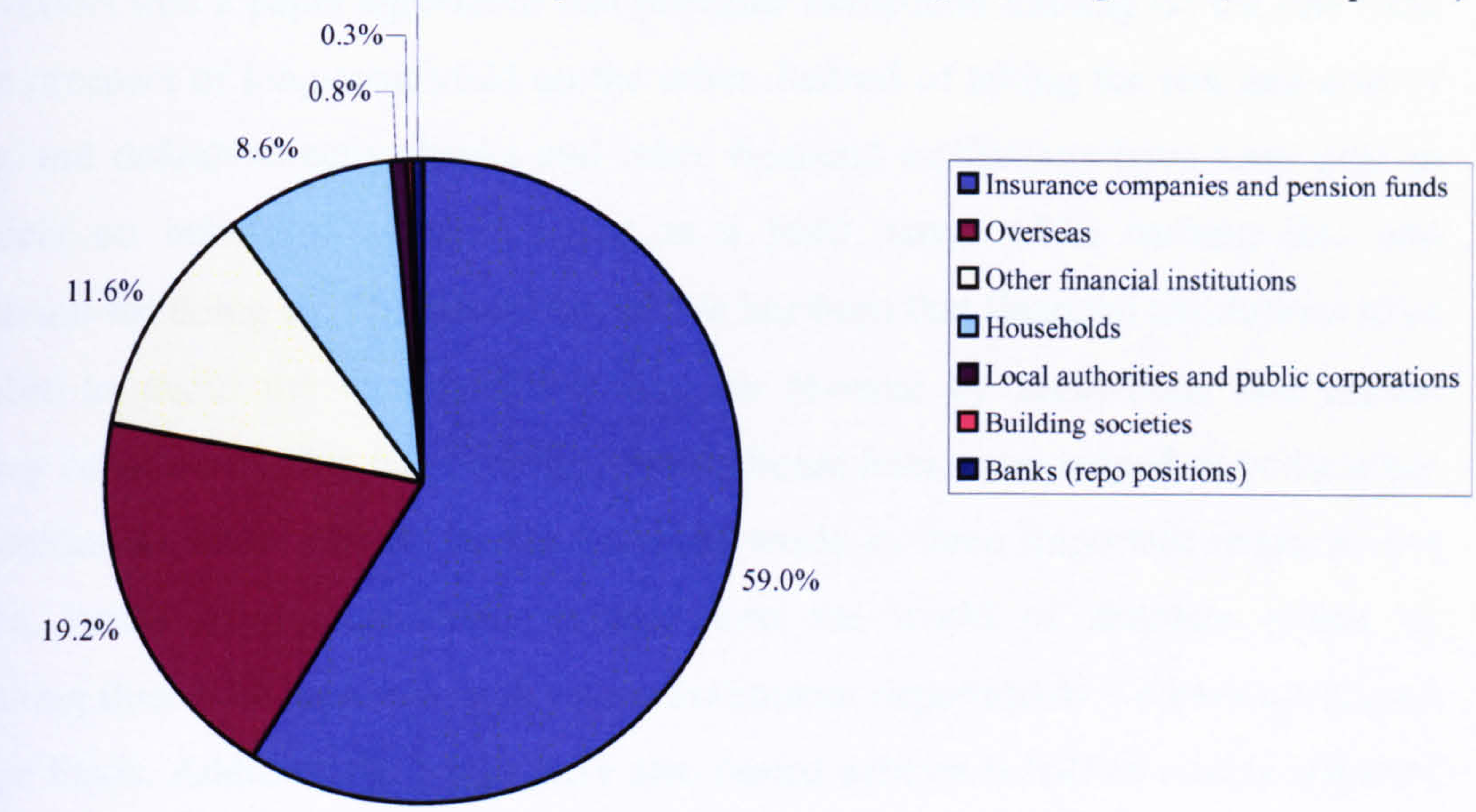


Source: Bank of International Settlements, http://bis.org/statistics/secstats.htm.

Before we get ahead of ourselves, there a number of reasons for such heightened levels of government borrowing through the bond market. Firstly, it has allowed governments instant access to funding for public services and other activities at a cost that is spread over a longer period of time. In 2005 for example, the DMO issued bonds with a maturity spectrum of 50 years. In this sense, the government is making an assumption, a commitment and a claim that the economy will continue to grow into the future, that there will be a determination to honour liabilities and that these liabilities and luxuries, will be provided by future generations of young and even unborn workers. Secondly, when Gordon Brown complains to his opposition party about the days of boom and bust, he is really talking about the vulnerability and sensitivity of fiscal policy to unpredictable and volatile economic cycles, that became prevalent in the 1970s and 1980s. In essence, tapping the bond market allows governments the perfect way of raising finance instantly without having to stimulate the economy and aggravate inflation rates through costly public deficit financing, tax increases, maladroit interest rate decreases or monetisation[22]. The raising of bond finance in the financial markets, to a certain extent, has represented a calm tonic for maelstrom activity in the real economy and a back door, or possibly even a quiet room, to its noisy politicisation.

Thirdly, the costs of raising debt this way have therefore been lower in the short-term, politically and economically, and more consistent for governments because there is a self-fulfilling nature to bond finance that is based on a trade-off. Fundamentally speaking, the raising of debt securities this way represents both a pledge and an assurance to the bond masters that governments will not allow inflation to erode the capital gain or yield of their investments both in the present and in the future. Implicitly it is in the interests of governments to do this. For example, 72 percent of all gilts issued by the UK government are conventional (*chart twenty-seven*). Government debt would not be attractive to investors if it were likely to erode in capital value. Considering that the government has placed so much emphasis on the claims of the young and the unborn, it would be unwise for any government, particularly the UK government, to damage the interests of pension and insurance funds, especially when their holding of UK gilts amounts to 59 percent of the entire market (*see chart twenty-seven*). In more explicit terms, there are more immediate short-term costs attached to inflation. For example, 27 percent of all gilts are index-linked, meaning that the UK government is obliged to compensate investors for inflation. Additionally, it is in the interests of all governments, borrowing this way, to steady and dampen, as much as possible, interest rate increases. Any increase in the short-term rate, the base rate, can effect the yield of long term dated securities in the secondary market, making it more costly for governments to furnish their debt over the course of the long-term. Interest rate increases used to ward off money growth and dampen *the rate* of inflation can increase the borrowing costs for lenders and increase the risk of debt default. Government debt is a more credible investment because it is protected through the availability of more financial resources, but corporations are more likely to default as a result of increasing interest rates, which is precisely why the credit rating of debt by various international agencies such as Moody's etc., has become so important as a way of informing investors about the credibility or riskiness of the debtors, which is further built into the cost of corporate capital, a form of lending that is generally more expensive than government lending (Sinclair, 2005). As a result, even a whiff of inflation, whether it is from economic growth or an increase in the price of energy, can send the bond markets rattling (Grahl, 2001a/b). In effect, given that governments have become the main beneficiaries of long-term debt securities, it is in their interest to control inflation, to expand economic output without increasing inflation[23], to stabilise expectations of interest rate changes over time and accede to the happiness of the bond traders. Just like Dante followed and trusted Virgil through the travails of the inferno, governments and ordinary people have followed the principles of Hayek, Friedman or Greenspan, and seem to think without reflection that we have conquered the challenges of postwar purgatory to reach the heavens of global financial paradise. When we think that volatility in the real economy has been replaced by the perennial volatility of financial market activity, it is probably more likely that we are at the beginnings of another steep slope and learning curve in economic history.

Chart Twenty-seven: Distribution of gilt holdings 2004 (fourth quarter)

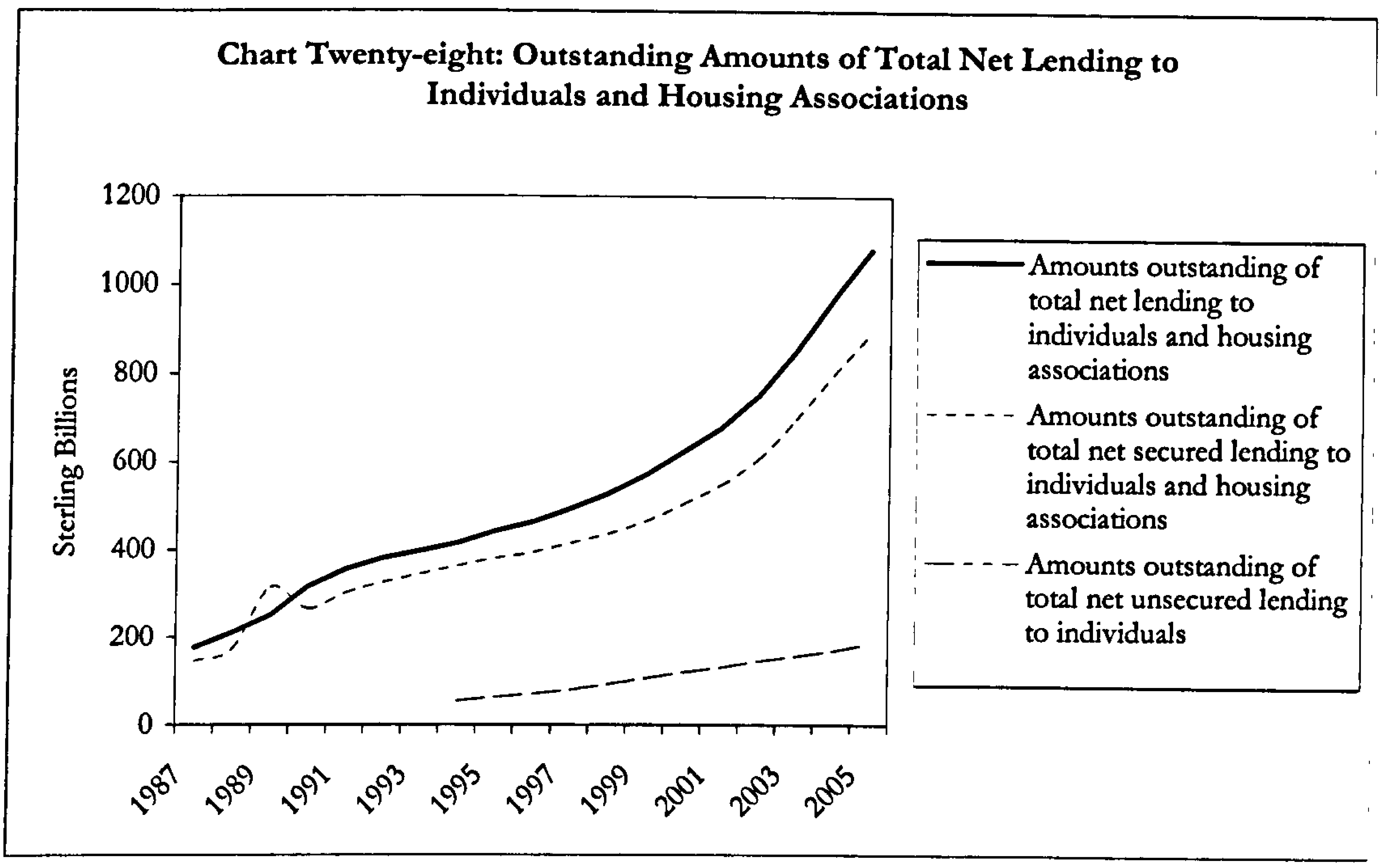


Source: Office for National Statistics, http://www.ons.gov.uk

It isn't just governments that have become heavily involved in the bond markets. It is financial institutions and corporations too and the rate of issuance has been rising in both markets (*twenty-five and twenty-six*). If we examine the domestic market for debt securities, we can see that over 39 percent of all securities are issued by financial institutions and 11.5 percent is backed by corporations. Roughly speaking, this is a 60 percent increase since 1990 in both cases. In the international market sector, such as the Euromarkets, financial institutions have increased their issuance year on year and represent over 74 percent of all outstanding debt securities. Corporate issuers represent only 11.4 percent of all outstanding international securities. The second main point here is that the issuance of bonds, whether they be government or corporate have tended to be longer-term maturities. As we can see from both charts, all issuers with a remaining maturity of up to one year represent 25 percent of all domestic debt securities and 17 percent of all outstanding amounts of international issues.

Why is disintermediation so advantageous for financial institutions? Conceptually, a debt security is a transferable and fungible financial value earning interest issued by a financial institution on behalf of a borrower that provides the creditor the legal right over the asset backing the debt and the ability to trade the asset value in the secondary markets along with the protected claim. Debt securities have enabled financial institutions the ease of *arranging* finance for borrowers in the capital market, through the calculated issuance of a security that essentially brings borrowers and investors into a paper agreement that provides immediate funding on the one hand and the prospect of long-term yield on the other. Instead of taking the risk and cost of lending and default directly, banks and other financial institutions have been able to issue debt on behalf of a client acting as a third party, while earning fees and commission for doing so. The advantage of this has been that financial institutions have been able to avoid the uncompetitive drag on revenue by regulations and capital adequacy constraints. This has benefited international banks and helped re-consolidate their position as major players in the financial world in three important respects. For example, banks have increasingly entered into the world of absolute return by establishing their own high-risk high return investment departments – otherwise known as hedge funds. Additionally, banks have also issued debt on behalf of clients and then further divided and sold the debt to a number of different investment markets. Secondly, the other effect is that it has allowed holders of debt obligations, paper contracts, to be sold a whim's notice to a diversified financial world that is sometimes very willing to take on the price and yield of an extremely risky financial obligation. Technology and methods of mathematical calculation have effectively enabled liquid finance to change hands very quickly and at a risk that either minimises danger or else maximises profit. For every borrowing requirement there is, no matter how likely it is to default, there is an investor who can repackage it, insure against it or sell it, on the assumption that it has some worth[24].

What is clear is that the changes in global finance have enabled banks and other financial services to increase their lending capabilities for ordinary people requiring overdrafts, mortgages and loans in a much more competitive financial retail marketplace. Net lending in the UK is well over one trillion pounds (*see chart twenty-eight*), which is having the effect, temporarily speaking, of feeding the cultural economy and resolving, temporarily or not, the deficiencies internal to its composite structure. In other words, financial innovations at the global level are helping to facilitate and maintain ordinary practices at the level of the everyday (cf. Langley, 2002b). On a practical level, it would seem that financialisation has become an integral part of how the UK economy is regulated. When the debt-merry-go-round comes to an end, or if speculation causes volatility as investors look for yield, then this could translate into real problems for the ordinary household as predicted by regulation theorists and the social accountant alike. But if financialisation is potentially volatile and sensitive to this kind of event, why is it that the UK government favours this as a model for ordinary folk to subsidise their income and channel their savings (*Please see diagram one in Annex D for an understanding of this model*). If financialisation has become indispensable to the continuity of Britain's competitiveness and success in the modern world-economy, then why and how does it continue to sustain itself ideologically and practically? The suggestion here is that financialisation is not just an economic phenomenon that happens to regulate events through market forces, but is actually a discursive regime of regulation founded upon cultural economic dynamics. To assess the question of sustainability, we must turn to a more comprehensive understanding of the economy and its cultural workings.



Conclusion

This chapter has been a journey through the British economy. It has dissected the component parts of the economy and examined their overall contribution to growth, employment and other activity such as consumerism. But on this journey, we suggested that consumerism is facilitated by the flouring or burgeoning of developments elsewhere; those countries that not only mass produce industrialised activity, but attract foreign investors and businesses, which see in these nations a way of facilitating and maintaining their competitiveness in a sea of torrid global waters, where companies must dance on the water or be stung by its techno-dynamism. Contrary to conventional wisdom, Britain is a country privileged by these historical structures, which help underpin and (globally) regulate, Britain's standard of living. In many ways, this global regularisation is self-fulfilling. Consumers buy foreign goods from countries wanting to step into the league of world leaders, and in return, foreign countries accumulate foreign currencies, which in turn, they invest in the Anglo-American dominated circuits of wealth management.

Beneath the surface of this arrangement however, lies a reality that we would rather forget about. As emerging markets develop and evolve within this global framework, the strains of industrialisation will inevitably become significant as urbanisation casts a critical eye on those who consume from the poverty of other nations. The intensification of industrialisation undoubtedly helps to facilitate rich nations in the West by keeping consumer costs competitively low. And this is politically significant because we tend to think this is the natural way of things; that we have reached an advanced stage of wealth production protected by the vanguard of the central bank, which supposedly manipulates the price of money so as to prevent inflation. But in equal measure, it would appear that competitive prices have enabled and reiterated the normalcy of the service sector, a key source of growth, which is also not a homogenous sector, but a highly differentiated configuration, one with high wage, gender and geo-economic disparities. The financial sector forms the core of this sector and its roots are firmly embedded in the city of London, where people inhabit a highly concentrated area of wealth; and yet they are apparently miserable for it. But what does the City do? As one former investment banker put it: 'it's sitting on the flows of money of the whole world and basically, it's clipping a little bit off the top as the money flows round' (BBC, 2006). It's no wonder then that Britain is bursting with debt, because the global economy is indebted to the highest trillion hilt and this production of debt, in the form of debt securitisation, belongs mostly to the G7 countries, which circumnavigates throughout the world based on the simple premise that Banks are 'big boys' and can self-regulate themselves. This comes down to a simple justification as the following hedge fund manager explains:

> The very fact that there is so much activity here makes the market more efficient and if the markets are more efficient then it makes things cheaper; it makes mortgages for people cheaper; makes loans for companies in every part of the country cheaper; it frankly adds to the exchequer. There is an enormous spin off from the activity we've got here (BBC, 2006).

And as soon as this is said and we begin to think of our own financial circumstances, we begin to realise that 'maybe we do need all this'; maybe financialisation is fait. But as we ponder this question, we should ask ourselves whether it is 'them' or 'us' who control the rate of financialisation and the unsteady assumptions that underpin its self-ordained provenance. Because pension funds, mutual and insurance funds, and the rapid normalisation of hedge funds and other forms of saving and investment, belong not to the financial institutions that divine them, but to the people that save with them, either directly or indirectly.

Given the weight of issues that have amounted from this analysis, in the next two chapters, we reflect upon the meaning of financialisation and theoretically explore its constitutional nature using literature from a diverse spectrum of the social sciences. Importantly, we will attempt not only to situate present-day financialisation in historical perspective, but we will understand how and why it manages to sustain itself, not as an objective economic phenomenon, but as a discursive regime of cultural regulation. Taking on board the ideas of Bauman (2000), as touched upon in Chapter One, we will begin to understand financialisation as a rather liquid and repetitive process. In Chapter Four however, we will attempt to establish some parameters, derived from the work of Karl Polanyi (1944), the inspiration of which helps us to see the emergence and persistence of financialisation as a process of qualitative transformation leading to certain political implications regarding the future and progress of our economies.

Chapter Three

Thinking about Financialisation

Introduction

We have yet to find a sensible debate that articulates the principle reasons for the existence of extended financial markets and the progression of financialisation as outlined clearly in Chapter Two. We begin therefore by trying to understand the relationship between the real economy and the financial economy – and arrive at the notion that the financialisation of the economy is founded upon the commercialisation of risk – a complete reversal of the traditional relationship between the real and financial economy. What we don't quite understand or what has not been made explicit is the question of where this unique trend has come from and why it persists. By understanding the origins of present-day financialisation, we can begin to understand how it has evolved. The second part of this chapter therefore tries to understand how the present-day dynamics of the real-financial economy have emerged. What we find especially, which places the first section into context, is that the priorities of history have changed through time, that there is nothing essential or written in stone about the objective nature of the financial economy: it is first and foremost – a discursive social act.

But as we make clear in the third section, the creation of the global financial economy is part of a repetitive trend that can be observed in world-history, but which nevertheless, has evolved into modern-day global financialisation that presents characteristics and trends unseen before. Out of the cycles and developments of world-capitalism, periods of financialisation have proven to be far more sophisticated in their influence and control of economic life, to the extent that it is pertinent and even necessary to begin thinking of financialisation as a finance-led regime – an autonomous regulatory structure made up of unrestricted relationships between consumers and producers of finance (Boyer, 2000). The political question, however, remains. Given the weight of historical evidence that suggests financialisation is an unstable and ambivalent social phase of history, and given the suggestion that the process has developed beyond political and ethical controls at the global level, how and why does it manage to contain itself or at least subdue its own contradictions? Politically, would this suggest financialisation is at a new stage of sustainability or has it merely become part of a system of modern-day expectations, to the extent that financialisation sustains and repeats itself, not because it is driven economically, but because it is a cultural activity? We therefore return to the original question, which is, what is the normal relationship between the real economy and the financial economy? The answer quite simply depends on the purpose of the economy, as truth it is not synonymous with reality. In the latter part of this chapter, we therefore arrive at the notion that our cultural economy is responsible for the contingent development and progression of financialisation, as it is able, in theoretical terms, to evolve out of what appears to be a repetitive process of crisis-management – a reflexive regime in motion.

The Real Economy and the Casino

Curiously, the concept of financialisation is yet to establish itself as part of the nomenclature of public life. For example, we are yet to hear a politician argue that 'financialisation is changing our world order' or that 'we must brace ourselves for the financialised future' making it all the more puzzling that there should be a website dedicated to it. To an extent, financialisation has an uninviting and abnormal tone to it, especially if it is informed by conventional wisdom: the notion that the financial system is a benign, distributional and mediating apparatus of the real economy. For example, towards the end of the Second World War, John Maynard Keynes helped build the foundations of the post-war international monetary system that became known famously as the Bretton Wood exchange rate mechanism. We should remind ourselves what Keynes said of the 'proper' relationship between the financial and real economy,

> Let no one suppose, however, that we for our part intend to return to the chaos of the old world. To do so would bankrupt us no less than others...We intend to develop a system of international exchange in which the trading of goods and services will be the central feature. Financial and capital transactions will play their proper auxiliary role of facilitating trade. Gold will retain its appropriate places at the central reserve and the means of international settlements. (Keynes, *quoted in Van Dormael*, 1978:10).

There are two noticeable features of this ideal Keynesian framework. One, the financial economy is separate and distinct to the real economy. Two, the financial system plays a 'facilitating' and 'auxiliary' role in the efficient allocation of capital to the real economy. What Keynes designed in his Bretton Woods proposal was an international financial system where the 'means' of stable financial resources fulfilled the *ends* of trade and full employment. The economic means fulfilled the social ends resonating in Ruggie's famous concept 'embedded liberalism' (Ruggie, 1983). The concept of financialisation would appear to turn this Keynesian model on its head. To suggest that financialisation is changing our world and that we must prepare for its effects would suggest three things. Firstly, it would suggest that the financial system is extending its means above and beyond the real economy, creating linkages and circuits throughout the economy, which are then circulated back into the financial system. While financialisation builds and extends its systems globally alongside production, it is obvious that financialisation is transforming the notion of the real economy itself, how we understand 'production' and 'productiveness' – and even possibly how we perceive and relate to the role of finance in society. For example, it is implicit in Dore's conception that the economy and production itself is the object of financialisation (Dore, 2002). In fact, if we read into Dore's notion further, production is becoming a site of financial control linked to the rhythms and imperatives of the stock market. Thirdly, it would suggest that the financial system is becoming a self-contained sphere of influence in its own right, no longer just a mediating apparatus, but a sociological structure of normativity that transcends and represses democratic control through its softening of the public imagination. Unlike Keynes' proposal, the means of financialisation carry the ends of financialisation in a direction that is boundless and uncertain, confusing even Marx's endless dictum, 'accumulation for accumulation's sake, production for production's sake' (Marx, in Harvey, 1999: xxvii).

Financialisation therefore raises a number of ethical and normative issues. Financialisation forecasts its own realisation through the rise of financial actors and criteria, which then play a privileged role in the realisation of economic ideas. It is implicit that financialisation helps to alter its external conditions. But why should financial actors play a more significant role in the determination of life's circumstances and distributional channels above priorities circumscribed by politics, culture and society? Why should hedge fund managers, accountants, corporate executives, financial economists, central bankers and independent financial advisers play a privileged role in the depoliticisation of political economy and the governance of our freedom? But it isn't just the practitioners of finance that become more important, because while financialisation is represented as an economic phenomenon, it also promises to transform how the culture and politics of the economy functions in society. Ordinary people too become the object *and* the subjects of financialisation. As the website *financialization.com* makes clear, finance can be tailored to work hard for you! Althusser argued that capitalism has the habit of hailing our identities and financialisation is no different (see Hall, 1996). It is thereby unavoidable that financialisation transforms society's political and cultural sensitivities to financial market practices creating certain moral dilemmas. For example, if financialisation is a continuous process, at what point does financialisation reach its limits and become abnormal – and who sets political limits on this or is able to create channels of impartiality? Or does financialisation describe a process whereby the growth of finance encourages a dependency that is already excessive? How would we know or even escape this?

To understand the significance of financialisation, it is important that we revisit the theoretical relationship between finance and the real economy. As Budd explains,

> Within economic theory, financial markets exist to manage time and uncertainty. In the first case, they intermediate between different rates of time preference between savers and investors. In the second case, risk is a serious impediment to the optimal allocation of recourses in economic life unless there is a set of contingent commodity markets. Where the number of available markets is smaller than the number of contingent commodities, an efficient allocation of resources is still possible if sufficient financial instruments exist. In other words, financial asset markets exist because there is an incomplete set of markets for commodities. Hence, there is a logic to the creation of new financial instruments which stems from the allocative functions within the real economy. However, the transmission mechanism between the financial and real economy appears to be out of kilter in the late twentieth century because the dominant mode of regulation generates financial instruments whose purpose goes well beyond the needs of allocative efficiency. Therefore, the claims for global neoclasscism are refuted by the behaviour of international financial firms, and globalisation is reduced to hegemonic ideology (Budd, 1999: 121-122).

Leslie Budd is arguing in conventional, somewhat Keynesian terms, that the real economy innovates and stretches product markets, effectively commercialising the future as a potential marketplace that does not quite exist in its material form i.e. creating calculable relations between demand and supply. Financial markets, in theoretical terms, join savers and investors together with different time horizons and risk preferences. As the financial market is assumed to increase the value of savings over the long term, older generations tend to have a more risk-averse preference than younger generations. Regardless of these assumptions however, as long as this financial meeting place is in balance and is constantly attracting new savers, enough financial capital should be available to meet the demands of high risk, high return activities generated by the real economy. In other words, if our reading of Budd is correct, then traditionally speaking, it is the real economy that leads and takes risks and it is the financial market that follows. If the real economy stretches markets continuously and extends the possibilities of growth and all the factors that are employed by its entrepreneurialism and risk-taking spirit, this would explain why financial markets are assumed to grow in value cumulatively over time: because active product markets continually escape the conditions of their own destruction. This would clearly distinguish *enterprise* as 'the activity of forecasting the prospective yield of assets over their whole life' from *speculation* as 'the activity of forecasting the psychology of the market' (Keynes, 1936: 158-159).

In this reading, Budd's (1999) analysis leads to two points. Firstly, the financial and the real economy are out of kilter because the financial economy is producing more surplus assets and instruments beyond the 'needs of allocative efficiency' suggesting, principally, that global finance has become speculative as opposed to enterprising. Problematically, Budd does not explain why the financial economy is out of kilter with the real economy and explains the arrival and persistency of this conundrum in ideological terms, which would seem to miss the more subtle point: that risk-taking in the real economy has broken down and financial capital is being channelled into the financial economy for the sake of its own accumulation.

How we identify and frame this problem has a direct consequence on the solutions we imagine. If we take Budd's primary point for example, it would lead to the idea, put long ago by Keynes, that capitalism has the tendency to create economic outputs out of speculative purposes producing unstable conditions for enterprise and for growth. For example, in the aftermath of the Great Crash and before the Bretton Woods agreement was signed, Keynes observed famously that,

> Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlwind of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done. The measure of success attained by Wall Street, regarded as an institution of which the proper social purpose is to direct new investment into the most profitable channels in terms of future yield, cannot be claimed as one of the outstanding triumphs of *laissez-faire* capitalism –

> which is not surprising, if I am right in thinking that the best brains of Wall Street have been in fact directed towards a different object (Keynes, in Dimand and Dore, 2000: 516).

This resonates today with Susan Strange's argument that capitalism, once again, has turned itself into a giant Casino, where 'mad money' is 'erratically manic at one moment, unreasonably depressive at others' (Strange, 1998: 1). This argument would tend to represent global finance and all of its practices as essentially 'abnormal'. Not only would this provoke a breakdown in dialogue with the financial community, it may even obscure and undermine the notion that global finance can be transformed to fulfil a wider set of social functions and interests e.g. Keynesianism being an example of one alternative to conventional wisdom (cf. Wolf, 2004: Young, 2000). This argument is naturally followed by the notion that 'finance has become decoupled from production to become an independent power, an autocratic over the real economy' (Cox, 2000: 27). This argument not only omits the historical reasons for the rise of global finance, but it neglects the specific constitution of global finance and its relation to ordinary people, not only in regard to their savings and deposits, but also in relation to their lending, consumer and working practices (Amoore and Langley, 2002). As a result of deregulatory changes for example, global finance is not outside the realm of ordinary practices in society. Far from being independent and abnormal, global finance is linked to the everyday and the commonplace (Langley, 2002b). If Strange's and Cox's ideas were followed to their natural conclusion then public policy would call for heightened regulation, constriction, even reversal of global financial markets, as opposed to tackling the deeply embedded cultural circuits, incentives and norms underpinning and directing the nature of global finance itself (Ben-Ami, 2001). As Ben-Ami suggests, the essential representation of global financial markets as 'mad' and 'de-coupled' may propose a prescription based on a faulty diagnosis of the symptoms, instead of the underlying disease.

For Ben-Ami and others, the real problem does not emanate from financial markets, but from a complete breakdown in the 'reciprocal' relationship between the risk-taking nature of the real economy and the allocative mechanism of the financial economy. As Ben-Ami argues, we are not facing the capriciousness of Casino Capitalism, but of 'Cowardly Capitalism',

> For about a decade a powerful mood of risk aversion has reshaped the financial markets. To the extent that there is a problem, it is basically the opposite of the one generally identified. There is

a new economy in which fear of financial instability and the demand for more forms restraint are central. The financial markets reflect the same culture of restraint that drives its critics...Unfortunately, the attempt to stifle uncertainty in markets can have a down side. The market system inevitably involves a degree of risk – there is no guarantee that a particular investment will make a profit. The attempt to create a culture of restraint in which risk is always managed – which itself indicates a profound lack of confidence in the capitalist enterprise – can also mean curtailing possibilities of growth (Ben-Ami, 2001: 2-3).

Essentially, Ben-Ami is arguing, in the shadow of Keynes, that the symptoms of financial speculation present themselves as volatility, not because there is incessant risk-taking and gambling, but because economic agents have become 'cowardly' of capitalist enterprise. As a result, the preference of all savings and investments becomes orientated not by the long-term goals of the real economy, but by the short-term changes of the financial economy, encouraging risk-aversion and privileging Keynes' notion of speculation as 'the activity of forecasting the psychology of the market'. What Ben-Ami seems to be saying is that the ascendancy and power of financial markets has gone hand in hand with greater weaknesses in the real economy, because financial actors have been unwilling to take risks on real economic activities and opportunities, creating instead, concentrations of capital in the financial markets through what Budd describes as the 'paradox of risk' (Budd, 1999, *see below*). As Ben-Ami has argued, 'during the era of cowardly capitalism, a mood of risk aversion [has] coincided with a period of relatively slow economic growth' (Ben-Ami, 2001: 5). The reason for this, as Ben-Ami suggests, is related to the crisis in profitability that took place in the 1970s, well documented by post-war analysis (Brenner, 2001), which encouraged surplus capital to find financial channels of accumulation, rather than productive ones e.g. Euromarkets. Reading Ben-Ami, it is possible to de-leverage the risks from financial markets by redirecting the incentives of accumulation from financial channels, which are risk-averse, to productive channels that generate risks based on the consequences of enterprise.

However, there is a distinct sense that Ben-Ami underestimates the difficulties of restoring enterprising capitalism based on a limited understanding of the structural changes and cultural ethos that financialisation has created, a point that Cox (1987: 2000) and Strange (1998) raise more emphatically. For example, it would seem that cowardly-capitalism is something more pervasive, systemic and 'continuous' than what Ben-Ami seems to suggest. The problem facing Ben-Ami is that all around we can find indicators from economic pundits that the real economy is 'cyclical', which tends to conceal the underlying structural reasons for its relative strength or weakness (see Brenner, 2001). Sometimes the real economy is strong, other times it is apparently weak, but a group of political economists are beginning to unveil what's underneath the cycles of the market, which would tend to enlighten Ben-Ami's insights. For example, Wolff has found that US corporate profitability increased between 1980 and 1997 mainly because 'real wages grew more slowly than labour productivity' and because 'structural shifts in employment led to very low growth in the overall capital-labour ratio' (Wolff, 2003: 497). For Wolff, the relative gains of capital have increased above those of labour. As Wolf argues, 'one must conclude that economic and political power shifted in favour of capital, beginning in the 1980s' (Wolff, 2003: 497). This work is contiguous with research carried out by Engelbert Stockhammer (2004), who supports the notion that financialisation has led to the slowdown in accumulation, especially in France and the USA. Examining the effect of 'financialisation on the investment behaviour of non-financial firms', Stockhammer makes the case that the rise of financial markets, the shareholder revolution and the rise of incomes from financial markets, has placed an emphasis on 'profitability' as opposed to growth, due to the rentier interests of absentee owners, which has 'potentially played an important role in reducing investment' and the 'slowdown in accumulation' (Stockhammer, 2004: 738). Others still have gone further arguing more strenuously that 'the increasing importance of financial activities in generating revenues for non-financial firms and the growing share of financial sector profits in the overall economy should be regarded as evidence of financialisation...[extending] backs some twenty to thirty years' (Krippner, 2002: 33). Aside from the piecemeal evidence that this offers us, we do get a sense in which cowardly capitalism, as described by Ben-Ami, is part and parcel of the risk-averse nature of financialisation that continues even despite the contradictions, inefficacies and inequities cast by the penumbra of extended financial markets. But how do we account for this shadow and why is it difficult to grasp and impossible to shake?

The Historical Significance of Modern Financialisation

Should we therefore see contemporary financialisation as new and unique to all other periods in history? As we argued above, work carried out by historian Fernand Braudel (1984: 604) and world-systems theorists (Arrighi, 1996) would tend to guard against any assertion that the contemporary financial expansion is new in history, but what we can say is that modern financialisation is unique for its time and contained within it is a framework of core elements that formulate its lineage and path-dependency (cf. Dumenil and Levy, 2001). While economists see global financial markets as a relatively new phenomenon, the origins and peculiarity of modern financialisation dates further back to the period of the late 19th century upon where *finance capital* was first observed by Rudolf Hilferding (1981). An analogy is useful here. For example, in the nature meets nurture debate, babies reproduce the genetic make-up and characteristics of their parents, but they develop physically and mentally within the constrictions and conditions of their environment. Modern financialisation is no different. What we should understand from the outset is that modern financialisation was born out of an Anglo-American conception, except, in the grand scheme of things, the United States unwittingly became the lone parent only to be wholly re-united with its former Anglo-Saxon partner, the UK, in the 1980s

Firstly, it is perhaps important to understand that the issues underpinning Ben-Ami's 'cowardly capitalism' became the subject of much debate in the 19th century. Between 1856 and 1862, the modern corporate organisation, otherwise known as the joint stock company, was formalised into English company law based on the principle of 'limited liability' (Gamble and Kelly, 2000), a concept that was transported throughout Europe and America. This was a proposal starkly defended by the proponents of laissez-faire such as John Stuart Mill in England and investor capitalists such as J. P. Morgan in the United States (Gamble and Kelly, 2000: Fraser, 2005). Before this took place, the joint stock company pooled together large amounts of external funds from ordinary savers and financial intermediaries to finance the execution of productive developments such as rail or bridge building. But such large concentrations of capital in 'miniature empires' (Gamble and Kelly, 2000), created the obvious issue of accountability between the company and the public interest, which led to a political conflict between those that supported unlimited liability and those that supported limited liability. 'Care' was a necessary condition of the principle of unlimited liability and was an essential component of thrift. Essentially, a person of reasonable mind would only invest what one could afford to lose. After all, investors and the owner-managers were fully responsible for all the liabilities incurred by a business, without limit. Not knowing what one was investing in became especially relevant after events such as the South Sea Bubble in 1720 (ibid.). For some, i.e. Adam Smith and Joseph Schumpeter (1949), by its very nature, unlimited liability could only encourage a joint campaign of productive responsibility between the investor and the owner-manager, so that the methods and implications of production were fully understood and utilised by the entrepreneurial spirit that formulated them.

Under limited liability, shareholders were only made responsible for the nominal value of their shares and not liable for the company's debts. Taking the responsibility of unlimited losses out of the equation, limited liability reduced this logic to a rational form of calculation. Separating ownership from management – and separating the responsibility of production from investment, financiers and savers won or lost only on the assumptions of their investment decision-making, which could be entirely incongruous to the actual methods and implications of productive strategies put in place by managers. Separating management from the ownership of production created the concern that entrepreneurialism would be diluted as objective and external motivations replaced subjective and internal motivations reducing the creative passion and dynamism of enterprise to a more diverse and complex set of interests (Gamble and Kelly: 2000). It is no surprise that Marx saw this as a positive development towards the social ownership of production – an idea commodified by business strategists such as Peter Drucker some years later. While the proponents of limited liability argued that it would prevent financial losses to the public and strengthen the public accountability of management, defenders of unlimited liability proposed that the former would replace 'patient labour and moderate expectations' with 'ambitious hopes and the habit of gambling in shares' (Lord Brougham 1838, in Gamble and Kelly, 2000: 31). Limited liability was supposed to institutionalise a wider public responsibility, but actually, it arguably narrowed its entrepreneurial and consociational spirit as Smith and Schumpeter had warned (Gamble and Kelly, 2000). As Gamble and Kelly argued 'the company became first and foremost a bearer of private property rights rather than the upholder of wider public responsibilities' (ibid.: 34).

Arguably, this determined the foundations and building blocks upon which modern financialisation developed. From this point on, the large corporate organisation would be made responsible to financial intermediaries and savers who would now have an interest in protecting their accumulated wealth. Managers too, accountable to their shareholder owners only through financial performance, could create business strategies narrowly defined and incentivised by this interest, regardless of their wider ethical and social implications. We need only mention Enron as an example of a 'real economy' firm that financialised its operations for profit and gain due to the incentives of shareholder value, regardless of the consequences (e.g. Froud *et al.*, 2004).

Nevertheless, during this time, the public concern and the narrow material concern for financial performance became synonymous, creating a lasting divide between the entrepreneurial spirit of enterprise and the financial spirit of speculation; a fight that continues even more vehemently today (Dore, 2002: Erturk et al, 2004: Kadtler and Sperling, 2002a/b). In many ways then, 'limited liability' established a precedent based on a moral dilemma and set history on a course that would fuse together, in its purest form, the risk-averse nature of investors with their own material interest in capital accumulation for its own sake.

Secondly, while limited liability sprung from Britain's industrial and financial power, it is interesting that it became ratified during a series of recessions that would help augment the transference of empire from *Pax Britannica* to *Pax Americana* (cf. Germain, 1997: Langley, 2002). Britain's industrial infrastructure internalised production costs through its extensive world imperial economic structure made possible through the industrial revolution, free trade and the capital recycling mechanism of the Gold Standard, which channelled excess money capital into London making it the centre of world financial control (Arrighi, 1996: 247-265: Braudel, 1984: 157). Not long after the depression years between 1873 and 1876, it is interesting that London's financial power increased during this time due to an abundance of industrial money capital in the City (Braudel, 1984: 242-246: Germain: 1997: 51). As 'colonial rivalry and competition for exotic markets – became acute' (Polanyi, 1944: 19), the hundred years peace that *haute finance* managed to contain was ending (ibid.: 1944). As Britain's imperial competition with Germany heightened (Cox, 1987) and protectionism increased, the US seemed to recover well into the 20th century through its vast internal markets and corporate restructuring *en masse*, which was helped along by the renaissance powers of J.P. Morgan and his followers. As a result of the First World War, Britain's financial capabilities to support the gold standard were beginning to face both domestic and international pressures (Eichengreen, 1996: 2002) as New York gradually emerged as a world financial centre (Langley, 2002). Such changes would set history on a course that would lead to the iconic celebration of America's financial might through the prodigious inauguration of the World Trade Towers, a sky-scraping project that grew as tall and as fast as each (de)regulatory movement that encouraged the globalisation of finance (see Helleiner, 1994). Out of the late 19th century, Fraser argued,

> New York became the unquestioned headquarters of a network of industrial and financial concerns whose scope and perspective were truly national, even international. Indeed, the 'morganisation' of the economy was what would enable the US to seize the leadership of the world economy from the still family based, private capitalism of their British rivals. It was no longer circumscribed by the familial or regional interests of particular industries or the mercenary provincialism and near-sightedness of an earlier Wall Street. Devil-take-the-hind-most chaos was to be subjected to a civilizing surveillance, even a kind of planning, albeit one that excluded the faintest hint of public supervision and direction (Fraser, 2005: 153).

Thirdly, conditions emerged in the US and elsewhere that placed an emphasis on the control of market uncertainties. While the cosmopolitan-imperial organisation structured Britain's extensive ties of free trade (Hilferding, 1981), the US began to consolidate itself inwardly through vertical integration, developing a 'corporate-national' framework of organised capitalism that managed to internalise transaction costs. As Arrighi argued, the formation of 'vertically integrated, bureaucratically managed, multi-unit business enterprises' pioneered the 'supersession of the market' through its 'power to control or suspend competition in the procurement of primary inputs and in the disposal of final outputs' (Arrighi, 1996: 293-294). Rudolf Hilferding was the first to notice during this period that finance capital was moving away from its liberal, 'buccaneering' pursuits and concentrating its organised control over industry. Just like events in the U.S., Germany's finance capital intended to take uncertainty out of the equation through the direct manipulation of prices across a broad cross sector of industry (Hilferding, 1981: 234). But in Germany, finance capital presented itself as the formal organisation of industry along the lines of 'state-monopoly capitalism' (Arrighi, 1996: 293). In the U.S., laissez faire was saved by the re-ordering of industrial capitalism by the Morganisers, whom helped to make the new 'age of the publicly traded industrial corporation' (Fraser, 2005: 152) an 'effective foundation of a new stage of capitalism on a world scale' (Arrighi, 1996: 293).

Periods of financialisation have continually raised the relationship and moral issue of speculation as a form of gambling. For example, the plethora of financial products that existed on the Dutch stock exchange in the 17th century and the calculation of asset price movements that made speculation rational, and sometimes irrational, can be described as little different to today (cf. Chancellor, 2000: Langley, 2002: 45). But what is perhaps different about modern financialisation, in contrast to all other periods, is how 'risk itself went through a metaphysical transformation' (Fraser, 2005: 223). As

Fraser explains, 'the gambler's mad conceit, that he depended not on luck but on a kind of inner divination, was smuggled into the science of speculation...as speculation and investment...began to merge into the latter' (cf. Fraser, 2005: 224: de Goede, 2004).

Coincidentally or not, a social and scientific preoccupation with risk and uncertainty blossomed alongside the burgeoning of corporate capitalism. We should remember that one of the key texts to emerge out of the Chicago School was Frank Knight's classic economic text *Risk, Uncertainty and Profit* (Knight, 1921). Drawn towards an initial understanding of profitability and entrepreneurialism, Knight touched presciently on issues of uncertainty and probability six years before the famous scientific unveiling of the 'uncertainty principle' in 1927 that effectively demonstrated the centrality of probability distributions to quantum physics. As Knight's thesis made clear, risk is a measurable form of uncertainty with probabilities that can be objectively known, whilst uncertainty is an immeasurable form of randomness that is subjective and cannot be known. As Knight argued, 'the problem of meeting uncertainty thus passes inevitably into the general problem of management, of economic control' (Knight, 1921[25]). The conditions that influenced Knight's theories on economic life during the inter-war years became very significant in the post-Bretton Woods era when public risk became 'privatised' (Eatwell and Taylor, 2000). For example, modern finance today is developed out of the basic principle that uncertainty can be dispensed with through the calculation of financial risk according to the 'diversification' of 'consolidated' and probable uncertainties – key ideas found in Knight's theoretical essays, which can be seen in modern asset-management techniques. The institutional frameworks and to some extent the cultural frameworks of this were already put in place and flourishing in the late 19th century (de Goede, 2004). For example, Fraser's cultural history of Wall Street covers the period in the late 19th century when the drafting of limited liability led to the notion of shareholder ownership and 'the simmering middle class appetite to play the market' as 'banking houses began to convert to the small investor' (Fraser, 2005: 228). Not only would this corporate revolution and approach to uncertainty influence the principle-agent problem that gave rise to the shareholder revolution in the late 1970s (Lazonick and O'Sullivan, 2000), popular or shareholder capitalism was to become a core policy of British Conservativism in the 1980s (Martin, 1999b).

Fourthly, unlike Britain and Europe, the U.S. state seemed almost removed from the double movement that was taking place against the backdrop of social reforms, trade union movements and anti-liberal sentiments in Europe (cf. Cox, 1987: Lash and Urrt, 1986: Hobsbawn, 1995: Polanyi, 1944). The largely disorganised middle classes of the US dominated service sector meant that the political control and organisation of U.S. capital came from the top down, not from the bottom up (Lash and Urry, 1987: 67-83). For example, the only reason why the New Deal proposal and the Keynesian movement gained mass political favour in the US was because of the Great Depression. This was the 'first great crisis of modernity' as Braudillard called it and the first crisis of early modern financialisation (see Horrocks and Jevtic, 1999: 6). As Fraser put it, 'the Street retreated into anonymity, still exercising immense economic weight and political influence, but no longer a source of public desire and anxiety. Forty years of silence are perhaps the most telling evidence of how indissolubly the Crash and the Depression were connected in the popular mind' (Fraser, 2005: 370). What replaced early modern financialisation was a more socio-economic commitment towards trade and full employment (Ruggie, 1983: Eichengreen, 1996). As regulation theorists have argued, the 'golden age' became 'founded upon and reproduced by a particular system of production' and 'regulated by a set of co-ordinating rules...within a particular international order' (Glyn *et al.*, 1990: 41) developing a 'virtuous circle of high profit, high investment-led growth cycles' (ibid.: 61). For forty years, the political supremacy of *haute finance*, like the cold war, was placed in the freezer only to come out and thaw, without any restraint, once the walls came down, not just in Berlin, but for transnational capital too. But even while financialisation had been locked away, it still bubbled in the minds of the old guard beneath the surface in Wall Street (Fraser, 2005) and in London too (Burn, 1999)[26].

Lastly, the return of global financial markets and capital mobility is related directly and indirectly to the contingent factors that facilitated America's leading role in political and economic affairs. For example, the Eurodollar market emerged not only because of the United States' colossal public and commercial investment in Europe and Asia (Eichengreen, 1996: Judd, 2005), but because the US tried to stem its balance of payments deficit through capital controls, not only to appease a more competitive Europe, but also to stabilise the dollar as the international reserve currency, which had become the object of speculation by the very same private capital markets that the US had tried to manipulate and thwart (Golding, 2001)[27]. In some strange way then, the global political economy today is the outcome of domestic and international pressures caused by America's late entering into domestic political consciousness, in addition to the historical and economic conditions and contradictions that eventually facilitated them onto the world stage.

What reveals itself here is a distinction between an early stage and a late stage of modern financialisation. The early stage of *finance capital* emerged alongside and helped re-organise corporate capitalism in favour of the United States' self-enclosed market dominance, eventually finding its limits and downfall through the over-zealousness and naiveties of market participants, not only in the financial sector but in the Federal Reserve too. If we take Kindlebergers's (1973) assessment of matters, then the breakdown of the Gold Standard created a vacuum of state responsibility and experience, meaning that this was the first time that the baton of private governance was passed *ad hoc* to American led finance for its 'self-regulation'. The latter stage of financialisation however, the post-Bretton Woods stage, has seemingly become much more sophisticated in its self-regularisation, which is the cause and consequence of its decentralisation, dynamism and transnationalisation, as we shall understand.

Sandwiched in between these two stages of financial ascendancy was a phase of growth led by what J.K. Galbraith called the 'technostructure' of the modern industrial enterprise (Galbraith, 1967). As Galbraith said at the time, it was surrounded with an 'air of quaintness that attaches to the suggestion that the United States is run from Wall Street' (1967: 67). Writing during the post-war decades of economic boom, 'idealism' and 'heightened political consciousness' (Judd, 2005; 448) Galbraith argued,

> Given the agreement on economic growth as a social goal, the goal of the technostructure has a strong social purpose. Members can identify themselves with it in the secure knowledge that they are serving a larger purpose than their own. They seek to further the growth of their firm. This furthers the growth of the economy. Identification, as a motivation, reinforces self-interest that is associated with such expansion...The acceptance of economic growth as a social goal coincides closely with the rise to power of the mature corporation and technostructure. And the latter has had every reason to value it as a social goal. It does not argue the merits of this goal. As always it proceeds by massive assumption. What other goal *could* be socially so urgent? (Galbraith, 1967: 183-184).

In some sense, Galbraith was celebrating the post-ideological conditions of the post-war economy and the collaboration between capitalism, collectivism and social purpose. This was met with disparagement by philosophical Marxists such as Herbert Marcuse, whom argued that the impact of this progress 'turns Reason into submission to the facts of life, and to the dynamic capability of producing more and bigger facts of the same sort' of *one-dimensional* life (Marcuse, 1964: 13). But Galbraith was writing in the post-war context that pursued a 'corporatist version of the Enlightenment project' that believed in 'linear progress, absolute truths, and rational planning of ideal social orders' (Harvey, 1990: 35). This was a period in time where it was possible and credible for Galbraith to argue that 'it can be a highly rational course' to avoid the 'unpleasant contingencies' of the industrial enterprise through 'unremunerative expansion' in order 'to hold the organisation together' not only to maintain social purpose but to provide its economic fruits (Galbraith, 1967: 183). As Marcuse lamented, 'it is a good way of life – much better than before – and as a good way of life, it militates against qualitative change' (Marcuse, 1964: 14). But no sooner had Galbraith published his thoughts on the social merits of the *New Industrial State*, was it gradually dawning on policy-makers, businessman and bankers that the structure of 'international production and financial mediation' was changing – and hence the *qualitative* nature of capitalism too, because 'evasion and exit' were fast becoming strategic imperatives for corporations, financial institutions and governments (Goodman and Pauly, 1993: 51). The rationality that Galbraith discussed positively and freely was soon to become irrational and distasteful. Post-war (ir)rationality is now diametrically opposed to the common-sense focus on profitability, shareholder value, corporate streamlining, flexible labour markets and the fetishism of individualised purpose (cf. Galbraith, 1967: Boyer, 2005: 2002b). With some irony, this last dimension is encouraged to reflect on the images of entertainment projected by films such as *Wall Street, Rogue Trader* or more recently *A good Year*, for their derision of the opportunistic, avarous and ephemeral life of the individual financial sportsman, whose irrational representation is naively independent of the structural levers of high finance that rest beneath their fingertips.

Present-day Financialisation: a more radical, disorganising kind?

Out of the long-twentieth century and going into the 21st century we have so far observed three stages of contemporary capitalism that underlie the origins, discontinuity/continuity and transformation of modern financialisation. The first stage could be described as corporate-finance capitalism, the second stage industrial-corporatist and the third more uncertain stage, radicalised-financialisation. We have attempted so far to illuminate the former two stages and now it will be important to begin thinking about the historical significance of the most recent stage of financialisation. Arrighi and Silver's (2001) work is useful here because they would tend to theorise these three transmutations of modern capitalism as a 'systemic cycle of accumulation', an world-historical process that mimics Marx's (1887/1995) general formula for capital M-C-M, something that we will now explore in more detail.

In his abstract understanding of commodity values, Karl Marx (1887/1995) differentiated between two general formulas of capital that he observed in commercial tendencies and strategies. The first of these was called C-M-C, which refers very simply to the 'transformation of commodities into money, and the change of money into commodities' for the 'appropriation of use-values' and the 'satisfaction of wants' (ibid.: 94). In contrast, the formula M-C-M refers to the 'transformation of money into commodities, and the change of commodities back into money' (ibid.: 99). Marx further defined M-C-M as the 'limitless circulation of capital' as an end in itself, 'value in process, money in process, and as such, capital. It comes out of circulation, enters into it again, preserves and multiplies itself within its circuit, comes back out of it with expanded bulk, and begins the same round ever afresh' (loc. cit.: 99). These are two qualitatively different formulas and episodes of capital in their formation. For Arrighi and Silver, C-M-C means 'concreteness, rigidity, and a narrowing down or closing of options' as a 'means of securing an even greater flexibility and freedom of choice at some future point in time' (2001: 260). Whereas M-C-M means 'expanded liquidity, flexibility and freedom of choice' so that capital reverts to its money form if the expectation of freedom goes unfulfilled (loc. cit.: 260). While Marx's formula M-C-M is intended to depict the different logics of individual capital investments, Arrighi and Silver have borrowed Marx's formula to illustrate and examine 'patterns of recurrence and evolution, which span the entire lifetime of historical capitalism as a world system' (Arrighi, 1996: 4). As Arrighi and Bello make clear,

> The central aspect of this pattern is the alternation of epochs of material expansion (that is, MC phases of capital accumulation) with phases of financial rebirth and expansion (that is, CM phases). In phases of material expansion money capital 'sets in motion' an increasing mass of commodities (commoditised labour power and gifts of nature included); and in phases of financial expansion an increasing mass of money capital 'sets itself free' from its commodity form and accumulation proceeds through financial channels (as in Marx's abridged formula MM). Taken together, the two epochs or phases constitute a full systemic cycle of accumulation (MCM) (Arrighi and Bello, 2001: 260).

As we have already touched upon, the consolidation and take-off of US led corporate-finance-capitalism coincided with the breakdown of the Gold Standard and the ultimate dissolution of *pax Britannica.* The transference of corporate-finance-capitalism to industrial-corporatism (M-C) was driven by the sustained politicisation of free-markets in Europe that began with *spontaneous* acts of self-protection from the self-regulating market (*passim.* Polanyi, 1994) and ended with the final turn against liberalism as a result of the Great Slump (Hobsbawn, 1995: 85-109). While America approached Keynes' Bretton Woods system half-heartedly, Marshall Aid signified America's wholehearted commitment to a compromise in the nature of capitalism and ironically achieved many of Keynes' ideas for a stable monetary system, except through different means i.e. the European Payments Union (see Eichengreen, 1996: 106). As Brenner's well supported analysis helps us to understand, the shift from industrial-corporatism (M-C) to radical-financialisation (M-M) was part of a general squeeze on profitability that 'resulted from the intensification of international competition leading to over-capacity and over-production' between 1963 and 1973 (Brenner, 2001: 17). The 'manifestation' of this problem in high interest rates and low aggregate demand into the late 70's and early 80's was followed by what Brenner called the 'turn to finance' as a 'huge shift in financial activity ensued, not only in the US but across the advanced capitalist economies, reflected in the growing share of the national product, as well as of investment in plant and equipment going to finance, real estate and insurance' (cf. Brenner, 2001: 24-25: Dumenil and Levy, 2001: Harvey, 2005). The conditions of stagnation throughout the 1980s and 1990s was followed by public and private measures, such as financial de-regulation, popular privatisation, fiscal austerity programs, productive restructuring, rationalisation and wage repression (see Brenner, 2001), rewarded of course by the 'bang' of a re-invigorated, 'post-gentlemanly' stock market revolution that carried into the late 1990s.

This most recent turn to finance off-set a reversal of Galbraith's central post-war observations i.e. 'the loss of power of stockholders in the modern corporation, the impregnable position of successful corporate management [and] the dwindling social magnetism of the banker' (Galbraith, 1967:68). We could not therefore deny the extraordinary parallels between this three-pronged *volte-face* and the post-Depression decades of late 19th century America. For example, the modern corporation emerged 'in response to price competition and the crisis of capital immobility and illiquidity' (Fraser, 2005: 152), leading to a reorganisation of industrial capital along the lines of corporate accountability set forth by the financial 'guardian[s] of social harmony' (loc. cit.). Just as stagnation led to conditions of corporate-financialisation in the late 19th century, stagnation was followed by conditions of financialisation in the 1970s, but unlike the short era of corporate-finance capitalism, something appears to be much different about financialisation this time round, or does it?

In many ways, world-systems theory and historicity sheds critical light on the some of the core dimensions of financialisation. As Braudel put it, 'every capitalist development of this order seems, by reaching the stage of financial expansion, to have in some sense announced its maturity: it is a sign of autumn' (Braudel, 157: 1984). For example, the self-expansion of capital in the *city-state* of Genoa in the 16th century emerged on the back of its merchant networks rivalled to Venice (Arrighi, 1996); the *hybrid* rise of the nation-state and of Amsterdam as a 'world financial centre' followed in the footsteps of Genoa and Venice, reproducing 'large volumes of capital' on the back of its 'mercantile entrepôt' roots, even while its trading networks established elsewhere (Langley, 2002: 43); the industrial revolution of a more *nationalised* British imperial state created an over-abundance of capital centred in the private-public networks of 'the City' (Germain, 1997: 44-57); and finally, the US defined industrial-corporatist economy was followed by its *global* financialisation.

Firstly, these are connected systemic cycles of accumulation that are 'contingent upon, and thoroughly shaped by, historical and geographical factors' (Arrighi and Silver, 2001: 269) that are part of an 'evolutionary pattern towards regimes of increasing size, scale and complexity' (ibid.: 264). Secondly, it is noticeable that each systemic cycle of accumulation has been defined by the 'leadership of particular communities and blocs of governmental agencies' (Arrighi, 1996: 9), which have 'simultaneously played the role of leader in processes of state formation and of capital accumulation' (ibid.: 14). Thirdly, the more 'powerful these blocs have become, the shorter the life-cycle of the regimes of accumulation that they have brought into being' (Arrighi and Silver, 2001: 267). For example, the time that it has taken dominant regimes to reach the autumn of their hegemony in the form of a financial expansion has been shorter. Fourthly, it is also noticeable that 'financial expansions have been an integral aspect of hegemonic crisis, both past and present, as well as of the eventual transformation of past hegemonic crisis in hegemonic breakdowns' (ibid.: 271). Fifthly, in history, the concurrence between periods of financialisation and hegemonic crisis has usually intensified the demands of the hegemonic state to 'reflate' its waning power through its 'continuing centrality in networks of high finance' and by turning its 'privileged access to the overabundant liquidity in world financial markets' to its advantage (loc. cit.). Lastly, each financial expansion has been followed by a hegemonic transition and the transmutation of capitalist accumulation onto a more extensive plain (ibid.). Following Braudel, Arrighi paints what has been the fait of all past financial expansions,

> Over time, however, financial expansions have tended to destabilise the existing order through processes that are as much social and political as they are economic. Economically, such expansions systematically divert purchasing power from demand – creating investment in commodities (including labour power) to hoarding and speculation, thereby exacerbating realization problems. Politically, they tend to be associated with the emergence of new configurations of power, which undermine the capacity of the incumbent hegemonic state to turn to its advantage the system-wide intensification of competition. And socially, the massive redistribution of rewards and the social dislocations entailed by financial expansions tend to provoke movements of resistance and rebellion among subordinate groups and strata, whose established ways of life are coming under attack (Arrighi, 2003: 68).

Based on this extensive and fascinating historical study of the world-capitalist system, Arrighi and his followers suggest that 'we should be sceptical about the long-term stability of the present global dominance of finance capital' and the 'associated reflation of US power' (Arrighi and Silver, 2001: 274). While we should be sceptical, perhaps the significant question is not 'how soon and how catastrophically the present global dominance of finance capital will draw to a close' (ibid.: 273), but how financialisation manages to overcome the contradictions that Arrighi *et al.* describes so meticulously above. Because world-systems theorists use a comparative methodology to understand present transformations, they tend to miss the political significance of contemporary financialisation as a *history of the present.* Even Arrighi acknowledges that 'while the economics of the present transition is in key respects similar to that of past transitions...its politics and sociology are quite different' (Arrighi, 2003: 69). World-systems analysis also inspires a more critical question: why should it be inevitable that we forecast and reach financial destruction before qualitative change can begin again?

Putting this question to one side, Arrighi *et al.* suggest that the continuation of financialisation and of US leadership in the global political economy is inextricably linked. They tend to see financialisation as a temporary phase of excess capital accumulation and inter-state competition for mobile resources. While there are strong grounds for suggesting that 'we have seen this all before', there are equally strong arguments for suggesting that our present stage of financialisation will be much more indefatigable as an autonomous and evasive structure in its own right, which is why it requires our critical intervention.

Firstly, we should consider the decentralised nature of global financialisation. For example, even world-systems theorists seem to suggest that we are in an 'in-between' stage of world-capitalist development. For example, while political power is embedded in national structures, the world-system seems to be subject to the disorganising influences of mobile capital (see Amin, 1996: Germain, 1997). Spatially, different parts of the globe are competing for the attraction of mobile capital facilitating the re-creation of world financial centres, off-shore spaces or 'cash-boxes' comparable to Genoa and Venice in the 16th century – and while we should not underestimate the systemic ties and linkages of global capital, these cash boxes are developing their own mobile resources and sources of liquidity independently of events in the United States. This is precisely why we should see that the decentralised logic of financialisation has become a form of structural power, which is both 'collective in nature and fragmented in practice' (Germain, 1997: 171). In other words, not only is there a certain degree of 'homogeneity' in the views of financial actors 'towards the exercise of power over access to international credit', but 'power is exercised through individual firms via their individuated decisions to grant access to power' (Germain, 1997: 171). While Arrighi posits that financialisation ensues through inter-state competition for mobile capital, it is also important to understand the point that market actors too have a competitive interest in the continuation and mutation of global financialisation. In other words, financialisation represents the privatisation of structural power as markets have been 'empowered to exercise increased authority...indirectly through market forces, where it is lodged in the multiple actions of commercial firms engaged in the competitive provision of access to stocks of internationally mobile capital' (Germain, 1997: 171).

Secondly, this is compounded by the transnational character of financialisation, which is significant because 'travelling light has become an asset of power' and 'fluid domination' in its own right (Bauman, 13: 2000). For Bauman, mobile capital has almost completed one part of the project of modernity, the complete annihilation of space through time making the prime technique of power 'escape, slippage, elision and avoidance' (Bauman, 2000: 11). In the era of 'heavy modernity...time was the means which needed to be husbanded and managed prudently so that the returns of value, which were space, could be maximised' (Bauman, 2000: 118). In light modernity, 'the effectiveness of time as a means of value attainment tends to approach infinity...and since all parts of space can be reached in the same time-span no part of space is privileged, non has 'special value'. If all parts of space can be reached at any moment, there is no reason to reach any of them at any particular moment and no reason to worry about securing the right of access to any' (loc cit: 118). In many respects, we should interpret this is as the radicalisation of risk-aversion and its embeddedness in the centres and institutions of global finance capital.

In this sense, states may increase their dependence on financialisation to reflate their competitive status and world bargaining power with mobile capital, but the continuation of financialisation will be subject to its decentralisation throughout different geo-economic centres in the global political economy. In fact, knowing this can only intensify the structural power of mobile capital through an appreciation of its liquid transnationalisation.

Thirdly, this links in with what we could tentatively call here as the socialisation of the anti-market. It was Braudel whom divided capitalism into three methodological layers, which he described – bottom to top – as the founding layer of *material life*, in the middle – the *market economy* and at the highest level – the zone of the *anti-market*, where 'the great predators roam and the law of the jungle operates' (Braudel, 982: 229-30). At the level of the anti-market, 'what marks contemporary financialisation is the extent to which, to varying degrees but to almost universal extent, world credit practices are subject or respond to speculative motivations' (Langley, 2002: 90). But it is important to understand that the speculative motivations of the anti-market have become an engrained feature of the new circuits of value creation under informational capitalism at the level of the *new market economy.* As Castells explains, 'expected growth value is the rule of thumb for investment in the new economy...it looks like greed is now expressed more directly in value creation through the expectation of higher value – thus changing the rules of the game without changing the nature of the game. This is not speculation. Or else, all capitalism is speculative. Because within the logic of capitalism, creation of value does not need to be embodied in material production. Everything goes, within the rule of law, as long as a *monetized* surplus is generated, and appropriated by the investor' (Castells, 2000: 160). As Hoogvelt presses the point, we are going through a 'phase of deepening, but not widening, capitalist integration' (Hoogvelt, 2001: 121). Not only is there a level of consonance between the anti-market and the market economy, we are also observing a suffusion of their influence into the founding layers of material life. As Hoogvelt put it, 'of still greater significance is the manner in which such structural integration is becoming internalised in the behaviour of economic agents, be they entrepreneurs or workers, consumers or producers' (Hoogvelt, 2001: 133).

In sum, contemporary financialisation seems to have evolved to a level beyond the city-state, beyond the nation-state and now operates on a transnational plain beyond borders, seemingly creating a fluid and much greater state-social dependency on mobile recourses. But if this is the case, then this would compel us to face one of Arrighi's central observations. Highlighting the transformations in the world-system from 'scattered to concentrated capitalist power', world-systems theorists stress the point, as demonstrated above, that the 'expansion of capitalist power over the last five hundred years has been associated not just with inter-state competition for mobile capital...but also with the formation of political structures endowed with ever-extensive and complex organisational capabilities to control the social and political environment of capital accumulation on a world scale' (Arrighi, 1996: 14). Given the transnational, decentralised and socialised character of financialisation, as suggested here, could it be feasible to think of financialisation as the source of our social, political, even 'cultural economic' regulation in society? Is it possible that financialisation continues, even in the face of its own contradictions, because it has become a deeply embedded part of our state-social-economies?

Finance Capital, Regularisation and Crisis-management

The contention that finance capital is socially and economically regulative in periods of financialisation is not new. Writing in the early 20th century, Rudolf Hilferding (1981) observed that the nature of capital was evolving out of its liberal, entrepreneurial and buncaneering roots, into a more organised, regulated and monopolistic mode of late capitalism described as *finance capital.* As Hilferding argued, 'thus the specific character of capital is obliterated in finance capital. Capital now appears as a unitary power which exercises sway over the life processes of society' (Hilferding 1981 in Daly, 1991: 84). Hilferding's argument was that financial capital was unifying its control over the means of industrial production through the formation of banking cartels, where market uncertainties could be controlled through price determination, thereby making market fluctuations the subject of accounting logic and calculation (Hilferding, 1981). For Hilferding, at this late stage of capitalism 'the ceaseless turnover of money has attained its goal in the regulated society' (Hilferding 1981: 324).

Hilferding believed that the movement towards finance capital represented one of the final turns in the dialectic of capitalism towards its total organisation. If the proletariat were to overtake the means of production, finance capital would be their starting point. Since the turn against finance capital beginning in the early 20th century, the resurrection of global finance 'like a phoenix risen from the ashes' (Cohen, 1996) has inspired many to return to Hilferding's theories. But as global finance has taken 'flight and soared to new heights of power and influence in the affairs of nations' (ibid: 268), it would seem that financialisation has made redundant the 'structuralist economism' of finance capital. As Glyn Daly explains,

> The notion of organised capitalism...ultimately extinguishes all contingency and indeterminacy insofar as it constitutes a fixed totality whose limits may be rationally determined by reference to the (external) metaphysical construction of the economic space. Economic identity remains frozen within the structural system of differences which Hilferding transforms into a universally intelligent object: organised capitalism. Hilferding, then, clearly represents continuity rather than rupture with traditional conceptions of the economy. Thus it does not matter whether the capitalist totality is presented as a nomenclature or structural system, the point is that both kinds of totalities are endowed with a rational/objective centre, an *a priori* essence, which identify them as idealist...That is to say, the Saussurian logic of enquiry, which attempts to fix identity within a closed structural system, displaces and obscures all attempts to understand the emergence of new identities outside this system. History, in this sense, is at an end (Daly, 1991: 86).

One of the key differences between finance capital and financialisation is that the latter is *moving* towards a fully financialised economy, a financial regime of accumulation, where the inputs and outputs of finance become productive in their own right – and where the mediating circuits and logics of financial production become circulatory and to an extent: self-fulfilling. With finance capital, the means are separate and distinct from the ends, but in the later case, they are clearly ambiguous returning us to face another of Hilferding's original arguments. By regulating industry, finance capital could potentially regulate market uncertainties and emasculate the social politicisation of the economy. From a Marxist perspective, the means of finance capital justified and stabilised its own ends. In contrast, today's financialisation appears to reproduce itself, not through formal and external measures of calculation and control, but through endogenous, implicit and informal market exchange relations. If there is a difference today, then it is not so much that the economy is organised by finance capital, it's that it has become much more disorganised, decentralised and autonomous *within* the de-personalised bounds of financialisation itself. Whereas finance capital regulated society through economic calculation, financialisation appears to be a form of social regulation in itself. What finance capital achieved through economic-industrial controls, financialisation achieves through social interaction (cf. Hilferding, 1981: Martin, 2002). From this perspective, financialisation has become the envy of finance capital.

In an attempt to close down many of the uncertainties regarding financialisation, Boyer (2000: 2005) and Aglietta (1979: 1998: 2000) – two renowned regulation theorists, have begun to theorise the causal mechanisms, connections and institutional logics of the emerging 'finance-led regime'. The intention of regulation theory in this context is to understand the 'properties and possibilities of long-term reproduction' where 'finance has imposed its logic' (Boyer, 2000, 118). In many ways, Boyer and Aglietta are 'imagining' and speculating what an integrated financialised economy would mean for the state, society and the economy. This research project has been inspired by the many transformations that have emerged out the 1990s e.g. 'giant mergers, capital mobility between countries, pressures on corporate governance, diffusion of equity among a larger fraction of the population' (Boyer, 2000: 166), signalling that the financialised growth regime is a very real 'candidate for replacing Fordism'. Drawing their analysis from the American and British experience, where financialisation in empirical terms has progressed most, both authors (Aglietta, 2000: Boyer, 2000) map out the causal linkages and implications that we can delineate briefly here.

In simple terms, the financialised growth model places greater pressure on corporations to increase their profitability through corporate governance, to reduce their labour and capital costs, encouraging a greater incorporation of technological adaptation into their productive inputs and outputs. As profit expectations rise, asset prices rise as institutional investors soak up gains in equity, creating capital and speculative gains for ordinary households with pensions and savings, but also for lenders, whom benefit from more sophisticated approaches to leverage and risk-management – necessitated by the very same asset price rises, but which nevertheless facilitates more indebtedness to households and corporations as banks merge and diversify to insure their liabilities. The losses made by labour flexibility are thereby compensated by the pro-cyclical movements in stock and security prices, enabling greater demand through consumption, encouraged of course by the fetishism of techno-commodities, leading to greater expectations of corporate profits...and so financialisation just goes on and on and on. As Aglietta argued,

> One is left with impression that the wealth-induced growth regime rests upon the expectation of an endless asset price appreciation. The dynamic is self-fulfilling as much as it is reflexive because market sentiment induces firms and individuals to act in such a way that expectations are fulfilled. This market sentiment is a co-ordination of expectations around a convention shared by the financial community: the economy has reached a new age of capitalism! Can this convention be robust or fragile? It depends upon a heavily leveraged financial structure and is therefore vulnerable to liquidity conditions...Ultimately, the central bank is the linchpin of the whole financial structure. Only the central bank can thwart a melting down of inflated asset prices if an unexpected shock causes the convention to crumble and launches a contagious flight to quality (Aglietta, 2000: 156).

It is highly interesting that regulation theorists should suggest that we are in a transition phase between Fordism that reproduces wage-earning social relations and the financialised economy, which widens the scope and function of finance-led growth alongside the wage-labour nexus. For Boyer (2000), the transition period is defined by the rise of pension funds 'leading to increased market prices and the appearance of financial bubbles' as demographic pressures place pressures on institutional investors to reward their beneficiaries. What is interesting is the prediction from Boyer that this 'transition phase' will encourage a greater financialisation of the economy as the scale and differentiation of savings tied up in different stock market assets is widened for the purpose of monetary gain and ironically, stability. Just like Castells argued above, in the financialised regime, speculation doesn't exist if savings become a 'normal' part of a financialised regime of virtuous growth. However, Aglietta and Boyer recognise that the finance-led regime not only 'exacerbates' income and wealth inequalities, but that it moves us closer towards more repetitive or even more aggressive structural instabilities (Aglietta, 2000: Boyer, 2000). As Boyer argued, 'for regulation theory the challenge is thus to try to determine the roots of the next structural crisis...and do so before the eruption of a major financial crisis which would demonstrate the structural limits and inner contradictions of such a regime' (2000: 142). For Boyer and Aglietta, the emerging financial regime of accumulation clearly lacks an emerging social mode of regulation, to put it in regulationist terms, which would help to counter-balance the contradictions and stabilise the regime as a virtuous model of growth. Aglietta tries to imagine ways of redirecting the micro-incentives of institutional investment so that asset growth rises gradually and not speculatively, but while regulation theorists try to deal pragmatically with the emerging financialised context, their work raises a number of critical issues.

Firstly, regulation theory drives the idea home that finance could very well be a fully fledged sphere of production in its own right, where savings are also investments and a source of income, created by the anonymous circuits of financial exchange value. In this sense, we are impressed by the distance and contrast between world-systems theory and regulation theory. In the former case, we are in a temporary phase of social ambivalence – and in the second case, we are entering a new phase of financialised production, making it necessary in methodological terms that we reconcile the politicised dimensions of the former while incorporating the normalising suggestions of the latter. Secondly and related to this, regulation theory provides us with a neat idea of where our societies are heading, but they do not theorise the transition or explain how and why it is occurring. Instead of exploring the politics of social change, they try to problem-solve the system that they pre-empt. Thirdly, regulation theory takes us closer to the notion that economic agents in society help to construct and reproduce the cultural webs and conventions of financialisation through market exchange relations. But by accepting ontologically the realism of the finance-led regime and how it presents deductively, regulation theorists inductively fill in the gaps and thereby engage in writing the teleological and post-philosophical consequences of financialisation. For example, regulation theory tries to 'organise' the structural linkages into an imagined *regime*, to close down uncertainties and to pin economic identity down, which effectively helps to *depoliticise* the emerging regime that has so far proven (and even promises) to be perpetually unstable (cf. Froud et al, 1997: 352). In this sense, we are returned to the very same criticisms that Daly made of Hilferding. As a result, financialisation is reduced to a quantifiable effect of the financialised regime, what we might call cyclical intensities resulting from the motivations of asset price movements.

Fourthly, by imagining agents as 'economic identities' acting with bounded rationality, regulation theorists tend to exclude the contingent political, social and 'cultural economic' dimensions that emerge within financialisation itself and which facilitate its indeterminate, ambivalent, iniquitous and self-destructive nature – a point that Arrighi *et al.* (2001) raises more emphatically above and which has been supported by others (Langley, 2002). Fifthly, regulation theorists have traditionally made a distinction between the regime of accumulation and the mode of social regulation. The latter consist of 'habits, customs, social norms and enforceable laws which create 'regulatory systems'...thus mitigating the conflict inherent in capitalist social relations' (Tickell and Peck, 1992: 192). In their analysis of the finance-led accumulation, they have tended to focus on the regime and treat the social mode of regulation as a consequential variable and a problem-solving device. By working out the causal variables within the system, they cannot see that the hermeneutic surroundings of actors and their interactions constantly shape the unfolding nature of the regime itself. The social and cultural constitution of the regime and its consequences are not to be undermined if financialisation has proven to be a sign of autumn.

In historical terms, we must remember that financialisation is an abnormal phase of financial growth, which has tended to destabilise and fragment societies, both politically and culturally. In order to re-politicise financialisation, it is more fruitful to begin thinking of financialisation as an incomplete, institutional and cultural economic dynamic and a *regime of regulation in perpetual motion*. This not only allows us to begin thinking of how financialisation inspires a transition from industrial-corporatism to a more elaborate financialised society, but it opens up the question of how a social mode of regulation is introduced to stabilise and normalise the transformation, even despite its crisis tendencies.

Samir Amin (1996) provides us with a way of thinking about financialisation that neither forgets its excessive origins and progressive contradictions, nor underestimates its potential to contain, perpetuate and regulate its global expansion. Amin shares the same sentiments as Arrighi that financialisation, historically speaking, is 'always a sign of crisis, that is to say of relative stagnation' of productive accumulation producing results that are 'eventually insupportable, increasing inequalities in a manner that is so rapidly disastrous that the process is thrown into doubt by inevitable social and political struggles' (Amin, 1990: 244). Asking himself whether financialisation is a necessary stage for productive growth to be re-established, Amin argues, 'I would say on the contrary financialisation is a mode of crisis management, not the preparation for its end' (loc. cit.: 244). In this single thesis, Amin manages to alter how we perceive financialisation and what questions we ask, because while the concept 'crisis management' recognises the fragile nature of its accumulation, it implores us to examine its political and power dimensions that seduce and suppress social factions into its repetitive and seemingly indissoluble protraction. As Amin helps us to understand,

> ...the dominant powers have only given responses which exacerbate the consequences...the conditions have been recreated in which dominant capital tries to impose unilaterally the utopian logic of 'managing the world as a market', through the ensemble of the currently prevalent deregulation policies. As has been said, globalisation serves to dismantle the national social contracts produced through centuries of social struggle without providing any significant replacement on either a global or regional scale (on the scale of the European Union, for instance). As I and others have frequently written, this response which is not a response has led to global financialisation. The depression is expressed by the enormous growth in surpluses of capital which cannot find any profitable outlet in the expansion of productive system. *The major, perhaps even exclusive, preoccupation of the dominant powers is to find financial outlets for these surpluses in order to avoid the catastrophe (for the system) of their massive devaluation...In its turn this global financialisation becomes locked into a regressionary cycle.* By its own momentum the system gives to financier-rentier capital the opportunity of always ensuring that its own interests prevail over the general interest, whatever the cost be for national and global economies. The incredible growth of inequalities of income, at all levels from the local to the global, produced by the increasing hold of income from sources other than production (i.e. financial rent) over relatively stagnant production fully expresses the irrationality of the system (Amin, 253: 1996, *my emphasis*).

Besides the huge generalisations of this, Amin encourages us to return to the logics of Marx's M-C-M, to understand how it has been institutionalised and how 'value in motion' progresses logically and naturally from M^1 to M^2 as a recurrent accumulation strategy and historical condition not only for global capital but for ordinary people too. Secondly, we normally think of crisis-management as a relationship between state and market, but this concept suggests that financialisation is a teleological manifestation that is written into the fabric of state-society relations, unveiling contexts that propel more intensive financialised solutions. For example, Amin even abandons Braudel's hierarchical methodology and suggests that the globalised 'law of value not only dictates economic life under capitalism but all aspects of social life' (1996: 219). By abandoning Braudel's framework, we are asked to re-examine the tectonic interrelationships that facilitate financialisation, between those groups and institutions at the level of material life and those at the level of the anti-market, so that we understand the systemic and unfinished morphology of financialised capitalism and what, how and why it manages to repeat itself, despite its more vulgar alienating tendencies. Significantly, this even alters how we imagine and define a *mode of social regulation*, not only in terms of how it is constructed, constituted and why, but how it can also be perceived as a source of normative power or what Foucault described as 'capillary power'. What we must not forget however, is that the relationships and dynamics between institutions and people are constantly in flux, which means that crisis-management is either reified or taken in new uncertain directions. As Amin reminds us,

> Financialisation as a mode of crisis-management will prevail over the potential dimensions which could allow it to become a moment of transition to a more socially progressive mode of accumulation on both the local and global levels (Amin, 1996: 258).

Given the perpetual and political nature of financialisation, we can therefore begin to understand the subtle tautology that it contains and which lends support to the notion of crisis-management as a socially instituted process. Just like globalisation, there is always a non-financial space to be captured. It is therefore important to understand that financialisation is *universalising*; it extends social connections across borders, between people and institutions, but in capturing the hearts and minds of the non-financial, or at the very least, setting external conditions on its autonomy, financialisation is also *intensifying*; it provokes internal responses that intensify the nature of the connections themselves.

In support of this general idea, *Table One Annex C* (see appendices) provides a very detailed summary of the history of financialisation as a repetitive process of *stability, crisis and reinvention* since the early 1970s. Simply put, there have been six historically distinct periods of stability and crisis, which have facilitated a new more radical phase in the history of crisis-management. The first two periods could be described as a crisis of domestic and international Anglo-American 'intermediation'. In the former case, Britain experienced a rather severe brush with financial crisis as a new more competitive and specialist banking sector emerged, probably as a result of the new Conservative policy in the 1970s eliminating Banking cartels and encouraging competition. The secondary banking sector, as it became known, borrowed from short-term money markets and lent long to property companies, forcing the Bank of England to provide a 'life-boat' when property values dwindled (Roberts, 2004). Much the same occurred in the crisis of International Intermediation (Leyshon and Thrift, 1997: 118). As international banks over-lent to third world nations, inspired mainly by new competitive conditions, the crisis of International Intermediation inspired an international regulatory response by the Bank of International Settlements (BIS) requiring commercial banks to retain monetary reserves as rainy day money.

The crisis of intermediation mediation encouraged international banks and corporations to borrow from the capital markets and to securitise and trade debt off the balance sheet. This was the beginning of a new era in global finance described as Anglo-American disintermediation and global liberalisation. The capital market revolution encouraged governments to abandon currency controls and to take advantage of securitisation by deregulating host exchanges e.g. London's Big Bang October 1986 (Warburton, 2000). Much of what was stabilising and expanding the new regime of de-regulated capital in the 1980s and 1990s also encouraged contingent consequences i.e. the Maxwell affair. The structural consequences of this period made financialisation more robust, strengthened its competitiveness and decentralisation, encouraging banks, pension funds and hedge funds to travel farther a field – to global lands where the benefits of arbitrage were greater due to asset price discrepancies emerging from booming liberalised capital markets and East Asian stock markets. The fact that Nick Leeson, the infamous Rogue Trader, could bring down Britain's oldest bank Barings and a host of global markets with it, exposed the unregulated character of transnational capital.

What we experienced after the East Asian crisis was a movement against globalisation, which became depoliticised due to the terror attacks of 9/11. From 1998 to 2001, there was a prolific and pervasive 'crisis of Anglo-American calculation' (see de Goede, 2001), signifying that the opportunities and pressures of capital market mania had become excessive and out of control, even for ordinary real economy businesses and academics! Some of the brightest and best examples of high-capitalism came tumbling down e.g. Long Term Capital Management (U.S.) and Equitable Life (U.K.), augmenting a rip roaring assault on all aspects of corporate governance calling for further transparency. The effect of this has been ambiguous. Recently, HSBC's 454-page 'annual report' weighed 1.47 kilograms forcing the post-office to limit the amount a postman could carry due to back injuries. What this said about today's financial climate is that knowledge is not necessarily power. Overcoming information asymmetries produces more information and more responsibility for overcoming financial risk, which is precisely why international banks and other highly leveraged financial vehicles have reacted with more sophisticated approaches to diversification and 'securitisation'. But what is significant about this new octane phase of global finance is the significant change in discourse that has come with the turf, reflecting an underlying change in circumstances, but also the omnipotent self-representation of global finance to transform danger into normal, even bland opportunity. For example, in the 1980's corporate bonds were called 'junk bonds', but as an increasing number of economic institutions from all walks of financial life have demanded and produced 'more competitive' debt securities, junk bonds are now just part of a plethora of respectable high-yield securities. However, it would appear that we are on the cusp, once again, of a significant change in the history of crisis-management. As the Economist argued in September 2006,

> The world is once again in the grip of a spree of lending, but this time to companies rather than countries...Forsaking the sunlit uplands of global finance, the market for capital is plunging into the shadows (Economist, 2006: 9).

What we learn from this table is that financialisation entails a huge expanse in financial business that seemingly stretches across space through its global universalisation, and deepens its necessity through its intensification of more radical financial solutions – buttressed of course by the actions of states acting in a multilateral framework (cf. Hoogvelt, 2001). Each re-regulatory movement has been followed by an innovative response of some sort by financial capital. As we reflect on the table and the transitions from intermediation to disintermediation to securitisation, we are persuaded that in 'financialised countries, like Britain and the US, the new macro-economy has lots of surprises in store along an unstable trajectory, but the new circuits of financialisation are unlikely to vanish like snow in May because they reflect and support the material circumstances and aspirations of ordinary shareholders' (Williams, 2000: 11). By 'ordinary' shareholders, Williams (see Williams, 2000: 2001a/b) does not just mean corporate executives either, as we shall understand later.

Within this we might notice that financialisation suggests something else, something more perplexing: like globalisation and *unlike* 'finance capital', it is a process that is perpetually unfinished. We have already characterised financialisation as the growing dominance of the financial services sector. The very notion itself suggests that this dominance will continue. If financialisation extends across non-financial spaces, is transformative of reality – of structure and therefore how agents behave in relation to structure, then agency is also responsible for altering the nature and course of structure. Whether agents are *inside* or *outside* of financialisation, it seems not to matter, for as long as financialisation is in continual transformation, then the space of *the other* forever escapes its grasp. But we have already missed something. If by inference we are suggesting that financialisation presumes 'the space of the other', are we not also saying that this is positioned against the 'space of the same'? By implication this would suggest that there is always an inherent imbalance between the 'space of the same' in relation to the 'space of the other' at all times. If *sameness* is not a foregone conclusion then this would suggest that it is subjectively and discursively (re)constituted, even within its own dimensions. If Hilferding's conception of finance capital extinguishes all 'contingency and indeterminancy' (Daly, 1991: 85), then financialisation would appear to do the opposite, because the inherent struggle for sameness suggests that it is also a struggle of power and representation at the micro, meso and macro levels, which would force us to question the inevitability, teleology, even normality of financialisation as a 'disorganising' influence of social life. As Glyn Daly helps us to understand,

> ...the notion of disorganised capitalism must flow from the recognition that the economic space no longer presents itself as a fixed totality, as if it were constructed independently of its articulations with other social practices, and that the identity of the economic subject cannot be unified or predetermined. It must refer, instead, to the constant process of dissolution and recomposition in economic identity and to the making and remaking of new economic subjects. From this perspective, the notion of disorganised capitalism, then, is one which would theoretically underline the complex and varying ways the plurality of the economic space is actually identified, and the ways in which the identities there are under permanent threat of subversion by other differential articulations, other discourses, and is therefore continually having to be redefined and renegotiated (Daly, 1991: 92).

So far, this chapter has provided an in-depth historical understanding of financialisation. Methodologically speaking, this chapter also transforms how we imagine financialisation within International Political Economy, which encourages us to delve more deeply into the shifting sands of macro-structures that rest on the social interactions of the contingent-hermeneutic. In typical literature within IPE, scholars have tended to use the notion of 'structural power' (Cox, 2000: Germain, 1997: Gill, 1995: Strange, 1994) to explain the omnipotence of global finance and this notion tends to focus on the top layers of capitalism, Braudel's anti-market, and this concept has been criticised because while it recognises the who, it does not explain the how. Secondly, the notion of structural power has tended to treat capital as a fixed, immutable entity, when in fact financialisation suggests that the notion of capital and 'value-making' is an inherently ambivalent and contestable process. Two authors (Gill, 1997: Harmes 2001: 2002) within this school have sought to address these points, but too much emphasis has been placed on using the blunt and grandiose instruments of critical theory and methodology to crack small nuts. For example, it is welcome that Harmes (2002) has examined the everyday mass investment culture in relation to the broad public policy ideas of neoliberalism and tries to incorporate cultural ideas into his Gramscian framework. But Harmes uses language such as internalisation, decentralisation, operationalising and instutionalisation. This welcome analysis of transformation is a thesis on the creation, standardisation and to some extent the seduction of neoliberal forms of everyday culture through investment practices, an outside-in analysis of micro-power and change, but not an inside-in understanding of interactionism within the evolving cultural economy itself, which would tend to consider the more subtle, contingent, aesthetic, intricate, discursive and reflexive dimensions of micro-politics. Likewise, Stephen Gill (1995: 1997), another neo-Gramscian, has incorporated the ideas of Foucault and particularly his notions of 'capillary power' or 'panopticism' to describe how power works under neoliberalism. In an important sense, Gill has replaced Foucault's methodology of power as a divisive narration of neoliberal power. For example, while the notion of capillary power has a real and lasting methodological value, Foucault's specific use of panoptic power was time and space specific. If we read Bauman (2000), then it is important to comprehend that the nature of micro-power in society has qualitatively changed, from a society that was watched in the 19th century to a society that keeps watch in the 21st century. In effect, both authors have successfully described how change occurs linearly without necessarily understanding why change occurs as a non-linear, heterogeneous and 'uncertain' development. There is therefore a bias of empirical continuity detected in this analysis, as if the authors want neoliberalism to express how they feel about its philosophical underpinnings, so that the methodology can be utilised to its fullest, either out of cynicism or possibly because the non-essentialist, discursive and reflexive nature of Gramsci's theoretical potential has tended to be under utilised, a criticism raised by de Goede's (2003) post-structural insights[28].

Conclusion

In broad terms, we have moved towards the notion that financialisation is not just a process, or even a regime, but a fluid cultural economic life that encourages financial innovation and inventiveness based on the persistent commercialisation of solutions – as a result of the inherent speculative limitations of global financial capital. Because nations are trapped into a competitive process and because it has been internalised by consumer relations, it is likely, based on this understanding, that financialisation will constantly transform itself according to the contingent and even random confrontations inside economic society. What we know for sure is that financialisation is path-dependent – it evolves out of lacks and expectations that have become instilled at certain points in time. What we require now is an interpretative framework of financialisation that will help us to understand its trajectory and orientation, which will also help us to understand how financialisation occurs from a cultural political economy perspective. In Chapter Four, we make this our objective.

Chapter Four

Financialisation as Disembedding and Re-embedding

Introduction

Taking our concept of financialisation as a transformative and repetitive regime of crisis management in motion, it will be the aim in this following chapter to theorise financialisation from a Cultural IPE perspective. It is the key claim of this thesis that financialisation has proceeded in two stages that we call 'disembedding' and 're-embedding' i.e. the economy is released from traditional social relations and institutions – and this is followed by a process of re-embedding, where social relations become 'embedded in the market system' (Polanyi, 1944: 57). We make this separation heuristically, but also practically to demonstrate disembedding as the prerequisite of financialisation and the struggle to re-embed its social consequences. As a result, we find in the work and ideas of Karl Polanyi (1944) the central framework from which to make some effective claims and propositions regarding the nature of financialisation as a culturally transformative process.

Karl Polanyi's (ibid.) work is significant because we learn that the qualitative nature of modern day economic globalisation has its roots in the vicissitudes of social and political change that took place in the 19th century. In simple terms, Polanyi makes the claim that the economy was ripped out of the community and social relations that defined it, as a result of abstract concepts and aspirations of progress, making the 'economy' the central organisational framework and imaginary ideal upon which social relations and individuals should interact and measure themselves. For Polanyi, a model such as this was simply not possible or sustainable for human relations, because it exposed individuals to the ruthlessness and inequities of the free-market economy. Instead, Polanyi observed a political and social counter-reaction against this ideal, which arguably deepened and lasted up until it reached fever-pitch in the 1970s. In similar terms, this thesis tries to suggest that there are many parallels that can be drawn between the great economic transformation in the 19th century and the great financial transformation that we observe today.

In the first section of this chapter, we try to suggest that we can extract the concepts of disembedding and re-embedding to suggest that financialisation, like Polanyi's observations, has passed through two different stages of transformation. Once we have made this clear and applied it to financialisation, we can then begin to theorise how this has taken place using a Cultural IPE approach. In the second section for example, we begin with the concept of financial risk and propose that it is a central part of how financialisation works. In conventional terms, we are meant to believe that risk is a natural consequence of our reality – that we must deal with risk in order to make it controllable and accountable. In contrast, we suggest here that risk is a construction of economic ideas – and such ideas and ideals performatively frame the organisation of the economy into an infrastructure of acceptance and calculation. Once we have examined financialisation this way from the top-down, we then explore how it might be initiated and articulated from the bottom-up. Again we draw upon cultural economic literature to understand the stabilisation of financial ideas. All throughout this chapter, we spell out what we mean by disembedding and re-embedding financialisation. And in the final section, we come to an understanding of *re-embedding financialisation* as 'capital market compression'.

Theorising the post-Bretton Woods Transformation

In 1944, Karl Polanyi delivered a thesis that put forward the central idea that the market economy was not the outcome of some transhistorical evolution in market exchange relations, but instead, 'the effect of highly artificial stimulants administered to the body social in order to meet a situation which was created by the no less artificial phenomenon of the machine' (ibid.: 57). In other words, the socio-economic organisation of production was the effect of a man made set of plans and theories that institutionalised an abstract notion of human beings to 'behave in such a way as to achieve maximum monetary gains', and this rational concept of what it meant to be human was formulated out of an *a priori* understanding of self-regulating markets. As famously Polanyi argued,

> Ultimately, that is why the control of the economic system by the market is of overwhelming consequence to the whole organisation of society: it means no less than the running of society as an adjunct to the market. Instead of economy being embedded in social relations, social relations are embedded in the economic system. The vital importance of the economic factor to the existence of society precludes any other result. For once the economic system is organised in separate institutions, based on specific motives and conferring a special status, society must be shaped in such a manner as to allow that system to function according to its own laws. This is the

meaning of the familiar assertion that a market economy can function only in a market society (Polanyi, 1946: 57).

We must remember that Polanyi's theory of disembedding was inspired from his anthropological understanding of economic man before modernity bended back on itself and became driven by self-interest (cf. Foucault, 1966/2002). As Polanyi argued, if 'one conclusion stands out more clearly than another from the recent study of early societies it is the changelessness of man as a social being' (Polanyi, 1944: 46). Polanyi's key point was that 'man's economy, as a rule, is submerged in his social relationships' and his 'human passions, good and bad, are merely directed towards noneconomic ends' (ibid.: 47). Essentially, Polanyi was arguing that modern theory and history had distorted the historical continuity of man as a social being embedded in tradition (cf. Giddens, 1990). In the course of the 19th century, theoreticians, historians, politicians and pragmatists teased out of man what was entangled in other non-utilitarian and communitarian interests, to instil in society what was necessary in order to fulfil the modern vision of progress and freedom, which could only be attained through economic self-interestedness alone. As Polanyi lamented, man 'does not act so as to safeguard his individual interests in the possession of material goods; he acts so as to safeguard his social standing, his social claims, his social assets. He values material goods only in so far as they serve this end' (ibid.: 46). Sharing the same insights of Michel Foucault (1966/2002) some years later, Polanyi believed that the 'discovery of economics was an astounding revelation which hastened greatly the transformation of society and the establishment of a market system' to the extent that the social sciences rank 'as the intellectual parents of the mechanical revolution which subjected the powers of nature to man' (1946: 119). For Polanyi, the imposition of the self-regulating market and the creation of the market society opened up an entirely new field of raw human relations, reduced to primitive and narrow human functions and interests, that exposed ordinary people to the bare tendencies, irrationalities and institutions of the free-market mechanism. Ironically for Polanyi, it was this unstable fiction that propelled modernity, in the muse of Foucault's thoughts, to turn even against itself through spontaneous bouts of social self-protection.

Drawing parallels to Polanyi's work, the era of industrial-corporatism was the culmination of 'embedded liberalism', where the economy became moulded, imbricated and shaped by the needs of a much more politically conscious society, which had tirelessly called for its socialisation and national control (Ruggie, 1983: Eichengreen, 1996). Just like Polanyi found that the 'human passions' were submerged in social relationships and community ties, much of the post-war period of industrial-corporatism stabilised and reified socio-economic identities through community-industrial relations (Bauman: 2000). The bonds that inter-locked 'individual choices in collective projects and actions' was the full expression of 'solid modernity' and this was facilitated by 'patterns of communication and co-ordination between individually conducted life policies on the one hand and political actions of human collectivities on the other' (Bauman, 2000: 6). For a time, industrial-corporatism privileges a two-way model of citizenship that synchronised the individuals *de jure* status in civil society with egalitarian intentions and socially purposeful institutions that enabled their *de facto* potential too (Bauman: 2000).

Historically speaking, Arrighi and Silver (2001) believe that financialisation is a phase of disembedding 'because this tendency brings about massive, system-wide redistributions of income and wealth from all kinds of communities to the agencies that control mobile capital, thereby inflating and sustaining the profitability of financial deals largely divorced from commodity trade and production' (2001: 263). While Arrighi and Silver emphasise the monetary dimensions of disembedding, David Harvey (2003) focuses on the social and institutional sacrifices coerced by what he describes as 'accumulation by dispossession'. Similarly to Arrighi and Silver, Harvey has argued that the 'umbilical cord that ties together accumulation by dispossession and expanded reproduction is that given by finance capital and the institutions of credit, backed, as ever, by state powers' (Harvey, 2003: 152).

In this thesis, disembedding has two different yet inter-related meanings. On the one hand, it means the deliquescence of traditional, post-war institutions, practices and conventions; and on the other hand it means: the initiation and stabilisation of risk-management practices, monetary expectations and habits achieved through articulate and inarticulate ways of knowing. In an attempt to explain how and why this occurs, we posit in this thesis that financialisation disembeds the traditional social practices, institutions and identities of industrial-corporatism and re-embeds them into a more progressive configuration of social relationships linked to the evolving financialised economy. Heuristically, it will be important to distinguish between disembedding and re-embedding as two distinct but repetitive historical phases in the course of financialisation. Methodologically, this allows us to understand disembedding as a socially instituted process, one that is fortuitous and cumulative in its contribution to the conditions of re-embedding. For example, while Polanyi believed that the establishment of the self-regulating market was a wholly artificial process, this thesis will look more carefully at the micro-level changes, interactions, conflicts and strategies that derive from evolving circumstances in the contingent-real and the hermeneutic-imaginary, which help to propel financialisation to new heights. This will allow for a more complex and comprehensive explanation of transformative action between institutions, people and dominant market practices. In contrast to Polanyi, it is the proposition and perhaps the paradox that disembedding emerges from the contradictions, expectations and identities of industrial-corporatism, which have nevertheless been seduced by the new ideas and fruits of financialisation. There is therefore something subtle, almost unnoticeable about disembedding, which would also suggest that it coincides with the appearance of stability and stabilisation.

Re-embedding on the other hand coincides with periods of rupture, instability and interregnum. In this sense, disembedding takes account of the de-regulatory innovations inherent in periods of financialisation and re-embedding takes account of the re-regulatory forces that help to re-stabilise, reconfigure and normalise transition phases. This latter phase is facilitated not only by the state, but by reflexive social forces such as institutions, expert-systems and group identities, otherwise captured by a process that we may describe as the 'disembedded regulation of the past over the future'. It is possibly in this latter phase that we would expect the constraints and limitations of the past to be unleashed and calmed by the horizon of expectations, strategies and discourses in the present. Financialisation maybe a regime of collective dispossession on the one hand, but it may equally be a regime of individualised repossession on the other.

Financialisation and Risk

Marx's formula M-C-M is an investment formula for liquid capital that carries a number of helpful implications (Marx, 1887/1995: 93-100). Firstly, one of the inferences is that there is less profitability and strategic value in productive investments i.e. money tied down by its commodity form (M-C) *could* translate into its devaluation. This would suggest that there is not an adequate source of demand or that conditions of demand cannot be sustained or guaranteed over the long-term. This sentiment is either *induced* from market results e.g. profitability, labour costs, competition and technological availability, or else it is *deduced* from market realities. This also raises some central issues regarding the investment formula for productive capital M-C. In one very important respect, if M-C means a 'narrowing down of options' for the purpose of 'securing an even greater flexibility and freedom of choice at some future point in time' (Arrighi and Silver, 2001: 260) then M-C is also a factor of market confidence and perception. In other words, deductive and subjective responses to market realities could very well take precedent over inductive and objective realities. For example, new markets are invented not because old markets become saturated, but because uncertainties are based on calculated risks and 'managed', as Frank Knight (1921) made clear. Theoretically speaking, we therefore come to the conclusion that C-M-C is a patient investment logic that follows from a level of coherence and consistency between opportunities and constraints in physical *reality* and *ideas* towards their manipulation. For example, this was a fundamental part of the industrial-corporatist phase of M-C where risk-taking was based on the productive expansion of enterprise achieved through investment in the creation and circulation of commodities. As Glyn *et al* argued, 'the significance of the growth of consumption lay not only in the impact of mass living standards but on the assurance it gave to those taking investment decisions of a steadily growing market' (Glyn *et al.*, 1990: 50).

However, when we talk of the discontinuity of industrial-corporatism we also mean the deliquescence of this capitalist order, achieved on the basis of its own contradictions, but also because 'sustained financial expansions materialise only when the enhanced liquidity preference of capitalist agencies is matched by adequate 'demand' conditions' (Arrighi and Silver, 2003: 263). For example, with over 24 years experience in the financial industry we should take Tony Golding seriously when he argued that 'the Eurodollar market first emerged in the 1950s. It arose because European exporters to the USA had ended up with surplus dollars' (Golding, 2001: 17).

This raises a number of points. Firstly, M-C-M is an investment logic that emerges out of the initial stages of financialisation called C-M, because returns are made from capital in its liquid form. Secondly, C-M is inaugurated as a result of an excess supply of idle capital that accumulates in the M-C phase of the investment cycle. Thirdly, this also suggests that the concrete returns from monetary flexibility in their immediate and short-term form outweigh the 'potential' costs of patient investment projects that have become uncertain and incoherent. M-M is an extension of M-C-M and expresses no explicit intention to invest into the commodity circuit. In fact, M-M expresses the turning of money into money for the sake of its own accumulation, capital growth and monetary re-circulation. What's more is that M-M suggests that it is based on an autonomous framework of institutions, agents and practices that are related to commodities only as a consequence of their mobility, because M-M represents in many ways the formal commodification of liquid capital itself.

However, we have to consider that the higher stages of M-M are facilitated by the earlier stages of C-M. Not only is C-M driven by an excess supply of capital, but it is also facilitated by market incentives or what Arrighi and Silver call 'demand' conditions. In other words, for C-M to make a satisfactory adjustment to the fully-fledged investment logics of M-C-M and M-M, there has to be adequate demand conditions at M^2 that are greater or in propensity to the initial supply of capital at M^1. In contrast to the investment formula M-C, C-M is quite different because it implies a breakdown in patient investment due to a level of incoherence between market signals and sentiments. As we argued above, C-M is also the outcome of surplus assets arising from M-C, which gives rise to the problem of how to manage and control financial assets so that M^2 is equal or greater than M^1. If we remind ourselves of our discussion above (cf. Budd, 1999: Ben-Ami, 2001), then M-C-M is therefore an extension of the breakdown in M-C, because M-C-M is also an unaffected circuit of mobile capital and risk-aversion. For example, as long as capital maintains its liquid form, it can avoid the costly penalties of uncertainty and market incoherence. M-C-M therefore proposes that 'risk' has not only become an objective entity of the world, but that its continual management has coincided with the institutionalisation and reproduction of M-C-M as investment logic of 'risk-aversion'. Eatwell and Taylor explain the contradictory and tautological underpinnings sustaining the liquidity of capital M-C-M,

> The potential instability of financial markets is based on the possibility of switching funds into and out of investments. Swings of convention translate into sharp fluctuations in asset prices that in turn reinforce the swings in confidence. In these circumstances it might be thought desirable to limit the ease with which investors can make the switch. If investors were locked into long-term investments, then markets would not be plagued by boom and bust waves of buying and selling. But here lies an important paradox. Without liquidity, without the ability to sell and recover cash invested, many investors would be simply unwilling to take risks at all...the ability to exit from an investment by selling a financial asset is, at one and the same time, a necessary foundation for investment in a market economy, and the source of the instability that can undermine investment and wreck the market (Eatwell and Taylor, 2000: 16).

This formulates four key questions: (1) how did the circuits of risk-aversion become institutionalised and produced; (2) what demand conditions did risk-aversion facilitate; (3) how and why is risk-aversion reproduced and for whom; (4) what have been the political and cultural economic consequences of risk-aversion?

To formulate an answer to this question it will be important to go beyond conventional approaches provided by scholars in the IPE discipline. So far, World-Systems (Arrighi, 2003) theorists and scholars of International Political Economy (Cerny, 1993: 1994: Dodd, 1995: Gilpin, 2000) have made a number of insights into the production of demand conditions, sympathising with Helliener's basic argument that the 'globalisation trend in finance...is [not] beyond politics' (Helleiner, 1994). Financial de-regulation, privatisation, flexibilisation and liberalisation are all examples of *state restructuring* that have been employed to reinvigorate growth and stability through capital mobility (see Palan, 2001a) . The almost universal appeal of this policy, even in countries such as Russia and China, demonstrate the pervasiveness of the 'deregulatory ratchet effect' that has recreated core states into a conundrum of the marketplace (1994b). *Macroeconomic policy* changes have also increased demand conditions as core states have increasingly called on the bond markets for assisting budget deficits (e.g. Grahl, 2001a). The adoption of independent central banking has signalled the intention of states to deepen the range of financial investment opportunities by setting long-term goals and expectations of stable real economies, minimum inflation and asset price stability (ibid.). *State intervention* to correct systemic financial instability, as a last resort, has also been a powerful tool for giving confidence to market actors. This amounts to the argument that states (re)produce stable conditions for market actors, which in turn influence the policy decisions of states. But as Underhill has argued, 'political authority is not just vested in the formal institutions of states...but it is also present in the agents of the market as part of the state-market condomimium. The market is governance, even as it appears to work in mysterious, private ways' (Underhill, 2000: 824).

A central part of 'market as governance' centres from the notion of financial risk. We have become accustomed to the notion that 'risk' and the 'risk society' is a natural part of the evolution of modernity, an historical process that self-undercuts industrial society through the increasing exposure of manufactured dangers and threats to human existence (Beck, 1994: 1999). This necessarily calls on societies, governments and people to calculate threats accurately, to forewarn the dangers of progress and to prepare for the implications of the risk-society adequately. Within this period of disembedding, we might even sense that the risk-society propels all of us, through its exposure, to turn against this history as a natural 'reflexive' outcome, to make risk and its manufacturing more accountable, transparent and governable. But it is important to ask, what is the qualitative nature of reflexivity and where does it lead? This is perhaps the problem with Beck's notion of reflexivity as Lash (1994) and Bauman (2000) have both picked up on, because he tends to assume that the risk society will encourage positive and logical reflexivity that is beneficial for all of society. As Lash (1994) has argued, Beck's definition of reflexivity is founded upon a rational separation of the subject from the object, a Beckian 'I am I', which tends to underestimate and omit the aesthetic contexts that compel agents to react reflexively and strategically in different political directions; what Lash calls 'aesthetic reflexivity'. In other words, individuals may react reflexively to the conditions of the risk-society and while this may create accountability, it may also 'lock in' the risk-aversive nature of financialisation, which upon a historical reading, is the basis of our world-historical problems and should be not the starting point of our solutions. For example, examining risk and especially financial risk as an ontological category underestimates the social contexts and conditions that have made risk and its privatised aversion a desirable and fundamental part of financialisation and its cultural economic regularisation.

In this sense, it is important to understand that financial risk is not a transhistorical output of the industrial society, but a product of manufactured demand conditions in the disembedding phase of financialisation. For example, under the Bretton Woods monetary exchange rate system, financial instabilities were managed and internalised through the public coordination of international monetary adjustment. When this began to breakdown and as capital began to accumulate off-shore, 'opportunities for profit proliferated, regulatory structures inhibiting flows of capital were challenged as 'inefficient' and 'against the national interest', and the modern machinery of speculation was constructed' (Eatwell and Taylor, 2000: 2). In other words, volatility in exchange rates, differentiation in interest rates, even alterations in financial asset prices themselves, exposed transnational and national capital transactions to both the threat and opportunities of market uncertainty. As Eatwell and Taylor explain, the ending of Bretton Woods inaugurated the systemic 'privatisation of risk',

> The story of the new order is about financial risk. All financial assets embody some risk. The new international rules of the game have changed the character, the incidence, and the scale of risk. In turn, this has brought about radical changes in the operations of the private sector, both households and corporations. The public sector has changed too, both because the financial risks it faces have changed, and because it has the responsibility of managing the dangers that the new risks can pose for the standard of living (Eatwell and Taylor, 2000: 6).

Like Beck, Eatwell and Taylor propound the neoliberal notion of financial risk as an ontological category and suggest that the transformation of society is an inevitable and logical step in the history of the risk-society, especially if it is be managed effectively and responsibly. The contradiction of course is that financial risk did not emerge because it represented a danger to society, but because it represented a threat to the speculative interests of financial capital. Only as a result of the expansion in speculative practices and the institutionalisation of M-C-M has liquid capital become in Eatwell and Taylor's own words, 'the necessary foundation for investment' and the 'source of instability that can undermine investment and wreck the market' (Eatwell and Taylor, 2000: 16). As a result, we might say that 'financial risk management does not just *react* to but *creates* particular definitions of insecurity' (de Goede, 2004: 213).

From the top down: performativity and the production of risk

In an attempt to repoliticise financial risk and reflect upon the systemic implications of financial decision-making, a cultural IPE of financialisation turns this notion of financial risk on its head and investigates the ways in which it has been naturalised and commodified in financial discourse and social relations. One of the key insights of this approach is the notion that financial risk is a social construct, a 'profitable cultural process, which rests upon gendered constructions of danger and security' (de Goede, 2004: 205), one that is 'integral to culturally specific forms of life, which it defines and supports' (Knights and Vurdubakis, 1993: 730). But if financial risk is a social construct, what does this mean and how should we now imagine it?

As an ontological category, financial risk alters the perception of how we understand surplus capital and mobile capital, because we must remember that 'risk' is the suggestion of danger and not the consequence of the event itself. As Ewald argues, 'nothing is a risk in itself; there is no risk in reality. But on the other hand, anything can be a risk; it all depends on how one analyses the danger, considers the event' (Ewald, 1991). Ewald helps us to understand that there is already a prescribed intention and known objective in the identification of risks. Let us not forget that Frank Knight (1921) differentiated between risk and uncertainty – the former was defined as an objective entity of the world, a measurable form of uncertainty with calculable probabilities and the latter was defined as an unmeasurable and random condition, more a state of mind and not 'in effect an uncertainty at all' (Knight, 1921: 205). In other words, financial 'risk constitutes an objective translation of what otherwise would remain subjective uncertainty. It designates an objective reality which disciplined knowledge can open up to prediction and control' (Knights and Vurdubakis, 1993: 730).

In the disembedding phase of financialisation, the notion of financial risk therefore reverses the perception of the (international) financial marketplace as a complex causal field of random adjustments into a symbolic and experimental space of predictive financial management. As a result, 'the dangers constructed in financial discourse are the dangers of secular time and the unpredictable future' (de Goede, 2004: 205). Thus, 'finance' becomes the temporal and spatial dimension of opportunity and neglect, but also the self-enclosed and expert discourse that helps to organise the financial markets through the identification, calculation and (re)commodification of financial risk. The individuated character of risk, the notion of there being more risks attached to some areas of finance rather than others, is a by-product and an indication of the sophistication of this organising process, which nevertheless helps agents to coordinate and connect their different preferences for risk and reward. As Green has argued, 'modern risk is the product of imperfect attempts to create and enforce social order' (Green, 2000: 87) as 'financial markets have produced risk as an attitude to the future not only to cope with threats but to entrench their systems of wealth creation and epistemological authority' (ibid: 81). This attitude to the future, built upon the notion of imagined risk and danger, transforms the appearance of reality into essence and encourages necessitarian demands for its expert identification and control. Thus 'the modern risk culture described here is not an ephemeral phenomenon but a deeply entrenched order with roots in modern social and economic systems' (Green, 2000: 87).

In complete contrast to Green (ibid.), a Cultural IPE of financialisation looks at the modern risk culture as a moving fleeting target, one that is perpetually reproduced by the identification and (re)commodification of financial risk. What appears to be a deeply entrenched order is actually an ephemeral phenomenon that continually unfolds due to the competitive logics that are engrained in the dual tautologies of financial risk (Budd, 1999). For example, financial innovations in technology and instruments designed to build spare financial capacity (see below) leads to a convergence in the returns on financial assets as competition muscles out profitability and drives down the cost of transactions. Just like buying a pair of cheap jeans with borrowed money and selling them more expensively on e-bay pocketing the difference, through this continual process – jeans will increase in price, compelling the buyer to borrow more money on the expectation that there will still be a profitable difference between the return and the borrowing cost. As Budd argues, 'using risk managing products to gain better returns potentially levers up the risk to the whole financial system' (ibid.: 123). Secondly, the production of debt, whether it be mortgage or credit debt, can be bundled together into a fungible debt security or bond, which can be sold in the secondary marketplace to investors, who may decide to invest in a derivative form of the financial asset, rather than having full exposure to the underlying asset itself. As Budd argues,

> At one level, technological and financial innovation is overcoming the constraints of time and space, but the layering of financial assets 'stretches' them away from underlying price changes. In order to break out of a potentially zero-sum game, banks and securities houses constantly search for new asset categories on which to 'layer' financial instruments. However, this search creates another tautology, a 'paradox of risk'. This is a variant of the classical 'paradox of thrift', which occurs where an increase in the desire to save causes a fall in actual savings because national income falls. By the same token, the paradox of risk occurs where the desire to hedge risk, through innovative financial instruments, actually causes an increase in systemic risk (Budd, 1999: 123).

In both the disembedding and re-embedding phases of financialisation, we will expect to find the centrality of risk-management not only as an incentive for controlled financial growth, but as a general solution to the contradictions that these 'path-dependent' incentives create. But what we also have to understand is the close affinity between the discipline of finance and the financial marketplace as a symbolic and socially structured space. Methodologically speaking, conventional neoliberal economy and financial economics share a notion of reality as ontologically given, which prescribes a rationalist separation between the knower and the known (cf. de Goede, 2004: Maurer, 2002: McKenzie, 2003). 'The result is a 'spectator' theory of knowledge that separates theory [knowledge] and practice' and this 'implicitly acknowledges the assimilation of knowledge with information' (Amin and Cohendet, 2004: 18-19). In complete contrast, Cultural IPE collapses the separation between the economic subject and the economic object and initially reverses the causality of economic reality as a consequence of economic knowledge. In Callonian terms, economics 'performs, shapes and formats the economy, rather than observing how it functions' (Callon, 1998b: 2). We could interpret this as the 'practical effort to make the world conform to the structures of the conceptual' (Carrier, 1998: 2), but it is more realistic to recognise that 'knowledge does not only result from a one-way cumulative process (from information to knowledge or knowledge to information), but requires feedback loops between the different main components involved (data, knowledge, wisdom)' (Amin and Cohendet, 2004: 19).

The implication here of course is that finance is a dynamic between theory and practice, so that ideas and reality are constantly inter-changing and contingently evolving along their path-dependent histories. This notion is important to our concept of financialisation. It disturbs the rationalist epistemology of modern financial discourse that propounds the 'linear process of knowledge formation', i.e. the notion that 'data is turned into structured pieces of information, information contributes to the stock of knowledge, and knowledge is converted into wisdom or 'meta-knowledge', which encompasses beliefs and judgements' (Amin and Cohendet, 2004: 18). But we must understand that this dynamic between theory and practice is made necessary because of the 'mutual susceptibility' and social nature of financial markets (McKenenzie, 2004) that have the capacity, as do humans, to avoid what Golding (2001: 60) describes as 'negative surprises' through *imitation* e.g. herding as one example, or quite simply because the financial markets have become a game of 'managing expectations' (ibid., see below). By implication, the social nature of financialisation is also compounded by its competitive logic and this entails an unfolding drama in the clash of financial ideas. This is precisely the point put forward by Nigel Thrift, whom argues that there has been a 'cultural turn in capitalism' (Thrift, 1999) due to the commodification of knowledge and infotainment (Clarke, Tickell and Thrift, 2004). As Thrift explains, 'to begin with, it has made capitalism into a theoretical enterprise in which various essentially virtual notions (networks, the theoretical enterprise, the new economy) are able to take on flesh as, increasingly, the world is made in the likeness of these notions through the power of consulting solutions' (Thrift, 2002: 377). Thus, by implication, we are encouraged to explore financialisation as a 'performative economy' that is,

> ...always engaged in experiment, as the project is perpetually unfinished. Capitalism is therefore a highly adaptive and constantly mutating formation; it is a set of *poised systems*. The whole

point of capitalism, then, is precisely its ability to change its practices constantly, and those who run corporations must be able to surf the right side of the constant change that results, or risk being washed up on the reefs of irrelevance – and thrown into bankruptcy (Thrift, 2005: 3, *my emphasis*).

This notion of financialisation as a performative economy requires some qualification. The key point of this is to suggest that risk and its management becomes a conditional effect of financial knowledge and conscious design. We have intimated that financial knowledge is 'performative', but we mean this in the broad sense of the concept i.e. Callonian performativity (cf. 1998: McKenzie, 2004). Much work has criticised Carrier's (1998) and Daniel Miller's (1998) use of the concept 'virtualism' for projecting the idea that our world is a simple product of economic abstraction – that we, the people, perform its consequences. 'This is because economics has the authority to transform the world into its own image. Where the existing world does not conform to the academic model, the onus is not on changing the model, testing it against the world, but on changing the world, testing us against the model' (Miller, 1998: 196). While we have already pointed out the futility of this, because of the feedback loops between knowledge and practice, what Miller argues is of some virtue, because he suggests that the irrationalities of practice in materiality almost re-legitimate the epistemic authority of economic theory, in whatever guise it reproduces, so that we are reduced to chasing our tail. In this chase, it is possible that financial knowledge alters with circumstances, but that financialisation is reproduced as a result. But this opens up two further points.

Firstly, Carrier argues 'economic thought *shapes* economic practice. This is because people are driven by ideas and idealism, the *desire* to make the world conform to the image' (Carrier, 1998: 5, *my emphasis*). In 'shaping' the world with a 'desire' does not reduce performativity to the idea that we live in a virtual reality, it denotes an intention and therefore does not stand in contrast to the broad notion of economic performativity put forward by Callon (1998). As McKenzie argues, 'generic performativity' in this sense 'points to the fact that the categories of social life are not self-standing, 'natural' or to be taken as given, but are the result of endless performances by human beings and by non-human entities and artefacts as well' (McKenzie, 2004: 305). The adoption of financial risk in the discourse of financial knowledge introduces the idea that uncertainty can be calculated, and it is the calculative technologies, as well as the wider morphology of relations between contexts, actors and their representations that constitutes networks of articulate and inarticulate knowledge (see below). As McKenzie argues, 'unlike *homo œconomicus*, actual human beings have limited information processing and calculative capacities, and so they turn to the aid of economic theories and to the technologies in which those theories are embedded. In doing so, they configure themselves, and render theory performative' (cf. McKenzie, 2002: 52). But it is possible that such conformance to the expectations, practices and technologies of abstraction can create 'counter-performative' reactions: i.e. where their 'widespread adoption can undermine the preconditions of its own empirical validity' (McKenzie, 2004b: 306). While it is possible that humans perform and conform to the innovations of conscious design, such performances may also produce cumulative realities, irrationalities and transitivities unforeseen by the short-sightedness of epistemological rationalism, as practice escapes knowledge, takes on a dimension unpredicted or uncontrolled by the *a priori* abstraction – as contradiction is 'intrinsic to culture' (Miller, 1998: 190).

We are therefore suggesting that financialisation is a product of abstraction, of calculative conditions that makes sense to those in the context; that this performance becomes socially systemic through competition and mimesis; that systemic conditions especially in the financial environment can lead to periods of uncertainty; creating a dependency not just on calculative technologies, but on human judgement and contact with those in the know. As Golding helps here to understand,

> As we observed earlier, investors abhor uncertainty. They have a deep-rooted desire to make the world a more predictable place. Much effort is expended by the institutions in an attempt to reduce the uncertainty element in the complex and unstable world that surrounds them. Institutional investors know they cannot control the future but they do believe they can, to some degree, tame the future...Expectations are big business in the City (and, of course, on Wall Street). Generating these expectations on an ongoing basis is a massive operation involving many thousands of participants: analysts (both external and internal), equity salespersons, corporate executives, financial public relations and others. Together, they collaborate to provide the fund managers with the expectations they demand. Expectations are 'manufactured' by the equity part of the City in the same way that Detroit makes cars or Paris produces haute couture. The process resembles a sophisticated machine, 'the Great Expectation Machine', working constantly to satisfy the institutional craving for greater certainty (Golding, 2000: 60-62).

However, if risk and uncertainty have become important concepts to financial knowledge and the financial industry, such displeasures and ontological possibilities don't just turn up on someone's doorstep as an invitation. We must remember that risk does not describe a given reality; it describes a certain method of wealth production that we call risk-aversion. We have already suggested that the international financial environment changed and this possibly induces the concept of risk to knock on doors, to ask for an invitation inside expert-systems, who may not have previously thought it was possible, or even sensible. The missing element to this however, which is not obvious, is the notion that financialisation is also a series of ongoing competitive struggles between competing financial expert-systems or 'theoretical classes', each with their own different collective histories. This is precisely what Pierre Bourdieu means with his concept of *Distinction*. As Bourdieu argues, 'to exist within a social space, to occupy a point or to be an individual within a social space, is to differ, to be different' and 'being inscribed in the space in question, he or she is not *indifferent* and is endowed with categories of perception, with classificatory schemata, with a certain *taste*, which permits her to make differences, to discern, to distinguish' (Bourdieu, 1998: 9). Just like Bourdieu's concept of the social space, financialisation is a world of distinction, where each agent, social group or expert-system has its own collective history, a memory of *habitus* as a traceable lineage of 'classificatory schemas, principles of classification, principles of vision and division, different tastes' that 'retranslates the intrinsic and relational characteristics of a position into a unitary lifestyle, that is a unitary set of choices of persons, goods [and] practices' (Bourdieu, 1998: 8). In other words, economic agents spin webs of financialised significance from out of the compulsions and conditions of the past, what Bourdieu calls 'dispositions' or what otherwise could be called the enacted space of belonging, the memory of identity – that exists in a state of 'virtuality, not as something given but *as something to be done*' (ibid.: 12). As Shakespeare put it, 'to be or not to be that is the question', and for Bourdieu the intention behind enactment or at least the effectiveness of the intention is shaped by what he describes as the social 'field', which he describes as 'both a field of forces, whose necessity is imposed on agents who are engaged in it, and as a field of struggles with which agents confront each other, with differentiated means and ends according to their position in the structure of the field of forces, thus contributing to conserving or transforming its structure' (Bourdieu, 1998: 32)

In the ongoing accumulation of financialisation, whether it be in the dismebedding or re-embedding phase, we will find agents or expert-systems with different tastes, different ways of approaching the world, influenced by dispositions; and in both phases we will find on-going attempts by various agents or theoretical classes to transform or conserve forms of calculation or methods of wealth-production 'without anyone being able to claim that [the] objective was a conscious design' (ibid.: 98). It is therefore incumbent upon the researcher to seek out and to define the lineage of such *dispositions*, to understand what point or social condition agents are coming from, so that we may understand their *tastes* and the linkage that this creates with calculative behaviour, or even how agents engage in a struggle to define or conserve value creation. As Bourdieu argues,

> The effect of this is that the so-called political struggle to modify the structure of the economic field is at the heart of the object of economic science. Not even the criterion of value, the central bone of contention between economists, can escape being an object of conflict in the very reality of the economic world. So that, in all rigour, economic science should include in its very definition of value the fact that the criterion of value is an object of conflict, rather than claiming that this struggle can be decided by an allegedly objective verdict and trying to find the truth of exchange in some substantial propriety of the goods exchanged (Bourdieu, 1990: 89).

However, in the disembedding phase of financialisation, we would expect to find deregulatory innovations in financial ideas and novel approaches to the handling of wealth and the calculation of uncertainty. Perhaps even the innovative character of financial ideas – the ascendancy of competitive expert-systems in the post-Bretton woods context, is enough to displace and out compete traditional forms, taking the wind out of their sail, replacing their social position, and undermining their cultural and economic capital in maelstrom conditions. But so far we have only concentrated on the dynamic role of expert-systems as a contributory factor in the evolution of financial discourse and this arises, as we will assume, due to the technical nature and demands of calculating financial risk in competitive conditions. However, the demand conditions for financialisation do not just arise out of the performative innovations in financial risk-management, because the struggle for value creation also occurs at the level of the ordinary saver. We will therefore take Bourdieu's concept of distinction and all of its implications with us, but before we go further, it is necessary to open up a parenthesis, to explore the relationship between the saver and financialisation.

Class, Savings and Expectations: Financialisation from the bottom-up

Moving from the inductive-hypothetical to the deductive-empirical, Froud *et al.* (1997: 2000a/b: 2001: 2002: 2004) build upon Boyer and Aglietta's ideas and examine the contingent material and institutional connections between households, corporations and institutional investors, with the idea of examining the 'trajectory drivers' (Froud *et al.*, 2001: 72) of financialisation that emphasise issues of 'linkage, leverage and magnitude' (2002: 125) as opposed to the macro mechanisms of 'circuits, flows and sectors' (cf. Froud *et al.,* 2002: Aglietta, Boyer). We normally think of the stock market as something in London, something on 'the telly', but actually Froud *et al.* persuade us that the capital market or the coupon pool, where stocks and shares are traded, is as much a regulator of household and company behaviour as it is a consequence of their own input, their own stake in its cycles and flows, or quite simply: *their* implicit regulation. As Froud *et al.* (2002) highlight their position, the coupon pool is 'where all different kinds of financial paper (bonds and shares) are traded in the capital markets' and 'coupon pool capitalism is constituted when, under specific conditions, the capital market moves from intermediation to regulation of firm and household behaviour...or, at least, those households which save/invest on a significant scale' (Froud *et al.*, 2002: 78). Like Boyer and Aglietta, they understand that financialisation is partly a 'consequence of widespread share ownership in a frame where macro flows and monetary forms are crucial' (ibid.: 125). Their most important insight, however, is the notion that the household has become a central institution in the financialised economy, 'where savings and investment circuits divert middle class savings and expectations for retirement onto the stock market and where the household buffers the consequences for individuals who have not made the necessary savings [taking] us away from coherence and stability' (ibid.: 125).

In the disembedding phase of financialisation, it is apparent that the ownership of stock market capital or corporate equities was drawn along national lines. For example, savings were directly invested into the stock market as a result of the sale of public equity and indirectly through pension funds, insurance and mutual funds. As a result of the switch from deposits into shares, UK households owned 75 percent of corporate equity in the mid 1990s. The interesting issue that Froud *et al.* make is the point that savings have become the 'prerogative of the fortunate 40 percent in the top two household quintiles by income' (Froud *et al.*, 2001: 73). In the UK, average gross household income in Q4 is £28,000 and in Q5 it is £48,000. For the authors, such income levels afford 'surplus discretionary income' making it possible for such income groups to save 10 percent of their income and 'monopolise savings'. For example, it is argued that these top two income groups have accounted for up to 80 percent of all savings and investments in the UK (ibid.: 74).

The key point however, is that the fortunate 40 percent have tipped the balance in favour of a demographic and expectant profile of savings that have become increasingly weighted towards beneficiaries and those most able to save in the income spectrum (see also Engelen, 2003a/b). This is how Froud *et al.* and others explain the bull market of the 1990s, which has turned the 'conventional understanding of investment-accumulation-profit-social distribution upside-down' (Minns, 2002: 46). As a result, the disembedding phase of financialisation appears to be the result of an imbalance between a concentrated level of demand for high-performing assets on the one hand and a limited supply of high performing assets on the other, creating pressures for financial performance on institutional investors. The US and UK 'have realised a type of capitalism where, for the first time in history, depositing capitalists outnumber surplus creating workers' (Froud *et al.*, 2002: 148), creating what the authors describe as a giant Ponzi scheme, where 'neither household savers nor their professional fund managers want to think about whether the corporate earnings base is adequate or reflect for too long on why most of the gains come from share price appreciation' (ibid.: 91). This in turn has created great pressure on corporate firms linked to the stock market to increase their accounting performance, which has produced 'a long term operating contradiction between what the capital market requires and what management can deliver' (Froud, Johal and Williams, 2002: 137). Such an operating contradiction has encouraged firms to restructure their operations, to 'flexibilise' their productive inputs, employee benefits and their working practices so that financial accounts become more competitive, so that corporations seek debt and liability solutions from alternative avenues to the stock market, shifting the supply of securities elsewhere and handing capital light companies the advantage 'reinforcing' what might amount to 'a strong tendency towards instability' (ibid.: 149). In other words, we might say that there are strong grounds for suggesting that the period of disembedding is to be followed by a period of re-embedding,

> ...as the financial ecosystem survived the bubble it created and that this ecosystem is likely to continue given the supply-side pressure of middle-class savings. The most probable result is not waves of creative destruction attributable to Schumpeterian technological change but continuing incoherence spread by the financial system that acts in the name of capitalist innovation to secure middle class retirement (Feng *et al.*, 2001: 501).

We can't help but think that there is something odd about this. It's almost as if we are suggesting that the middle class saver has been catapulted into a position of empowerment, of political agency, of aesthetic reflexivity. In this last instance, we are reminded here again of Marx's discussion of commodities in *Capital* (1887/1995). As the capitalist economy created the mass organisation of labour centred on the profitability imperative, the production of use-values only made sense if it also created an exchange value or monetary gain by meeting the demands of mass organized production. The implication of a mass organised capitalist society is that it discursively follows whatever has exchange value so that 'commodity fetishism' is not only an outcome of 'perpetual profit seeking' or 'value in motion' (Harvey, 1990), but the unintended consequence of individuated and imagined 'desire' arising from the commodity becoming a 'citizen of the world' (Marx, 1887/1995: 35). Marx captures in many ways the meaning of aesthetic reflexivity, when he argued the following;

> The form of wood, for instance, is altered by making a table out of it. Yet for all that, the table continues to be that common, every-day thing, wood. But, as soon as it steps forth as a commodity, it is changed into something transcendent. It not only stands with its feet on the ground, but, in relation to all other commodities, it stands on its head, and evolves out of its wooden brain grotesque ideas, for more wonderful than 'table-turning' ever was (Marx, 1887/1995: 42).

In this sense, we are therefore required to think of saving as a commodity or product, as a process of commodification and production, and standing in relation to other methods of saving, the commodification process takes on a life of its own – so that the simple act of saving becomes, down the line, the avant-garde of social change, financialisation and even, ironically, depoliticisation. Effectively, we are talking here about the consumerism of financial products in society, where savers attach significance to the products they invest in. The work of Thorstein Veblen becomes partly relevant here, because we are leading to an argument that points out the 'ceremonial character' of financial consumption as a 'derivative of growth' and as such 'it is a new end, by selective process, of a distinction previously existing and well established in men's habits of thought' (Veblen, 1925: 61). The material contingency of savings would in this view seem indispensable to the notion that savings have become part of the 'consumers gratification' and 'peace of mind', begging the question whether their expenditure 'aside from acquired tastes and from canons of usage and conventional decency…is a net gain in comfort or in the fullness of life' (ibid.: 79).

We would therefore be naïve to think that the pressures for financial performance have arisen simply because of demographic factors alone; the notion of a concentrated supply of assets over available equity securities (cf. Clarke, 2003a/b: Froud, *et al.*, 2002: Engelen, 2003). For why was it necessary to pin the hopes and fears of savers on equity capital? It would be equally naïve to believe that performance pressures have resulted from the filtering of savings accrued from 'surplus discretionary income' (Froud *et al.,* 2001: 73-74) . Even to frame this within an orthodox language of demand and supply is confusing, for who supplies and who demands – the saver or the intermediary, and if one or the other demands, what kind of demand is it, who does it target, what does it represent and why does the seemingly 'disinterested'[29] act continue? This is not a criticism *per se*; it is more an inclination to propose that there is an alternative explanation for the heightened expectations of the middle class saver. For as Veblen argued, 'in the process of gradual amelioration which takes place in the articles of consumption, the motive principle and the proximate aim of innovation is no doubt the higher efficiency of the improved and more elaborate products for personal comfort and well-being' (Veblen, 1925: 64). While financial innovation becomes linked with the pursuit of leisure, from the leisure class, this also introduces the idea that as the process of 'conspicuous consumption' gets underway, it becomes 'honorific', 'the failure to consume in due quantity and quality becomes a mark of inferiority and demerit' (loc. cit.). Such is the particularity of savings that we could not adequately extend this argument further, for it leads to the notion that the upper echelons of high class society, force upon those with little means, the urgency and inferiority of not saving, by implication of the conspicuousness of those who do. At the height of the disembedding phase of financialisation, 8 percent or less of disposable income was saved by those households in the first three income quintiles (Froud *et al.,* 2001: 75) and this is unlikely to have changed much due to 'negotiating the financial system at the margin, many people prefer to exclude themselves and attempt to survive in the cash economy' (Leyshon and Thrift, 1998: 32). Perhaps Veblen's ideas extend in an indirect way, as the demands for financial consumption create information conditions that lower income quintiles do not understand. Thus, there is no doubt, as we will try to incorporate, that there is something in the idea of a 'theoretical class' with adequate monetary capital to lead in the struggle for consumer change as a means to create life-style and leisure, 'the financialisation of life-style', which could invariably bend back upon those with limited capital the contradictions that this extended imperative of wealth creation manifests. But we must also understand that this exists in a certain cultural-economic context, upon where the meaning of financial products i.e. the specific sign value of savings, is translated through to the subject, where the meaning becomes stabilised and upon where class identity is framed and sutured.

The Production of Belief: Politico-Ethics and Miniature Empires

As Bourdieu reminds us, 'economic production functions only in so far as it first produces a belief in the value of its products; and it must also produce a belief in the value of the activity of production itself' (1990: 89). Bourdieu provides us with a starting point here, because he is suggesting that the production of belief begins with the delicate art of the producer, but in turn, this delicate art only completes and legitimates itself in as much as it is believed by those it wishes to attract, which is assumed to be an autonomous *enactment* of confidence. Secondly and more subtly, Bourdieu is suggesting that production follows from a dual symmetry i.e. that the material value or meaning of the product which is singular, is inseparable to its existential meaning that is part of a wider contextual framework of production, which is plural. For example, 'I speculate, to accumulate' is a precise example of how enactment is firstly identified and secondly justified, through certain subjective assumptions of what speculation will achieve and what this means objectively to others through its statement. This is quite simply an elaboration of Marx's use-values and exchange-values. For example, it is reasonable to assume that in market exchange relations, a person will not invest in a product simply because of its ethical implications, because this is charitable and not an exchange relation (ethical investing its an oddity here). A given product may have a wider symbolic significance, but to be a product it must also combine a use-value and an exchange value, or a material means to an end that cannot be separated from its wider ethical-political inputs and outputs. The point is that personal conduct is not coerced, it is free and yet the creation of that freedom rests upon historical conditions and motivations of belief. Here, we are gravitating towards the central idea that personal conduct is not enacted because it is cognitively autonomous from reality i.e. 'I think therefore I am', but because it depends on the substantive-signs of that reality, which means that the nature of information conditions is a prerequisite for a certain type of conduct and a certain type of enactment.

> Such a conception of the process of knowledge formation requires recognition of the cognitive features of the individual (that is, abandoning the rationalist hypothesis of the separation between the knower and the known), and in particular of the role played by those cognitive mechanisms – memory, pattern recognition, perception, communicative skills – at the interface between experience and practice, on the one hand, and beliefs and judgements, on the other (Amin and Cohendet, 2004: 19).

In effect, the intricate webs of financialisation are spun by actors on a bed of meaningful information conditions. But before we can understand the significance of substantive-signs further, we will need to understand how conduct relates to the politics of financialisation. In the disembedding phase of financialisation, the state enables competitive conditions for mobile capital, due to crisis conditions and budget constraints 'that ensue from the slowdown in the expansion of trade and production' (see Arrighi and Silver, 2001), what some have misconstrued as the growing power of the market over the state. But the state is neither separate from the market, nor in retreat; instead the 'state-market condominium' is in transformation, an inter-subjective process of sign-production that encourages the freedom of capital to engage in certain forms of inventiveness as we shall explore. But this inventiveness is not simply economic. Economic change does not happen in a cultural or ethical vacuum; the 'proles' in Orwellian speak do not suddenly disappear or forget the past. Appeals to an alternative way of life have to be seen in order to be believed and they must appear to absolve the limitations of the past. Therefore, it is imperative for us to understand that the recreation of certain forms of government are intertwined with the *enabling,* if not the alluring or tempting, of certain forms of subjectivity; what Foucault described as 'governmentality' (cf. Foucault, 1977: 1978: 1979). With 'government it is a question not of imposing law on men, but of disposing things: that is to say, of employing tactics rather than laws, and even of using laws themselves as tactics – to arrange things in such a way that, through a certain number of means, such and such ends may be achieved' (Foucault, 1978: 95).

This displaces our whole notion of sovereign government, turns it on its head, because we begin to understand that it is not citizenship that is governed, but the citizen that is self-governing. For Foucault, the practice of self-government proceeds through 'technologies of the self' interlaced in a matrix of production, signs, power and self, where such technologies 'permit individuals to effect their own means...so as to transform themselves in order to attain a certain state of happiness, purity, wisdom, perfection, or immorality' (ibid.: 225). We can now begin to appreciate that the subjective meaning of a product and the inter-subjective meaning of production, as we discussed above, is linked up to a certain kind of sovereign politico-ethical structure, an interface between the government and the self-governed. In our case, the disembedding of financialisation is linked to a specific neoliberal form of governmentality. As Lemke explains,

> The neoliberal forms of government feature not only direct intervention by means of empowered and specialized state apparatuses, but also characteristically develop indirect techniques for leading and controlling individuals without at the same time being responsible for them. The strategy of rendering individual subjects 'responsible' entails shifting the responsibility for social risks such as illness, unemployment, poverty, etc., and for life in society into the domain for which the individual is responsible and transforming it into a problem of 'self-care'. The key feature of the neoliberal rationality is the congruence it endeavours to achieve between a responsible and moral individual and an economic-rational actor. It aspires to construct prudent subjects whose moral quality is based on the fact that they rationally assess the costs and benefits of a certain act as opposed to other alternative acts (Lemke, 2001: 201).

Two questions arise: what are the prior conditions of neoliberal governmentality and how are the conditional effects of financialisation stabilised? The former relates to the initiation of substantive-signs and the latter relates to the re-stabilization of their dynamic representation. For the minute we will deal with the first. It was Michael Polanyi whom argued very simply that 'to speak is to *contrive* signs, to *observe* their fitness, and to *interpret* their alternative relations; though the animal possess each of these three faculties; he cannot combine them...for the purpose of yielding new information' (1957: 82). In essence, language is a 'translation mechanism' and an 'intellectual technology' providing a 'mechanism for rendering reality amenable to certain kinds of action' (ibid.: 7). Polanyi understood language to be forms of 'writing, mathematics, graphs and maps, diagrams and pictures; in short all forms of symbolic representation' (ibid.: 78). Similarly, the responsible subject arises through the laying down of information conditions, heuristics e.g. calculative technologies, policy, tax incentives, reports, media, methods of display e.g. adverts, modes of representation e.g. sectoral comparisons or definitions of insecurity e.g. 'you must save or else'. All are forms of symbolic representation that make up the substantive-sings or 'manageable symbols', which can be contrived, observed and interpreted inside the jungle of financial discourse. But while language emerges out of the symbolic representations of financial discourse, the conditions are still assumed to create uncertainty. For Callon, the ontological whole is greater than the sum of its parts; the act of calculation is an affect of their scrutinised morphology. 'The conclusion that can be drawn from [this] is extremely simple yet fundamental: yes, *homo œconomicus* does exist, but is not an a-historical reality; he does not describe the hidden nature of the human being. He is the result of a process of configuration' (Callon, 1998: 22).

Now that we have laid down a pedagogical framework that links the contrivance of signs to a politico-ethical morphology of inter-related meaning and calculative conditions, we must also understand the arousal of expert-systems within this emerging field. From this assumption, it is possible to suggest that the disembedding phase of financialisation begins (and ends) with the expert-system. Anthony Giddens partially helps us here when he argues,

> Expert systems are disembedding mechanisms because, in common with symbolic tokins (such as money), they remove social relations from the immediacies of context...an expert disembeds in the same way as symbolic tokens, by providing 'guarantees' of expectations across distanciated time-space. This stretching of social systems is achieved via the impersonal nature of tests applied to evaluate technical knowledge and by public critique used to control its form (Giddens, 1990: 28).

There are a number of issues related to this. In one way, Giddens is proposing that the removal of social relations from the immediacies of context is initiated through the creation of (monetary) expectations, which hope to absolve the immediacies, constraints and even memory of the past, through solutions of a future-present. But this also draws our attention to the prior material relations and distinctions that are already imbedded in materiality. In other words, the expert-system can only guarantee its expectations, if it has first appealed to an audience interested to become 'expectant'. In one way, economic expert-systems provide an economic 'frame and format' (du Gay and Pryke, 2002: 2-6) that articulates a series of propositions to be considered, to be tested, to be instituted, so that the expert-system becomes the product, the manifestation of its representation to an audience that takes on a dynamic of its own. As we suggested above, economic knowledge is inseparable from praxis; and in this sense, even the 'miniature empires' of expert-systems are exposed, sensitive and amiable to the lay-systems opening their doors.

This leads us to the idea that economic 'culture produces industry' (Negus, 2002), which requires us to consider the power of 'marketing' as a fundamental part in determining what is given privileged access, what is determined as a need or 'must-have' and what is not, according to what makes sense in the wider financial discourse. But as Negus argues, this process is also informed by the 'patterns of power and prejudice arising from the ways in which the formation of particular industries has been shaped by such factors as class, gender relations, sexual codes [and] ethnicity' (ibid.: 118). The implication of free exchange relations between producers and consumers means that the theoretical classes e.g. the middle class saver, inevitably derive their satisfaction for leisure seeking products from the bottom up. In defining a cultural definition of marketing, Slater (2002) argues how 'each possible choice of product definition – of what the product could be – is simultaneously a choice of consumption relations and choice of competitors' (ibid.: 67). The development and diversification of retail finance is therefore organised and founded upon, not just different identities, but upon the enacted distinction of different *tastes*. As Aldridge argues, 'a complex array of values, norms and culturally transmitted habitus is embedded in the private domain of personal finance' (Aldridge, 1997: 9). Retail institutions or expert-systems, in this context, therefore become the *legitimate* intermediaries not only of dispositions, i.e. historical frameworks of reference, but of politico-existential fulfilment.

While we have moved towards an understanding of how expert-systems might play to the distinctions of habitus, we still do not yet quite understand how agents become 'entangled' in webs of intermediation. Giddens suggests that 'trust' is re-created in disembedding mechanisms through 'guarantees' and 'impersonal tests', which suggests that there exists a formal and inter-dependent bargaining process, between a set of fixed assurances that flow from within on the one hand – and a fluid framework of deliberate, heuristic, if not scientific devices for evaluating those guarantees on the outside. This recreates the fixed ideal of soft knowledge forms on the one hand and hard empirical knowledge for evaluating the credibility of representation on the other. This does not take into account the performative dynamic of capitalism, of financialisation, if not the changing contexts that supplant expert-systems and agents into a discursive field of confrontations. For example, Pryke and Allen (2000) have suggested that with the technological and ideational innovations of finance, new dimensions of space and time have created an 'entirely new money imaginary', which is reflexively integrated into the financial system. As Pryke and Allen argue, 'the engineering of monetary instruments does not just take place against the backdrop of an acultural, asocial, homogenous 'time', as financial economists would have it, but involves increasingly a fusion of times which infect and which are in turn infected by, changing cultural and social values that alter our ideas 'of what money is and what it does' (ibid: 278).

Taking his influence from the German philosopher Ernst Cassirer, John Allen (2002) has re-interpreted his exposition of three symbolic functions that come in the form of 'expression, representation and signification'. The first is described as a visceral experience, where the hairs stand up on your head listening to music; the second is described as the imaginative play of signs as language, which is seen to be an unexacting measure of reality in its discursiveness; the third relates to Michael Polanyi's ideas (1957), that signs can be contrived, assembled and 'managed' through the manipulation of abstract symbols, which can be precise and articulate so as to be mythical i.e. mathematics, or imprecise and inarticulate so as to be ineffable i.e. post-modernism (see Polanyi, 1957: 87). In much the same way as Polanyi, Allen (2002) argues that it becomes futile to separate the forms of symbolic representation, because 'different industries, and the economic activities therein, play across a variety of symbolic registers – abstract, expressive, affective and aesthetic – and combine them in ways which stress certain kinds of symbolic usage at the expense of others' (ibid.: 47). It therefore becomes fruitless, if not folly, to separate 'hard' from 'soft' knowledge forms in an attempt to evaluate 'aesthetic innovation', or even to assume that evaluation can proceed through one or the other, because they are inherently entangled in changing contexts of meaning.

> The same can be said of finance and the new forms of money and their associated risk instruments, which make it possible to combine rational, calculative practices with more imaginative representations of what money can do in a fast-fleeting world that are far removed from conventional monetary routines. Symbolic innovation in this context works across the symbolic registers in a particular way, echoing Cassirer's argument that meaning, or rather economic meaning, is independent not upon any specific notation or image, but upon what they express, represent or signify. In short, economic knowledge and meaning is dependent upon symbolic function and it is their entangled nature which differentiates one set of activities, one industry, from another (Allen, 2000: 54).

If by implication it is impossible to be certain, why do we calculate uncertainly and how do we over-come this inherent paradox, in both the instant of our self-assurance to calculate and throughout the discursive instances of temporality? To understand what will follow, we will summarise what has been previously argued so that we build up a pyramid of pedagogical understanding. For example, we have posited that the basis of calculation is linked to a founding layer of initiation, enabling and belief, the amalgamation of the politico-ontology i.e. the emergence of the responsible subject, with the topology of substantive signs, which we could collectively call as 'ontopology'[30]. Secondly, in this de-regulatory context, we have also put forward the idea of miniature-empires such as 'expert-systems' putting their creative spin on this wider politico-ethical context, which it is assumed, is intended to create the effect of 'miniature governmentalities'. But still, we are lacking. It is therefore proposed that calculation has two more general dimensions with specific components: a *tacit* form and an *emulative* one.

Tacit knowledge, Emulative (In)Security

Michael Polanyi (1957) helps us with the tacit dimension because he argues that there are articulate and inarticulate forms of expression and knowledge, which both constitute language. The articulate dimension is also the more specific form, where for instance, economists can talk in the euphemistic language of demand and supply. Such a heuristic employment of language denotes objective facts about the universe, which we cannot avoid. Except, the more that we rely on these symbolic arrangements in order to gain 'certainty', the more we become disenfranchised by their transitivity and their vagueness, just like a wet bar of soap we previously held. This is because 'articulation pictures the essentials of a situation on a reduced scale, which lends itself more easily to imaginative manipulation than the ungainly original' (Polanyi, 1957: 85). Articulate forms of knowledge must therefore be intertwined with inarticulate forms of knowing, where for example, we can derive meaning from substantive-signs in reality, where we can know reality, without the ability to express or communicate why we know or what its significance is. In 'order to describe experience more fully language must be less precise. But greater imprecision brings more effectively into play the powers of inarticulate judgement required to resolve the ensuing indeterminacy of speech' (ibid.: 86). Polanyi gives the example of reading a letter; we know its specific significance by *reading* it, not by *observing* it, and the feeling of deriving significance is contained within us, a residue, a feeling that we can only translate generally and inarticulately.

There are perhaps, as Polanyi suggests, variations in the degree of inarticulation, which plot themselves on a spectrum of 'ineffability' or 'ineffable forms of knowing'.

> The mind which entrusts itself to the operation of symbols acquires an intellectual tool of boundless power; but its use makes the mind liable to perils the range of which seems also unlimited. The gap between the tacit and the articulate tends to produce everywhere a cleavage between sound common sense and dubious sophistication, from which the animal is quite free (ibid.: 94).

'Minding the gap' is therefore a leap of faith into the darkness, with only a dim torch to spread light on what we hope to recognise and in this sense the stabilisation of meaning, our self-assurance to calculate instantly or across time, is preconceived by our perception and expectation of 'routinisation'. As Polanyi put it, 'only when repeatable utterances are used consistently can they have a definite meaning, and utterances without meaning are not language. The poverty of language can fulfil its denotative functions only if utterances are both repeatable and consistent' (ibid.: 79). It is therefore incumbent upon the human condition to expect continuity in specific forms of utterances and substantive-signs that allow us to reflect upon the deviation in their forward or incoming manipulation; what Comor calls 'casual learners' (Comor, 1999). In this sense, we might say that specialised economic practices e.g. financial investment or saving, is framed through 'integrative practices', which requires 'heuristic framework(s)', 'cognitive rules (both tacit and explicit), and teleoaffective structures' (Preda, 2001: 210). But we have to distinguish between the politico-ethical environment and those expert-systems acting inside this framework.

In the wider ontopological environment, we would expect to find both articulate and inarticulate utterances that constitute knowing. For example; (1) *public authorities*; what they say and don't say in political terms and policy terms; (2) *media outlets*; what they tell us about expert-systems looking from the outside-in i.e. how media outlets present information and commentate on reality; (3) *competitors*; what they tell us about their competition, how they act in relation to others, what they represent through their adverts and points of sale; (4) *people and word of mouth*; what people say and don't say is of fundamental significance to the constitution and performance of the public sphere and its nature. Similarly, expert-systems produce outputs of knowing that are both articulate and inarticulate. Articulate utterances are ones designed to slip-steam information into cogent parts, to be specific about events inside the institution so that 'self-responsibility' is constantly informed. On the other hand, we would expect that expert-systems also produce inarticulate ways of knowing, through their administrative linkages, their adverts, their sale teams and points of sale. Comor partially helps us here,

> Although knowledge is finite, it is also firmly in place at the sites of governance to which people come. There they find fixed knowledge in the ways of being and behaving that characterise the governance of credit. At this point, people can submit to a process of learning, conform to what is expected of them, and even change their activities to comply with norms...conformance to routines is not unique. As forms of credit have multiplied and spread, people have reconciled the potential dilemma between what they know and fixed knowledge by complying with the expectations contained in various credit instruments (Comor, 1999: 178).

But this compliance does not mean to say that people are empty shells in this process. For as Polanyi argued, 'by being prepared to speak in our language on future occasions, we anticipate its applicability to future experiences...and these form a theory of our universe, which we keep testing continuously as we go on talking about things' (Polanyi, 1957: 80). In other words, whether calculation is instantaneous e.g. buying a paper in a shop; or more long term e.g. saving – entanglement is a prerequisite of calculation and it does not disentangle itself, calculation does not stop, until the exchange relation has completed itself (Callon, 1998). However, buying a paper in a shop would appear to be much more articulately composed than more complex phenomenon in the world, which we find hard to describe why we know it exists. But buying a paper is still an ineffable calculation. For example, I know how to buy a paper, but I don't know why I buy the paper, I just like reading the paper, I derive pleasure and emotion from it. Equally so, I know how to put my savings in a deposit, but I don't know why my savings are safe, I just think they are – through knowledge inputs that are effable and ineffable. Perhaps the difference between these two examples is not that one is more effable than the other, but that uncertainty widens the scope, and the spectrum of morphologous relations that conjoin different ways of knowing in the public sphere. But as Polanyi reminds us, 'if perception prefigures all our knowing of things, drive satisfaction prefigures all practical skills, and the two are always interwoven' (Polanyi, 1957: 99). In other words, we perceive, we calculate, we derive pleasure from reaffirming our knowledge of the world through 'tacit performances of our own, the rightness of which we implicitly confirm' (ibid.: 100).

Emulation is but an extension of the tacit coefficient of knowledge; it belongs to a way of knowing that we derive satisfaction from. As Veblen argued, 'closely related to the requirement that the gentlemen must consume freely and of the right kind of goods, there is the requirement that he must know how to consume them in a seemly manner...conspicuous consumption of valuable goods is a means of reputability to the gentlemen of leisure' (Veblen, 1925: 64). Veblen argues that the leisure class emulates one another not only as a means of deriving material satisfaction, but as a way of displaying a certain class and moral instinct. In our case, we are suggesting that this display, this conspicuousness, is also a sign value to others: emulation is also a means of inviting tacit assurances towards uncertain practices.

On the tube trains of London, most businessmen crumple their FT's and in this sense, Veblen is correct to say that consumption is conspicuous. But in conditions of uncertainty, this relationship is not necessarily given. As Bourdieu might have it, the leisure class do not conform to one set of homogenous conventions, calculation proceeds through dispositions, 'habitus', which influences the precise nature of how emulation takes place. For example, my next door neighbour may buy a car that I want and he may buy it from a company that I do not trust upon talking to their staff. In other words, agents or social groups are defined by how they relate to other agents taking social positions in the field of 'mutual exteriority'. Through 'these categories of social perception, these principles of vision and division, the differences in practices, in the goods possessed, or in the opinions expressed become symbolic differences and constitute a veritable language' acting as mythical system of 'distinctive signs' (Bourdieu, 1998: 8-9). The product may say something about us and our identity; it reassures our sense of self; but it also says something about the product and its representation of (in)security. In other words, emulation is based on a morphological fit between the dispositions of the consumer and the identity (representation) of the producer. For example, I meet people buying insurance, I like them, I like how they look and talk; how does this correspond to the institution that they talk of, and how does this relate to my dispositions?

However, what happens when knowledge, both effable and ineffable begins to contradict one another? At what point does calculation become unstable and senseless? There is no linear answer to this question. Only the proposition that the contradiction can expose itself within the bounds of the expert-system, or even in the wider ontopological field. For example, random if not contradictory messages may arise from within the expert-system, but equally they may conflict with sanguine and coherent messages from the outside field. For example, a car manufacturer may produce vast quantities of unsold cars, which are nevertheless rated well in the media. Alternatively, the outside field may produce contradictory messages that may raise critical questions of the expert-system, which may respond it turn by explaining the contradiction by drawing upon articulate and inarticulate methods of knowledge production. For example, a food manufacturer maybe putting too much salt in its products according to media outlets, and the food manufacture may respond in turn by drawing upon physical evidence of the manufacturing process and supporting this by a comparison to competitors, or by dealing with the media head on. In other words, it is entirely plausible and possible that information conditions can make sense, despite their contradictions, because again it depends on a morphology of calculative relations which are subject to the tastes of individuals.

We have already suggested that disembedding removes individuals from prior contexts, prior cognitive frameworks, not only through an ideational competitive struggle, but by initiating a tacit framework of articulate and inarticulate forms of representation; off-setting expectations from where ideas take on the momentum of the real, from which point they are re-articulated. Disemebedding financialisation therefore creates expectations through monetary forms, displacing previously held notions of the economy, which then become stabilised through their repetition. After a degree of irreversible learning, we would expect that disembedding financialisation turns in on itself through the expectations that such forms have initially instilled and this process could be described as 'aesthetic reflexivity', or what we have chosen to call *capital market compression.*

Re-embedding Financialisation: Capital Market Compression?

Disembedding financialisation reverses the conventional directions of risk-taking from the real economy to the financial economy. Under conventional assumptions, the real economy innovates and stretches markets to build new capacity and investment potential, but financialisation suggests that this logic is reversed: rather, the financial economy stretches new market capacity within the financial economy itself. Effectively, the same logics that applied to the real economy can be applied to financialisation. Without the entrepreneurial spirit of the real economy and the effective mediation of the financial economy, the real economy can suffer from over-production, a glut in the supply of contingent commodities, which can lead to deflationary or even stagflationary conditions. Likewise, without capacity building within the financial economy, savings flow to concentrated areas, creating asset-price inflation, 'irrational exuberance' and stock-market crisis. Like innovation builds capacity in the real economy, innovation in the financial economy extends opportunities of investment potential, without as it were leading to the conditions of financial crisis. In this sense, savings are organised 'not' on the linear assumptions of risk and return emanating from the conventional outputs of Keynesian *enterprise*, but are organised on the individual preferences for risk-taking in the financial economy (*see first section Chapter 3*). In the first instance, it is the long-term performance and renewal of assets in the real economy that determines the allocation of savings, whereas in the second instance, it is the instant volatility or expectations of the financial economy that determines the allocation of savings and preferences for risk-taking. What is happening in the real economy in this sense is only of a secondary significance to asset allocations, because it is based on the conventional assumption that finance feeds real economic developments.

The claim here is that re-embedding financialisation will attempt to resolve the dual contradictions of concentration and over-production through what Harvey has called 'temporal and spatial displacement' (Harvey, 1990: 182). It is important to understand that Harvey uses these concepts to understand the 'absorption of over-accumulation' in the real economy. We on the other hand, intend to borrow Harvey's concepts in order to demonstrate that the temporal and spatial 'fix' is at the heart of financialisation. For Harvey 'spatial displacement entails the absorption of excess capital and labour in geographical expansion' (Harvey, 1990:183). In financial terms, there are two known examples of a spatial fix that are important for the reproduction of financialisation. In rudimentary terms, a spatial fix occurs when capital is enabled to supplant its roots in other geo-economic areas, so that we would expect the trans-local-national outputs of capital to expand. Or else, it is possible that a spatial fix could also come in the form of a re-articulation of domestic financial space as an invitation to more sophisticated mobile capital recourses. Harvey describes a temporal fix as 'a switch of resources from meeting current needs to exploring future uses, or acceleration in turnover time so that speed-up this year absorbs excess capacity from last year' (ibid: 182). There are three known examples of temporal fixes to financialisation that we can propose here. The first could be described tentatively as a process of inter-temporal socialisation. As the demographic balance progresses in favour of beneficiaries and high-risk savers creating what Froud *et al.* (2001) call a Ponzi type of coupon pool capitalism, re-embedding financialisation will attempt to repair the inter-temporal flow between contributors and beneficiaries so as to avoid asset concentration (see Engelen, 2003a). This becomes a cultural project as much as a political one as politicians 'promote the stock market as a painless way of generating a flow of income for a comfortable old age which can be extended to lower income groups' (Froud *et al.*, 94).

Risk-management is a second example of a temporal fix, not as an insurance technology *per se*, but as a technology of *responsible transference* and 'wise' calculation. As LiPuma and Lee argue, 'for speculative capital, the mitigation of circulatory risk depends on the compression or neutralisation of time. The directional dynamic is aimed directly towards the short-term [which] comes to define and dominate the temporality of movement and reproduction of speculative capital. The result is that the culture of financial circulation shapes social forms, such as abstract risk [and] new technologies' (LiPuma and Lee, 2005: 421). A third example of a temporal fix is when the coupon pool expands, which provides an outlet and a supply of differential coupons. This can occur informally in market exchange relations between those offering corporate securities, or it can happen in a more formal relationship, when the state deliberately expands or manipulates its supply of debt coupons to meet a known demand; what Arrighi and Silver (2001) might refer to as *the networking of high finance.*

Thus, financialisation initiates *capital market compression,* globalisation decentralisation and re-intermediation from within the domestic sphere, between the global and the everyday. And this again, we propose, becomes the product of an act of initiation; a re-articulation of governmentality, so that the self becomes self-regulatory, a responsible saver to him/herself. Thus the target is not those whom already save i.e. the middle classes, but those who don't save, those on the periphery of the cash economy; those who find it difficult or inconvenient to save; those who must now learn to save for themselves in the jungle of financial discourse, not out of duty to one's state or to production, or even primarily to secure a safe pension income in the future, but to enable a life-style in a future-as-present, which uses the language of consumption against those whom enjoy the obvious fruits of their leisure. 'In modern political culture, leaving things to chance, not just in business and finance but in conducting one's private life as well, have become morally suspicious and a sign of irresponsibility' (de Goede, 2004: 205). Re-embedding financialisation effectively learns from the dispositions and shortcomings of a financialised past, as the politico-ethical structure of governmentality progresses the prior context of relations through the socialisation of financialisation 'as a means for the acquisition of self', to initiate a morphology of proposals on 'how to get ahead...for the expansive movements of body and soul' (Martin, 2002: 3). As Randy Martin helps us to understand,

> Financialisation promises a way to develop the self, when even the noblest of professions cannot emit a call that one can answer with a lifetime. It offers a highly elastic mode of self-mastery that channels doubt over uncertain identity into fruitful activity. It insinuates the fertile mind in a labyrinth of rules that channel and contain vistas overwrought with information. Paths do action with definable results that clearly distinguish good from bad in measurable terms of success and failure are provided when it seemed that nothing could be done. This is not to say that financialisation occupies all the room of the self or monopolises the ethical domain, but that its medium and its message make themselves known and heard above the din (Martin, 2002: 10).

Such a proposal augments us into a further research stage, to understand how the politco-ethical structure is changing its enabling signs, through tacit suggestions of financial planning and policy, through to more explicit technologies of the self, at the inter-face between government and expert-systems. What products and modes of representation can the state-market condominium now muster to persuade us that the post-war era has officially come to an end, that re-embedding in Polanyian terms, must now revert to a more lucid, more logical and explicit utilisation of the free-market for inter-mediating people's lives in the capital market? And how does the emerging governmentality now react to the heightened expectations of the middle class saver; how is the inter-temporal and inter-generational flow between the young and the old restored, if the anonymous circuits of wealth creation and risk-aversion are to be given the credence they do not deserve?

Unlike disembedding financialisation, it is proposed that capital market compression re-articulates the role and format of the expert-system through the logical enabling of re-regulation, decentralization, re-intermediation and globalisation. In the re-embedding phase we would expect to find a re-regulatory response cutting across the market, the government and the self, as financial ideas become motivated by the need to heal the limitations and wounds of de-regulation, not by regressing it, but by tweaking or 'rationalising' its imperfections. The contingent contexts of disembedding and the stakes involved means that financialisation does not just suddenly disappear in periods of re-embedding, but this requires us to make a further distinction. Rationalist epistemology, especially in conventional economics, rests upon the idea that the world suffers from informational asymmetries *a priori*, which leads to the notion that knowledge can absolve imperfect communication *a posteriori*. The innovative stages of financialisation would appear to stretch informational asymmetries between economic actors, not because knowledge is incomplete, but because institutional change disrupts the conventional social topology and the traditional roles, expectations and communicative patterns between agents. Only as a result of atrophy and calamity is it possible to comprehend the significance of social change in retrospect and only as a result of this backward gaze is it possible to appreciate the ease with which agents identify 'lacking information' as the almighty cause and consequence of 'events' arising from disproportionate control. In this sense, we would expect that the re-embedding phase of financialisation is also the re-articulation of financial innovation, a period that attempts to dismantle boundaries guarding information, offsetting more fluid boundaries of transparency that decentralise (even more) control and financial responsibility too. But similarly to the dismebedding stage, the re-emerging financial discourse will institute substantive signs and calculative frameworks, both formal and informal that help the individual to collapse the uncertainty of the future through a more routinised approach to risk and its management. As Callon argues,

> Not only do accounting tools constitute space of calculability and define the way the calculation is made up, but also, through the reactions they provoke, new calculative strategies emerge which lead to the changing of goals (Callon, 1998: 24).

Financialisation is therefore a process of socialisation, it extends the connections of the capital market throughout society and normalises their daily utilisation. But there is something noticeable here too. As a teleological force of nature, financialisation is a process of disintermediation, linking the capital market directly to the autonomy of individuals. Anthony Giddens argued that modernity was a process of disembedding, but financialisation suggests that the individual becomes the expert through access, information and knowledge. While the disembedding phase is a process of disintermediation, re-embedding introduces a phase of re-intermediation. Secondly, it is proposed that disembedding de-stabilises the status quo and the guarantees of the expert-system, so that we see a competitive increase in the number of expert-systems, or at least the introduction of new experts in the field with new innovative proposals on financial planning. Within this, we might even find that the expert-system transforms itself in the new environment, offering more control and 'flexibility'. The financial visionary Patrick Young provides an insight here,

> Ironically, communism has long promised but invariably failed to deliver "Power to the People". Now capitalism, and free-market capitalism in its essentially un-distilled form, is giving the individual the chance to shape their financial destiny, with better flows of information and access to markets, than has ever been witnessed at any previous time in history. The Capital Market Revolution provides private capital with all the tools it requires to take on large institutional funds and beat them. It won't be a walkover but at least now the deck is becoming less and less stacked against the individual. In other words, the private individual will become a more pivotal figure to the post-feudal marketplace than has ever been seen before (Young, 2003: 158).

While the disembedding period initiated a relationship between expert-system and the lay individual e.g. doctor and patient, capital market compression promises to intensify the individuated responsibility for personal financial decision-making. This does not necessarily mean that the expert-system goes away, just that it transforms its aesthetic dimensions to absolve the memory of the past, while at the same time responding to the imperatives of the future-present. But one of the implications of capital market compression is that it could offer new linkages, new circuits of re-intermediation previously unspeakable. For example, it is entirely possible that new investment vehicles such as hedge funds become introduced as a way of fixing the temporal contradictions of financialisation. Or even possibly, an Americanisation of the capital market enters into the fray as Young predicts, as companies introduce new IT software, enabling greater individuated control of direct capital market investment. What is for sure is that none of this is separable to the re-articulated globalisation of financial space, where calls for new instruments and vehicles could begin to interfere and contradict with the regulatory arrangements intended to repair the past.

What we have not got to forget either is the heightened expectations of the middle class saver. The identity of the middle class saver appears to have taken on the real and in taking on the real, it becomes important to understand how the performance of this identity impinges on the emerging financial discourse of re-embedding. Concentrating on the performance of gender identities and their contribution towards the economy, Judith Butler argues that the 'economic, tied to the reproductive, is necessarily linked to the reproduction of heterosexuality. It is not that non-heterosexual forms of sexuality are left out, but that their suppression is essential to the operation of that prior normativity' (Butler, 1998: 42). In the emerging financial discourse, it may not be the case that excluded or peripheral identities and income groups are left out, but it could be that they are suppressed as a result of the prior normativity. As we suggested above, it's not as if the government can wipe the slate of history clean and begin again. As Connolly argues, 'politics is, as it best, simultaneously a medium in which unsettled dimensions of the common life find expression and a mode by which a temporary or permanent settlement is sometimes achieved' (Connolly, 1983: 151). In this sense, we should respect Nealson's reading of Butler's ideas when he argued that we need to 'pay careful attention to the *material specificity of the restrictions* that make possible the construction and maintenance of a particular normativity' (Nealson, 1998: 28). In other words, what are those material factors that keep the lower income groups in the dark, while as it were, the leisure classes move towards the advantages of an inclusive flame, a light that remains exclusionary by implication that the former group have their eyes shut for reasons we do not yet know. What we can say is that this process is dynamic and open ended because financial discourse is moved by the performativity of identities performing their dispositions. This reiteration of dispositions becomes part of what Jackson calls the 'practical politics of boundary maintenance';

> Struggles over precisely *which* concrete deployment of *which* commonplaces are practically enacted are always also struggles about the identity of some particular actor, and hence part of the active process of *bounding* that actor – producing and reproducing it out of a transactional flow of everyday life. So actors, from this perspective, are more like contested zones of ongoing debate than like physical objects. Instead of possessing a constitutive essence, actors whether states or individuals – should be regarded as the product of ongoing constitutive *practices* (Jackson, 2004: 285).

Hopefully, we are building up a mental picture of a struggle for financialised value creation that reconciles the interests between expert-systems, public bodies, lay individuals, middle class identities, regulatory agencies and politicians, all looking for a way to solve their dispositions, their sense of lack in a wider context of financialisation, a memory of dismebedded financialisation, where self-responsibility and individuated risk-management becomes more important, more sophisticated as all finance becomes motivated on the basis of 'individual gain' but where 'its means are wholly deindividualising'; where 'the individual is more fully one with the vast interdependencies of society than ever before', and where 'the local [is] more fully consequent to the global' (Martin, 2002: 196).

Before we finish this chapter and remind ourselves of our travels, we should bare this in mind. Capital market compression brings the capital market and its institutions closer to the land of material life, in body and in soul, and introduces new talking heads, new explosive information conditions, creating a morphologous structure that is more difficult to navigate personally and even professionally. Bauman makes a fascinating contrast between Foucault's panopticon and the emerging form of the synopticon. For Bauman, the 'panopticon was first and foremost a weapon against difference, choice and variety' (Bauman, 1998: 52). Today, financialisation seeks to subsidise if not facilitate a 'neoliberal programme' that creates 'neither a disciplining nor a normalising society, but instead a society characterised by the fact that it cultivates and optimises differences' (Lemke, 2001: 200). But the consequence of this is that the 'extasy of communication' has created forced the 'forced extroversion of all interiority' (Baudrillard, 1985). 'Risk is meant to be as felicitous as consumption once was to give meaning and direction to life' but 'the attempt to maintain privacy may turn out to be a rearguard effort in relation to the demands for transparency affirmed through the embrace of financial risk' (Martin, 2002: 152). By expanding the social topology of information, not just through consumerism, but though financial consumerism it adds possibly another dimension to our confusion and our self-induced and internalised domination. As Polanyi argued, 'the conception in question is the focus our attention, in terms of which we attend subsidiarily both to the text and to the objects indicated by the text' (Polanyi, 1944: 92). In the disembedding phase of financialisation, heightened transparency, self-devolution of control could be the source of the problem as our focus of attention is spread even further across the complexity of information conditions, heightening the obscurity of information and what it means (cf. Amin and Cohendet, 2004). Returning to Bauman, 'the panopticon forced people into a position where they could be watched. The synopticon needs no coercion – it seduces people into watching' (Bauman, 1998: 52). In this information society, media hype, government spin of what could be described as the 'economy of expectations' all garners this perspective that knowledge is power in an uncertain world, not because it resolves the structural dilemmas caused by ontological insecurity, but because it allows self-interest and individualisation to survive, find cursory meaning and compete. Whether this is effective for everyone, and whether this makes for an effective politics, it is yet to be known.

Conclusion

This chapter has attempted to spell out very specifically how a Cultural IPE approach applies to Financialisation. As we made clear in the first few chapters, financialisation refers to the growth of financial instruments, signs, institutions, practices, values etc., and this progression and evolution of the global financial infrastructure is having a tremendous influence both in the economy and in our daily lives. What we couldn't quite grasp in these initial chapters, but what seems obvious now, is the knowledge that financialisation is informed and encouraged, not just by political policy or objective trends, but by a heterogeneous and contingent culture of inter-linking relations, signs, practices, representations, emotions and perceptions that cut across the micro, meso and macro levels. What emerges from this chapter especially, is the feeling that financialisation is a cultural dynamic, one that has become internalised socially as a path-dependent process. However, the objective of this chapter was to suggest a propositional framework, drawing upon cultural (economic) literature, to help us to make sense of financialisation from its beginnings, not to its ends, but to its future orientation and trajectory. It is therefore proposed that the cultural economy is becoming financialised precisely because we have passed from two different stages: from disembedding to re-embedding.

In Part II, we will attempt to examine the financialisation of pension provision using the framework outlined in this chapter. In Chapter Five, we will argue that financialisation emerged at a historically distinct point in time. At no other time did it seem possible for financialisation to occur. But in the 1970s, this did happen, not because it was forced on the people, but because, as we suggest here, history and culture clasped hands together, as financialisation became gradually socialised and normalised in the public imagination, setting a cultural momentum of expectations on its way. While Chapter Five will attempt to examine the initialisation of cultural financialisation in society, Chapter Six will look more closely at the expert-systems working within financialisation. Focusing upon the Equitable Life case, this chapter will explore how this institution progressed the boundaries of financialisation by examining its underpinnings and relations. Chapter Seven will explore the confrontations of value creation in the transformation of actuarial knowledge. And Chapter Eight will try to understand the nature of re-embedding financialisation by examining the introduction of new Labour's policy on private pension provision. We will explore, in many ways, the re-articulation of re-embedding governmentality, its continuities and commercial shortcomings. In sum, the case-studies invite us to use what we have gathered in this chapter to examine the subtle processes of disembedding and re-embedding that have brought society and the capital market even closer together, which has the potential to endanger all hopes and dreams of fulfilling a secure, communitarian and just life.

PART II

The Financialisation of Pension Provision

Chapter Five

Disembedding Financialisation: Neoliberalism, Economic Freedom and the Personal Private Pension

Introduction

Today, personal private pensions are a normal part of everyday responsibility, especially for younger generations. Since the 1980s, the post-war institutions of welfare have been increasingly privatised, where the responsibility and the risk for providing insurance and income for old age has been shifted firmly on to the shoulders of the individual. It is the aim of this chapter to provide a contrary stance to the argument that the privatisation of welfare is a natural part of the evolution of our complex societies. In this chapter, we provide an examination of neoliberalism as a rolling governmentality that enabled the disembedding of post-war institutions and identities from the perceived constraints of the past. Neoliberalism in this sense, is the equal opposite of financialisation, which created a revolution in ideas towards economic freedom and *strategies of enabling* that would force the pendulum to swing in the direction of social change. We therefore examine the definitive-signs of disembedding governmenality at the macro, meso and micro levels of analysis, which reveal its aesthetic implications and its hidden charms. This chapter is set out as follows. Firstly, we examine the macro initiators of governmentality – the popular capitalism that swept through the nation constructing an imaginary context of personal economic control, in addition to individualised wealth creation and planning. Secondly, we examine the micro incentives and disincentives that compelled individuals to contract out of their occupational pension schemes into private forms of personal pension provision. Drawing upon qualitative material attained from a questionnaire (*see Appendices Annex A*), we will illustrate some of the intricacies underpinning the constructed demand for private pension provision. This chapter forms the backdrop to Chapter Six, because disembedding opened up a contingent space for the development of competitive expert-systems, which would carry the torch of financialisation in way that we can now not reverse.

Popular Capitalism?

In his most recent television program entitled *A History of Modern Britain*, former political editor to the BBC Andrew Marr argues that our modern politicians have been undermined by 'unintended consequences' (Costello, 2007). As Marr put it, 'this even happened to Margaret Thatcher...She came into office determined to make changes, and she promptly made them. But she thought the free market would create a nation of thrifty, sober conservatives, holding the Granthamite values of her alderman father. Instead, Britain went on a spending spree, and indulged in an incredible amount of excess...Not even Thatcher got what she expected (*quoted in* Costello, 2007: 69). In this sense, the failure of Thatcher was that she expected to replicate the social conditions of an older, more stoic generation – a pre-1914 imperial Britain, where interest rates adjusted to the external requirements of the gold standard despite their social costs, where social consciousness was inchoately gathering, when full scale politicisation of the economy was yet to take place. Spurred on by rational choice theorists and neoliberal economists (see Hay, 2004) with *no concept of time*, Thatcher expected to create an ideal out of the 'dispiriting decade'[31] by reversing the edifice of social change built gradually since the beginning of the century. In this line of argument, Thatcher caused both revolution and disillusionment as the Conservative government unwittingly seduced society back into the box of the self-regulating market. All of this ran contrary, it seems, to the general dialectic of the state that had evolved out of the 19th century to protect individuals, not from others, but from themselves placing subtle unseen limits on the extent of economic freedom. Rehearsing Andrew Marr's testimony to the Thatcher era, the problem with freedom and especially economic freedom, is that it is quite easy and practical to create, but not quite as easy to understand what it is for.

The stock market, 'once rid of its less savoury denizens, might just provide that 'spiritual adventure' missing from the lives of the 'common folk'' (Fraser, 2005: 250). The speculative fever that rushed through the United States (late 19th century) like a 'metaphysical release from the anonymity and deadening conformity of industrial society' (loc. cit.), describes de-regulatory Britain just as well in the 1980s. As Hirst and Thompson argued, 'the UK is the only really 'globalised' large industrial country in the G7 group...and UK citizens are already more directly vulnerable to 'international' shocks through the financial system' (Hirst and Thompson, 2000: 336, 348). The stock market, the individual, the social ownership of capital represented the primacy of Conservative thinking towards an idea of the 'new' economy in the 1980s (Hutton, 1996: 27-55). It was a project designed 'to make the British people a nation of shareholders...to create a popular capitalism in which more and more men and women have a share in the British industry and business' (Chancellor Nigel Lawson, Budget

Speech in Martin and Turner, 2000: 229). This was Marx(ism) turned on its head: the socialisation of capital was the decentralisation of collective power; an individualising project that was manifestly 'de-individualising' (Martin, 2002: 195).

During the 1980s, a whole host of policy innovations entered the scene at the macro level (Cerny, 1993: Martin, 1999b: Roberts, 2004: Warf, 1999): the sale of public-sector housing; the Big Bang de-regulations of the securities market (Cerny, 1993) (1983-1986); the augmentation of financial self-regulation (e.g. The Financial Service Act 1986); the mass privatisation of the public sector (1979-87) (ibid.). As Roberts argues, 'privatisation was a means of *enticing* individual citizens to become participants in a shareholding democracy' (Roberts, 2004: 48, *my emphasis*). The total proceeds of selling off the state came to a whopping £70 billion in 1991, small change when we think that the accumulated and estimated cost of employing public sector consultants figures at £70 billion for a similar stretch of time (1997-2009) (FT, 2006j: 3). Nevertheless, such privatisations are not to be undermined as definitive-signs of an expectant economy. For example, the sale of British Telecom (BT) was the largest equity sale known to man and the Conservative government could not afford to get it wrong (Martin, 1999b: Roberts, 2004). But even while BT was 'big', the initial public offering of British Gas was 'bigger'. The sale of BT was followed by an 'unprecedented press and television campaign' and while this sale focused on creating a experimental hybrid between institutional investors and individuals, the sale of British Gas focused primarily on the small investor; the consumers of British Gas (Martin, 1999b). As 40 percent of the equity stake was reserved for the public, 'tell Sid' about the bid was a determined marketing campaign. In 1979, 3 million individuals held shares. By 1991 it had risen to 11 million or 25 percent of the population; but by 1995 this figure had reduced to 9 million (ibid.: 269-271).

As 'the financialised self embraces risk...risk tolerance blends reason into effect' (Martin, 2002: 195). The notion of creating 'popular capitalism' was to inscribe this means-end. The 1987 stock market crash surfaced or exploded during this phase of popular(ising) capitalism, dwindling the share prices of all corporate companies. But even so, the volatile nature of financial markets encouraged an innate scepticism, not towards the market, but to the self 'so that the spur of the future mercilessly digs into the skin of every present' (Nietzsche: 1887/1998: 100). As Ron Martin argued,

> For many individuals, privatisation has not encouraged a general shift to a long-term shareholding culture. As a result of their initial under-valuation, privatisation share prices have tended to rise very sharply after flotation, and this has encouraged many shareholders to cash in their shares to make a quick windfall profit (Martin, 1999: 271).

The emphasis on 'profit' and personal gain through self-interest resonates in Karl Polanyi's 'market society' (Polanyi, 1944). This sensory stage of disembedding financialisation constituted one part of a rolling governmentality. 'Inflation, poor growth, and the disintegration of the nuclear family were all seen as the results of a degenerative collectivism, and in particular the restrictive institutions of the labour movement. Her [Thatcher] object was to best it and reinvent a Britain that was true to what she imagined to be 'itself'' (Hutton, 1996: 29). Margaret Thatcher represented a wider ideal of economic freedom to those disenfranchised by their own post-war expectations, as we shall see. But as Hutton argued, 'by laying simultaneous claim to tradition and market radicalism *it* was facing two ways at once, without addressing the reasons for Britain's poor economic performance' (loc. cit, *my emphasis*). As the economic historian Barry Eichengreen insisted, 'Britain's relatively poor growth performance is not blamed on anyone's lack of acuity. There were no unexploited opportunities for industrialists, bankers or unionists in the absence of a solution to the coordinating problem created by the historical inheritance' (Eichengreen, 1996b: 217). And yet, during her first visit to the United States as party leader in September 1975, and citing Milton Friedman in the publication of this speech two years later by the Centre for Policy Studies, Margaret Thatcher argued that: 'it has taken us a long time to realise as a nation that unless we elevate the reduction of inflation to a first priority, moral values, our social and political institutions and the very fabric of our society will fall apart' (Thatcher in Douthwaite, 1999: 68). Taking the monetarists' argument as self-evident, 'inflation' became both the object of the problem and the moral destiny of Britain's solution.

To control inflation as moral cause implicated two factors: (1) to prevent the rate at which prices erode assets and earnings; (2) and to continue restructuring the economy so that this doesn't happen. In the first instance, the Thatcherite perception was that savers and retired people suffered from 'negative real profits' and threatened a burgeoning pension and insurance industry 'who are in a position where it becomes more and more difficult to plan and guarantee the flow of future income they have promised their beneficiaries' (Thatcher in Douthwaite, 1999: 68). As we can see, the first instance slightly overlaps into the second, but we have to consider that it is employed through a deftness of touch. For example, in 1997 an article in the Economist put forward the case that Britain's 'de-industrialisation' had 'coincided with a rapid increase in manufactured exports from countries such as China and Brazil' (Economist, 1997: 108). But while we would expect, following Thatcher and our knowledge of the 1970s (see Brenner, 2000), to find manufacturing as the cause of inflation and rising prices, this is not the case according to this article. In fact, 'in constant prices, the share of manufacturing output turns out to have remained stable over the past three decades in rich economies as a whole' – and furthermore, 'productivity in manufacturing...rose more than twice as fast as in services', where 'the rise in the nominal value of services in GDP reflects a rise in the relative price of services' (ibid.). In other words, rising prices did not come from de-industrialisation or even manufacturing, but in this case, the Economist attributed the 'problem' to the *lack* of a sector that was yet to fully manifest itself; as 'fewer workers are needed to produce a given increase in [manufacturing] output, to service industries where more workers are needed' (ibid.). Think about this argument for too long and it will begin to have its desired effect. Essentially, it argues that an economy must avoid rising prices and sectoral concentration; that it must encourage productivity wherever it comes from e.g. finance capital or Tesco; because wealth creation in such terms transcends all debate, all implication, when the means of productivity are also the ends of wealth creation: a simple tautology. As the Economist demonstrates the point,

> Deindustrialisation causes problems in economies unable to absorb the workers released by manufacturing. But those who would tackle this by subsidies or trade barriers are missing the point. As manufacturing continues to shrink in an economy, overall growth will increasingly depend on productivity in services. Policy should therefore focus on removing obstacles to such productivity growth, and creating a labour market in which workers can move freely from factory employment to services (Economist, 1997:108).

The removal of obstacles assumes that their elimination will lead to a higher, more evolved stage of wealth-creation, in comparison to those countries on the treadmill behind. As the article's title stated: 'it's wise to deindustrialise' (ibid.). In other words, the stage of creating wealth from services or the new economy had to be teased out and nurtured so as to create more economic and personal freedom, which was seen to 'be a natural consequence of economic progress' (ibid.). What we can glean from the two factors highlighted above, is that *people's property*, their net worth, became a political tool during this stage from which to legitimate economic *restructuring* as moral code; and what's more is that the two were symbiotic; they faced each other as Hutton (1996: 29) pointed out. But one of the key questions in all of this is why inflation became such a core issue to the Thatcher government, and a vehicle for restructuring the economy and morality at one and the same time? The reason for asking this question is not to depart from our current concern on discerning the distinctive-signs of disembedding governmentality, but to go deeper: to assess the compatibility or synchronisation between the new focus on personal economic freedom and the form of legitimation that this required? We must go deeper and return to the surface.

For example, during the post-war decades, it would seem that cyclical growth rates in wages partially off-set the demand for growth achieved through productivity, where fiscal and monetary policy (and sometimes interest rates)[32] was used to carefully manipulate demand conditions (cf. Glyn, 1990). 'Inflation' wasn't necessarily an evil in these days because it formed part of a post-war convention or 'balancing mechanism', which had the effect, over the course of the post-war boom, of harmonising borrowers and lenders through corporatist arrangements (cf. Douthwaite, 1999: 63-72: Glyn, 1999). As Douthwaite explains,

> In other words, we have a balancing mechanism that generates inflation whenever it acts. When corporate profits are down, firms push their prices up to compensate. When corporate profits are up, increased investment pushes up the price of labour and possibly of land and capital as well. But for this mechanism to work, governments must have a sufficiently relaxed attitude to inflation to allow it to take place. If they interfere excessively, as Thatcher's three governments did, one or more of the main groups in the economy – borrowers, lenders and labour – inescapably suffers (Douthwaite, 1999: 70).

But on the other hand, Douthwaite omits the significance of the Bretton Woods exchange rate mechanism that contained this balancing act. We should therefore add that due to the fixed nature of exchange rates in the post-war period, demand problems were relieved through the balance of trade, between deficit and surplus countries, through a series of international adjustment mechanisms and institutions (Eichengreen, 1996: Glyn, 1990). Thus, Douthwaite's 'balancing' thesis formed part of a wider set of post-war goals at the domestic and international level of governance (ibid.). But Douthwaite's thesis is important because it reminds us of the discursive constitution of inflation i.e. what makes common sense. In the post-war period, inflation was the quantitative effect of demand manipulation due to heightened political consciousness[33]. As Douthwaite points out, inflation was part of an implicit arrangement and 'struggle' between different socio-political interests i.e. lenders, borrowers and labour.

In the post-Bretton woods era, inflation was the (ir)responsible effect of monetary supply conditions, and this continues to be the case today. For example, it has become incontrovertible that inflation is to be controlled within a certain band-with[34] in order to create price stability, which is assumed to enable security, employment and growth (see Bank of England, 2005). But as the Bank of England's own *Inflation report* stated in May 2005: 'relative to the central projection, the overall balance of risks to growth is on the down side, while the risks to inflation are broadly balanced' (Bank of England, 2005: IV). In other words, the Bank of England is responsible for domestic price stability only: not events in the global economy. In contrast to the nature of the post-war political economy, this 'constitutes an implicit attempt to depoliticise macroeconomic policy making by insulating decision making from popular pressures, by removing notions of societal winners and losers, and by asserting that a particular approach to policy is technically correct' (Baker, 1999: 92). Despite the façade of transparency that the Central Bank likes to project, it cannot even guarantee its own fundamental premise: 'stability'; because while the post-war period attempted to contain international financial instabilities through various capital control mechanisms, Britain's present-day capitalism is more exposed to the translation mechanism between domestic financial institutions and their global operations (e.g. Hirst and Thompson, 2000), as we shall see.

However, let us draw the reigns of this analysis, take stock and ask the question: what was the decade of the 1980s about? Why is the post-war period so different to the contemporary period? As the historian Tony Judt informs us here, 'within three years of the end of the most prosperous decade in recorded history, the post-war economic boom was over. Western Europe's 'thirty glorious years' gave way to an age of monetary inflation and declining growth rates, accompanied by widespread unemployment and social discontent' (Judt, 2007: 453). Writing at the beginning of the de-regulatory phase in America and Britain, Professor Lester Thurow, an American economist at the Massachusetts Institute of Technology, presciently warned that there were 'economic and political problems' for policymakers whom intended to reduce the rate of inflation, increase employment and economic growth all at the same time. As Thurow argued,

> Inflation is the paradigm zero-sum game. Whenever a price goes up, two things happen. Whoever buys that particular commodity finds that his real income goes down. But someone also gets that higher price, and his income goes up. That someone may be that seller, but no income disappears. For every loser there is a winner. Inflation can redistribute income, but it does not lower the total amount to be divided. Everyone cannot be worse off. Some individuals win; some individuals lose. This is not an economic hypothesis but algebraic necessity. Everyone wants a government that stops inflation, but one that does so by inflating his income and deflating the income of everyone else. To stop inflation in the presence of upward price shocks, such as energy, governments must adopt policies that lower someone's income. *The problem is not finding economic policies that will lower incomes, but being able to impose them* (Thurow, 1980: 42, *my emphasis*).

Perhaps the political struggle was not as difficult as Thurow had predicted. As Hutton argued, in the 1980s, 'Britain had become the laboratory for an extraordinary experiment in economic theory – and with a dominant party running a centralised state, there was no escape' (Hutton, 1996: 68). Thus, Britain's present-day monetary policy can be traced explicitly to a series of changes that took place from the outset of Thatcher's electoral victory. As Eichengreen argues, capital controls were axial to the inauguration of the Bretton Woods exchange rate mechanism (1996: 93-94). While they should not be exaggerated, 'controls held back the flood [capital flows] because they were not just one rock in a swiftly flowing stream. They were part of the series of levees and locks with which the raging rapids were tamed' (ibid.: 94). Four such policies were introduced that changed matters (see Cameron, 2004: Hamilton, 1986: Hutton, 1996: 56-81): (1) foreign exchange controls were abolished in 1979 (ibid.); (2) during the post-war period banks were required to hold 30 percent of their assets in liquid form: this was abolished in 1980 (Cameron, 2004); (3) between 1973 and 1979, banks faced new limits on the growth of their interest-bearing eligible deposits, so that any excess would be placed into supplementary special deposits (ibid.). This framework was eliminated in 1980 and replaced with an emphasis on 'prudence' (ibid.), banking surveillance or quite simply, self-regulation (Hutton, 1996: 71).

Before moving onto the forth policy change, these three strands of post-war political economy were part of the apparatus of quantitative monetisation, a medium of banking sector control (Warburton, 2000: 14-16). To abandon such controls, was to hand the reigns over to a financial sector that would become increasingly competitive as a result, and which started to fracture and over-lap through de-compartmentalisation, disintermediation and de-mutualisation; as banks and mutual societies entered into securities, insurance, mortgage and consumer lending markets (Cerny, 1993: 1994a/b: Martin and Turner, 1999: Warburton, 2000). Such policies were the beginning of a diversion 'from the inflation path along which [Western economies] had travelled for the previous 20 years. Instead of repeating the inflationary cycle...these countries embarked on a capital markets adventure holiday' (Warburton, 2000: 14). For example, the abandonment of foreign exchange controls encouraged British institutional investors to place their money overseas, so that by 1982, investors had just less than six times more capital invested abroad than what they had in 1978[35]. In 1993, 27 percent of all pension fund assets were held in international bonds and equities (Hirst and Thompson, 2000: 247). After foreign exchange controls were scrapped, attention then turned to the 'fat commissions' and 'the slow old methods of concluding each share deal' that kept the 'gentlemen' and City boys in their jobs (BBC, 2006). Having scrapped fixed commissions on domestic securities transactions, a more 'accessible' trading system to competitors was introduced (Leyson and Thrift, 1997: 133). After this, rules were dissolved preventing the foreign ownership of British financial institutions to the extent that 'continental European economies are now being 'Americanised' from within, not as a result of any 'deliberate strategy but simply through the constant search for equity investment opportunities that characterise a 'US model' capitalist economy' (Golding, 2001: 33).

Returning back to finish the fourth point. During the disembedding phase of financialisation, macroeconomic policy became subject to five-year plans of monetary growth. The so-called Medium Term Financial Strategy was introduced (MTFS); a fiction of monetary intentions, because public spending, public borrowing and the money supply (belonging to bank deposits), 'were all to fall in tandem – and with it a projected inflation rate', based on the assumption that the private sector would re-catalyse growth (Hutton, 1996: 69) or quite simply 'deindustrialise'. Professor Thurow was perhaps wrong to assert that it couldn't be done all at the same time; but while it existed on paper, it was illusive in practice[36] (*see below*); and so the interest rate became the only real mechanism of adjusting the supply of money growth in the economy (Cameron, 2004), which, as we have suggested, was flawed precisely because financial institutions were able to tap the 'off-shore' capital market for extra competitive financial resources (see Palan, 2002).

Returning back to the theme of Thurow's zero-sum game, the most important question at this stage is this: *who benefited*? In his book entitled *The Financial Revolution* in 1986 Adrian Hamilton argued,

> The question now is whether the new world is safer than the old and whether it is conducive to economic welfare. The old structures directed funds from savings into employment and housing remarkably effectively, whatever the shortcomings in efficiency of old-style compartmentalised finance. The new world of finance is efficient. It has brought considerable advantages to the investor and the investing institution. What we have still to see is whether it will help to create jobs, to create growth and to develop trade (Hamilton, 1986: 29).

It is interesting to sit back and study this record of history as it stands in its own time. It is between a post-war past and pre-embedded financialised future; it is the representation of disembedding, because while it contemplates the benefits of the future, it remains cautiously optimistic and yet already persuaded by the present course. Firstly, we should consider that interest rates were in double-digit figures throughout the 1980s and into the 1990s. The average annual change in prices on the year before between 1974 and 1989 was over ten percent (House of Commons, 1999). Between 1988 and 1998, prices rose 52 percent (ibid.). To put this in perspective, every time the Central Bank exceeds the target for inflation of 2 percent, a letter is written from the Governor to the Chancellor to explain why[37]. Unlike the post-war period of full employment[38], unemployment in the 1980s reached highs of 9 percent and lows of 6 percent, increasing again to 8 percent during the decade of negative equity in the 1990s (Guardian, 2002). The scrupulous process of bank lending and creditworthiness in the traditional intermediated bank based model, was replaced with a disintermediated approach that secured loans against the value of the asset that was being financed (Warburton, 2000: 58). Such 'efficient', competitive and deregulatory forces rested on the notion that people had an innate understanding of financial rationality (cf. Waine, 1995). But in effect, negative equity and the recession that resulted from it during the 1990s proved that people were 'eating their own seed-corn' (Hutton, 1996: 72).

But even while there was a credit squeeze during the 1980s, there was more wealth floating around than ever, or was there? If anything, the 1980s let open the cage that contained Marcuse's one-dimensional man (1964/2002); he became multi-dimensional in his pursuit of 'conspicuous consumption'; except this was not an introverted display of moral scruples and class distinction (Veblen, 1925: 61-65), but an extroverted display of competitive hedonism (see Marr, 2007). A little known publication entitled *Where there is Greed* by the Rt. Hon. Gordon Brown MP, soon to be Prime Minister of the British Government, demonstrated that the Thatcher years had increased wealth to the nation between 1979 and 1989 (see Douthwaite, 1999: 70). Except however, the top two percent of the income spectrum gained in equal terms to those of the bottom 50 percent (ibid.). Such high interest rates to control money growth benefited those with assets and savings; and those who intended to borrow large amounts to keep up with rising house prices were deluded by the hidden (global) translation mechanism (Cornford, *et al.*, 1994). In fact, the top 1 percent owned 53 percent of company shares (Douthwaite, 1999: 70). At the other end of the spectrum, 1.8 million home-owners suffered the effects of negative equity, mainly those unable to help themselves out of debt (Cornford *et al.,* 1994), and in 1991 at the peak of the crisis, 75, 540 homes were repossessed (Guardian, 2003). Britain's popular campaign for a shareholding nation wasn't, it would seem, that popular or even that fair. For example, even the shares that were attained through privatisation and de-mutualisation served to 'reinforce social and geographical inequalities in wealth and income' (Martin, 1999b: Martin and Turner, 2000) and further reiterated the belief especially in the early years of de-regulation, that the financial guardians of savings i.e. life assurance firms and pension funds, were a sure bet for people who could afford to save for retirement; but not afford to lose.

What are we saying here precisely? Are we saying that inflation is a social good? Are we saying that people do not have a right to pursue their own wealth creation? Are we saying furthermore that the idea of popular capitalism was a bad idea? Not at all. To deduce these questions would be to miss the point; although, it is readily accepted that the analysis above draws parallels to the Marxist argument. For example, Dumenil and Levy (2001) argued that finance capital 'reversed, in the straightforward sense of the word, these trends to its own advantage...it defined, or rather re-established, rules guaranteeing its supremacy...In all countries, finance set up new strategies targeted to the control of any social forces that could impede its progress'; and secondly, 'finance attracted huge amounts of income in a general environment of strong tensions on distribution' (ibid.: 596). In Marxist terms, whether class emanates from finance capital or the gentry class, it is not something that we can avoid; but it is something that can be harmonised with other interests and a wider set of goals, at the national and global level (*at the very least*). Thus, the further omission in this Marxist perspective is that finance capital emerged not *over* social forces, but *through* social forces that were already embedded in the dispositions of the post-war context and the expectation towards *what* the future would bring, especially in the emerging neoliberal policy. As the historian Tony Judt argued,

> If the European state could no longer square the circle of full employment, high real wages and economic growth, then it was bound to face the wrath of those constituents who felt betrayed...The greatest beneficiaries of the modern welfare state, after all, were the middle classes. When the postwar system started to unravel in the 1970s it was those same middle classes who felt not so much threatened as cheated: by inflation, by tax financed subsidies to failing industries and by the reduction or elimination of public services to meet budgetary and monetary constraints (Judt, 2007: 462).

From this, we can now begin to re-interpret the significance of the crisis decades of the 1970s and the kind of political imagination, which would be used to satisfy this middle class politics. In the 1980s, the state had a pension promise to its citizens in the form of the Basic State Pension (BSP) and the State-Earnings Related Pension Scheme (SERPS). Both National Pension schemes were linked to earnings and not to prices, and secondly; SERPS was an additional scheme linked to the incentives of employment (and for those not belonging to an occupational scheme), so that a person would receive 25 percent of his/her earnings, which was conditional on the duration of employment and the person's age i.e. a young person would have to work for a greater number of years than older people (see Blackburn, 2002a). As Waine argued, this creation of the 1975 Social Security Pensions Act 'was seen as a long-term framework within which earnings related pensions could develop' (Waine, 1995: 320). It provided for those who did not belong to a company pension scheme and it provided an additional pension income for those who could 'top up' their own scheme. The Social Security Act of 1980 signified a reversal of embedded liberalism, because it introduced a whole host of pension related changes (*as we shall explore*). For simplicity's sake, perhaps the most obvious and most glaring one was this: the state pension became linked to prices rather than earnings (Blake, 2000: 226). 'There was no redress, no discussion; it was taken as axiomatic that taxes should fall as a proportion of national output and that SERPS and the basic pension alike were too generous' (Hutton, 1996: 200).

This was an era of fiscal rectitude, where the politician focused on the need for monetary discipline. The public deficit during this time was high at the beginning of the

1980s, but ironically; the fuss made over monetary targets does not stack up. For example, average net public sector borrowing between 1980 and 1985 was £2.3 billion, and between 1986 and 1990 it was £1.9 billion[39]. Not a great deal of difference when we consider it soared again to a staggering average of £34.1 billion between 1990 and 1995 (ibid.). The government deficit in 1983 was 4 percent of GDP (Guardian, 2001). Today, it is 2.7 percent[40]. Gross national debt was 43 percent of GDP in 1983 *(please see Appendices, diagram two annex D).* In nominal terms this was £143.9 billion. In 2002, gross national debt was 42 percent and in nominal terms this figure was £434.5 billion. In percentage terms, we would be splitting hairs to say there was a difference between then and now. But in nominal terms, today's public national debt is three times larger due to the financialisation of the (cultural political) economy *(financial industry worth 17 percent of GDP)*, which has grown larger and more tolerant of debt as a temporal fix for pension fund investment.

When we begin to make these simple contrasts between then and now, it really becomes a wonderment why privatisation happened at all. But again, we may miss the point. Privatisation was inseparable from the kind of politics that was emerging out of the crisis decades of the 1970s, which balanced the threat of economic insecurity on the one hand and hope for a better future on the other. The new politics was an offering of freedom from insecurity linked to the simplicity of the 'new right's diagnosis of crisis': 'in its simplicity lay its persuasive capacity' (Hay, 2004: 509). This period of disembedding was what Colin Hay has described as the 'rationalisation of normative neoliberalism...Accept the assumptions, and neoliberalism was rationalised' (ibid: 514). As Hay summed up,

> ...the neoliberal economic paradigm in Britain was publicly predicated upon public-choice inspired narration of the crisis of the 1970s as one of an over-extended state held to ransom by a combination of sectional interests (the unions) and the escalating expectations of the electorate. The Keynesian paradigm was pronounced obsolete and, with corporatism, held responsible for the pervasive and unsustainable condition of stagflation. It was replaced by a combination of monetarist macroeconomics and supply-side microeconomics (Hay, 2004: 514).

So we begin to see, the middle classes, the beneficiaries of the welfare state (Judt, 2005: 76, 462) faced an economy in economic crisis; but this crisis was explained to the electorate not just in solutions, but through the assumptions of an economic theory that promised to rid the evil of positive liberty; its collective frameworks, institutions and community structures. There 'was no such thing as society', as Thatcher famously said; and this corresponded to a theory that is 'always concerned with showing how the Other, the Distant, is also the Near and the Same' (Foucault, 1966/2002: 370). Perhaps the irony is that the middle classes were indeed part of the problem. 'After twenty years...a new generation had become adult...they had adjusted their expectations to the only experience of their age group, that of full employment and continuous inflation' (Hobsbawm: 1995: 285). The very same catalyst that had motivated the post-war economy was now deemed to be a threat to people's expectations towards their standards of income; and those groups and institutions that attempted to maintain their standards of living in a high inflation economy through corporatist arrangements; in addition to those public institutions with public money, were identified as the source of the problem and a starting point for a solution. But as Thurow reminds us,

> This structure of our economy emanates from a simple human desire. Although falling wages and prices might be good for the economy, they are not good for the individuals or groups whose income falls along with these falling wages and prices. Each of us organises to avoid being subject to falling prices. But if we all succeed, we have an economy were inflation is endemic. To stop inflation someone's income must go down (Thurow, 1980: 61).

Conservatism in the 1980s was therefore closely aligned to the kind of individualism propagated by Friedrich Hayek (1944), and we should, with some enlightenment, interpret this through Isaiah Berlin's (1969) famous distinction between *negative* and *positive liberty*. In contemporary economic literature, rhetoric and argument of all different kinds and persuasions, there is an inherent bias, with the exception of some (cf. Galbraith, 1999: 2004, Shut, 2005: Stiglitz, 2002: Warburton, 2000), towards negative liberty based on the pre-theoretical assertion that freedom is a function of Darwinian natural selection; as if man has been returned towards his original impulses of survival, where man must avoid the impassionate temptation to be emotional, visceral, sympathetic and 'irrational' in his decision-making; for these are the fires that light positive freedom; the inclination to guide man to freedom and hence fuel what is abnormal in nature, distort what is naturally imbedded in man, who must learn to live once again through knowledge and experience, approach economic life as a cold calculating exercise without blame or guilt, to stand tall as an individual above the collective with a bond to what is owned – not what is owed, in an unchecked economic jungle presumed to perfect itself through evolution, regardless of the distortions to negative and positive freedom that this might create. Is there any wonder, therefore, that the economy and its institutions were allowed to regulate themselves, as if economic nature were a foregone conclusion, as if the ends of economic life were also the means, without prior understanding, insight or foresight into the consequences that they create for society and politics as a whole, or the privatisation or even financialisation of positive liberty that they ironically promote? For example, Ericson *et al.* (2000) help us to understand the significance of this when they argue,

> Neo-liberalism conjures a view of civil society as a self-regulating mechanism of social solidarity. In fact, civil society requires massive intervention by the insurance institution in the absence of such solidarity. While state intervention itself has been reduced somewhat, at least in some areas of social insurance provision, governance is not diminished but rather changed and elaborated upon through the insurance institution. Insurance becomes *the* institution of governance, providing administrative and policing capacities for risk management, population management, social security and social cohesion. This is governance at-a-distance, embedding surveillance and power in centres of calculation and networks or risk communication between insurance and other institutions (Ericson et al., 2000: 550).

Neo-liberalism does not therefore ameliorate or subjugate the potential malfeasance and unaccountability emerging from positive liberty. In fact, it amplifies it to a position beyond social comprehension, as the guardians of technical control take the core questions of our time and turn them into administrative procedures. But let's not get ahead of ourselves. There is a clear distinction between 'expert-systems' operating within a clearly regulated public sphere whose goal it is to serve the many and not the few; and those 'expert-systems' operating within the context of profit making. Delivering a paper to the Actuarial profession in 1968 entitled *Social Security and Occupational Pension Schemes* (before the 1975 Social Security Act cast a long-term vision for occupational pensions), C. S. Lyon, an actuary, stated: 'I fail to see how those of us whose primary concern is with occupational pension schemes can afford to be unmindful of their place in a general pattern of social security. Nor can I see how a pension scheme can be properly thought out without some underlying knowledge of the needs of our people' (Lyon, 1967: 356).

Following this path, it is now necessary to sum up and get some bearings. We have tried so far to examine the broad macro initiators of belief in the shareholder society, as well as some of the policies and assumptions informing disembedding governmentality. We have also assessed in detail the legitimation of neoliberalism as an economic experiment in deductive theory. But now we must turn briefly to the micro changes in Pension legislation that created the stick and the carrot for an autonomous movement out of state subsidised and private collective pension schemes; and which led to the rise of life assurance as a private vehicle for protecting people's hard earned savings, through innovative actuarial and financial strategies designed to out-compete other firms in the market, creating expectations of performance that took on a life of their own.

The Personal Pension: Freedom, Structures and Cultural Choices

As we highlighted above, the Conservative government pledged an attack on all forms of collective control or positive liberty, and such institutions were to be unshackled by an economic policy that guaranteed monetary freedom and control both at the same time. As early as 1956 the British government introduced Retirement Annuity Contracts (RACs), a 'tax favoured forerunner to today's personal pension plan' (Blackburn, 2002b: 64). But in the post-war period, both Labour and the Conservatives gravitated towards a broad based consensus regarding the central purpose of the *collective* occupational pension fund (Waine, 1992). But in light of the new politics, this post-war institution conflicted with the broad aims of individual ownership (Waine, 1995). The notion of the Personal Pension managed to 'kill two birds with one stone'; because while it could reduce the tax burden on the state, reaffirming the middle class belief in collective crisis, it also had the potential to devolve investment control from the auspices of occupational pension funds and their actuarial managers; so that the individual achieved a form of ownership and autonomy regarding the 'choice' of investment scheme and the 'flexibility' within it.

What is glaringly obvious now, but which was hidden then, is the point that this policy represented more of a shift of responsibility from collective social institutions to competitive individualised companies. But we can go further. The financial risks and uncertainties that were covered by the insurance mechanism of occupational funds, was transferred to a relationship between the financial institution and the consumer, where it was assumed that the individual had a natural propensity to assess financial risk, and where it was assumed that this would take place more 'efficiently' within a free-market exchange relationship. With the benefit of hindsight, a few questions arise here: (1) why were individuals attracted to the Personal Pension given the individual responsibilities and risks that it created, and why did individuals contract out of an occupational pension fund with its links to the benefits of SERPS and insurance provision? Barbra Waine (1995) helps us to understand the significance of this change,

> The logic of its [personal pension] individualism required just a shift from collective to individual forms of ownership but, as corollary, the removal of the putative guarantees of income in retirement which were characteristic of collective ownership whether in the form of SERPS or occupational schemes (Waine, 1995: 322).

To put this context, in 1996 7.5 million employees were part of SERPS and a further 1.2 million employees were 'contracted-in' to SERPS through their occupational pension (Blake, 2000: 225). At the other end of the spectrum, 3.5 million people (employed and self-employed) did not have a pension at all and so were part of the Basic State Pension (BSP). On the other hand, 9.3 million employees belonged to 40, 000 'contracted-out' occupational schemes, which up to 75 percent, were salary related (ibid.). In the personal domain, 7 million (both employed and self-employed) workers were part of a Personal Pension Scheme (PPS) (loc. cit.). By this reasoning, 12.2 million or 42 percent of workers were eligible for the state subsidised pension scheme or indirectly through their contracted-in occupational scheme. In contrast, 16.3 million or 57.2 percent belonged to private occupational or personal pension schemes that did not have access to SERPS (Blake, 2000: 224)[41]. In 1996, it would seem that the private domain of personal pension provision had increased not only in relation to the state scheme, but in relation to collective schemes too. For example, while only 4 percent of the working population had access to SERPS through their occupational pensions, 32.4 percent of the working population had contracted-out of occupational schemes. This begs the question, what was so attractive about 'contracting-out' into an occupational pension fund or a personal pension plan?

It is here that we can begin to assess the micro level changes and incentives that rolled out a red carpet of belief in the promise of private pension provision. Arguably the most relevant changes (to this discussion) came in the form of four sticks and four carrots. Firstly, the Social Security Act of 1980 abolished the link between pensions and earnings, and linked them instead to prices (see Blackburn, 2002a: Waine, 1992/1995). Secondly, the 1995 Pensions Act introduced two measures that reduced the overall benefits and incentives of SERPS: (1) employees would receive a top-up of 20 percent instead of 25 percent of earnings from 1999, as we highlighted briefly above (Blake, 2000; 226); (2) the method used to calculate the entitlements from SERPS was reduced by 2 percent and according to Blake (ibid.) this reduced the benefits of this scheme by about two thirds (loc. cit.)[42]; (3) the 1995 Pensions Act abolished the state's financial responsibility of maintaining an index between occupational schemes and inflation (ibid.; 227). Apart from anything, such changes dwindled the generosity of SERPS and arguably undermined the benefits of occupational provision (Blundell *et al.*, 2002), which have proven, although not definitely, to encourage longevity in employment and early retirement (ibid., 2002: 165).

On the other hand, there have also been a number of carrots. Firstly, what was lost as a tax disincentive through the medium of SERPS was gained through financial entitlements linked to either contracting out or personal pensions (Blackburn, 2002a: Waine, 1992). For example, all contracting out between 1989 and 1993 was rewarded with a 2 percent National Insurance rebate (Waine, 1992: 323). A similar incentive was introduced 'even' to discourage people moving back in the opposite direction (Blake, 2000: 226). An interesting, yet subtle move that deserves out attention is this: under the SERPS arrangement, contracted-in schemes were eligible to a *guaranteed benefit* linked to the stated rules of the Social Security legislation of 1975. The Pensions legislation of the Major years replaced this guarantee with an emphasis on *guaranteed minimum contributions* (see Waine, 1995: 323). Effectively, this relaxed the rules of the 1975 legislation and while there is no clear evidence to support the following claim, we could infer that this change made it easier and more logical (and probably cheaper) for companies to contract-out (Blake, 2000: 223). All these incentives and complex tax changes can be summed up by one single change. For example, up until 1988, membership of an occupational pension scheme was a compulsory condition of employment (Waine, 1992: 33). Pensions legislation, the financial incentives, the disincentives, all encouraged people and companies to switch to private forms of provision that lacked the benefits and the guarantees of the state system and the strict rules that made them possible.

To put the brakes on this analysis slightly, sometimes we forget that behind the numbers and the legislation are people. Using some of the evidence attained from the questionnaire conducted in this research, let us briefly take into account the reasons why people were persuaded to take out private personal pensions. Firstly, as a cursory glance of events in the past, it would seem that the arrival of the personal pension offered both incentives and structural constraints for individuals, whom sometimes acted out of convenience, preference for performance, or simply because the emerging field 'made sense'. For example, let us consider the following responses,

Respondent 15:
The advice was from all directions, 'your money is safe in pensions' (Q15)

Respondent 11:
They were introduced by the company I was working for then...I started with a company personal pension, and on redundancy I continued with Equitable Life as the most simple answer to my pension needs. I wouldn't need to change company. I wouldn't lose the benefits added to the previous policy...I didn't shop around. The company I worked for had done some research and selected them. On redundancy it just seemed easier to continue a personal pension with the same company (Q11).

Respondent 14:
When I changed my job in 1984 I found that my employer's pension arrangement were not compatible with my previous one. I was thus forced to find a fund into which I could transfer my pension fund. This was a 'Transfer' policy (Q14).

Respondent 16:
Occupational Pension Fund AVCs...offered by my previous employer as a method of enhancing pension (Q16).

Generally speaking, these responses highlight how the private personal pension emerged silently into the lives of everyday people as commonplace practices. In some cases it was due to mass exposure to pension discourse and in others it was out of convenience and trust in the assurances of company Directors. In some cases it was because the government had opened 'only' *one door* to the private sector, without as it were, resolving the flaws of occupational pensions. In the final example, we find that there begins to be an emphasis on 'enhancing' pension 'income', to which we now turn. But before we do, we must recognise that privatisation was latent in the post-war period and that this was associated with the dispositions of individuals. For example,

Respondent 3:
My first pensions policy was an Employees type savings plan...occasionally I topped these up these...with additional voluntary contributions...as I earned larger business bonuses...Subsequently I took out an additional Directors Pension Savings Plan...as a means of further tax efficient ways of saving (Q19, 20).

Respondent 17

My Father was unable to find work that enabled him to attain a pension. After enforced retirement he had no finances other than the state retirement pension. During the first 25 years of my working life I too was not able to make provisions other than contributions to a very poor insurance policy that my employer introduced. Unfortunately, at that time when one left the employer one was obliged to withdraw their contribution (Q26).

As we can see, during the post-war period private methods of saving were already available and they offered a way of boosting saving income. But the attraction to private pension provision also seemed to depend on people's dispositions, their sense of memory linked to a monetary past, which wasn't cold, but emotive. The poor insurance schemes available during this latent period also contrast sharply to a new era that started to introduce the notion of financial performance. For example,

Respondent 13:

I was worried about inflation and looked for companies which provided some protection against it...the market for 'inflation-busting' policies was narrow at the time...I felt sure that I had a reasonable chance of counteracting inflation to some extent (Q7).

Respondent 7:

The government at that time was actively promoting the new concept of personal pension plans. As a young man forced to join a company pension plan where early leavers were subsidising the directors and the time-servers, I was particularly susceptible to the argument that at last, all my own savings would be applied to my own pension plan... I was aware that frozen final-salary benefits from previous employers could become virtually worthless over time in a high inflation economy. The opportunities to have a personal control over pension scheme was very attractive (Q18).

What we find here generally is that the emerging field of (disembedding) governmentality opened up channels of self-problem-solving; but these channels were guised as new freedoms, choices; to be achieved through individual motivations that would conspire and interact to force change upon the private sector, a demand for novel goods, where the supply was in its latent stages. What we also find *(see respondent 3)* is that privatisation already existed prior to personal pensions, that there was a certain degree of path-dependency about it all. But this did not mean that privatisation was an obvious next stage of evolution, because what we also find is that behind the extended choices of privatisation were subtle, hidden, if not structural constraints upon which public policy failed to act; and so the only way forward was the light that crept beneath the door. We also find here the dispositions of people interested to resolve their own fears and concerns towards the high inflation economy, which is associated with the feeling of a lack of individual control and the necessity to pursue ideas of economic freedom, without consideration to what those experimental freedoms might bring.

Conclusions

One of the obvious points that stands out from this examination is the following: if the state was prepared to make such an effort to privatise and restructure the economy along the lines of low inflation, deindustrialisation and popular capitalism, why wasn't the same amount of effort used to resolve the issues that constricted the potential of social welfare institutions i.e. occupational pensions? Perhaps one of the reasons was because there was a genuine belief in the efficiencies of privatisation and of the financial markets to instil a culture of self-responsibility, which would, under the assumptions of neoliberalism, create a market of interacting economic identities within market exchange relations, completely devolved from the systemic influences of the state. As Andrew Marr's (see Costello, 2007) excellent television series of British politics suggested, Margaret Thatcher may have institutionalised a society quite contrary to her own personal objectives – a controversial issue to say the least. But what we have also gleaned here is that disembedding governmentality opened up the idea of personal 'choice', which satisfied the gurgling stomachs of middle class England, whose post-war expectations had heightened during the post-war boom. The future, it would seem, could not escape its past, despite a neoliberal philosophy that intended to wipe the slate of positive liberty clean.

Furthermore, we partially addressed here the issue of embedded dispositions, the sense of self, which saw in the new economic ideas of personal freedom the 'means' of increasing pecuniary control and wealth-management. Such incentives not only absolved the motivations and residues of post-war continuities, but enabled people to perform their own economic imaginations. While privatisation exploded out on to the scene during the 1980s, it also remained latent during the post-war phase of growth, especially in those pension schemes in the occupational sector, upon where individuals were encouraged to 'top up' their private pension. On the other hand, it would seem that the life assurance market remained largely underdeveloped, and so the primary effect of governmentality, in our case, was to create a significant, albeit opportunistic problem for private pension providers to 'solve', in ways that would initiate the development of innovative ideas in finance, which would be applied performatively to the construction of new competitive markets and expert-systems, with new powers of moral authority and control, resulting not only from formal legislation, but from the rather obscure powers of the 'unsaid'.

One of the assumptions of economic theory is that, under conditions of full information, an individual can act rationally. In the shareholder model of capitalism, it would seem that the majority of the population was dissuaded from the vagaries of stocks and shares, and instead, gravitated towards what was perceived to be a safer channel of retirement intermediation. Because economics makes a simple distinction between rationality and irrationality, mind and body (see Palan, 2001b), neoliberalism was blind to the consequences of shifting the responsibility for welfare on to commercial companies that would increasingly radicalise their business strategies in order to keep pace with the reflexive logic of demand and competition. We therefore turn to an understanding of Equitable Life, a life assurance company that transformed its very *being* into a vehicle of imagined financial futures; which would further disembed the individual into entangled expectations of performance, and create new implications for the moral governance of financialisation.

Chapter Six

Disembedding the Middle Class Saver: Equitable Life, Financial Futures and Sub-politics

'Equitable is Britain's Enron, say policyholders'
(Guardian, 2002c)

'Outrage as Equitable cuts pension policies by 16%'
(Guardian, 2001b)

'Put them out of their misery'
(Guardian, 2002a)

'Treasury accused of Equitable cover-up'
(Guardian, 2002d)

'Even with hindsight, what could we do?'
(Observer, 2000)

'Equitable victims face a tough battle'
(Guardian, 2002e)

Introduction

These are just some of the headline quotes reflecting the on-going saga that is Equitable Life. With parallels to Enron in the United States, Equitable Life is a cultural (economic) story that speaks of two very different stages of financialisation. Every end, we are told, has a beginning and just like every good story, there are always deeper meanings hidden in the narrative connecting two interwoven parts through more subtle, even poetic exchanges of meaning and symmetry. This is not to make light of Equitable Life or even to call the debacle 'poetic', but to suggest that its toppling belongs to a stage in social history that we cannot forget and should not forget, because it represents a turning point in the unfolding drama of financialisation, where re-embedding is a natural consequence of its beginning – of 'disembedding'; where financial identities have cast aside their contentment and charged forward with ethical questions, questions subsumed with an intolerance aimed towards the harbingers of the economic system, where financial identity takes on a politico-ethical purpose through years of legal wrangling transcending national institutions, finally, to attain acknowledgement and accountability at the supranational level. Like settling on new land, the pioneers hope and fight for compensation and borders to satisfy their perturbed longings. What new future is this social force erecting and how does it differ qualitatively from what we already have?

In order to understand where this social force is taking us, we must first of all understand its beginnings and the cultural context that initiated the momentum of this story. In particular, this chapter will seek to understand the vicissitudes of financialisation by exploring how Equitable Life transformed the provision and regulation of private pensions. Equitable Life was the oldest and most credible life assurance company in Britain. Dating back to 1762, Equitable had been at the forefront of modern actuarial techniques and in the post-war period was well known for its conservative reputation and upper class links. During the post-war period, Equitable Life's business was focused towards large public sector contracts with University teachers, but also, it had fostered early initiatives in an insurance approach to personal pensions from the 1950s onwards (Penrose, 2004). Like so many other financial institutions, Equitable Life would begin to restructure the focus of its business during the 1970s and 1980s (Morgan and Knights, 1992: Knights and Morgan, 1994). Its long running share of the AVC market, a particular approach to retirement funding that allowed employees to top up their pensions, continued and progressed Equitable's leading position as a private pension provider. The advent of the personal private pension in 1988 was a particular opportunity that Equitable Life embraced with popular support from its middle to upper middle class target market (Penrose, 2004: 683). In sum, the company had made strides in what was shaping up to be a highly competitive retail financial sector (see Clarke, 1999).

Today however, Equitable Life has a much different reputation. Over the course of the last decade, up to one million policyholders have lost three billion pounds in aggregate (Penrose, 2004). This chapter does not intend to examine the changing fortunes of Equitable's reputation, nor is this chapter an historical analysis of how policyholders lost their savings with Equitable. This chapter is not about establishing blame – as this is achieved in countless magazines and independent reports (see Penrose, 2004, EP, 2007). Instead, this chapter intends to situate an understanding of Equitable Life in the context of financialisation – to understand Equitable Life as an 'expert-system' with links to a reflexive consumer market in personal private pension provision. Due to the wider field of disembedding governmentality, the middle class saver became increasingly entangled in commercial relationships, and in the case of

Equitable Life, savers placed trust in an institution that revolutionised the notion of saving based on security with high returns. Equitable Life seemingly generated expectations of returns and this became a vital aspect that sustained the business over time.

This chapter is organised as follows. In part one, it will be important to prepare the reader with some general background into the case, which will pick out central issues for digestion at a later stage. Specifically, we will briefly examine the crisis of Equitable Life and the decision by the House of Lords to force the company to uphold its pension guarantees. Secondly, we provide an examination of the life assurance sector and its contradictory stance to the moral continuities of the post-war economy. In this section, we want to explore the general underlying context of the life assurance sector and the contours that placed incentives on individuals to make long-term financial decisions. Importantly, the undercurrent of disembedding financialisation seemed to be an ethical contradiction, as the emerging orientation towards commercial self-responsibility rested upon a residue of welfare paternalism. In section four, we make tracks towards an investigation of Equitable Life as an expert-system. But before we make this leap, we firstly explore the historical significance of Equitable's decision to divine the future without sufficient financial resources as a failsafe – a key characteristic of financialisation. This historical comparison will give us a sense of Equitable Life's innovative nature in relation to others in the competitive field and allow us to understand how the institution was socially constructed. We will then use empirical information collected from an on-line questionnaire (*Annex A, One*) to understand why ordinary policyholders decided to save with Equitable Life and why their saving practices and perceptions made sense. Three general contributory factors mattered in the normalisation of Equitable's investment strategy: performance, emulation, representation and the post-war disposition. We then explore the regulatory nature and conditions surrounding Equitable Life and find that there was an attempt to separate cultural issues from economic ones. Lastly, we examine the policyholders' legal case against Equitable Life and the social consequences this may have had for re-embedding financialisation.

Background to the case: Economic Fait or Unintended Consequences

The controversy of Equitable Life began when it sold two different types of guaranteed 'with-profit' annuity policies (WP) in between 1957 and 1988 (Baird, 2000: Penrose, 2004). Conventional WPs were an innovative personal pension product for the emerging retail market in private pensions that promised low risk and guaranteed investment returns over the contract of a pension cycle. A standard practice of the time was to offer a Guaranteed Annuity Rate (GAR) to be bought at the date of retirement. Other options included the Guaranteed Annuity Option (GAO), which allowed savers to buy into an annuity at current rates either from Equitable Life or from other life assurance companies in the business. The GAR was an attractive option because they fixed the pension's terminal bonus at an annuity rate so that if economic conditions changed or became more uncertain, policyholders could be safe in the knowledge that their annuity would not change. The GAR was also attractive because it gave policyholders the flexibility of deciding whether to take an annuity based on an assessment of Equitable Life's financial performance and external economic conditions, which policyholders assumed Equitable could protect against. The problem for Equitable Life was that economic conditions *did* change and its financial performance *was* prolific, but not in a way that was favourable to the viability of the business or the security of contributing policyholders (Baird, 2000: Penrose, 2004). The annuity rate that Equitable had offered to its policyholders was well below the headline rate, but as inflation and expectations towards interest rates began to fall, the GAR option became that much more valuable to savers planning for their retirement. In addition, current annuity rates declined in the 1990s beneath GAR rates, which had been sold in between 1975 and 1998, making this a potential issue for the company as a whole. Whether the marketisation of private personal pensions in 1988 and the financialisation of Equitable Life's strategies coincided with this potential liability remains to be seen, but a key 'turning point' seems to be the company's 'risky decision in 1993 not to build up a reserve to cover the cost of GAR liabilities' (Baird, 2001: 5-6).

For Equitable, due to the fact that so many GARs had been bought (116, 000) under the 'full and fair' distribution policy that it had sold to policyholders, it is apparent that the GARs became a tremendous financial burden for the company to honour. The Penrose (2004) report confirmed that the Society had sustained a cash-outflow to beneficiaries of over-inflated bonus policies creating a black hole in the accounts worth £4.4 billion by end of 2001 (Penrose, 2004). The question of when this black hole appeared to management is part of the mystery surrounding Equitable Life. Some commentators argue that the roots of this crises became apparent as far back as the 1970s and 1980s[43]. It is apparent from the Penrose report however, that a key change occurred during the early 1990s a few years after the promotion of personal pensions in 1988. Key to an understanding of Equitable Life is the degree to which previous policyholders became the primary beneficiaries due to excessive and sustained payouts over the 1990s. This says something of the contradictory stance of the institution especially with regard to its policy of fair distribution. While the debacle of Equitable Life could be described as an accident, due to exogenous economic conditions, this argument tends not to understand how the company helped foster a consumer type market for lucrative financial products. Even the very notion of 'with-profits' is inscribed with connotations of return without risk and while other companies competed in this market, Equitable Life took a leading position using its reputation, market position and moral authority over welfare related concerns. In this respect, 'principally, the society was the author of its own demise' (Penrose, 2004), but it was also the author of an emerging space in retail finance that set a relationship between the actuarial control of investment risk and the expectations of ordinary middle class savers.

In 1998, Equitable attempted to re-write the history books by reversing expectations as the managers came to realise that the fund's deficits were unsustainable (Baird, 2000). Equitable Life interpreted the GARs to be a threat to non-GAR policyholders. At which point, Equitable Life attempted to manipulate its finances so that GARs and non-GARs were treated equally under the policy of 'full and fair' distribution. The problem was that the Insurance Companies Act of 1982 (see Baird, 20000: Shelly, 2002) provided a loose and *ad hoc* framework for defining what constituted Policyholders Reasonable Expectations (PRE) within the life assurance business. This initially allowed Equitable to take a very broad perspective of what PRE meant. Equitable argued that it was within its rights to compensate non-GAR policyholders as a result of contingent economic conditions by massaging the bonus rate. Complaints began to emerge that Equitable had unfairly altered the returns given to GAR policyholders in 1998. Specifically, GAR holders were told that they must either drop the annuity option and retain the reversionary bonus or keep the annuity policy and accept a decrease in the terminal bonus (Baird, 2000). At which point Equitable Life decided to take legal proceedings, to firstly ensure that the reversionary bonus policy was lawfully accepted, and secondly, as a damage limitation exercise so that the matter was resolved collectively instead of case-by-case. Equitable Life represented the interests of non-GARs and the case of Mr. Hyman came to represent the interests of GAR policyholders. The case was overturned to the House of Lords after it had been referred past two High Courts, from where the Law Lords found in favour of the GAR policyholders.

In June of 2000, the House of Lords ruled against Equitable Life's decision to cut bonus rates on 90, 000 guaranteed pension schemes, placing the oldest mutual life insurer on the brink of collapse and creating serious and sustained losses to the pension funds of Equitable's policyholders. The Law Lord's decision was interpreted by Equitable's managers that it must uphold the commitments that it had made to GAR policyholders. Due to the size of the liability, which was estimated to be over £1.5 billion (at the time, Baird, 2000), Equitable argued that the firm was no longer operationally viable and could not under present financial conditions resolve the GAR liability under the circumstances of the business. Plans were therefore made to sell the business, but only those parts of the business that remained viable were sold to interested parties, leaving Equitable's WP business without a buyer. It was therefore forced to close to new business, locking in policyholders into the WP business with financial repercussions (Market Value Adjusters) for those who decided to terminate their policy.

The problem with Equitable Life is that it reneged on its promise or guarantee of financial performance, which it believed it was within its right to adjust in order to make the company viable given its financial responsibilities to all mutual fund members. But in this we enter the grey area between what Equitable was legally allowed to do under its mutual 'with profit' status and what the product guaranteed to do according to the 'expectations' of policyholders. In this context, it becomes important to understand that Equitable's market position and its product range became endowed with economic meaning that made sense in the cultural economy of life assurance. Equitable attempted to manipulate or go back on the expectations that it had instilled in the product on the rather curious and ironic justification that it was protecting and upholding policyholder's reasonable expectations (PRE). The Law Lords did not find in favour of the small print or Equitable's full and faire distribution policy. It explicitly recognised Equitable's part in providing its policyholders with a guaranteed expectation of performance.

This chapter examines the case of Equitable Life in the context of financial consumerism. While the GAR policies were an important material consideration impacting the financial strength of the firm, it is argued here that Equitable Life accelerated this problem because it had developed approaches to investment risk that were designed for identifying a target market and raising the expectations of policyholders under the consumer discourse of risk and return. The GAR issue was not separate to this development. In fact, it provides an interesting question. Given that the GAR became an increasing issue, did Equitable Life believe in its actuarial approach to risk to the extent that it could beat the market and its uncertainties? While we will attempt to partly answer this question in later sections, for the time being, it will be important to understand the historical and social dimensions of Life Insurance from a critical and cultural perspective.

Between Paternalism and Financial Consumerism: Situating Life Assurance

In the previous chapter, we introduced the notion of the personal private pension within the context of popular capitalism. We then demonstrated the micro-strategies used to encourage the privatisation of pension provision, and following this, we illustrated the subtle practices and individual beliefs informing this normalisation. Now, we move gradually towards a focus on the expert-system of Equitable Life, but in order to fully appreciate this institution, we need to situate life assurance in the context of what seemed to be a contradictory relationship between post-war paternalism and financial consumerism. We begin this by constructing a traditional idea of what insurance is.

In order to fully appreciate the political significance of Equitable's innovative approach to saving and investment, it will be important to draw upon a definition of insurance from a critical perspective. Ewald (1991) helps us to answer this question by arguing that insurance is an abstract technology 'that makes possible a range of insurance combinations shaped to suit their assigned function and utility effect' (Ewald, 1991: 197). What is relevant for Ewald is the insurance 'form' or the social contexts that necessitate for the idiosyncratic employment of insurance technology (loc. cit.). Ewald does not conceive of changes in the nature of insurance as part of a transhistorical development, but as discursive shifts in the cultural constitution or the 'insurantial imaginary': 'that is to say, on the ways in which, in a given social context, profitable, useful and necessary uses can be found for insurantial technology' (Ewald, 1991:198). Key to all such developments is the employment of risk as a 'technology of insurance' (loc. cit). The significance of risk for Ewald is how it is first identified in synch with a specific purpose or interest, and secondly, how it is represented as a tangible danger amenable to the objective and calculative methods of probability (Knights and Vurdubakis, 1993: 731). 'By objectivising certain events as risks...it can make what was previously an obstacle into possibility' (Ewald, 1991: 200); but while risk is considered to be a technology of insurance, the calculation of risk does not define insurance. The identification of risk through probability calculus alone takes us into the realm of speculation and limits Ewald's wider treatment of risk in the context of insurance[44]. While the application of probability calculus to statistics determines the chance event in relation to the individual, 'strictly speaking there is no such thing as an individual risk; otherwise insurance would be no more than a wager. Risk only becomes something calculable when it is spread over a population' (Ewald, 1991: p.203).

As we can plainly understand, collective insurance is something completely different to insurance achieved through individual risk-management strategies. And yet, the latter compels individuals into thinking that uncertainties can be calculated, through responsible methods of calculation. While this is more strongly associated with the re-embedding phase of financialisation, disembedding encouraged its movement. For example, the differentiation of tax advantages connected to certain sectors and products encouraged institutional investors to expand and diversify, placing an emphasis on *saving* as a performance based product to be sold by a competitive mass retail market (HM Treasury, 2002b). According to the Sandler report (ibid.), the tax system helped shape the class contours of Britain's privileged private saving system[45]. The combination of a regressive tax system and the state's hand in setting the priorities of performance criteria influenced the development of the cultural economy of life assurance.

By placing tax advantages as the central criteria towards how savers understood 'performance', providers used this to their marketing advantage. The complexity of tax differentiation also increased the need for savers to rely on expert knowledge, from the advise of sales experts and independent financial advisors on how best to channel savings in order to receive the best tax advantages (HM Treasury, 2002b: 136-140). Disembedding encouraged a scrupulous tendency on behalf of savers to look for product advantages that give better returns (ibid.). As the Sandler report admitted, 'clearly, given product providers' need to sell products in a competitive market place, they have to respond to the consumer and adviser preferences identified above, though it can be argued that providers contribute to the shaping of these preferences through their marketing strategies' (HM Treasury, 2002b: 141). This has contributed towards the idea of performance as being related to the provision of individual 'needs' (Knights et al, 1994), creating 'expectations of performance' mimicking in many ways, the 'Great

Expectation Machine' of the financial system (Golding, 2001). Knight *et al.* (1994: 51) help us to understand the relationship between expectations and needs in a more critical context. While Knight *et al.* (1994) do not deny the importance attached to individual expectations towards financial products, 'such a view neglects the way in which needs are as much a consequence as a condition of marketing and other supplier activities rather than a property of individuals which is identifiable prior to consumption' (Knight *et al.*, 1994: 51). Knight *et al.'s* central argument is that financial marketing had become a useful framing device 'for identifying the pattern and content of consumer 'needs' and (re-)designing products and targeting their distribution so as to exploit this knowledge profitably' (Knight *et al.*, 1994: 43). As Michael Clarke captured the issue, in one of the only academic books describing retail financial regulation,

> To put the problem simply, a free competitive market in the provision of products affecting long-term financial security involves an expectation that they will perform well. Consumers however, really only have one chance to get it right' (Clarke, 1999: 15).

One of the important consequences of situating life assurance in financial consumption has been to frame Policyholders Reasonable Expectations (PRE) as a paternalistic issue linked to the moral governance of private self-regulation. In simple terms, life assurance creates the potential for savers to benefit from investment performance. As we will become familiar with in later sections, contributors progressively gain from with-profits over the lifetime of a pensions cycle, because of the technical ability of retail investors, through fund management and actuarial calculations, to 'smooth' past the peaks and troughs of financial cycles. PRE is therefore defined by a relationship between policyholders and life assurance firms. What actually defines the relationship is governed by the particular aims of the life assurance company, which based on tacit assumptions, will deliver what present and future policyholders expect. In the disembedding phase, it was assumed that policyholders had a 'reasonable expectation' of their investment performance achieved on the basis of trust between the expert-system and the individual. In the re-embedding phase, there have been calls for 'greater transparency about the performance of the with profits fund in any given year [which] would give policyholders a 'reasonable expectation' that they would receive whatever return was reported that year' (HM Treasury, 2001: 140). In the re-embedding phase, it is assumed that 'more' information can absolve financial risk, but we should also notice here how the responsibility, as a natural consequence of transparency, becomes individualised.

As a statutory concept, PRE first came to light in the political domain as a result of the Sir Hilary Scott Committee report on *Linked Life Assurance,* which led to the Insurance Companies Amendment Act in 1973 (Baird, 2000: Shelly *et al.*, 2002). These changes led to the creation of state powers to intervene in any occasion where PRE had not been met. The powers were residual and confined to understanding solvency and prudent management and intervention depended on certain circumstances arising. Significantly, the Insurance Companies Act in 1982 placed a greater emphasis on the 'continual monitoring by the appointed actuary' (Shelly, 2002). While PRE was a statutory concept, the political vacuum that it created enabled life assurance companies to take up the reins of self-regulation. As Shelly (2002) argued, 'because the 1982 Act does not contain any definition of policyholders' reasonable expectations, the regulators and the actuarial profession have built up an informal framework over the years to determine what are policyholder's reasonable expectations' (Shelly, 2002)[46]. Morgan and Knights (1992) help us to understand the significance of this when they argue,

> ...the making for life assurance products was embedded in a set of social relationships which was principally controlled by the companies, in conjunction with the state. Clients were considered as suffering from a moral deficit; demands for immediate gratification displaced their moral responsibilities (Morgan and Knights, 1992: 43).

To define Policyholders Reasonable Expectations (PRE) would be to make the rules regarding the regulation of life assurance during the disembedding phase explicit. Often, events are shaped by what is said and what is done; but equally events are also shaped by what is 'not' said or done. In this case, the 'unsaid', the silence of inaction stabilised the market for private pension provision to develop according to its own competitive and pecuniary motivations. However, in transferring responsibility to the life assurance sector and private pension providers, the state's moral interest was to thwart the natural desires of private investors, appealing to the expert knowledge of financial practitioners to guarantee this stability. Afterall, the shareholder society envisioned by the Conservative government failed to produce popular capitalism. Instead, there was an interest to sew the seeds of financial intermediation as an alternative channel to self-ownership, which satisfied savers and compelled investors to act upon the demand that had been catapulted their way. But by encouraging the opacity of retail products such as 'with-profits' and by legitimating the autonomy of expert decision-making in retail finance, the state underestimated how the commodification of knowledge would lead to processes of marketisation, which in turn, would force a momentum of competitive forces on expert-systems to keep up with the 'needs' of the saver. This contradiction between post-war paternalism and financial consumerism even became explicit at the level of public policy. As Barbra Waine (1995) argues,

> The difficulty with such caveats and concessions to traditional concerns was that they were inconsistent with the chosen policy instrument and legislative framework which was to be put in place. Conservative ministers were, in effect, reinvoking paternalism by suggesting that personal pensions were inappropriate for certain groups and that far from being a mechanism for the promotion of individual ownership with universally positive effects, personal pensions could be highly problematic for a number of potential participants. At the same time, their commitment to anti-paternalism required them to abdicate any responsibility for controlling who moved out of SERPS or occupational pensions (Waine, 1995: 324).

To sum up, disembedding governmentality opened up a series of choices for the individual, which would present as a series of problems to be solved, so that the individual could individualise the solutions and tailor them to personal needs. During this phase, the individual became indirectly tied to the performance of high-risk financial markets, where the state protected the integrity of institutional practices both explicitly, through legal restraints and tax incentives, but also implicitly: through the 'unsaid'. Disembedding governmentality augmented the organisation of the cultural economy around the alert interests of high-income earners and marketing experts, towards performance criteria that contradicted the residues of the post-war moral economy. As a consequence, life assurance began to move away from humanitarian forms of insurance towards pension insurance based on investment style returns, as life assurance companies began to foster a relationship between individual consumers and investment risk based on the quality of investment returns. At the same time, the state in this deregulatory climate shifted the responsibility for paternalism on to the business interests of competitive companies. Finally, disembedding opened the floodgates to a new kind of saver interested in satisfying the very same performance expectations that expert-systems began to adopt. We will now furnish this concern with the expert-system through an understanding of Equitable Life.

Lest we forget: the Estate

Before we can appreciate the significance of Equitable Life's innovative approach to financial consumerism, it is important to go back to 1952 when Redington (1952), an actuary, wrote a seminal paper that would attempt to tackle some of the self-regulatory dilemmas of life assurance as a whole. Central to Redington's ideas was his observation that market conditions had become more uncertain and unstable, and that it was possible to begin thinking of ways to make events more 'probable' (Redington, 1952: 286-287). Redington proposed that market uncertainties could be overcome through 'immunisation', which signifies 'the investment of the assets in such a way that the existing business is immune to a general change in the rate of interest' (ibid.: 289). Redington proposed that it was possible to calculate the probability of long-term asset streams so that any change in the level of interest would not effect the solvency of the liabilities. While Redington believed that 'physical determinism' had 'given way to a more flexible philosophy with probability and statistics' to help cope with uncertainty, Redington argued that assumptions governing long term yield owed their respect to an 'expanding funnel of doubt' (Redington, 1952: 287). While Redington believed that it was possible to match liabilities with assumptions towards yield, the problem particular to life assurance was 'presentational' (Redington, 1952: 298).

Redington recognised that a life assurance company had two central objectives which seemed to be at complete odds with each other (Redinton, 1952: 289). The first was to ensure that the fund was solvent, that liabilities were matched on the basis of market values. Secondly, as life assurance firms generated business on the basis of producing surplus for policyholders, life companies had to ensure that investment surplus was fairly distributed and presented for public scrutiny. This created a dilemma because an active valuation policy was essential in order to ensure solvency, but on the other hand, surplus could only be realised on the basis of a passive valuation policy (Redington, 1952: 304). The significance of the passive valuation policy was contradictory to the active policy, because it depended on long-term discounted assumptions of yield to realise surplus, which if notional, could not be defined as a true picture of 'solvency' (Redington, 1952: 304). As Redington argued, 'it is this conflict between solvency demand for an active policy and the equity demand for a passive policy which is the core of our problem' (loc. cit.).

Due to the nature of this contradiction and the demands of the business, the leaning towards a passive valuation policy underlined the importance of an 'Estate' to deal with this problem in times of market uncertainty. The Estate as defined by Redington was an important notional part of the business for setting aside capital reserves in order to cushion the impact of volatility. Redington argued that capital reserves could be held in: (1) the liabilities (through a valuation basis): (2) in the assets (considering the margin between book and discount rates) or: (3) in a central reserve. Redington's caution was that the value of liabilities were 'not of fact but of opinion' because the 'liability cushion cannot be used except by changing the valuation basis' (Redington, 1952: 305). While the liability cushion had been vital for life offices in the past, Redington warned that 'that there was a danger of going to far the other way' (Redington, 1952: 305). Relying on an asset cushion from derived assumptions of investment returns and similarly, adjusting the valuation basis for liabilities, seemed to be out of touch with creating a fair and consistent distribution framework. As Redington summarised his feelings,

> The broad picture, which emerges from these considerations, is that a passive valuation policy is desirable in the interests of equity, and the maintenance of central reserve funds at a reasonable level is an economical way of holding the additional reserves, *which may be required to demonstrate solvency in changing conditions* (Redington, 1952: 306, *my emphasis*).

Since Redington (1952) wrote his paper in 1952, the business of life assurance and of the financial sector has become increasingly consumer orientated. What Redington probably could not have anticipated was the growth of life assurance as a highly competitive 'retail' activity where the focus seemed to be increasingly mass 'market-led rather than product-led' (Knights *et al.*, 1994: 42). From the mid 1960s, Equitable Life was a relatively insular and conservative life office serving a 'narrow market' (Penrose, 2003: 683). The change seemed to occur during the 1970s when Equitable began to loose its primary business due to a decline in demand from the Federated Superannuation Scheme for Universities (FSSU), due to legislative changes (Penrose, 2004: 683). From this point on, Equitable Life was spurred on to re-invent itself and 'elected on active marketing, and adopted a series of strategies aimed at increasing market penetration' (Penrose, 2004: 683). At the end of 1988, Equitable Life changed track towards the mass-consumer market in personal pensions, and developed various innovative practices designed to facilitate competitiveness and growth (Penrose, 2004:

683-692). This move was characterised as 'legitimate business' taking on board public welfare functions.

The Performativity of Finance and Marketing

> You may also like to reflect that while Ranson was an experienced and forceful man coming near to retirement, Headdon was his very much younger acolyte. His lack of experience of the world may have prevented him from understanding Sod's Law, to wit 'If anything can go wrong then sooner or later it will'. It is the sort of thing which actuaries should imbibe with their mother's milk, but Headdon may have been fed Formula instead.[47]

In 1989, two actuaries of Equitable Life, one of which is today now at the centre of public controversy, presented a paper called 'With Profits Without Mystery' to the actuarial profession describing their new and innovative approach to with-profit policies (Ranson and Headdon, 1989). Part of establishing the mass-market for private pensions was the claim to originality, which required the novel construction of financial knowledge, which would effectively raise Equitable Life's social position in the competitive field of life assurance. Before Equitable Life earned its place in the hierarchy of representation, the central concern of making a private investment was the risk of losing the value of savings from unpredictable cycles in the market. Conventional firms that offered private investment schemes such as Unit-linked firms were limited in catering to this demand as they could not promise increasing guarantees over the long-term (HM Treasury, 2001). Furthermore, investment volatility and fees were transparent and so they were framed as unsuitable for retirement savings and lower to middles class earners (Ranson and Headdon, 1989: see HM Treasury 2001/2002b). Conventional retail saving accounts could also not build up sustainable funds for retirement (Ranson and Headdon, 1989). The case was put forward that Equitable's 'with profit managed fund' concept did everything that typical Unit-linked or Friendly Societies did, except Equitable insured against investment risk and guaranteed 'security with returns' (ibid.: 307-308). The argument by Ranson and Headdon was that 'the combination of performance based on a diversified portfolio, a degree of smoothing to iron out peaks and troughs of asset performance, and increasing guarantees over a policy term is not seen in any mass-marketed investment product' (ibid.: 303).

Typical with-profit policies smoothed out investment performance, but what was particular to this strategy was the *guaranteed* nature of investment performance. WP policies were unlike any other product offered to savers, as contributions towards the fund were collectively pooled and invested in a number of different performing assets (Ranson and Headdon, 1989: HM Treasury, 2002b). Such assets had, according to actuarial logic, different time horizons in their economic cycles, therefore producing diverse risk return ratios over a period of investment. For example, stock market shares produced greater returns, but were riskier investments, which is why investment was to be spread across a number of safer assets (property, government bonds), albeit with lesser premiums attached. However, the WP concept meant that up until the maturity of the policyholder's pension scheme, investment would be constantly 'smoothed' out and distributed according to the contracts of individual schemes. The WP policy sold by Equitable was therefore an engineered contract designed to protect policyholders from the risks attached to the short-term movements in market values, but also to guarantee financial security by increasing returns over the pension cycle. One actuary commenting on Equitable's initiatives described smoothing as 'the insurance of investment risk' (Jenkins in Ranson and Headdon, 1989: 326).

During the post-war period, deterministic actuarial techniques were traditionally used to make valuation assumptions of assets and liabilities (cf. Ren and Stewart, 1981). In both cases, the actuary could make assumptions regarding the value of liabilities, for example, in allowing for new entrants or for re-adjusting asset streams for new entrants (cf. Redington, 1952: Erza, 1980). In other words, the calculation of investment risk was not an exact science and it was based on underlying assumptions of probable investment returns and considerations towards liabilities. In the context of the pension fund, solvency valuation had to meet the consideration of clients. But in the context of the life assurance company and referring back to Redington's thoughts (1952: 304), there was a tension between *solvency demands for regulators* and *equity demands for savers*. This tension became grossly exaggerated in the context of Equitable's financial strategy, which was supplanted by its relationship to financial consumers and the products it had previously sold.

Thus, Equitable Life was unlike other firms selling WP policies. The authors argued that the 'Estate' had become an outdated and redundant policy of older life assurance firms (Ranson and Headdon, 1989: 317). It was a company intent on expanding and diversifying. The practitioners that designed Equitable's investment strategy believed that holding spare assets into an Estate for a rainy day constrained the ability of the company to grow, which was inconsistent with the company's policy of

'Full and Fair' distribution (Ranson and Headdon, 1989). The argument by Headdon and Ranson (1989: 317) was that an Estate constrained growth and the ability of policyholders to participate in the fruits of investment strategy. But more importantly, this was wrapped up in the language of Policyholders Reasonable Expectations (PRE). Equitable Life introduced the notion that an Estate for financial safety was no longer needed, because the calculation of risk could be employed to ensure smoothing would meet PRE. As Ranson and Headdon argued, 'it would appear to be particularly difficult, for example, to explain to product disclosure that not all of the investment return on a policyholder's savings will be retuned to him because some will be retained to build up the 'estate'' (Ranson and Headdon, 1989: 318). Unlike Redington's suggestion of holding spare assets into a central reserve, the authors argued that market uncertainties could be controlled through actuarial smoothing. This meant ultimately that Equitable's solvency was based on its ability to create investment surplus, but also to re-calculate assumptions towards assets and liabilities. As the authors argued, 'for our office we would regard it as reasonable to take the assets not required to cover the liabilities as essentially equal to the 'investment reserve' – i.e. the difference between market value and written-up book value of assets' (Ranson and Headdon, 1989: 317).

While actuarial smoothing was an important part of smoothing, 'moral governance' also played a key role in what Equitable described as a 'full and faire' distribution policy. The insurance of investment risk, in one sense, transcended generations and time. By instilling the notion that time was of no consequence, that investment performance was based on the technical ability to smooth past peaks and troughs, Equitable created trust through the concept by appealing to the immorality, insecurity and selfish tendencies embodied in the speculative tendencies of the 'other' (Morgan and Knight, 1992). While this is not to be overplayed, it is important in the sense that Equitable was represented as the antithesis to financial institutions and other developments in the consumer driven society. But Equitable Life and its authors contradicted this representation, because they had already dispelled the 'myth of an estate', something that Redington feared would happen (1952: 305). The success of conventional WP policies were in some sense predicated on the notion that capital would be spared, possibly into an estate when market values were rising, in order to provide cover for when markets became depressed (Redington, 1952). Redington had observed that life assurance companies had access to a three-cushion system from which to absorb and smooth investment volatility. Equitable Life, it would seem, believed in its financialising powers to combine asset-management and marketisation; and the two were inextricable.

The notion underpinning this was the promise that all policyholders, as part of the family mutual fund, would benefit equally from the institution's entire investment strategy. Therefore, as the ratio of contributors and beneficiaries changed over different cycles of the market, WP policies sold by Equitable Life promised that no generation of policyholder would be advantaged or disadvantaged by these uncertainties. But this had a further dimension to it. As without the guarantee of full and fair distribution, policyholders might be protected from exogenous financial risks, but not necessarily against the indigenous interests of other policyholders. With no estate, policyholders were gaining in the surplus fruits of investment strategy, which was to be *presented* to policyholders in the form of bonus information so that the 'present value of their contractual benefits including declared bonuses was shown on bonus notices together with the amount of final bonus which would apply if benefits were payable immediately' (Ranson and Headdon, 1989: 312). With this assurance made in the contract, policyholders were assured by the guarantee of Equitable's WP policies that there was to be no unfair advantage given to one set of policyholders in comparison to another. This was a highly marketable claim and it legitimated the notion that in order to provide security and stability in the long-term, all policyholders must be equally controlled under the moral integrity of Equitable's particular approach to actuarial risk. Technical knowledge was therefore making a moral claim over the economy, which was guarded by the statutory ambiguity of PRE. But this undoubtedly gave producers unaccountable and unhinged authority to determine how particular investment strategies were employed, which did not explicitly prioritise or protect the collective interests of all policyholders.

Equitable Life promoted itself as a company that could create superior returns with the added bonus of security from smoothing investment risk. Two main elements contributed to this notion. Firstly, actuarial valuations of assets and liabilities set higher than average terminal and reversionary bonus information, which were entirely notional in practice. Secondly, the bonus was an important part of Equitable Life's marketing campaign. As Equitable Life made a switch into the market for personal pensions, 'a highly competitive market dictated the level of bonus allocation. The surplus published by the Society became a function of the desired level of bonus' (Penrose, 2004: 689). The implication was that as bonus levels were set too high, and especially for older generations of policyholders, their projected bonus levels became inflated as interest rates fell below guaranteed rates. As beneficiaries dipped into their savings, the cash-outflow was not represented by changes in the re-valuation of liabilities. In fact, in some respects, the appointed actuary took into consideration anticipated asset streams, from equities for example, to correct the books. As one expert argued, there was 'no relationship between predicting the future value of assets and underlying liabilities[48]. As guaranteed levels were high, policyholders were also able to top up their funds in order to make gains from the economic conditions. The other implication was that high bonus information became important to the marketing of Equitable Life's personal pension plans. As cash-out flows increased and as investment conditions fluctuated, cash-inflows from new contributors helped revive the valuation of liabilities[49]. The ease of valuation was also made possible due to the nature of the 'recurrent single premium' contracts sold to policyholders. If policyholders took out a pension plan and wanted to contribute more to their pension, this was represented as another plan. In other words, lots of little mini policies made up one large liability from which the actuary department would have to calculate[50].

Equitable Life ran the marketing strategy in-house so that there was no commission payable to third parties such as Independent Financial Advisors (IFAs). Not only were expenses kept low; there were also no shareholders. This was also a favourable characteristic that differentiated Equitable from other providers and products, which built upon its historical credibility as the world's oldest life assurance firm with reputable public institutions and law firms as the main clients. From an outside analysis looking in, it appears as if there was a deliberate nexus between finance and marketing. In fact, the links or cross reporting between the marketing, actuarial and the investment departments of Equitable Life were ambiguous and strained. This produced a difficult exchange between marketing colleagues and the actuarial department. 'When things went well, marketing took the credit', 'when things went bad, actuaries took the blame' [51]. While Equitable Life was split into three different departments, it is clear that the 'managed fund' concept was at the centre of actuarial control just as Ranson and Headdon said it was. 'It is fair to say that, once accepted, the concept permeates all areas of the financial and actuarial management of the office and plays a fundamental role in the product design' (Ranson and Headdon, 1989: 305). The actuaries had put forward a 'with profits managed fund approach' which was to be firmly rooted in consumer discourse and secondly, as the appointed actuary was also the 'whistleblower' under the Insurance Companies Act (Shelly, 2002), marketing flowed from the actuary's valuations. Ranson and Headdon proposed that they could maximise the business of WPs in the interests of their financial institution and of their policyholders in such a way as to link the performance of investment with the expectations of policyholders. 'Surely a more realistic approach, as is necessarily used with linked policies, is to define the rate of future growth which the client (and his lender) are happy to anticipate' (Ranson and Headdon, 1989: 319).

This was all in the interests of creating full and faire distribution and constructing policyholders' reasonable expectations (PRE). As Ranson and Headdon argued, 'in practice, policyholders tend to want reversionary bonuses to be as high as possible to avoid the potential volatility of too great a concentration on final bonus' (Ranson and Headdon, 1989: 308). Did this not also demonstrate that Equitable Life was acting in the interests of consumers, who demanded certain levels of financial performance? We will explore this below, but for now, it is implicit that financial knowledge and marketing knowledge reaffirmed each other. For example, smoothing in Equitable's terms depended on the actuarial calculations of long-term investment performance, which meant that there had to be a close relationship between the actual investment strategy, managed by specialist investment practitioners, and the predicted value of those investments, which depended on the fundamental advice of actuaries (Ranson and Headdon, 1989). For Equitable's WPs to live up to their own progressive performance guarantees, low levels of capitalisation or reserve funds required an even greater emphasis on predicting the market. But to do so, it also had to take 'expectations' along with it, which seemed to make perfect sense in the cultural economy of life assurance.

For example, Equitable Life presented a reversionary bonus rate and a final bonus rate. The reversionary bonus rate reflected, in simple terms, the percentage increases and decreases of declared returns from investment. The final bonus was the expected amount based on current contributions and investment. As market values declined, this created implications for the declaration of bonus. It is apparent that the notional values in the unconsolidated part of the final bonus were increased in order to make up for disparaging investment returns (Penrose, 2004: 130). As they were notional, they did not have to be honoured in practice and such practices were legitimate under 'smoothing'. As the appointed actuary demonstrates this point, 'in technical terms, any presentational problems created by declaring a bonus can almost certainly be mitigated by weakening the valuation basis' (Headdon in Penrose, 2004: 130). Such actuarial practices in their commodified form misrepresented solvency and bonus information for savers at the same time. While economic conditions were slumped, the practice of smoothing enabled Equitable Life to present a surplus at the same time that it had suffered negative investment returns at book value[52] (Penrose, 2004: 127-138). At successive stages of Equitable's business from the 1970s up to the late 1990s, actuarial smoothing was used as a device to maintain high bonus levels and the appearance of solvency (Penrose, 2004: 683-692). In other words, Equitable Life, contrary to Redington's feelings, did not adequately save financial resources into an Estate, because the insurance of investment risk enabled Equitable Life to create favourable bonus information for savers through manipulation of its assets and calculations towards uncertainty. This bonus information became important, because as long as it could attract new customers through favourable bonus information, the business could survive. For example, in the mid 1990s, the President of the Society made this praising statement of his company and his financial directors,

> The bonuses which are added to policies are of the greatest importance to all our members. This year we have seen the benefit of the with-profit system in smoothing out fluctuations in investment returns. Most fund managers with balanced portfolios, including ourselves, suffered negative investment returns last year. However, your Directors have been able to maintain the bonus rates at the levels established at the beginning of 1994. Our philosophy is, as ever, to produce consistently fair and attractive across the full range of our policies (John Slater in Penrose, 2004: 149-150).

Again the notion of security with returns was something that depended on Equitable's approach to financial smoothing, which meant that uncertainties could be tamed by liquidity and returns through the full expertise of novel financial and actuarial calculations. Depending on the projected cycles of the market and the broad investment strategy across different classes of assets, Equitable could manipulate its finances across the pool of the firm. This meant that policyholder's investments were pooled into a common investment strategy despite whether or not the class of investor was a GAR or a non-GAR, an early or a late contributor. This placed an emphasis on the autonomy and discretion of Equitable to fairly distribute bonuses according to the performance of the firm over the short and long-term. The Insurance Act of 1982 (Shelly, 2002) allowed this approach to take place, which effectively meant that distribution policy, or presentation policy, was up to the discretion of management, overseen of course, by the appointed actuary. As the authors of Equitable Life's financial and marketing strategy put it,

> It is felt that such a presentation gives clients a helpful insight into how their policy benefits, both consolidated and unconsolidated, are building up. For new contracts, such as personal pensions, the present value presentation will be the only one used (Ranson and Headdon, 1989: 321).

The implications on bonus distribution were irrelevant, because as long as the expected bonus was maintained, the reversionary bonus could go up or down without complaint. 'In our view the reasonable expectations of policyholders are that an office will conduct its affairs so as to produce the best return in the conditions that prevail, and will distribute those returns fairly between different participatory policyholders in such a way which smoothes the emergence of the earnings' (Headdon and Ranson, 1989: 320). The product's performance strategy was maintained by an active bonus strategy designed to protect and uphold the integrity of Equitable's 'expert knowledge'. The organisation of the cultural economy around bonus levels provided the calculative context for Equitable's unique bonus policy, which incorporated the expected maturity value of each policy into annual statements, something that was quite idiosyncratic to the company's strategy. Raising policyholders expectations through 'hope' estimates was therefore an implicit strategy in order to tie down or seduce savers under the presentational device of bonus information which created incentives for policyholders to maintain their policy or buy new ones. There was no reason to suspect anything other and even if there were, it would have been difficult to access. For Equitable's financial position made sense, given its own unique stance towards WPs. If bonus levels had changed, this made sense under the context of Equitable's WP policy.

What is in fact surprising is that under the 'with profits' managed fund concept, there was no way of understanding the effectiveness or safety of Equitable Life's investment strategy. Unless one was an economist or financier, there was no way of slipping past the social technologies that gave economic meaning to Equitable's financial strategy. The reason, as the peer review of Ranson and Headdon's paper made clear in 1989, was that Equitable's bonus policy seemed to be based on the vital assumption that financial conditions would remain constant and within a stable bandwidth (see Ranson and Headdon, 1989: 326-345). This was probably consistent with the deterministic assumptions that the actuaries were relying on. In particular, rising share values, high inflation conditions, life expectancy and the level of contributors etc., were all conditions that the peer review team expected to be part of the assumptions underpinning the conceptual design of the paradigm (see Ranson and Headdon, 1989). In fact, heavy warnings emerged in the peer review of Ranson and Headdon's paper. One actuary, in particular, seemed not only to describe what actually did happen in prescient detail ten years earlier, but openly criticised the proposed method, which seemed less about 'the myth of an estate', and more about a business proposal, justified in public, for expanding the size of the institution's market share. As J. H. R. Tonks put it;

> The estate is not a myth to us, and I am sure that that is true of many other companies. One of our problems arises from trying to manage this estate. I think the authors' fund has given the right amount to the right amount of policyholders in the past. My fund, and I suspect many others, has a considerable estate, which has been built up by past decisions which have resulted in policyholders receiving less than their asset shares on average.
>
> Assuming that the fund continues to accept new business, we could endeavour to reach the simplicity of the authors' situation by considerably increasing the bonus paid to the current generation of policyholders. To my mind there are two major objections to this course. First, it is inequitable to pay the present generation considerably more than they have earned. Secondly, if bonuses are artificially increased in this way the fund will attract more new with-profits business and so hasten the time when bonus distribution returns to normality. At that time the new policyholders will become disenfranchised with the situation, because they have received less than their expectation. Thus I believe that, in practice, the estate will continue in being for the foreseeable future.
>
> I regard an estate as a disadvantage only in so far that it adds to the difficulties of the Appointed Actuary. In my view the estate is lent to the present generation of policyholders and adds considerably to their security while their policies remain in force. When their policies become claims they pass on their share of the estate to the next generation of policyholders. It is extremely valuable to have a sizable estate for the reasons Mr. Scurfield set out, to provide security and to help in smoothing the bonus declaration in erratic financial conditions. If these remain adverse for an appreciable time the authors' fund must reduce bonuses. Others with an estate will have at least a choice in what they do (Tonks, in Ranson and Headdon, 1989: 331).

In the aftermath of Equitable's crisis, the evidence against the assumptions underpinning the conceptual design of the bonus policy are so strong that it becomes reasonable to ask the question; did the authors of this policy believe that their financialised strategy would overcome the volatilities of the market? The recent Penrose enquiry supports the notion that for a time, Equitable was using its investment strategy to facilitate favourable bonus information to savers and to the market. Between 1985 and 1990, when it is apparent that Equitable's financial problems were rippling beneath the surface, Equitable moved into equities from 47.5 percent in 1985 to 63.7 percent in 1989 (Penrose, 2004: 136-140). As the appointed actuary in charge made the case in 1990,

> In recent years we have had to rely increasingly on transfers of capital revenue to support the annual declarations of bonus. That is a natural consequence of changing investment conditions and out changing asset mix...if we are to maintain declared rates at relatively high levels and wish to avoid sharp fluctuations in the level of those rates from year to year, we are dependent on there being adequate capital appreciation available at the end of each year to the required transfer...(Penrose, 2004: 138).

As the Penrose report argued 'the Society's dependence on capital appreciation to sustain distribution policy could not have been more clearly stated' (Penrose, 2004: 138). Even before the Law Lords case, it is evident to some that Equitable still believed it could beat the market. On of the important questions to ask is whether Equitable Life is a story of the 'triumph of risk over uncertainty' (Reddy, 1996). In the post-war period, deterministic methods for calculating asset streams was an important part of the collective nature of pension funds. In the Equitable Life case, it would seem that deterministic approaches were also employed to calculate investment risk, but they were used in the context of sustaining bonus statements for policyholders. While occupational pension funds operated in the context of social insurance, Equitable Life operated within a free-market context.

To sum up, Equitable Life marked out its 'social position' in the competitive field of private pensions, and it did this clearly, with an eye on attracting savers into their private pension scheme. Not only did financial knowledge help construct Equitable Life as a competitive institution, it laid down the framework that made it possible, and thereby helped structure and determine the representations of other firms acting in the marketplace. Thus, Equitable Life clearly highlights the performativity of financial knowledge. Without it, it is doubtful that 'marketing' as a separate discourse, could have played such a significant role as it did; and yet it is intriguing that such a clear separation was marked out between hard and soft forms of knowledge production. For example, the number crunching that made Equitable Life governable was separated from the marketing department that arguably made the company so successful. And yet, the marketing campaign seemed to reaffirm Equitable's investment strategy in such a way as to intensify its urgency and to bring uncertainty under control, which again, turned in on itself, to the extent that savers saw Equitable as the best performing institution in the sector. In other words, finance and marketing looked each other in the eye. But now we shall try to look at these issues in a little more detail by examining the evidence collected from the questionnaire. We are particularly interested in this next section to understand why people decided to save with Equitable Life, why their expectations were stabilised and thirdly, how and why they became destabilised. The intriguing and possibly controversial idea here, is that 'savers' were not necessarily independent or separate from the logic that contained them and this is a particular feature of the phase of disembedding, because Equitable Life seems to have been a stage of financialisation that savers, especially those burned by Equitable Life, have not forgotten about.

Why it all made sense, why it all made non-sense

Like all financial crises, they either disappear very quickly to the tune of economic euphemisms, or else they linger in the hearts and minds of those effected by crisis. 'People' are normally forgotten in this process, both in commentary and in research, and so the following will draw our attention to three core questions: (1) why did people save with Equitable Life; (2) how were their expectations stabilised and; (3) how did an institutional expert-system make sense in one phase and non-sense in the next. To this endeavour we focus on three main criteria: performance, emulation, representation.

Emulation

As an article in the Financial Times claimed in 1999: 'over the past two decades Equitable has turned itself into a jewel in the crown of British life assurance. It has done so by pursuing a singular strategy and serving a client base to die for: solicitors, accountants, doctors – the backbone of professional middle England' (FT, 1999: 2). From the evidence, it would seem that emulation played an initial role for saver's making a calculation towards the type of provider they would choose. There is a sense of 'like-mindedness' about it; which really draws us back to Bourdieu's (1998) notion of cultural and economic capital. For example, it would seem that people or 'savers' interact economically with people in 'like-minded' professions, and in turn, this is also a cultural relation that reaffirms the goals and objectives of pursuing certain forms of provision or value creation. With regard to Equitable Life, it formed an important part of creating a sense of security; and it is also interesting that in each of the following responses, the respondents associate their decision to save with Equitable based on the recommendation of professionals or people associated to finance.

Respondent One

All my research indicated that it was well run, highly recommended and reputable company used by many professional people...highly recommended...used by educated people (Q9, 10).

Respondent Eight

Probably that many professional people used them and that their advertisement conveyed quality such as could be equated with the Bank of England (Q10).

Respondent Seven

Personal recommendation by fellow policy-holder. A chartered accountant was also finance director of a stock exchange-listed UK Plc. (Q7).

Respondent Nine

My initial decision to save with EL was based on a recommendation from a solicitor regarding an endowment mortgage (Q26).

Representation

While emulation formed part of an ineffable structure of knowledge and belief, it would seem that Equitable's social position and 'representation' in the competitive marketplace played an equally important role. For example, in what follows are examples where the respondents are clearly delineating between Equitable and its competitors. What we find here is that emulation overlaps with representation, because it would seem that Equitable Life had a reserved approach in relation to other institutions acting in the market. For example, it had low commission rates and it did not rely on intermediaries to push sales. We must also remember that between 1988 and 1993, 500,000 people were persuaded by over-zealous commission-led sales staff to contract out of their occupational pensions into lower value private pensions. 90 percent of people were affected by mis-selling (Blake, 2000).

Respondent 10

The rep appeared articulate and knowledgeable; more so than the insurance agents that I saw. I continually felt very satisfied that I had made the correct choice. As the bonus statements cam in I had an increasing assurance of the financial future (Q10).

Respondent 12

I know that nothing is life is risk-free, but I did not consider the risk with EL to be significantly different from that elsewhere. I reckoned the risk with EL to be significantly different from that elsewhere. I reckoned that the risk of a poor deal was greater with the Pru – and I still have that view (Q12).

Respondent 4

Bad experience with my employer's AVC company Prudential – VERY amateurish, could not understand simple instructions, fear that I could not face going through retirement to deal with such a bunch of incompetents...Contact with intelligent, able people as opposed to the cretins I had to deal with at Prudential. In contrast to Prudential could not understand the very simplest instructions and the prospect of getting stuck with them for the rest of my retirement was too much to bear – wanted to deal with professional people who knew what they were doing. ELAS were good at conveying this superficial message (Q4).

Respondent 3

Their reputation and the fact that they did not make an admin charge on regular savings amounts – unlike Legal and General who charged 5 percent on all contributions for administrative purposes. This meant that all the contributions to Equitable were going into the investment fund and would therefore become more valuable (Q12).

Knowledge was structured both inside and outside the institution. Not only did Equitable have an administrative relationship to its customers, but the press and media generally reiterated the belief in Equitable from the outside.

Respondent 1

I thought it was a fundamentally sound institution where my savings would be safe and would grow comfortably if not spectacularly. This was the image portrayed by the media and the company...Annual reports from the company and total of adverse information from press or regulators (Q18)

Respondent 17

The company's publicity in the national press, particularly the Financial Times (Q14).

Performance

While emulation and representation were important, 'performance' criteria played a crucial role in initiating a credible belief in the product of Equitable Life; but also in stabilising the meaning of Equitable Life as a high performing institution. Here, we find that effable and ineffable forms of knowledge production formed the basis of the company's strategy. For example, if we look at the adverts produced by Equitable in *Annex E1* (see appendices), we can see that the adverts of the time clearly depict Equitable Life as a high performing institution amongst a market of lower performing funds. The tables and billboard adverts are all signifying the high performance of Equitable Life and this represents an important part of the tacit dimension of knowledge construction outside of the institution. Inside of the expert-system, there was an administrative relationship, where each year, savers received an annual statement of their financial progress (*Annex E2*). This even in some cases encouraged people to save more.

Respondent 3

The annual bonus statements showing the bonuses and growth and growth of the fund were most attractive...when we cashed in the Directors policies 10 years after...they had grown by a factor of 8 i.e. the fund in 1985 was valued at £5000 and this had grown to £40,000 10 years later without any further contributions during that time. That was the cumulative effect of attractive bonuses (Q21).

Respondent 5

By mid 1990's starting to have a very warm feeling about my financial future – so much so that I started making projections (based on average growth) forward to possible retirement dates (Q21).

Respondent 1

Yes. I saved as much I could afford and increased contributions as my salary increased...I could see a steady increase in my policy values and felt secure about the future...Annual reports from the company and the total lack adverse information from the press or regulators (Q 19, 21, 23).

Respondent 2

As an academic economist I researched the whole of the industry [*seven months Q11*] for the (then) best suppliers of above products e.g. Money Management magazine I then interviewed three short listed companies and chose Equitable based on its historical record and stated performances...I felt I had made a fully informed and safe investment

> and was pleased with my own valuation of this company and its products. I was very optimistic about my financial future especially for several years the results above average and appeared to be very secure (Q7, 18).

Stability

Stability seemed to be a simple consequence of everything in the cultural economy coming together to make sense. The media, the regulators, bonus information, the obscurity of Life accounting and the administration of the company itself, all produced stable information conditions, or at least contained contradictions adequately, even while, behind the scenes, the company faced obvious financial difficulties. But what we find below is a mixed pattern of responses, where individuals placed too much faith and trust in a commercial institution to deliver what was promised. In all such examples, there is however, a common strand. Equitable Life, it would seem, gained a privileged position of power and power was expressed through the constitution and make-up of ordinary decisions and indecisions to save with the company in a wider field of governance that reiterated a belief in the company's progress. Not only does the post-war attitude towards paternalistic institutions shine through, but the complete ordinariness with which people became seduced by the routinisation of financial performance. Again, stability was assessed and reaffirmed through the tacit dimension, where complexity was reduced and understood through marketable, media driven relationships, which seemed for a time to blot out contradictory messages.

> **Respondent 10**
>
> Have you looked at Life company accounts. They are Byzantine...(Equitable) was showing best results in media e.g. Planned Savings, etc...It was an acknowledged premier pension company of large resources. I believed that there was a competent government regulator.

> **Respondent 1**
>
> Annual reports from the company and the total lack of adverse information from the press or regulators...I assumed the regulators were doing this and would inform me if there was a problem. I do not believe an untrained layman could undertake such an enquiry. Who would I ask? The company, or the regulators? They would both have lied.

> **Respondent 12**
>
> I read the figures and they seemed ok...there were many favourable press comments at the time so I was comfortable with the situation.

Respondent 13

My annuity arrived on time. What's to worry about?

Respondent 8

One of the problems of living a busy life is that one does not have time to enquire but rather rely on what believes is quality.

Respondent 16

...great reviews every year in pension reports from pension schemes annually.

Instability

Instability seemed to occur when information conditions inside and outside the expert-system contradicted one another. Things that seemed to make sense in the past, now, did not make sense. Now that 'performance' was under threat, the cultural constitution of calculation fell apart.

Respondent 3

I had WP annuity since 1985 and for the first 5 years the annuity grew and had increased by about 13% by that time. I became concerned at this time as the growth in the annuity was related to a final 'discretionary' bonus and this 'discretionary' amount was become a very large percentage of the total payment. Having been lulled into a complacent feeling of security I had however not really understood how this worked and I became increasingly concerned as the 'discretion' level grew to such a significant level.

Respondent 5

Yes – I became concerned about the performance of the unit trusts I held with Equitable. I could not understand why the unit trusts were performing poorly when it was the same company. I became so concerned I asked Equitable for an explanation. Their salesman became very 'hurt' at my daring to question the Equitable's performance. They tried to claim their unit trusts were top performers but I knew that wasn't true. Alarm bells rang but not loud enough.

Respondent 17

The only information available to me was from the national press. I believe the press caused E/L to produce the letters to policyholders which they otherwise may not have been so forthright in producing.

Performance and Regulation

In a very interesting cultural perspective of Indonesia's relationship with finance capital, Tsing refers to her examination as looking 'inside the economy of appearances' where 'performance' is 'simultaneously economic performance and dramatic performance' (Tsing, 2004: p.84). The economy of appearances in Tsing's study refers to how the 'self-conscious making of a spectacle is a necessary aid to gathering investment funds' (Tsing, 2004, p.84). In a similar light, the life assurance industry has tried to out-compete each other on the bonus level in order to entangle savers into long-term dreams of performance. Specifically, the *reversionary* bonus refers to the additional returns made from investment that works into the overall *terminal* or final bonus through accumulated assets over the pension period (HM-Treasury, 2001). As the Sandler (2002) report into retail savings made the case:

> The main basis for competition between with-profits products has been payouts to maturity and financial strength. But these give only a very partial picture at best of the true performance of the fund. Important issues such as the actual investment returns of the with-profits fund and the cost efficiency of the provider are obscured (Sandler, 2002: p.123).

The bonus policy is an example of how opposing interests between consumers and producers have been culturally organised around a central performance indicator. It is indicative of a framing process, whereby actuarial smoothing attempts to construct performance and 'hope' at the same time as delivering publicly available information in order to de-politicise any form of scepticism. But when we look at this interaction more carefully, it would seem that the promises of progressive returns through bonus information in with profit policies, have succumbed to the rational desire for need and want of financial gain and guaranteed returns, without any real idea of how they have been created. This has at the same time redirected attention away from the performance of fund managers, of actuaries, of their skill and competence, to the extent that public scrutiny of the investment process has been obscured by the focus on bonus information (Penrose, 2004).

The orientation towards bonus information has been supplanted right down to the capillaries of the industry. For example, independent financial advisors (IFA's) have typically advised savers on how historical returns have been created in comparison to others in the industry (HM Treasury, 2001). Part of the process of advice and persuasion in the sales process has been to soften fear into faith, by reading producers through the text (Leyshon and Thrift, 1998). Tables of risk have been used to create assurances in the capacity of certain products to deliver lifestyle demands (Sandler, 2001). Once risk has been put to one side, the importance of the product's quality and worth has therefore stepped into the balance, typically focusing on the 'returns' of bonus levels over a period (HM Treasury, 2001). The risk-reward ratio has been further obscured based on the extent to which IFAs have been linked to commission, which has generally differentiated between different products and providers (Morgan and Knights, 1992: Aldridge, 1997: Hutton, 1995). Due to the costs of administration and investment procedures, the level of savings that is contributed towards the fund has also been a factor that life assurance firms have wanted to control (HM Treasury, 2001). Commission has not only included the implication of advisor bias towards certain products, but the incentive structures have also been in place to attract those that can contribute a greater amount towards their personal pension, which has usually included higher-income consumers. What seems important is how commission mechanisms, risk tables, persuasive techniques, class identities have all formed part of the wider discourse that has arranged consumers and producers around bonus information. As a result of this, the entire industry has been politically cocooned to protect and compete with one another on the bonus level. As a result of competition based around *performance for the saver*, the assumption has followed that there is a direct relationship between the bonus level and the performance of the investment strategy (HM Treasury, 2001). Performance for savers is therefore not determined by the pure economics of the firm, nor by marketing interests, but a combination of the two signifying that in the past "retail products have been sold not bought;' (HM Treasury, 2001).

The implication has been what kind of other information has been available that translates economic meaning beyond the focus on performance? Under liability valuation rules (HM Treasury, 2001), with profit firms have been forced to use income generated from investment either towards increasing reversionary bonuses or reducing liabilities (HM Treasury, 2001). Under the investment strategy, high performing assets have tended to increase the reversionary bonus and lower the free asset ratio (FAR), which has become important for marketing. This had become significant during the bull market, as life assurance firms bought into the high performing assets in the stock market. It was also especially important at a time when the balance between contributors and beneficiaries became under most demographic stress, particularly for a firm such as Equitable Life considering the size of its GAR liabilities. The bull market would have given some leverage to the marketing strategies of such highly geared firms. Part of reason for this does not strictly come down to how with profit firms such as Equitable were able to massage their finances, because they were allowed to do that anyway. But how there were few inroads into looking inside the black box of finance. For example, consider how the FAR was originally intended as a regulatory device for understanding how financially strong a life assurance company was.

Just as Life Assures have competed on reversionary bonuses, they have also competed on the level of FARs, as it simply translates how much free capital is available for smoothing bonuses and paying final bonuses (Sandler, 2001; HM Treasury; Baird, 2001). It is interesting therefore how the social technologies that have been developed for interpreting the regulatory dynamic of life assurance firms, have also been used as criteria for measuring performance and competition. As a government report on institutional investment argued, "whatever its merits for regulation, the FARs use as an indicator of investment flexibility gives it much greater and wider impact than originally intended by those who framed it" (HM Treasury, 2001:139). Social imitation of regulatory devices (McKenzie, 2002) for creating marketable information in the life assurance sector illustrates how all social mechanisms for providing public scrutiny have eventually become monopolised and commodified, creating a smoke and mirrors economy, which 'utilises the weapons of the weak' (Thrift, 2002). In sum, the economics made sense according to the specific cultural economy it had helped to create. All economic information in the cultural economy of life assurance was therefore culturally packaged and mediated through divergent processes of marketisation supporting a life assurance market built on expectations of performance.

Given the problems at Equitable Life that came into force as a result of the growing GAR liabilities, why did the regulatory authorities, which became aware of the GAR problem in early part of 1994 allow Equitable's business strategy to continue throughout the 1990s? Financial regulation of the life assurance sector comprised of two regulatory channels: the conduct of business and the prudential regulator. As the Baird report makes clear, "prior to January 1999 the two regulators were, and operated as, entirely separate entities and there was no formal or structural channel of communication between them" (Baird, 2001, p.35). The 'conduct of business' was a regulatory regime that related "primarily to the marketing and sale of retail investment products and advising investors on their rights in relation to such products" (Baird, 2001, p.196). Central to this regime was therefore the marketing of financial products, which as a business strategy had an overall influence on creating new policyholder contracts and influencing existing policyholders to make further investments. Equitable Life was a company that was growing and intended to expand. Important to this process was therefore the creation of new members to the stability of the business as the balance between contributors and beneficiaries fell out of favour. Marketing was therefore a deliberate policy that had a direct influence in augmenting not only the expectations of existing policyholders, but also those of potential consumers. The Personal Investment Authority (PIA) was responsible as the self-regulatory organisation when the GAR issue came to the fore. The PIA defined financial marketing as 'selling and procuring the sale of packaged products and advising persons on such products and on the exercise of the rights conferred by them' (Baird, 2001: 28). However, as the Baird (2001) report made clear, that rule applied only to 'information provided in the context of selling and advising' (Baird, 2001: 28), which excluded the administrative means of communication between policyholders and the firm. Selecting and presenting financial information through the administrative avenue to policyholders was therefore a legitimate practice that was embedded in the life assurance market, but one considered in the eyes of PIA not to be one of marketing.

As the Baird (2001) report made clear, an emphasis was placed with prudential regulation and underestimated the importance of the conduct of business, which had become ineffective in overseeing the construction of expectations. The premise was that if Equitable was solvent, then there was no reason why the regulator should restrain its business. It seems ironic that the government directly and indirectly facilitated expectations, without providing a regulatory institution that was capable of overseeing their management. This does not emanate out of neglect, but from a regulatory environment geared towards encouraging market innovations in finance, despite the strong links between consumption and financial exposure to investment uncertainty. Aldridge (1998) made a very interesting point about the Consumer's Association when he argued that the 'nature of financial products and services poses far-reaching problems for the Consumer's Association, whose methodology has been predicated on a mature Fordist system of production' (Aldridge, 1998). In a very similar light, the same can be said about the organisational arrangements in the regulatory climate that led up to the Equitable Life affair. Clear analytical differences were made between the regulation of hard knowledge (prudential) and soft knowledge forms (marketing), when in fact what has been demonstrated in this paper, is how they have been inextricably linked in the cultural economy of retail finance. This separation is also indicative of those who see a difference between economy, on the one hand and culture on the other (Ray and Sayer, 1999).

By focusing too much on the prudential levels of capital, the regulatory authorities including the FSA, excluded the importance of how 'expectations' had been constructed by Equitable Life and the life assurance sector as a whole. The generation of expectations and their economic meaning in the context of life assurance arguably contributed towards the downfall of Equitable, as it could not guarantee the promises it had made. Had the regulator been able to understand how expectations had been created, regulatory enforcement could have at least altered Equitable's bonus strategy that remained unrecognised under the de-regulated climate. However, if the regulatory institutions of the time had enforced the regulatory concern with how bonus information was translated to policyholders, it could have undermined confidence in the entire with-profits industry, creating a flight to quality from Equitable and from the stock market from where the entire life assurance sector had extensively invested. By focusing on the 'solvency' of Equitable Life and undermining the soft and highly relevant implications of policyholders expectations, this form of regulatory triage happened to place a ring-fence around Equitable, dampening the wider implications of miss-selling and compensation to the life assurance sector as a whole. While prudential regulation has claimed ignorance and waited until the court case to determine the fait of GAR policy-holders, it has certainly limited political instability, where it seems convenient that only after the Equitable Life affair has there been any strong motivation to fully integrate prudential regulation with the conduct of business into a more risk-preventative framework.

Conclusion: Transnationalising the politico-Financial subject: a double movement?

Respondent 7

The Equitable scandal would have been buried by the authorities without pressure from the action groups. However, regulators still seem unable to accept that the regulatory regime is inadequate.

Respondent 15

ELAS have tried to cover their backsides, and without EMAG the truth of the total mismanagement would not have been revealed.

There are a number of points to be made in relation to Equitable Life and the social and political consequences of its crisis. In the aftermath of the Equitable Life crisis we have seen the transformation of financial identities into politico-financial identities. This has been an interesting development, because Equitable Life members invested their savings into the company based on their reasonable expectation that the fund would fulfill these expectations. As a result of the crisis of Equitable Life, the same financial identities have politicised their expectations through the creation of collective pressure groups (e.g. Equitable Life Members Action Group), transforming their benign passive, imaginary financial identities into proactive, practical politico-financial identities. For example, there are now a number of campaign groups fighting for compensation (e.g. Equitable Life Trapped Annuitants).

Firstly, the campaign groups have successfully launched two appeals, one to the Parliamentary Ombudsman, but one also to the European Commission, which in 2006, set up a committee of enquiry into the crisis of the Equitable Life Assurance Society (EP, 2007). There are a number of implications that have come out of the second petition to the European Union. Firstly, the commission does indeed find that the UK government should take responsibility and should set up a compensation scheme on the basis that it failed to implement the Commission's third life directive effectively (ibid.). This would not have occurred if the groups had not filed their petitions. Secondly, the committee found it highly important that there should be stringent regulations that force insurance companies to create financial reserves. This could be seen as a positive development in many ways. By relinquishing its reserves, Equitable Life devolved its responsibility from its members on various assumptions. Cross-border regulations that insist on reserves i.e. an Estate, ensure that the individuals are not exposed to global financial markets or excessive innovations.

What we are effectively seeing here is grass-roots pressure emerging from broken promises, which have translated into political pressure at the transnational level. Transnational pressure, at this stage, appears to be a more effective mechanism of grass-roots pressure than that attained through national institutions such as the Parliamentary Ombudsman. This would demonstrate to an extent the lack of an effective system of accountability for national citizens. However, it would also appear that this has not changed the minds of the Committee against the premise of financial innovation or consumerism in the private world of pensions, which would tend to demonstrate the limits of individualised politics or a politics based on commercial intentions. For example as the Committee reported:

> The committee strongly requests that any financial services legislation duly recognizes the priority of consumer and investor protection issues, while at the same time ensuring a dynamic and competitive environment for financial services providers that minimizes red tape and does not stifle commercial flexibility and innovation. In this regard, the committee supports the emphasis on risk and principle-based regulation in financial services legislation. Furthermore, as investments in pension products are to play an increasingly important role in the European economy in view of demographic imbalances and ageing populations, the committee emphasizes the need to foster consumer confidence in pension products by ensuring for them the highest standards of information, security and investor protection throughout the internal market (EP: 2007: 361)

In effect, it appears that the reflexivity of financialisation in the case of the Equitable Life case has worked in one particular way. It has encouraged a transnational strengthening of juridical legislation of financial services regulations that encourages institutions to reform so that individuals know that they are responsible for their future investment decision-making, because effectively, things have been taken care of in institutional terms. The nature of this reflexivity is placing a direct emphasis on the individual to take care of his/her financial risk. You could say, risk-based regulation is another way of cleaning rationality of irrationality in order to create safety in rational decision-making. It does not propose a form of collective responsibility i.e. alternative forms of saving's institutions outside of the framework of financial consumerism. This is a type of consumerism that encourages accuracy in its information. On the other hand, the development since the Equitable Life case is that legislation and regulators have woken up, implicitly, to the notion that that the economy is not separate from the culture of economy. This is an interesting development and is seen by a more robust FSA that has fined in recent times companies for mis-selling inappropriate financial products to consumers. Criticism of the FSA is an interesting part of this development, because in recent times, it has been argued that the FSA has too much teeth.

To sum up, Equitable Life is a clear example of how financialisation has transformed markets and the social relations within those markets towards an emphasis on speculative practices linked to the capital market. While Equitable Life did this under the veil of moral governance, it increasingly used its innovative or 'unshackled' administrative powers to re-construct an expert-system that would reiterate and enable the very institution it intended to be. Financial knowledge played a central role in the systemic construction of Equitable Life as a high-performing mutual company that could deliver security with returns. It did this to the extent that finance and marketing conspired to entangle a middle class saver interested to maximise pension income at the least possible cost. In the aftermath of the crisis, Equitable Life, very much like Enron, has been stuck with the representation of an irrational firm, directed by arrogant and dismissive executive managers, whose intent was to lie about the nature of its 'black holes' (see Penrose, 2004). On the contrary, Equitable Life demonstrates something more meaningful. It demonstrated the inherent problem of shifting the responsibility for welfare onto companies with a pecuniary motive in self-maximisation. Secondly, Equitable Life demonstrates how 'people' have been transformed too; from passive financial identities into politico-financial identities, with interests that have reached the higher stages of transnational governance – not because financialisation influenced this effect as if it was outside of the self, but because people were motivated by their own imagined financial futures.

There are two restless questions that arise from this study. Firstly, this study of Equitable Life partially demonstrated a contrast between a post-war actuarial science and a post-Bretton woods actuarial science. Why and how did the history of the actuary move away from questions of social insurance towards questions of speculative management? Secondly, this case-study also brought to light a very subtle intervention. The Sandler report on *Medium and Long Term Retail Savings in the UK* (2002b) introduced the idea that 'savings have been bought and not sold'. To an extent this is quite true. Equitable Life, for example, did not make people fully aware of the increases and decreases in monetary surplus. But if the company did do this, it would have bankrupted its own business. And this is the problem. Companies depend on a degree of secrecy in order to compete. This is why the implication of Sandler's argument is so impressive, because if savings have been sold and not bought, then this would suggest that people have traditionally lacked full information – that things failed because expectations were not 'rational'. So we see, the consequence of Equitable Life is that it has furthered the problem-solving debate on how to fix pensions so that it banishes the responsibility of the system and the relation between structure and cultural practice. In simple terms, the system is irrational, because rationality – the light, has not gone far enough into the darkness. With this philosophy as our guide, we are meant to believe that better systems and better technology will help create conditions of full information so that the individual can make a more rational decision. But this approach is based on an assumption. It too easily assumes that market exchange relations can become 'clinical' and 'articulate', when people depend on ineffable means of self-justification. It too easily assumes that the market can be organised around pure information conditions, when this emerging policy also relies on commercial competition to supply products to a consumer market, which in turn, relies on the powers of persuasion to drive competition. Perhaps this is the most obvious and most powerful contradiction of all: the notion that ethical questions can be resolved through commercial market relations.

These two restless questions that we have unearthed here will be the object of the next two chapters. We deal firstly with the transformation of actuarial science and then we will move onto an understanding of its rationalisation in society. Specifically, we will examine the fluid debates and changes within actuarial science as a discursive expert-system. In addition, we will try to outline the trend towards commercialising retail financial regulation in private pension provision, the policies and developments that have helped this along, and the inner contradictions and fortuitous circumstances that have further facilitated and deepened the financialisation of pensions.

Chapter Seven

Disembedding the Actuarial Scientist, Re-embedding the (Global) Financier?

Introduction

This chapter is an attempt to understand the final salary pension crises and its re-regulatory aftermath as a process of disembedding and re-embedding. Recent trends suggest that the occupational pension scheme is in terminal decline. In the year 2000, there were 17, 900 defined benefit schemes open to new employees in the private sector and in 2006 this number had reduced to 6, 200. Just under 70 percent of all defined benefit pension schemes that existed in the year 2000 have disappeared[53]. One might believe that an alternative has been created in order to replace these schemes. To an extent this is true. In the year 2000, there were 43,700 defined contribution schemes open to the public, but in 2006 there had only been a marginal increase of just three percent[54]. We should also consider that there is an unnerving difference between defined benefit and defined contribution schemes. In the former, benefits are clearly related to average or final salary earnings, where the benefits are guaranteed; whereas in the latter, the benefits are determined by the amount of contributions, which is linked to the personal preferences of the individual. Moreover, while defined benefit schemes are a form of social insurance linked to the continuities of the post-war moral economy; the latter are linked not only to the responsibility (or irresponsibility) of the individual, but to the uncertainties of the stock market, which in the context of financialisation, become a felicitous medium of risk-management.

Far from being an inevitable outcome of economic change, we suggest in this chapter that the crisis in occupational pension schemes is due, in part, to the disembedding of the actuarial scientist and the 'momentum of epistemic history' (Lengwiler, 2003) that has facilitated this path-dependent course. It is therefore argued that the final salary pensions crises has its roots in the history of actuarial science. The proposal of this chapter is that actuarial practices have changed course throughout the 20th century, from traditional actuarial techniques supplanted in epistemological uncertainty, towards financial economics and probability calculus with leanings towards ontological uncertainty (Reddy, 1996). This is an understated empirical point, because as we suggest in this chapter, the move towards financial economics and its take-up by ordinary trustees within pension funds, arguably made pension calculation more efficient and simple, augmenting a systemic pension fund shift in favour of equity investment in the 1990s. As we suggest, this transmutation of actuarial knowledge was to have a performative effect on the pension fund industry helping to organise relations and opportunities that would lead to the tech-stock crash of 2000. Thus, we find that behind the move out of privately managed social insurance funds was a historical cause initiated by long-running debates and influences that would redefine the role and pursuit of the actuarial scientist. In the aftermath of the tech-stock crash, we have seen at least three broad trends. Firstly and most importantly, the closure of final salary pension schemes to new members due to the expense of this approach, in addition to the cost of making up for lost time by funding liabilities. As we try to make clear in this chapter, funding collective pension schemes has been a long-running approach. Cost has never quite been an issue until after the tech-stock crash. Secondly, there has been an expansion in the size of the coupon pool to asset-match the liabilities of pension funds. Governments and financial services firms have been consulting to resolve the liability structures of pension funds. Thirdly, financialisation has occurred through a process of crisis-management, where commercial solutions have expanded the competitive market for financial services. Actuarial knowledge and the role of the actuary have been discredited and an emerging market for pension or liability solutions has been initiated. In effect, the tech-stock crash could be seen as an event that has moved us even further towards financialised solutions, where the disembedding of traditional post-war actuarial knowledge has been replaced by a more innovative and competitive approach to pension progress that completely by-passes the need for a debate about the purpose and value of collective social insurance.

The bubble and the crash: the great pensions debate

Since the end of the tech-stock equity bubble, the debate over the UK pensions crises has placed an even greater emphasis on reform. The debate has always been how the state could subsidise pension regimes in the future given the assumptions towards demographic changes in the economy. The development of the new economy and the experiments with the capital market did, for a considerable time, reduce the political interest in pensions reform as the stock market created consistent returns for savers, while hiding the extent of pension liabilities built into corporate accounts, creating the perception that equity investment over the long-term was guaranteed (Blackburn, 2002:

Brenner, 2002: *Froud, et al.*, 2000: 2001). However, the corporate burden on defined benefit pension schemes that has increased as a result of regulatory changes to corporate balance sheets and falling equity markets has fuelled a debate as to whether the privatisation of fully funded regimes should be accelerated (Clarke, 2003a/b: Engelen, 2003a/b). It has also fuelled a debate as to the problematic nature of promoting equity investment in society (Aglietta, 2000: Blackburn, 2002: Clarke, 1999, 2003a: Cutler and Wainne, 2002: Engelen, 2003a: Froud et al, 2001: Harmes, 1998, 2002). The problematic nature of promoting equity investment in society has been recently debated by Clarke (2003a/b), Engelen (2003a/b) and Tickell (2003). The common ground established in this debate is the understanding that developing a fully privatised pension system that is linked to the performance of the stock market establishes uncertain challenges and implications that must be dealt with at the public policy level. However, the main contributors to this debate (Clarke, 2003a/b: Engelen, 2003a/b) have contrasting notions of what the problem is, how it has been created and how it can be dealt with.

Engelen (2003a/b) refutes the idea that the trend towards fully funded regimes resolves the current problems associated with State guaranteed pension provision (Engelen, 2003a/b). In fact, Engelen illustrates how the privatisation of equity investment in society will maintain and possibly accelerate the adverse tendencies of financialisation in the economy (Engelen, 2003a: 1369). Engelen argues that many of the factors that caused the TMT equity bubble were associated with the contemporary logic of pension fund investment (2003a: 1363). He argues that the contemporary maturation phase of pension funds is linked to the logic of pension investment in present-day capitalism. In this period there is a greater pressure to increase returns, not only from beneficiaries but from the nature of competition in the asset-management industry itself (2003a: 1365). In this context, there is an 'increasing preference for liquid assets' without maturation limits, which have turned 'corporations into corporate rentiers who increasingly face an incentive structure that rewards equity investments – for portfolio building reasons' (Engelen, 2003a: 1368). The speculative and short-term logic of pension investment therefore becomes an embodied part of financialisation, helping to transform the 'finance industry from a facilitator of other firms' economic growth into a growth industry in its own right' (ibid.: 1367). For Engelen, this 'discrete regime of accumulation' incrementally replaces the priorities of fixed capital investment and patient capital needed for the long-term commitment of productivity growth and national income. As he argues, 'a growing financialisation of the economy, driven by the logic of funding and pushing the case of shareholderism, will reverse this order and will hence endanger the long-term wealth-generating capabilities of firms' (ibid.: 1369) In effect, the problem for Engelen is that the move towards fully funded regimes will expand the amount of savings in the capital market, helping to sustain the contemporary logic of funding, the tendency for 'capital market inflation' (ibid.: 1368) and the 'corrosive effects of financialisation' (ibid.: 1370).

Whereas Engelen emphasises the long-term social and economic consequences of financialisation that need not be inevitable, Clarke emphasises how 'pension security has been redefined in the face of global financial imperatives' (Clarke, 2003a: 1354). For Clarke, the issue is the extent to which the increasingly privatised and individualised nature of pensions security has been progressively tied to the performance of the stock market. As Clarke argues, 'just as nation-states have found capital markets to be severe constraints on their discretion, employers and individuals have found the market risks of such provision much more significant than ever anticipated' (Clarke, 2003a: 1340). The 'gathering forces of global financial integration' as Clarke sees it, has therefore undermined the ability of states and employer-sponsored pension schemes in the UK, to 'guarantee' a level of pensions security that is consistent with the four goals (predicable, stable, lasting, comprehensive) of benefit provision (2003a: 1341). Clarke argues that even though there has been a greater emphasis on individual pension provision, due to how pensions security has been related to the dynamics of the stock market, there is still 'no commitment about the final value of any derived pension' (ibid.: 1353). Therefore the issue of stock market risk 'with respect to the current and final value of accumulated assets' means that the 'protection of the integrity of the pension and retirement income institutions is an essential aspect of any comprehensive commitment to pensions security' (ibid.: 1352) In terms of Clarke's analysis, there are greater implications of financial insecurity related to performance bound pensions at all levels in present day capitalism. Clarke therefore understands how personal financial security is dependent on the institutional integrity of capital market institutions and the reliance on the state to adapt its role of provision under new circumstances to become the 'ultimate guarantor of pension security' (Clarke, 2003: 1353).

Clarke and Engelen (2003) converge on the problem that individualising pensions security presents uncertain challenges, but they diverge on the causes. Whereas Clarke is more concerned with understanding how state-societies face the new realities of financial change, Engelen examines the political construction of ideological arguments supporting pensions reform that are entirely tautological in practice. For Engelen, the assumptions in the script are exclusively written in support of financial institutions, which have a hand in wielding the very narrative they have helped to create. For Clarke, the reverse is almost opposite, where it is assumed that financial institutions react to the world around them. For example, the debate between Engelen and Clarke comes to an interesting contrast in their view towards the causes of the equity bubble. Whereas Engelen emphasises how unstable assumptions of equity performance created an investment logic that was unable to cope with demographic stress (2003a: 1363-1366), Clarke emphasises the irrationality of institutions in a unique period of change that has since returned to fundamental levels (2003a: 1346-1347). Therefore, for Clarke the forces of financial integration have placed a greater emphasis on the 'integrity' of financial institutions and on the state to ensure this. Whereas Engelen examines how the political is built into the reasons for financialisation at the epistemic level, Clarke is therefore more pragmatic in his assessment of financial change and how it must be dealt with post hoc. For Engelen, exposing assumptions and their fragility from the underbelly of rational logic, challenges the inevitability of financial change from Clarke's perspective. Placing trust in the 'integrity of institutions' to create pensions security for Engelen is a passive line of contestability against the throes of politically induced capitalist change. Engelen therefore presents the antipathy to Clarke who imagines that there is 'no shelter from the hegemony of finance' (2003a: 1340).

Although both authors have different ideas towards how the economy functions, both rely on economic evidence and economic links to support their diverging notions. Whereas Clarke (Clarke, 2003a/b) focuses on the concern that financial developments create implications of pensions security, Engelen's (2003a/b) concern is how financial security is placed in the context of the logic of pensions funding and how political arrangements construct the adverse tendencies of financialisation. Whereas Clarke (2003a/b) argues that the problematic nature of pensions security is inevitable and structurally inbuilt into economic changes, Engelen (2003a/b) disagrees suggesting that the logic of funding and nature of equity investment is unsustainable, where its foundations are not produced from inevitable trends but are themselves politically manifested. Although both converge on the concern with the nature and future of pensions security, both make economic assumptions towards the uncertainty of this.

In contrast to both Clarke and Engelen, this chapter will suggest that the discursive construction of actuarial knowledge also played a significant part in the creation of the tech-stock crash and the trend out of collective pension funds towards individualised pension provision. Drawing upon our ideas set out in the first chapter, this chapter will explore the academic struggle to construct a particular kind of economic value and how this struggle, in many ways, accelerated the turn towards equities and asset-price inflation. Demographic factors were not the sole constitution underpinning conditions of financialisation, contrary to Engelen, and nor was the tech-stock crash and its consequences due entirely to the integration of global financial forces. Rather, this chapter demonstrates that the unfolding reality was due to the fortuitous nature of knowledge construction in the actuarial profession, which helped structure and organise pension fund practices at the micro and macro levels.

Chapter seven will be organised as follows. In the first section, we will outline the traditional approach to actuarial funding in the early part of the 20th century. In the second section, it will be important to set out the academic debates within the actuarial profession that defined the essential problems of actuarial science, giving way to a more sophisticated need to manage and calculate uncertainty. We will then highlight the differences in actuarial methods and examine the effect of financial economics on the discipline. It will then be important to understand how this helped initiate the stock market boom and bust in pension fund assets. In the final section, we will explore how all of this has encouraged a further financialisation of the economy, as commercial institutions and ideas construct new pension solutions to the crisis.

Framing pension fund valuations: the actuary and the long view

To a certain extent, actuarial techniques have mirrored developments in the natural sciences (Knights and Vurdubakis, 1993). Determinism was born out of the idea that the laws of nature were out there waiting to be discovered and that uncertainty, the unknown, was the product of a deficiency in knowledge (Reddy, 1996: 226). Reflecting developments in the natural sciences and Newtonian approaches to the physical world, the actuarial scientist was endowed with discovering the unknown (Knights *et al.*, 1993). While this argument of a parallel universe between actuarial techniques and science is a convincing one, it often overlooks the very practical business side to knowledge that life assurance has acquired throughout its history (Storr-Best, 1962: Clarke, 2002: Lenwile, 2003). While early 20th century physics began to assess causality in stochastic behaviour in an attempt to model reality (Hickman, 2004: 843), it would seem that classical actuarial techniques persistently erred on the side of caution and preferred to test the model against reality. Ryder (1975) referred to classical actuarial techniques as a form of 'adaptive control', an engineering concept that 'tests its models by such methods as 'impulse response analysis'' (Ryder, 1975: 60). Drawing on the work of Karl Popper, Ryder argued that the classical approach was typically 'Hypothetical-Deductive', where 'a statement is derived (deducted) from the hypothesis and faced with reality' (Ryder, 1975: 62). Ryder's complaint was against the influences of Bayesian methodology, which typically 'induced' hypotheses or 'prior probability distributions' from statistical data. As Ryder complained, 'the Bayesian concept of the 'probability of hypothesis' should not be used because it is unscientific; there is no way of testing it, no way of falsifying it' (1970: 62). Ryder's work was written at a time in the 1970s when the Bayesian rediscovery of statistics to actuarial work began to gain ground because of the growing popularity of stochastic approaches and the development of computer simulation models during this time. Ryder's defence of the classical (objective) approach against the subjective influences of Bayesian methods reveals something of the continuity of the classical approach. As Hickman argued, 'the exploration of ideas about stochastic processes that occurred in the first decade of the twentieth century was not used in practice for several decades' (2004: 838). It therefore becomes interesting to understand that the methodology of actuarial science changes during the 20th century from the classical approach embedded in life assurance, towards the more inductive and subjective treatment of stochastic approaches emerging from natural science. The question that is most pressing is how this occurred and how it related to emerging economic conditions and changes in pension fund capitalism.

Before we assess how the classical approach applied to pension funds, we must firstly understand that knowledge and experience of novel investment practices originated in the life assurance sector (Simons, 1942: Heywood and Lander, 1961: p.316: Cox and Storr-Best, 1962). Within this sector, the classical approach was important in terms of its pragmatic initiative and flexibility. For example, while longevity and fatality were calculated on a deterministic basis, investment in the early part of the 20th century was a new and uncertain area and relied mostly upon assumptions of economic trends (Scott, 2002). Life assurance was also subject to an underlying morality that constrained speculative practices, which had been instilled as a result of transformations in the 19th century (Clarke, 2002). It could therefore be argued that the moral history and governance of life assurance began to unravel, especially in the early part of the 20th century, as life offices developed consumer type relations with clients (Clarke, 2002: 93), but also as life offices increasingly indulged in unknown areas of investment practice in order to create favourable bonus returns for savers (Scott, 2002). While the moral fabric was certainly undermined by such developments, it is also the case that the business of life assurance was legitimated through the 'scientific' representation of the actuary (Ewald, 1991: Clarke, 2002: see Cramer, 1963: see also Gilley, 1973).

For Peter Scott (2002), the 'cult of equity' was born in the inter-war years, as life assurance firms transcended depreciation through experiments with equity diversification. Investment philosophy was beginning to face the twin pressures of changing economic conditions and market competition (Scott, 2002: 80). It must be said at this point that economic conditions were relatively stable before the First World War (Redington, 1953) and that events after this and during the inter-war years created market fluctuations, which threatened life assurance business and individual savings (Scott, 2002). Equity investment techniques created security with returns and they satisfied a select market of savers. This demonstrates the extent to which life assurance was now governed, not by moral considerations, but by investment considerations, which were forced to change as a result of economic conditions with the actuarial scientist at the helm. It would appear that the moral constraints of 19th century life assurance had been lifted towards an embrace of new economic freedoms associated with consumerism (Scott, 2002). But this shift also represented something of the classical actuarial approach and its move into unknown investment areas. It theorised solutions from out of conditions, modelled future events based on fixed assumptions and applied solutions to actuarial practice. That life assurance was moving away from deterministic models associated with moral governance (Ewald, 1991: Clarke, 2002) towards a much more concerted effort to control for 'imponderables' associated with market uncertainties (Redington, 1953) and consumerism (Scott, 2002), classical actuarial methods were well positioned to take advantage of these developments and all the business opportunities that actuarial 'science' could exploit (Gilley, 1973).

In the early days of occupational pension funds, employers and trustees relied on actuarial direction, which either came directly from life offices or by independent consultants (Gilley, 1973). The growth of pension funds was paralleled by the growth of independent actuarial advice. The upsurge in pension funds approved in the Finance Act of 1921 approached 1000 and this figure grew to 28, 000 by 1981 due to various tax concessions from government (Gilley, 1973: 73). The number of full time actuarial consultants rose from 1, 521 to 1, 857 during a five year assessment by the Government's Actuary Department in the 1960s (Gilley, 1973: 75). As actuaries had typically gained their experience from life assurance and as most practical knowledge came from life assurance, many of the techniques in this sector were extended to pension funds (Heywood and Lander, 1961).

However, the pension fund concept was different from life assurance. For a life assurance firm, income streams from investment were smoothed across the population of policyholders setting aside capital for a rainy day (Redington, 1953). For a pension fund, the central objective was to ensure fund solvency (Erza, 1980). Any benefit that accrued needed to be covered by contributions from the employer and asset streams from investment sources. The actuary's purpose was not only to assess fund value, but also to suggest a funding rate for the employer at the least possible cost (Erza, 1980). Any particular choice of asset-allocation that would reduce the cost to the employer was extremely beneficial. While fund solvency was imperative, it was not so simple to ensure. The actuarial solution to the pension fund problem was called the discounted cash flow method, which otherwise became known as the 'long view' due to how liabilities and assets were valued, discounting for long-term assumptions (Puckridge, 1947: Heywood and Lander, 1961: Day and McKelvey, 1963: Erza, 1980: Booth et al., 1999: 488-502: Day, 2003: Gordon and Jarvis, 2003: Lillevold and Eyland, 2004). This method would become widely used in the valuation of pension funds for most the twentieth century (Ren and Stewart, 1982), before it became widely criticised for its cautious assumptions. Before understanding what effect this method was to have on pension funds and before understanding how it unravelled, it will be important to understand the reasons for this method and the debates surrounding it. But before that, it will be important to describe what the long-view or discounted cash flow approach did[55].

Since their invention, pension funds created a number of imponderables for actuaries to deal with. In simple terms, the inclusion of an employee in a pension fund meant that benefits had to be paid out at a particular time. This time was unknown and the actuary could not predict with any certainty when an employee might either die or terminate employment (except through deterministic methods). Many solutions developed to resolve this problem[56], but the solution typically relied on fixing the time of the benefits at a future date, with certain assumptions regarding salary increases. This built caution into the value of the liabilities, because actuaries essentially prepared for much greater cash out-flow. Under cautious assumptions with regard to the final payout, terminations and deaths therefore became a nice little surprise for the actuarial valuation. The problem however, was that liabilities were long-term and so the next problem for the actuary became one of how to provide a source of income from investment when conditions were uncertain. As market trends and interest levels could not be predicted with any precision from observations of the short-term due to volatility, it was proposed that an income level could be derived from the expected value of future investment streams by assuming low long term rates of interest. In other words, the actuary built pessimism into the values of future asset streams. Any rise in the short-term market rate or book value would come as a nice surprise and any fall would be covered by the long-term actuarial valuation. In the assessment of fund solvency, expected asset values (accruing from securities, property, shares etc) minus liabilities (administration costs and benefits) would create a picture of solvency, from which point the actuary could determine whether the fund was in surplus or in deficit. By assessing fund solvency, the actuary could then suggest a pace of funding, which could be reduced in times of surplus and increased in times of deficit.

Mystical calculations and actuarial dilemmas: the need for certainty

The long view was not without its flaws and it is important to piece together some of the key elements that would sew the seeds of its demise through the rationalisation of its inadequacies. At the date of valuation, the actuary determined whether the fund was in surplus or in deficit according to further investment assumptions and made suggestions on the pace of funding to the company according to various investment assumptions. Companies depended on consistent results and the typical criticism of the long view was that it was far from consistent. Writing in 1947, Puckridge (1947) outlined the long view approach and argued that a single long-term discount rate for all members and new entrants, known as the indirect method, could potentially undermine the solvency of the fund. For example, the actuary could determine the size of the deficit and suggest a course of funding to create solvency, but without recalculating assumptions for new entrants under new contingent economic conditions, the actuary could potentially undermine the size of the deficit. In more simple terms, while Puckridge (ibid.) supported the long view, he warned that the influx of new entrants created the potential to accentuate surplus or deficit by maintaining the same discounted assumptions for all existing members and new entrants. Puckridge believed that the discount rate on investments would have to be reconfigured for new entrants in order that they be 'self-supporting' so that the 'influx of new entrants in excess of expectations will not create a further deficiency' (ibid.:8). Puckridge also believed that the revaluation rate for new entrants, in terms of the surplus or deficit, would have to be presented in the actuarial report so that the assumptions of solvency could be 'understood by trustees and employers' (ibid.:2). This was a seminal paper presented to the actuarial profession, because the long-view approach, while recalculated for new entrants, provoked a number of concerns from practitioners at the time. What is significant is the extent to which the issues debated resound in the unfolding narratives of the final salary pension crises.

The first major concern was whether actuaries and trustees would really be able to understand the proposal that Puckridge was advocating. In defence of his own proposal Puckridge argued:

> The suggestion has been made by the opener that an employer might not accept with confidence an actuary's valuation of assets, while regarding the valuation of liabilities as something rather mystic with which the actuary could deal. Personally, he thought that if an employer was presented with an actuary's report in which the liabilities had been valued in some mystic manner which he did not understand, and in which credit had been taken for existing investments at a book value which he knew to be materially less than the market values, he would say to himself: 'There is a nice little margin here; I do not think that I need do anything about this, or at any rate I can bring in this margin for which no credit has been taken'. The employer would not easily be made to understand that the actuary, by his mystic processes, has already taken that margin into account. He himself had in practice adopted the method of revaluing existing investments and had explained to employers what he had done; they had seen without difficulty that the margins had already been used and that the deficiency was real and should be dealt with. He knew of at least two cases where an indirect method of valuation had shown a large deficiency and no action had been taken. The accountants had told the employer: 'You need not worry about this deficiency; we have in hand the difference between the market value of the assets and the value for which credit has been taken by the actuary' (Puckridge, 1947: 26).

As we will understand later, Puckridge's concern to the profession in 1947 would come alive as a consequence in the 1990s when corporate firms took 'contribution holidays'. In the mean time, Puckridge's proposal was for the furtherance of transparency and for a more efficient methodological treatment of liabilities in the balance sheet. For

Puckridge, it seemed to be a question of responsibility, in the sense that he intended to begin a process whereby responsibility was given back to managers and accountants to treat actuarial valuations seriously and to prevent the perception of mystical calculations, which would invariably meet company interests from time and to time. While Puckridge had the good intention of dealing with this mysticism, the question was whether Puckridge was naively throwing water on to a flaming pan. For example, in the context of the long view, it seemed untenable for some actuaries listening to Puckridge's proposals to suggest that the fund's pension scheme, while in surplus at time *A*, could only ensure solvency at time *B* by recalculating the long term discount rate for new and existing members entering the fund. While there is a sense in which Puckridge was trying to shatter complacency, the actuarial valuation on the other hand, could potentially deliver 'too much information'. In the Institute's discussion of Puckridge's paper, one actuary named Marples struck a cord that chimes quite loud today:

> I feel that to place in the balance-sheet the capital value of the strain of new entrants in perpetuity would, when the full explanation was appreciated by the management, seriously strain their acceptance of actuarial theory. Would not the just conclusion of the managers be that the only course of action to save the fund is to cease to start a series of funds and close them at regular intervals which would be absurd (Marples, quoted in Puckridge, 1947: 28).

It could be said that the appointed actuary was in between a rock and hard place. By valuing liabilities and expected liabilities too cautiously, it was proposed that the actuary could damage actuarial reputations by having to explain their deterministic assumptions, which could by default, harm the collective interest underpinning the continual support of pension funds. Worse still, it was thought, was the orthodox approach to balance sheet accounting, where the value of long-term liabilities was determined at book value when it came to presenting the actuarial valuation. As market rates fluctuated, so did the value of liabilities. In this context, how could the actuary suggest 'that no action be taken to liquidate the deficiency in view of the margin between the current yield and the assumed valuation rate of interest'[57]. As Heywood and Lander argued, 'such an approach would tend to confirm the view held in some quarters that the actuary lives in some strange world divorced from reality. He carries out a valuation, finds a so-called deficiency, and then says it doesn't really matter, nothing needs to be done about it! In fact the deficiency does not exist, the fund its in surplus' (Heywoord and Lander, 1961: 336). At the same time, presenting notional values of surplus or deficit to trustees, managers and accountants, the actuarial valuation under weak assumptions (or best guesses) could persuade a course of action that was antithetical to the long-term interests of companies and their beneficiaries. Therefore, the reverse of Heywood and Lander was true. What was believed to be a surplus under assumptions of future investment considerations could also turn out to be deficit. In sum, there seemed to be an intractable problem for actuaries valuing long-term liabilities on present assumptions of expected income yields, which was further complicated by the presentation of assets and liabilities in the balance sheet. Furthermore, transparency was not the answer that anyone was looking for.

Lengwiler described 'actuarial science as a technology of trust' (2003: 145). From inside the profession looking out, the construction of trust through actuarial calculations served the wider social and economic purpose of pension funds and their commercial sponsors. But it also protected the actuary profession from critical interests outside the profession that could take away their historical mantra. From the outside looking in, actuarial techniques seemed to represent a credible yet malleable lever subject to the eyes and ears of adoring sceptics, whose priorities and choices were regulated, not through essential relations of trust, but through the discourses of optimal rationality, commercial control, union power and social insurance. In an examination of the historical emergence of actuarial theory in the contextual rise of social welfare institutions, Lengwiler (2003) hit upon something quite insightful that is helpful to this discussion. 'The interesting point with actuarial theory is its epistemological ambiguity: it is oscillating between the practical interests of the insurance business and the theoretical purposes of the academics-or as we have seen above: between the anti-scientific position of insurance companies and the scientific interests of social insurance institutions' (ibid: 139). Most practical knowledge of valuation originated in life assurance under the classical actuarial method, but pension funds, because of their links to commerce and social insurance, required a more precise or scientific treatment of pension valuation, which needed to be more accountable to public scrutiny, yet safe from lay criticism. That life assurance and occupational pensions were both private did not matter. The former was seen as outside and alternative to social insurance, whereas the latter was seen as an extended version (ibid.). So much as trust was a factor, the transparency of classical actuarial techniques to the cold light of day threatened its scientific representation and the construction of social and occupational welfare. For making sense of the uncertain future without any sense or control of stochastic variables was truly a contradictory position to hold.

It became quite clear that the prerequisite of transparency was scientific rationalisation and while immediate post-war uncertainties seemed to threaten the long-term approach to funding, the surface of actuarial science would face the shifting sands of post-war conditions. At the time that Puckridge wrote his paper in 1947, actuaries were valuing pension funds under the conditions of cheap credit (2 percent). This represented a problem. For market rates to be below expected long-term discount rates, liabilities would be inflated. But economic conditions were beginning to change as the muscle of the post-war economy pump primed a demand led momentum. The era of cheap money was soon over and interest rates continued to rise and fluctuate, re-creating market uncertainties. During this time, another seminal contribution emerged to hit the actuarial headlights to become a milestone in the historical progression of actuarial techniques. As Redington wrote in 1952,

> Before 1914 there was promise of uninterrupted stability in economics and social affairs, and there was apparently much justification for faith in the unlimited progress of science and the ultimate conquest of all our problems. To-day, what then seemed most certain has in many ways proved to be most uncertain, and in science the rigid and somewhat arid area of physical determinism has given way to a more flexible philosophy with probability and statistics as the prominent factors.
>
> In our sphere this growth in uncertainty has been emphasised by the different financial consequences of two world wars, the first of which was accompanied by a rise in the long-term gilt-edged rates of interest from 3% to 6% and the second by a fall from 3% to less than 2.5%. In our early literature it was mortality only that demanded treatment by the methods of probability. Now, mortality is perhaps the least of the actuary's uncertainties; interest, taxation and expense, though not susceptible to formal treatment by the methods of probability, are nevertheless factors about which probability must decide the shape of our thinking. *We are less concerned about the technique of valuing at 2.5% than at the significance and the consequences of the 2.5% itself* (Redington, 1953: 286, *my emphasis*).

Puckridge's (1947) paper was important in opening a space of necessity for understanding probable investment conditions and their significance to valuation and funding on a long-term basis. In the context of pension funding, actuaries needed to regain control of market uncertainties. Redington's (1953) contribution attempted to fill this space, because he advocated a mechanism of 'immunisation', by which liabilities could be theoretically protected from interest rate changes through investment in fixed securities. Whether short-term discount rates went up or down, Redington (ibid.) theorised that it was possible to match liabilities with assets over the long term making speculative conditions irrelevant. That Redington's (ibid.) ideas applied to life assurance and 'with profits policies' didn't matter, because they were a milestone for a number of reasons. For Redington (ibid.) put forward a case that would attempt to deal with market uncertainties and ultimately instigated a process by which traditional actuarial methods, such as Ryder's (1976) deductive theory of adaptive control, would begin to listen to the insights provided by the neo-Bayesians and their statistical methods of induction. As we will understand later, Redington (1953) no doubt influenced the creation of asset-liability models (ALMs), a socio-technology for calculating future probabilities, which would create serious consequences for asset-allocation decisions in the late 20th century. For pension funds, it would seem that Redington's (ibid.) ideas have probably become more relevant today as asset-management firms promote their 'liability driven investment' strategies to pension trustees. But while pension funds today strive to asset-match their liabilities against short-term fluctuations and market values, the pension funds of the late 1950s and early 60s still intended to fund their ongoing liabilities over the long-term. While earlier methods of pension funding relied on the long view approach and as pension funds today increasingly focus on the short-term and market values, this would suggest that something has gone on in between. This leads to an interesting question. How is it, for example, that the long view of pension funding associated with long-term liabilities and the continual support of occupational pensions, even despite contribution problems in the early 1970s, has been replaced by a short-term perspective that is linked to the demise of occupational pensions in their post-war constitution?

Equities and the long view: a technology of pension funds

While we should keep this question in mind, we should also get back on track to the story of continuities, and this story requires an examination of the relationship between the development of actuarial practices and the pension fund experiment with equities. For the particular case of pension funds, Redington's (1953) contribution resonated with the profession in a debate over what particular asset was most appropriate for matching long-term liabilities. As Redington (ibid.) argued, it was less about the technique and more about the significance and consequence of investing in one particular asset as opposed to another. While Redington's views were heard loudly throughout the actuarial profession, subsequent developments in the emerging post-war conditions detracted from Redington's concept of immunisation. In the context of market uncertainties, the debate unearthed the proposals that Puckridge (1947) had put forward with regard to long term funding and focused on how and in what way liabilities were to be recorded on the balance sheet. In what was wholly consistent with Redington's (1953) thoughts on the consequences of investment decisions, the actuary profession began to question the benefits of valuing liabilities at book value during a solvency test. In what resonates with contemporary problems with current accountancy rules (FRS 17), Heywood and Lender (1961) raised the criticism that it was almost pointless to place value on assets at book value at time *A* when they could vary substantially at time *B*. For Maxwell and Lender (ibid.), this could potentially harm the pension fund. At time *A* market values may inflate the asset streams minus liabilities producing a surplus, but at time *B* market values may depress asset streams minus liabilities producing a deficit. In between all this, the firm would decide if the course of funding needed to be reduced or increased. Representing liabilities at book value, Heywood and Lender's (1961) point was how could the trustee or accountant possibly know whether long-term liabilities were truly covered by asset streams? As Heywood and Lender argued,

> The orthodox method, therefore, can have an adverse effect on investment policy, because the trustee of a fund may refuse to carry out a switch which is to the long term advantage of the fund merely because of its adverse effect on the next succeeding valuation. This seems to leave the orthodox basis of valuing assets subject to severe criticism because obviously the trustees should adopt the best investment policy for the fund and the valuation techniques must be such that the results brought out are not disadvantageously affected. It is quite wrong that a valuation method should ever be the cause of a bad investment policy.
>
> *This discussion leads to the conclusion that the value placed upon the assets of the fund must be consistent with that placed upon the liabilities and that book or market values are of little relevance.* Again, since the process of valuation is to estimate the future income and outgo of the fund and then to discount such income and outgo at the valuation rate, there seems to be no reason why the interest income should be treated on any other basis (Heywood and Lander, 1961: 329, *my emphasis*).

The attack on book values does however have to be understood in the context of an emerging interest in the opportunities of equities for pension fund valuation in the post-war environment. The focus on equities as a source of long-term funding to match long-term liabilities was a particularly exciting development for pension funds. Over the long-term, equities outperformed bonds and diversification of equities created safety with returns as the life assurance sector had worked out. The trouble with equities was that they were considerably more volatile, but the advantage of equities was that they generated income from dividends and also share value. Calculating the expected income yields from such investments and discounting them for pessimistic rates meant that volatilities became of 'little relevance'. To put them on-balance sheet therefore seemed to be absurd in such circumstances. The further point was that the post-war economy was producing inflation as a side-effect and as pension benefits were linked to salary rises and wage increases, equities also provided, it was believed, a hedge against inflation. The reasons for this were twofold. As the economy expanded, corporate firms became increasingly interested in the fruits of alternative sources of funding that arose from stock market participation (Mitchie, 1999). For pension funds, increased capitalisation heightened share values. As corporate firms usually made investments from retained earnings and borrowings and as economic growth increased, dividend yields would not only provide a source of income, but an indication of future expected performance if it could be modelled with inflation. In this sense, it was anticipated that equities would provide a suitable match for wage related liabilities. While equities were seen to be historically more volatile and 'risky', it was expected that the economy would continue to grow and over the long-term, pension funds would be rewarded for sustained investment. While the expected rate of inflation opened up new areas of statistical research, the promises of equities seemed exciting. But this emerging fascination with equities still troubled the actuary profession.

As we have already discussed, actuaries believed that equities had an important role to play in off-setting long-term liabilities in an inflationary economy. Such a perspective was supported by two in particular papers on the matter. As Heywood and Lander argued, 'If one could be certain that inflation would continue as a long-term trend, and that equity investments would always operate as a hedge in this way, then it follows that the proportion invested should be 100%' (Heywood and Lander, 1961). While this was said provocatively, it did reflect the particular attitude towards the fruits of equity investment for long-term requirements. One actuary, taking this prevarication seriously believed that the hype contained some worrying truths. In the discussion of Heywood and Lander's paper, Fison, an actuary, believed that equity shares should only be bought on 'yield considerations' and that any type of allocation skewed towards equities would bid up the prices of assets due to the 'activities of institutional and other investors' to levels where 'shares would be overvalued and gilt-edged stocks should certainly be bought' (1961: 351). That actuaries were taking an interest in equities at this time is significantly related to events that led the government to allow trustees the power to invest in equities in 1961 as a result of the Trustee Investment Act. The government in its White Paper, the 'powers of investment of trustees', had also recommended an appropriate asset-allocation, 50 percent for equities and 50 percent for fixed securities. Some years later, George Ross Goobey was described as the 'father of the cult of equity' because he persuaded Imperial Tobacco Pension Fund, one of the first, to abandon their 80 percent allocation of gilts in favour of equities, presumably in the 1960s when it became authorised (Pensions and Investment, 1998). Due to their superior performance over bonds during this time, Goobey likened himself to a 'child in a sweetshop who discovers that everything is for sale at knock down prices' (quote taken from Golding, 2001: 50). That Goobey was barred from the Institute of Actuaries for teaching the relative merits of equity investment said something of the Institute's touchiness with regard to proposals that were looked upon as speculative rather than scientific.

The Trustee Investment Act was to create an upsurge in equities and produced an equity premium of 160 percent using gilt-edge securities as a benchmark (Jones, 1993: 274). The Transport and General Worker's Union described the pension fund demand for equity investment as 'blood transfusion for private enterprises' (*quoted in* Shragge, 1984: 92). The point is that Goobey was right, based on yield factors alone, equities represented an appropriate long-term hedge and superior performing asset above bonds (Golding, 2001: 49-63). The problem for the actuary profession was that there seemed to be no scientific justification for this or proof that the long-term performance would continue, other than a causal and expected understanding that future economic trends may produce favourable results. The actuary's traditional job was to assess expected asset streams from present investment sources, but the actuary could hardly ignore the relative merits of equity investment for the benefit of companies. As it was not the decision of the actuary to make asset-allocation decisions, the seemingly 'suitable' match of equities for long-term liabilities could neither be held to sway the actuary profession into a relatively uncertain area, nor persuade companies into thinking this was scientifically approved. It had to be based on a choice of asset-allocation, or a consideration of allocation consequences. But this required the actuary to become more deeply involved in matters of impartial investment advice to clients and consequently, to have a better understanding of risk in relation to liabilities. As Day and McKelvy argued,

> It is pleasing to observe that, although perhaps more slowly than one could wish, actuaries are gaining acceptance as one of the natural sources of expert advice on pension fund investment policy. To continue to enjoy and deserve this we suggest that the actuary must resist all temptation to let the basis and technique of valuation determine the investment policy. The actuary who as investment adviser advocates a determined and appreciable entry into equity investment must when he comes to prepare his actuarial valuations (unless of course there has been a fundamental change in the long-term outlook) present a valuation result which is no less favourable than that which would have emerged had the trustees adhered to fixed-interest investments. It takes a particular combination of circumstances to make this point of practical importance, such a combination has materialized over the last two years or so in the case of pension funds... (Day and McKelvey, 1963: 121).

While the prospect of equity investment was met with caution from the profession, Michie's (1999) history of the London Stock Exchange (LSE) would support the perspective that the increasing corporate participation of the stock exchange and the gradual dominance of insurance companies and pension funds in the 1950s and 1960s made domestic equity trading the heart and sole of stock exchange business. Arguably, equities saved Stock Exchange business making pension funds and other institutional investors an important source of demand beyond the 1960s (Michie, 1999: 363-479). For example, although gilt-edged trading dominated turnover from £16 billion in 1965 to £19.5 billion in 1969, UK equities were growing at a faster pace, from £3.5 billion in 1965 to £8.7 billion in 1969 (Michie, 1999: 474). Right up to the 1970s and beyond the crash, the LSE became ever more dependent 'upon the business generated by institutional investors buying and selling UK government debt and stocks and shares of large and established British companies' (Michie, 1999: 536). The issuance of new shares by converted British companies was a major factor in propelling the nominal value of securities by £16 billion or by 51 per cent (Michie, 1999: 472). The market value of these securities grew by 138 percent or £62.4 billion 'reflecting their revaluation by investors in the face of inflation' (ibid.). As the market value of all securities issued by British companies increased to 55 percent in 1970, Michie (1999) argued later 'more than ever the LSE was now dominated by UK equities despite the expansion of British government debt' during this time (Michie, 1999: 520). During the

1960s, it must also be pointed out that most commission income (85%) was generated by equity sales in the LSE. Michie (ibid.) documents the sustained power of institutional investors in relation to the LSE, and particularly pension funds, which not only applied downward pressure on commission rates, but also increased their total weighting of UK equities which had grown from 26.7 percent in 1981 to 34.2 percent in 1993 (Michie, 1999: 630). For this kind of sustainable and growing investment in equities, something was happening between the actuary, the trustee and the fund-manager. If it was possible, for example, that alternative asset-allocations could be made as Day and McKelvey argued (1963: 121) in the sense that less volatile alternatives were open to the trustee 'to do the job', why was asset-allocation becoming increasingly weighted towards equities?

In order to answer this question it is first of all important to consider equity investment as part of the discursive and insurantial technology of occupational pension funds (Ewald, 1991). We have become all too familiar with associating equity investment in IPE as form of speculation and this is quite understandable. But when we consider equity investment in the context of occupational pensions and the kind of cautionary methods that were used to frame actuarial valuations, equities fulfilled a purpose under the framing of the discount method and the insurantial collective that occupational pensions had constructed. It is thus proposed that there is a distinction to be made between equity investment in the context of insurance and equity investment as an individualised practice. Firstly, the benefits of occupational pensions were typically defined benefit (DB), which either applied to a final salary pension scheme, providing benefits based on a percentage of final earnings at or close to retirement, or a career average scheme providing benefits on each year's earnings. The final benefits, while notional on paper, were fixed in terms of financial guarantees once they accrued. As benefits were salary related, the liabilities also increased pace with inflation. Inflation posed a threat to economic freedom and equities were represented at this time, not only as an economic hedge for pension funds, but a political hedge for individuals and their freedom. For example; in support of equity investment, one actuary wrote that 'the alternative to a free-society is a state-run society – forced direction of the economic activity of the individual and collective responsibility for the welfare of its members. As title to all the instruments of production and distribution would then be vested in the State, equity investment as a hedge against inflation would obviously be abortive'[58] (Thompson, 1958: 241).

Secondly, equities were part of the collective nature of occupational pensions. For Life Assurance firms and particularly 'with profit' policies, members were (are) typically shielded from volatility through capital reserves and from the spreading of risk throughout the population of policyholders. Unlike life assurance firms, pension funds did not build up capital reserves. But individual members were shielded from volatility through the smoothing of investment risk across time. While equities were considered to be a volatile and risky investment, the long-term approach to funding and valuation spread the volatility over the lifetime of an employees membership through the discounted cash flow approach. Financial volatilities were shouldered, not by the individual, but by the employer who increased or decreased the pace of funding to maintain fund solvency according to actuarial calculations. Financial volatility, wage increases, inflation and longevity were all factors that heightened the financial expectations of benefits and their accumulating liabilities. In actuarial terms, this problem was sometimes solved through the 'equalisation of the burdens between successive generations' (Scholey, 1969). The actuary was in a position to make assumptions about new entrants, for example, so that liabilities could be smoothed between the generations. 'In actuarial parlance, it would be secured by paying each year an actuarially assessed new entrant-contribution, plus a sum equal to interest on the discounted uncovered liability'. Scholey went on to say that 'if initial income did exceed outgo, a fund would be accumulated; the aim would, however, not be the accumulation of funds, but the equalisation of charges'[59]. This kind of smoothing process equally applied to investment. In essence, new valuations on asset streams were continuously re-assessed for new entrants according to new investment conditions. It is noticeable that the traditional UK approach to actuarial calculations tended to take this long view approach to funding in order to iron out the fluctuations. This long-term approach to funding frustrated accounting and fund-manager interests which tended to be more short-term. In contrast, the US approach relied on funding approaches that were more rigid and transparent so that liabilities pleased the interests of accountants and their accrual concerns (Erza, 1989). The smoothing process that the actuary was responsible for and the different layers of control that needed to be accounted for helped constitute occupational pensions as a discursive form of insurance and shouldered the burden of financial uncertainties. While the smoothing process was sound in practice, it was vulnerable to a number of flaws and the place of equities, while important as a technology of occupational pensions, also created many ponzi like implications. This is not because equities are inherently speculative or dangerous. But because certain frameworks of rationality attempted to measure and control equity performance according to inductive mentalities of rule, which did not consider the socio-financial consequences of heightened equity exposure.

From epistemological uncertainty to ontological uncertainty: towards risk and return

Before we examine how this took place, it is necessary to understand how, within the actuarial profession, a concerted effort began to shed the inefficiencies of uncertainty in search of an understanding of stochastic processes. But before we examine this, we need to understand that the post-war arrangement of occupational pensions was governed, not by risk, but by uncertainty. When Ewald (1991) examined the constitution of 19th century insurance, he argued that risk was a technology of insurance. It could be argued that Ewald's (1991) theoretical treatment of insurance was related to the techniques of this period, which relied on deterministic methods of probability and control. In this sense, risk was produced and it was calculated through the statistical application of probability calculus to populations. As we have already hinted, as life assurance and pension funds entered into the investment field it opened up the space of investment chance and probability, but the concept of risk, especially in debates over pension funds remained on the theoretical periphery, separate from practical concerns up until the 1970s when actuaries began to take a keener interest in financial economics. In the practical domain however, the calculation of risk did not govern asset-allocation decisions without allowing for the uncertain. Redington (1952) had confirmed the need for a reserve 'estate' in life assurance to act as rainy day money and the discounting cash flow technique used by pension funds wrote pessimism into the value of the assets. Both approaches allowed for a capital cushion and smoothed away uncertain investment conditions. While 19th century insurance calculated risk through deterministic methods, early pension fund methods calculated assets taking uncertainty and volatility into account.

Reddy (1996) helps us to understand the critical distinction between risk and uncertainty through his reading of Frank Knight's *Risk, Uncertainty and Profit* (1921). Knight made a distinction between 'predictable and unpredictable' or 'probabilizable and non-probabilizable' forms of indeterminacy (Reddy, 1996). As Reddy's reading of Knight makes clear, 'one could go further than this to add that Knightian uncertainty includes situations in which probabilities are not known not only because there are barriers to their calculation but because the context is such that it is not meaningful to speak in terms of the assigning of probabilities, real or hypothetical, to the potential event-alternatives' (Reddy, 1996: 227). This is significant to the classical treatment of uncertainty in traditional actuarial thinking because the actuary approached investment decision making with caution due to the contingent nature of economic history and its 'multiple time horizons'. As investment conditions changed, so did actuarial assumptions. In contrast, actuarial projections,

> ...cannot be precise forecasts. The bases used for the calculations are derived from observations of past experience but they also incorporate some allowance for likely developments. The observations provide measures of past wastage rates from one year to another. Nevertheless, expectations are not likely to be fulfilled exactly: history rarely, if ever, repeats itself. The past is a guide, but never an exact blueprint for the future–which has been described as a funnel of uncertainty which steadily widens as the future years unroll (Benjamin and Cox, 1973: 2).

This reading is slightly out of touch for our discussion of pension fund valuations, because the statistical application of probability calculus to stochastic investment behaviour only became an emerging area in the 1970s. But it does illustrate the point that uncertain (actuarial) calculation defined the limited context and time frame from which risks were identified, as opposed to the more ambitious project of calculating risks from assumed certainties in economic nature. Furthermore, actuarial calculation was governed by a 'funnel of doubt', which opens up probability distributions to the criticism of unfolding uncertainties. The point about traditional actuarial methods and particularly the long view approach to funding is that it relied on caution to account for uncertainty, but at the same time made recalculations to account for contingent conditions of uncertainty. As we have suggested throughout this chapter, this conventional actuarial technique in relation to pension funds suffered, because its transparency exposed the fragility of scientific techniques, which were held to be mystical and 'unscientific' outside of the profession. Demonstrating this viewpoint, Cairns (2004) argued, a problem with the traditional approach 'is that there is no rationale behind the level of caution in the valuation basis, that is, no attempt has ever been made to link the level of caution in the individual assumptions to the level of risk' (Cairns, 2004: 1264).

In very simple terms, the discount method produced surpluses and it produced deficits. Under deterministic assumptions of investment conditions, there was no attempt to match liabilities with assets in the short-term on a long-term basis. Creeping into the debate was the concept of 'risk' and central to this question was the interdependence between efficiency and solvency. Focusing on the efficiencies of different funding approaches, Colbran demonstrated the criticisms of the traditional method and rational space it left open when he argued,

> Although there is a lack of published information, it appears that, in general, directly invested final salary schemes have weathered the storms of recent years remarkably well. Sometimes resources have been sufficient to go a long way towards maintaining the real value of pensions without injection of extra funds.
>
> Can the consulting actuary claim that this success is due to his good judgement and foresight? *Or would it be truer to say that he was overcautious at the time but by accident the over-provision proved to be necessary? Or yet again that he has been lucky as there have been gains as well as losses?* More important is to ask whether we are still justified in encouraging employers to think we can well them how much to set aside for the future.
>
> For the actuary of my generation, many of the basic principles we learned as students have been undermined. There is much disillusionment among scheme members about final salary schemes on account of the rights of early leavers, highlighted by so many redundancies. I believe this feeling is spreading amongst employers too.
>
> One might think that employers have enough trouble in keeping their business in financial balance year by year. To add to this uncertainty of a possible extra liability for the past is hard to justify on a commercial basis. *We should at least make sure that we show employers the nature and extent of their risk* (Colbran, 1982: 380, *my emphasis*).

As Colbran (ibid.) was demonstrating there was a rational requirement to understand the dynamics between assets and liabilities, not over the long term, because this produced solvency risks and financial inefficiencies, but in the short-term because financial risk was increasingly calculable and transparent to the accounting eye. Taking Colbran's hopes into account, imagine a method that could determine the probable income value of certain investments so that they could directly match fixed liabilities as they accrued on the balance sheet. Whether or not discount rates went up or down, a precise asset-allocation strategy could be determined to cushion short-term changes and to reduce the period of amortization. Redington's (1952) ideas had already proposed a method, but it could not be strictly related to pension funds because of their investment in equities. In order to match liabilities with asset streams, it was therefore important to understand the dynamic behaviour of market values so that fixed liabilities could be insured against market fluctuations. Two particular developments inspired the course of events: the introduction of financial economics to actuarial techniques and the statistical application of probability calculus to stochastic processes.

'Statistical physics blossomed in the first decade of the 20th century' giving rise to Louis Bachelier's novel dissertation named the 'The Theory of Speculation' (Bernstein, 1992: 18), which modelled stock market prices as if they were suspended particles in motion (Hickman, 2004: 843). Bachelier's ideas essentially developed an understanding of stochastic processes or the analysis of random movements among statistical variables (Berstein, 1992). Bachlier's ideas were to change the course of financial history, but 'sixty years were to pass before anyone took the slightest notice of his work' (Berstein, 1992: 20). Financial economists gained most from Bachlier's ideas because they provided an empirical understanding of random stock movements, which inferred general causality and probability to certain movements at particular times. Stock movements, while they moved randomly, also appeared to be 'market clearing', which led to the notion that market efficiency is a factor of information. For the actuary profession, financial economists modelled the world on flimsy assumptions, but its theoretical search for market efficiency and optimal rationality led to many ideas that actuaries eventually became interested in. The discipline of financial economics, which had contributed to this debate as early as 1950 (and taking inspiration from Bachelier's modelling of speculative prices in 1900), had been sidelined as irrelevant up until the 1970s when it received the eyes and ears of the actuary community. This is probably because under the discount cash flow method, volatility was irrelevant to the smoothing approach that actuaries had relied on. Financial events in the 1970s, decreasing participation in DB schemes during this time, the development of IT and statistics software, in addition to the growing impatience with mystical actuarial techniques, all opened the door to financial economics and the application of probability calculus to stochastic understanding. In 1972, twenty years after financial economists had first developed the idea, Moore's (1972) paper represented a milestone to the actuary profession for introducing the ideas of two renowned financial economists; Markowitz (Portfolio Theory) and Sharpe (The Capital Asset Pricing Model).

For the actuary profession, the calculation of financial risk and the determination of market values was the most relevant feature of financial economics. In basic terms, while risk is the danger of investing in one particular asset over another, risk is also represented as the cost of investing in one particular asset over another. The calculation of risk therefore determines the risk-reward ratio. Those assets that have the potential to create greater costs also create the potential for higher returns. Similarly, those assets that have the potential for creating the least cost also have the potential for creating the least return. Financial economics does not assume that different assets have inherent features. For if equities, for example, were guaranteed to produce a particular return as a reward for risk, then by this assumption, all investors would take up equities. Financial economics proposes that there is no such thing as a riskless or costless asset. Conversely, risk is a simple matter of demand and supply in an efficient market and a variable of information. For example, different flavours and brands of wine are sold in the supermarket. Price is not a reflection of quality, but of taste. The quality of wine can only be assessed in relation to others and by gaining information through tasting. There is a risk that tasting will produce unsatisfactory results for the consumer. But tasting determines supply and demand in an efficient market of full availability (information). As all consumers are risk-averse (an assumption of financial economics), consumers will choose wine that tends to be more popular and consequently cheaper so that the risk of financial loss and disappointment is less. Known products will produce a certain level of demand, which should, under efficient market conditions, be reflected in the price. In an efficient financial market, economists are not concerned with price, but with the risk and reward ratio. Known assets will produce known returns through statistical analysis, which will represent information conditions at the time. The statistical application of probability calculus to stochastic investment values will essentially work out the variance and covariance of returns within a certain performance range. As financial investors aim for the highest reward for the least risk, investors will diversify investments according to the minimum variation of return across assets of different categories and of assets of the same category. For example, a wholesale merchant intending to buy wine for retail purposes, will on risk averse assumptions, buy a range of popular wines from different parts of the world and may specialise by investing in one popular brand of wine, diversifying for different areas. In both cases, the wine merchant is intending to minimise risk for the greatest possible return by keeping close to popular market demand.

While this is a simplified treatment of financial economics and the ideas that Moore (1972) presented on portfolio theory, it not only posited that risk could be calculated, it posited that a precise return could be generated from a particular portfolio of investments. The problem for the actuary profession was that the ideas only solved one half of the story, which was how to value assets with the least possible risk. Some years later, actuaries debated whether financial economics had anything to contribute to actuarial practice in 1993. As Professor A. D. Wilkie said of financial economics during a proposal to establish it within the actuarial profession;

> Our proposition is that it is worth listening to what financial economists have to say, not just because financial economics is widespread, but because financial economists approach investment with what, we believe, are sound actuarial principles. They are on the same side as we are; and I deeply regret that we have, for too long, treated them as opposition...Why have actuaries been so reluctant to apply good statistical methods in investment? Why have we allowed others to steal our clothes? In 1952, Frank Redington, a distinguished British actuary, presented a paper entitled 'Review of the Principles of Life Office Valuations', which introduced his concepts of matching and immunisation. His paper as not a statistical one, and was rather like the Cutty Sark, one of the last great sailing ships in an age that was already being taken over by steamships.
>
> In the same year, 1952, a young student, Harry Markowitz, published his paper on portfolio selection. It is surprising that an actuary had not written that paper sooner. It looks at the reduction in risk, as measured by variance, in a portfolio that contains a number of investments whose returns are correlated. Actuaries, for years, had been looking at the reduction in risk of a portfolio of insurance liabilities, and how that liability could be reduced by reinsurance, but they had never explicitly spelt out what happened when the results of the liabilities or the assets were correlated. Markowitz did (Wilkie, 1993: 399).

One of the main criticisms was that financial economics determined practical solutions to problems from one single time frame, rational time. This was in contrast to the history of actuarial practice, which tended to make a distinction between risk and uncertainty due to the funnel of doubt. Within this ahistorical time frame, it was proposed that all investors operate under the same assumptions, again with no regard for the idiosyncratic structure of pension fund liabilities. Despite the criticisms of Moore's (1972) proposals and of financial economics generally, portfolio theory as well as other proposals such as options pricing, created great potential for a profession that was leaning more and more towards an endeavour to understand the outputs of market values. While market values were a short-term phenomenon, actuaries were still primarily motivated with the long term and particularly of valuing short term assets in relation to long term liabilities. Moore's (ibid.) paper and its introduction of financial economics presented a challenge to the profession. The consequence was that the problem-solving pendulum seemed to swing away from traditional deterministic methods. In commenting on Moore's paper, a visiting actuary raised the relevant objection that struck a cord with recent developments that seemed to be taking a departure from the long view,

> The concept of variability was not necessarily synonymous with risk and it would be most appropriate to distinguish between uncertainty, which was perhaps more directly related to volatility and variability, and risk, which might be better defined as the chance or probability of missing a target and by how much (Melnikoff in Moore, 1972: 142).

The distinctive boundaries between risk and uncertainty that had been maintained by traditional actuarial techniques and the 'hypothetical-deductive' employment of actuarial science were becoming increasingly blurred. In order for the ideas of portfolio theory to have any relevance, there needed to be a certain element of probability attached to future asset streams. As stochastic modelling of investment was gaining interest within the profession, the emergence of portfolio theory and its implications for stochastic modelling therefore marked an epistemic change in relation to the history of the actuary profession. Under the traditional approach to pension valuation and funding, financial uncertainties opened up the probable risks of insolvency if identified deficits were not acted upon. Under this traditional perspective, 'uncertainty' was framed epistemologically and accorded to a 'deep limitation of our knowledge of the world'. Increasingly, risk was becoming a variable of uncertainty and such an ontological shift was beginning to frame the notion that the 'surplus of volatility' was 'inhering in the fabric of the world'.

Increasingly, the macro economy became seen as a stochastic interaction which produced various causal outputs, which if modelled, could give guidance on the future trajectory of events based on linear functions of statistical (historical) correlations[60]. One particular model known famously in the profession as the 'Wilkie model' correlated the statistical significance of different investment variables. For example, the price index, share dividend yields, share dividends and consol yields (as well as other indicators which became added to the model) all became part of the model, statistically correlated under assumptions of inflation (see Both, 1999: 98-103). The Wilkie model is a typical example of an asset-liability model and one that had been suggested by Redington as early as 1952. The main difference was that this kind of model made yield(s) a function of inflation and included the ideas of portfolio theory, which had three immediate implications. Firstly, an analysis of stochastic interactions in the economy made possible the probable trajectory of future investment conditions in alignment with historical experience with inflation as a controlling function of yield. The assumptions on yield were figured as variables of inflation, which in essence, made 'linear' model asset-liability models, such as Wilkie's, susceptible to random shocks. As Ryder complained against the neo-Bayesian influence made clear, 'the method has the appearance of objectivity, but it should be clear that it is very likely to be inaccurate if the time series is experiencing trends, cycles or discontinuities' (Ryder, 1975: 64). Secondly, this type of asset-liability model 'provided scientific justification for the inclusion of equities in a pension fund' (Booth, 1999: 100). As equities normally had a high variance of yield, portfolio theory allowed for the calculation and control of variation. Thirdly, the introduction of portfolio theory to liability modelling provided a 'three-dimensional' mechanism of expectation and control so that scheme trustees could 'choose one of the points on the efficient frontiers which provides them with their preferred balance between initial surplus, expected ultimate surplus and variance of ultimate surplus' (Booth, 1999: 100). While there were nuances between different models, this was the type of end product that produced a portfolio interpretation of long-term asset-liability modelling. Asset-liabilities and their fixed assumptions allowed actuaries to present a scientifically justified case to trustees, who could then base their rational preferences and asset-allocation decisions based on divergent and fantailed options of stochastic processes. While ALMs increasingly became part of the socio-technology of actuarial science, one actuary chairing a paper that presented on the application of stochastic techniques made the following comments,

> I know of no pension funds which use the stochastic model for valuing assets and liabilities. They may do so in the future, as the author points out. Nevertheless, I see a major difficulty in presenting the results on this basis to the client. I dread to think what kind of response we would get from the typical pension fund trustee if we presented our valuation reports on this basis. Nevertheless, if this method is used in actuarial valuations I am sure that we must disclose what we are doing. We are entering a period of change in society's attitude towards pension funds. Disclosure is the order of the day. With the role of the actuary becoming more important and increasingly under scrutiny, it is a mistake to distinguish between the actuarial and disclosed valuation basis (Wise, 1984: 488).

Gravitating towards a Pensions Crises: the socio-financial context of investment decision-making

In the section above we explored how actuarial science took an epistemological turn towards ontological uncertainty. We must keep in mind however that the asset-liability models were primarily an assisting socio-technology developed out of a sense of scientific progression, away from deterministic methods and towards what was perceived to be a more 'objective' approach. In this section, it is important to examine the consequences of this scientific turn in the broader commercial environment with which trustees, fund-managers and actuarial advisors determined asset-allocation decisions.

We begin this examination in the context of an emerging debate that seemed to be gaining in prominence between actuaries and investors/financial economists (Wilkie, 1993). In essence, financial economists and investors were increasingly questioning the actuarial justification for an asset-allocation deployed mainly in equities. This concern was presented directly to the actuary profession in 1993 and represented a reflective moment made all the more poignant due to Jones' position as a trustee (Jones: 1993). From the viewpoint of investors and financial economists, actuaries seemed to believe in the superior performance of equities based on a historical understanding of yield in relation to inflation. On the other hand, if gilt-edge securities were used as a benchmark to compare the relative performance of equities, based on Jones' suggestion, then historically, it became clear to see that the equity premium was fantastically high in the 1960s due to the cult of equity and was fantastically low in the early 1990s compared to gilt-edge securities (Jones, 1993). Jones was essentially arguing that short-term indicators, such as the equity relationship to gilt-edge securities, were vital because they represented investment fundamentals in the short term (ibid.). In contrast, actuaries lambasted this paper because it discredited the fundamental use of long-term assumptions, such as inflation (Jones, 1993). As one actuary put it,

> I agree that many pension funds are too heavily invested in equities. Equities may not be a perfect hedge against inflation, and I am concerned that many pensions actuaries may be over-valuing them. Some actuaries are valuing equities on dividend yields that have only been seen about twice in the last 70 years for the purposes of a bulk transfer payment, the terms of which are not negotiable. I am also concerned that some pensions actuaries may be overestimating future expected returns on equities and underestimating risks. If actuaries allow for high assumed returns on equities, and fail to differentiate between expected and guaranteed cash flows in the

calculation of individual transfer payments, then the situation moves from one of financial play between corporate wheeler dealers to the realms of iniquity (Shucksmith, 1993: 298).

This paper represented a much wider debate on the relative performance of equities versus bonds and thus became a challenge to actuaries and their assumptions of the long term. The equities/bonds debate, which otherwise became known as the long view versus short view, had come into play at the time of the ERM crises, which questioned the dominant role of equities in pension funds. For the actuary profession commenting on this paper, the concern was not that yield or equity premium was falling in relation to securities (and could stay there), but that exposure to equities was 'increasing' and based on long-term assumptions, it was expected to continually increase. For example, the average pension exposure to equities had increased from 52 percent in 1982 to 86 percent in 1992 (Jones, 1993). Something therefore seemed to be going on which was consistent with the scientific turn, but inconsistent with the general perspective of actuaries that the models and their assumptions were essentially sound.

From the 1970s onwards, there was a surge in the commodification of actuarial knowledge. The consulting actuary, traditionally employed for valuation work, became a commercial phenomenon as actuarial business advised on valuation, funding, software and investment. In the early days of pension funds, fund management was exercised in-house due to the manageable size of the assets. As pension funds matured, plan sponsors increasingly delegated control of asset-allocation decisions to independent fund-managers on a cost-cutting basis. It was also due in part to the sensitive role of the trustee and legal standing of trusteeship that separated 'the control of wealth from the right to benefit from it'. In comparison to investment practitioners, trustees lacked the investment know-how and this was especially significant under the prudent man rule. Not only were trustees responsible for maximising the potential of the fund and making the final asset-allocation decision, they were also potentially liable from beneficiaries if things went wrong. As we have already argued, the actuary became more heavily involved in constructing the consequences of different asset-allocation strategies. But increasingly, the consulting actuary also provided different methods of examining the performance of fund-managers. Actuaries therefore consolidated their role as pension fund consultants and acted as a bridge between trustees and fund-managers.

In the wake of Equitable Life, the Morris (2005) report provided a critical insight into the role and concentration of actuarial advice. As the Morris report made clear, the market 'is characterized by high levels of full-service appointments – the joint supply of actuarial, strategic investment and fund-manager selection advice to pension scheme trustees – which may restrict competition from other non-actuarial professionals' (Morris, 2005: 3). Morris, as well Myners, pointed to the degree of concentration in actuarial advice and the extent to which advice had become 'bundled'. In the former, the market for multi-service provision for large DB schemes was concentrated to the extent that the top four firms controlled 70 percent of the market for statutory appointments with assets over 25 million (Myners, 2001). For the actuarial profession defending multi-service provision it was seen as important 'given the need to consider assets and liabilities together in the context of a pension fund' (Morris, 2005: 27). For those in the business of consultation, multi-service provision created cost-efficiencies for plan sponsors and avoided market testing (of alternatives) and switching (to alternatives) so that sustainable relationships were built. This level of concentration had the effect of limiting the ideas of novel investment advice from the industry and especially from financial practitioners with alternative asset-management experience. As Golding (2001) pointed out, the actuarial consultant became the gatekeeper of investment knowledge and constrained the ability of new financial ideas or investment techniques from entering the fray. As one investment consultant was to complain, 'What the consultants have done over the past 10 years in this country is to deskill everybody. You want individuals to be armed with swords and with guns. But we've gone into a world where, below the rank of general, you're given a pencil in our financial army' (FTfm, 2005: 4).

Considering the commodification of actuarial advice in the context of the scientific turn, to what extent was the trustee's role 'disciplined'? As we began to see in the unfolding episteme of pension valuation discourse, there seemed to be a turn towards presenting more transparent and scientific information to the trustee. As Clarke's (1999a) research demonstrated, not only was the world of the trustee governed by 'risk and uncertainty', but the language of 'risk and return' was consistent with the employment of portfolio theory. The Myners (2001) review commissioned a survey of trustees in pension funds, which included interview with 266 trustees and 75 scheme administrators. The survey found that consultants depended on asset-liability models as a financial planning tool to assist trustees in their investment decisions. In only 30 percent of cases did trustees determine the underlying assumptions of the models, which would support the view that trustees relied on this socio-technology and the strictures of truth that they and their accompanying actuarial advice presented (Myerns, 2005). As the ALM's quantitatively modelled long term data, the Myners review argued that the 'reliance on quantitative modelling' created 'an inherent bias in favour of asset classes with long-term time series' (Myners, 2001: 58). Research by the Myners review also supports the notion that in the majority of cases trustees relied on advice and what Preda (2001a) has elsewhere called teleoaffective frameworks of reference[61]. In other words, thinking through the model had real material effects and this reliance on 'the data' was supported by actuarial advice. As the Myner's report argued 'that in most cases, consultants are currently the sole source of qualitative input. They therefore have a significant impact on investment decisions in practice – yet in law they are not taking the decisions and, indeed, are not permitted to take them' (Myners, 2001: 59). Clarke's (1999a) sociological examination of trustee decision-making helps us to understand the disciplinary environment with which trustees made decisions. Clarke emphasised the trustee's sensitive fiduciary responsibilities and the context of uncertainty which 'encouraged the formation of ad hoc habits and norms to cope with uncertainty and decision making' (Clarke, 2000: 142). Clarke went on to say that 'convention dominates decisions; habits, rules and norms conspire to narrow the scope of asset-allocation, investment products, and managers' (Clarke, 2000: 148). As Clarke argued, trustees were governed by 'risk and uncertainty' and did not want to stray too far from convention and so imitation, caution, reliance on advice and a general preference for certainty all seemed to be factors that disciplined the trustees role.

The Trustee was positioned within a regulatory relationship with fund-managers and actuarial consultants, which tended to create a skew towards financial imitation. As Golding (2001) argues, fund-managers became managed not by how much they made, but by how consistent their investment approach was. The Myner's (2001) review on institutional investment supported this when it argued, 'fund-managers have an incentive to stick closely to their benchmark, since underperformance is much more likely to level to mandate termination the outperformance is to winning a new mandate' (Myners, 2001: 55). It was not prudent investment philosophy to outperform the market, because of the high risks attached to such an approach. Pension funds have normally taken on the perception of quite a sleepy area of institutional investment from the point of view of asset-managers. This is quite an interesting representation, but for the most part underpins the discourse of pension fund management, which seemed to be disciplined into 'beating the average' (Golding, 2001). What Golding (2001) refers to in this instance is how pension funds mostly took on a passive investment style as opposed to an active management style. This refers to how there is a tendency for pension funds to track the index, in order to avoid financial losses. Such firms are referred to as indexers, but Golding (2001) hints at the possibility that some fund managers dressed themselves up as active managers in an attempt to bump up their fees, when really they were closet indexers. While fund-managers were disciplined by criteria, trustees also reiterated the views of consultation, making indexation or closet tracking the mainstream investment strategy. The significance of index tracking is that it literally tracks the index. The emerging problem that became overlooked during asset-price inflation was however, that investment became attracted to share price performance, creating a double-market double standard (Feng, 2001). But this was surely because the 'peer group benchmarks create[d[powerful herding incentives for asset allocation' (Myners, 2001: 56). It is therefore suggested that peer group benchmarks have actually contributed towards average investment returns precisely because of the disciplinary environment exacted on fund managers. 'An investment strategy based on the median or the average pension fund does not relate to a pension true objective: to meet its liabilities' (Myners, 2001: 55).

The collapse of Final Salary Pensions: Crises-management

Having examined the emergence of the final salary pensions crises, it will now be the task to understand the constituent parts of crises-management. The central argument here is that actuarial risk embedded in collective forms of insurance has hit a crises point, which has opened up a space for new financial techniques to develop in the area of pensions, which is more individualised and reflexively orientated.

FRS 17, financial theory and its performative effects:

The accelerated collapse in asset prices due to the herding on equities opened up actuarial valuations and deficits to public and media scrutiny. The introduction of FRS 17 to corporate balance sheets has called on the performative nature of financial economics to describe the crises. John Ralph who was once the finance director of Boots divested out of equities and with £2.3 billion of assets invested the entire fund in bonds in 2001 (Ralphe *et al.*, 2003: 2). Just as Goobey had become the father of the cult of equity, Ralph became the father of a new 'potential' cult on bonds, which was supported by financial economic theory. In this theory, the underlying financial value of the firm does not necessarily relate to its capital structure. The introduction of FRS 17 has called on this perspective, which has fundamentally changed the notion and perception of the pension fund. Under the long view, the pension fund was understood to be a segregated concept and an off-balance sheet vehicle independent of the firm. Under new accounting rules, pension liabilities are marked to market and on-balance sheet, which means that investment in equities looks inherently risky from this accounting perspective, because it creates the notion that the company is highly leveraged. Rating agencies for example, now include the pension fund's liabilities in a consideration of the rating. While deficits were notional under the long view, they have now become tangible under market values. As Ralphe *et al.* (2003) argue, from a financial view of things, a pension fund exposed to equities in this way creates the notion that firms are sponsoring the view that it is acceptable to borrow cheaply in order to invest. As Ralphe et al argued, 'the equity risk premium is a reward for risk, "not a free lunch"' (Ralphe *et al.,* 2003: 18). Under the long view, the actuarial profession protected this kind of speculation on actuarial techniques. The exposure of liabilities under the lens of financial theory and FRS 17 has made the size of pension fund liabilities a standing joke. To quote from Ralphe *et al.'s* paper:

> Following an article in the Financial Times it has become a joke in the UK that British Airways, which has a market capitalisation of £1.4 billion and pension liabilities of over £10 billion, is a badly run hedge fund that happens to own a few aircraft (Ralphe *et al.,* 2003: 5).

FRS 17 and its accompanying financial theory is having a performative effect on the financial environment that has not been helpful to the sustainability of DB schemes. Of 284 schemes surveyed in a leading report, the survey showed how contributions had increased from £5.5 billion to £8.5 from 2004 to 2005 (FT, 2005: 7). A study of the FTSE 350 companies showed that £15 billion had been injected into plug the deficits of final salary pension schemes, but it found that only a minority had managed to cover deficits due to adjusted assumptions in longevity. As a recent report put forward, adjustments in longevity has added £10 billion to liabilities of the FTSE 100 companies (FT: 2004: 5). This has added a further dimension of pressure on actuaries for their 'deluded assumptions' on investment and funding. It has been suggested that company pension funds are sill holding on to equities to dig deficits out of a pension crises. As former finance director to Boots argued, 'they must be clear that holding equities is not a substitute for increasing contributions' (FT, 2004: 6). The implications of catch-up mean that the added costs of today will impact the added costs later down the road, making it harder and more unlikely that final salary pensions will continue for new entrants (FT, 2005: 7). The further problem is that while contributions have gone up in the short term to reduce deficits, it is likely also that DB schemes will be closed to existing DB contributors (FT, 2005: 2). Evidence of this nature was supported by the figure that out of the 284 schemes surveyed, only 123 were final salary and still open to new entrants (FT, 2005: 7). A report by the Chartered Institute of Personnel and Development found that only 18 percent of members in the private sector still have a DB scheme in comparison to 78 percent in the public sector (FT, 2005: 7). While final salary pensions are closing due to the size of the costs and pressure to reduce deficits, firms are turning to the less expensive defined contribution option. For example, 56 out of 284 schemes surveyed reported that they had switched to DC schemes (FT, 2005: 7). It is also important to understand that the take up of DC schemes is likely to be the Stakeholder pension due to the low administrative expenses involved[62]. The paradox is that contributions in DC schemes have risen in recent times, but the point is that the benefits will not be as generous.

New risks emerging from final salary closures

The closure of final salary pension schemes to new members has opened up new areas of risk. One of these areas is 'longevity risk'. As the shadow secretary for work and pensions put it, 'in the old days, life expectancy improved 'from the bottom' as more children and young adults survived to old age', whereas now 'it is improving from the top' as people who have survived to old age live longer still'. Under final salary arrangements, increases in life-expectancy have usually been handled by increasing contributions from the next generation of workers. However, the closure of final salary schemes to new members and the likeliness that this trend will continue has created pressures on pension funds and government officials to look for alternative solutions of funding. Without fresh contributions, alternative solutions have called on financial channels of investment to asset-match liabilities. This has pointed to the inadequacies of the UK coupon pool to match pending pension liabilities. For example, it was once estimated that the demand for deferred bulk annuities came to as much as £100 billion in a market that could only potentially supply £1 billion a year. Longevity risk, in this sense, became posed not so much as a problem of underfunding in DB schemes, but as a deficiency in the relative diversity of the coupon pool to meet wholesale requirements for pension fund deficit demand. As former shadow secretary of work and pensions put the case forward, 'when the state itself requires the private sector to cover these risks, can it really just stand aside when private groups are unable to do so?'

The importance of this is that closure creates something of a new 'risk': longevity risk. The significance of this is that this new risk brought above by final salary closures actually depolitices DB to DC. In a paper by Mervyn King, the governor of the Bank of England, he argues that because there has not been a market developed for longevity bonds, final salary closures have increased because of the potential implication of longevity risk. 'What has happened in Britain over the past two years has been that the impossibility of obtaining longevity risk insurance has been a contributory factors to the sharp decline in private sector provision of defined benefit provision'. But it is precisely because of closures that longevity risk has become an incumbent problem and hence a risk to be solved. This illustrates the point that final salary closures have opened up new areas of risk, which has necessitated for the management of risk, which in fact depoliticses the process and the softly described 'transition' from DB to DC.

The Pension Protection Fund (PPF) was designed by the government to safeguard insolvent companies from default on their pension promises, but it operates on a risk levy, which means that firms with greater deficits pay more to the PPF. There is evidence to suggest that while the PPF operates to protect guarantees, there is no guarantee that final salary arrangements will persist as companies and consultants increasingly agree 'to get DC right'. Then we have the Pensions Act, which creates the Pension Protection Fund as well as simplification measures. The PPF does not invest in equities, but rather invests in other diversified asset categories, including property, bonds and derivatives. Key to this argument is also that the PPF is devolved from any kind of government responsibility. It is a private insurance fund that subsidises protection through a risk-levy, which in effect applies greater pressure on smaller firms to sustain final salary deficits and costs of new members. In effect, the argument is that the PPF acts to gently wind down final salary pensions creating a gentle shift towards the take up of DC schemes. This is ensured by the revitalisation of the bond market.

The opening up of pension fund deficits has opened up many critical reflections into the notion equity premium. On the one hand, deficits have increased pressure on plan sponsors and trustees to reduce deficits through recoveries in equity performance. This has largely increased pressure on fund-managers to increase short-term performance by focusing on quarterly performance criteria. On the other hand, pension consultants are looking to divest out of UK equities over the next ten years in order to reduce their exposure to risk, but also to match investment performance to liabilities more carefully. This is not because exposure to equity risk has necessarily increased, it is more to do with a realisation that the older methods of benchmarking performance are more risky when liabilities are at stake. In other words, anything that isn't working to reduce liabilities in absolute terms is judged to be a risk. Benchmarking performance doesn't work under the same principle, because it isn't acting to reduce risks, that is, reducing anything that is a threat to asset-matching liabilities.

Meeting the guarantees of pension fund deficits in the long-term has required a suitable asset class to soak up demand for pending pension liabilities without asking the state to intervene and socialise risk. The issue at heart has been how to meet the concentrated level of demand for an appropriate asset class that matches such liabilities without burdening the fiscal pressures of the state. But bonds are an asset class that have been missing from the UK coupon pool. This is until the UK government provided the its first 50 year ultra bond in July 2005 since 1960 (when equities took off). This was the result of a consultation process between the Debt Management Office (DMO) and the investment industry which preferred the concept of a rolling liquid supply of gilt-edged bonds. Before the government introduced the 50 ultra-bond, it had a consultation period with pension funds, actuaries, insurance companies and asset-managers. As the National Association of Pension Funds (NAPF) recognised, the identifiable market for the ultra-bond is liability driven, meaning that there is a demand from pension funds asset-match their liabilities. One of the important questions asked by the DMO during its consultation period was whether an annuity product could be built into bond issuance so that pension funds could lock in their investment to match their liabilities. One of the issues was that annuitising the bond issue would make bonds much more illiquid. As the NAFP argued, 'the NAFP does not think this is significant since pension funds would need to take such securities in the same quantities because of the closer link with liability matching'. Despite confirmed demand for a specialist issuance, it was concluded by the DMO that 'independently of the merits of one format or another in particular, the DMO does not believe that it would be sensible to issue instruments that its direct counterparties would currently be reluctant to buy'. Despite the size of company pension deficits and despite the clear demand coming from pension funds, the DMO found in favour of the asset-managers and the need to retain liquidity. One could posit that this demonstrates the fears of inflation or damaging expectations. But it is more significant than this. In fact, what this effectively does is limit the alternative market initiatives that would contribute towards reducing deficits. Importantly it would place certainty in the need to honour annuities. What liquidity does is to open the realm of uncertainty opening up the field of risk.

Commodification of crises

The turn to bonds represents a fundamental shift in how pension funds manage their assets. Whereas bonds were once seen to be the boring asset class in comparison to equities, bonds have now taken on this image of sex appeal (equities were always seen to be more 'sexy'), which suggests that 'bonds have more fun'. The unintended consequence of deepening the bond market is that it introduces new risk factors, risk factors that become commodified and require the knowledge of tailored investment practices. Inflation, for example, creates the risk of increasing deficits over the long-term and so inflation protected instruments such as swaps become important. As interest rates go up to stall inflation, the price of bonds falls and so increasingly, the discourse is becoming ever more accepting of hedge funds to reduce the income parities between low and high performing assets so that the risks to deficits are managed. In sum, bonds brings with it the need for new hedging instruments and techniques such as 'liability driven investment', a new buzz word of the industry that justifies and reiterates the importance of global finance. The significance of this is that the need to asset match liabilities is opening up investment discourse to allow for alternative techniques of asset-management and especially other areas of risk premium besides equity premium. As head of Watson Wyatt's European Business argued,

> 'As pension funds start to think differently, they are beginning to identify other sources of risk to exploit besides the equity risk premium – credit risk, liquidity risk, and manager risk. All this is opening up a whole new world of managers and strategies for pension funds. Many of our clients are moving a portion of their assets away from benchmark-sensitive investments and into absolute return products which are benchmarked not against the performance of other fund managers but against liabilities or cash' (FTfm, 2005: 5).

> 'The days of simplistic investment approaches are over. The pension fund industry needs to move away from the asset allocation notions of the past. There are tremendous opportunities for enhanced returns from a broader, more modern spread of asset classes and investment products, emphasizing absolute returns' (FTfm, 2005: 6)

All this is happening just as pensions become increasingly linked to individual responsibility and risk-taking. This is seen in the final salary crises as companies increasingly wind up Defined Benefit schemes or shift pension management from DB to Defined Contribution. Unlike DB schemes where pension income is linked to final salary guarantee, DC schemes have no such guarantee as retirement income is linked to individual contributions, the rate of consistency in contributions and annuity rates. New simplification rules on pensions proposed by the Pension Act 2004 means that savers will have much more flexibility in where they place their savings. One of the implications of this is that it helps collapse the boundaries between saving and consumption. This places a greater emphasis on financial self-regulation and responsibility, which legitimates private welfare arrangements as an acceptable and necessary practice. In the last argument, the turn to bonds as a measure of safety and as a device of reducing deficits accelerates the financialisation of the everyday. This is because it locks the economy into an environment that necessitates for a more sophisticated market approach to create competitive and financial solutions to pension issues. Situating the individual in a competitive market for private pension provision creates great strains between financial self-discipline and the risk-preventative financial environment. The second aspect of crises-management is increasing attempts to revitalise pensions through market-based approaches. A-Day or the new measures on simplification rules harmonises tax concessions and alters the incentives for investment. It represents a form of crises-management because it tries to revitalise pensions through a more flexible approach to saving. The media have become important in stirring up a new discourse on the advantages as well as the risks involved in A-Day. It is a further example of placing responsibility on the individual to understand risk. As Langley (2004d) argues, the individual is being called upon as an investor subject. This is surely the case and one which must be understood in the context of crises-management in the context of bond finance. This aspect is significant, because as markets are depressed and as interest rates are locked-in it also places emphasis on the inadequate level of annuity rates to set retirement income. A-Day essentially changes or collapses the boundaries between consumption and investment, but it also alters the nature of space and financial self-discipline. Under the new rules, a house could also be your investment, so that the ability to save literally covers the ability to spend and consume. This moves us closer to what Boyer (2001) called the wealth based patrimonial regime or what could be described more simply as Americanisation. One of the answers here of course is that is forces people to become more responsible for investment. But this creates the illusion or false hope that re-regulation creates more transparency and that individuals can calculate certainty for their financial future.

Conclusions

The argument of this chapter could be interpreted as the replacement of one framing process with another, which may lead to the following conclusions. Either, the traditional actuarial method or the long view was capable of handling demographic and financial uncertainties, or that its technique was simply one of luck. There is no way to verify either sentiment, but it must be remembered that equities were an important part of the collective nature of occupational pensions and this was the feeling of the actuarial community. Actuaries seemed to be well aware of the dangers of an over-exposure to equity investment due to the potential illusions of notional surplus created from equity price hikes. What must be kept in mind is that equity exposure did increase from the 1980s onwards in an unprecedented rise in share values creating Ponzi like tendencies. It is those factors that encouraged and facilitated this process that is of most significance to the augmentation of the final salary pension crises. Firstly, the replacement of traditional actuarial techniques with neo-Bayesian methods of calculation. Secondly, the commodification of actuarial knowledge. Thirdly, the disciplinary conditions of the trustee in relation to actuarial advice and the disciplinary treatment of fund-management in relation to actuarial advice. Fourthly, Government tinkering with dividend tax and the Minimum Funding Requirement (MFR), which set minimum levels of assets to be held in order to fund promised benefits.

As we examined, the history of actuarial science reveals that it employed financial economics to understand the interaction between market values and liabilities. This did not replace the long view. In fact, it tended to accentuate its potential flaws in a socio-financial context. However, as we have seen, the employment of FRS 17 represents the final coup d'état for financial economists and investment practitioners. This coincides with a revisionist financial discourse relating to capital structure, which tends to understand traditional actuarial thought as quite simply barmy and irrational. Both perspectives have tended to reaffirm the notion that final salary occupational cover is too expensive and risky, because it has made it much more difficult to account for the long view. Taking into consideration the effects of final salary closures and the creation of individualised pensions under the vale of occupational cover, new risks have been born. All these factors have had a performative effect on the nature of crises-management. For example, the government's introduction of the ultra-bond has satisfied the interests of asset-management firms in comparison to pension funds. In the former, new risks associated with inflation have required alternative asset-management practices such as the take up of derivatives to hedge inflation. In the latter, pension funds were denied their request for a annuity linked gilt edged security from the DMO which had the potential to create absolute matching, which may have avoided the commodification of crises. In effect, the market for pension control has opened up, away from the control of consulting actuaries towards a much more diverse market for alternative asset-management methods. This has also occurred at a time when retail investment has been promoted as another crises-management solution. It is also interesting to observe that for young actuaries entering the fray, the long view approach to funding is an irrelevant and obscure method taken over by market value approaches.

Chapter Eight

Re-embedding Financialisation: Uncertainty, Inclusion and Stakeholder Pensions

Introduction

In the last three chapters we have illustrated the processes that have facilitated the financialisation of pension provision through disembedding, and to some extent, re-embedding. Disembedding is a series of subtle, yet interlinking historical changes that have built cumulatively over time to alter the perceptions and problems facing both individuals and experts. Disembedding in many ways has been an innovative phase of hope, problem-solving and expectation. Its progress and evolution has encouraged a fundamental change in the nature of pension provision as the collective way of organising and calculating pensions has been gradually phased out and abandoned, where individuals have been encouraged to find their own tailored solutions as consumers of finance. But this subtle passing from disembedding to re-embedding has a further edge to it.

In this chapter, we hope to illustrate the extent to which the financialisation of private pension provision has been extended through re-embedding – a process that attempts to facilitate and stabilise the conventions of commercial market regulation or cultural economic regulation, between consumers and producers of financial products. In the late 1990s, the 'stakeholder' model of capitalism became a fashionable political concept for the sceptics and critics of free-market radicalism. The New Labour government introduced this concept in relation to their policy on pensions. Rhetorically at least, the introduction of the Stakeholder pension was designed to increase the amount of people saving for a pension, through a much more accessible or socially inclusive format, driven by commercial pension providers. The Stakeholder pension was aimed at addressing young professionals and lower income groups particularly, who face greater uncertainty, risk and financial difficulties in saving for a pension. In this chapter, we hope to show that the introduction of the Stakeholder pension is a further illustration of the financialisation of pension provision. We will examine the qualitative nature of re-embedding financialisation and the attempt to socialise and stabilise market exchange relations through 'inclusive' strategies. In addition, we will highlight the difficulties posed by re-embedding and the reasons why the Stakeholder pension has largely failed in its objectives.

Robert Boyer (2002) supposed that the Anglo-American model would develop towards a financialised growth regime. Boyer (2000) considered present-day capitalism as a 'transitional period towards one where if financial bubbles disappear, what would be the dominant characteristics of an economy where finance had imposed its logic' (Boyer 2000: 118). This considered there to be a deep social relationship between stock market expectations and consumption/saving patterns. Boyer (ibid.) imagined that state, market and civil society would become financialised, to the extent that developments in real time and expectations of financial behaviour would become a motivating force of economic behaviour at all levels of political economy. For example, as demand for profitability heightened in the financial markets, pressures on corporate performance would be offset by consumption patterns as monetary returns from savings increased. Financialisation for Boyer (ibid.) would be altogether more flexible. But his insight was to suggest that the consumer society would be fully in tune with the financial markets. However, the invisible hand of the finance-led growth regime would depend on stabilising information flows and creating what Knights (1997) has elsewhere called 'financial self-discipline'. Like Boyer, Knights (1997) also regarded the current period to be one of transition, where welfare increasingly relied on individual responsibility of saving/consumption decision-making. Financial self-discipline not only applied to individuals, but to institutions. As individuals regulated themselves, self-regulation translated into wider macroeconomic regulation. In this sense, financial bubbles in the finance-led growth regime or upsets in the financial welfare contract would therefore be overcome, at least speculatively, through financial self-discipline and pure information conditions. In this model, the uncertain is apprehended through an approach to the self.

If this captures the current flavour of financial discourse that represents the future of financial (retail) regulation, then it is questionable on two main grounds: (1) that Anglo-American economies are on a 'transition' towards the finance-led growth regime (2) that the uncertain and dangerous financial future can be overcome through an approach to the self. While these approaches are important, this chapter wishes to examine the flip side of the coin or the social consequences that are attached to this kind of regulatory transition. Firstly, this chapter begins by plotting how uncertainty and financialisation have evolved together. The major point of this section is to examine how the private welfare contract has changed normatively towards financial 'necessity', so that there is a more engaging relationship between private welfare provision and individual responsibility. The importance of this is to understand how developments since the return of financialisation have encouraged risk-taking. Following on from this section, it is important that risk is judged differently in terms of positive and negative risks. Negative risks are constructed as objective dangers devoid of politics or social change. It is therefore important in this chapter to examine what characterises 'negative risks' in the establishments of a private welfare contract between individuals and market providers. Whereas negative risks are objective and dangerous, positive risks are subjective and socially beneficial.

Through the case of Stakeholder pensions, it is important to show how the government has written rationality or rational expectations into the market for long-term savings in order to apprehend uncertainty. This focuses on how the Stakeholder market has been constructed and how the contours of this discourse instill a normative role for the individual, which cannot be a level playing field, because the role of the individual or the cultural make-up of 'financial self-discipline' depends on prior material factors. Initially, we understand what motivated the original idea of the Stakeholder pension and secondly, we understand what assumptions this idea was based on. Within this section, the enquiry is interested to understand the differences between the original Stakeholder idea, which was advocated in opposition and the actual implementation of Labour's flagship policy towards Stakeholder pensions. This section is important because it is necessary to make a distinction between the Stakeholder pension that the Labour government proposed in opposition and the commercial promotion of the Stakeholder pension product sold today. This provides a crucial sub-text to an examination of Stakeholder products as part of a financialised regime of accumulation.

We then go on to assess the constitution or 'streamlining' of financial self-discipline through the production of consumer financial discourse. While this has been important to the creation of the financial consumer, Stakeholder pensions have generally not taken off the ground. It is proposed here that this is because consumer finance is based on rationalist assumptions of demand and supply. We then go on to examine the barriers to Stakeholder provision and look at the roll back of consumer discourse in favour of marketing discourse, which is needed to sell the product. Based on these developments, it is argued that the financial self-discipline inscribes class, gender and exclusion into the provision of Stakeholder pensions. From this point on, the chapter focuses on why 'apprehending uncertainty' is flawed under the market model, which is inherently geared towards risk-taking and pooling risks from consumers. This chapter therefore challenges the extent to which social inclusion through stakeholder pensions can be facilitated through 'empowerment' and rational approaches to economic decision-making. This chapter examines Stakeholder pensions as an 'economy of qualities' and argues that empowerment and social inclusion is challenged by the social configuration of calculation, which focuses on (1) the inherent problems of the pension product (2) inter-generational contingencies and (3) the return of reflexive markets. The main point of this is to show that calculation is not something that is determined rationally, or something that is socially constructed, but calculation is a cultural practice and it is underpinned through the historical contours of the cultural economy and the discourses that it projects. This therefore opens up the debate about whether the government could afford to make private pensions 'compulsory' given its reluctance to accept responsibility. Secondly, it re-opens up the case for reform as inclusion for low to mid income earners is an impossibility when 'businesses' control aspects of welfare.

Financialisation and Uncertainty

One of the key points to emerge from the Parisian school of regulation was their notion that Fordism provided for a social mode of regulation (Aglietta, 1998). Given their assumption that capitalism falls naturally towards selfish pursuits of individualism, part of the wonder of Fordism under this perspective was its ability to apprehend the uncertain (inbid.: 1998). Capitalist relations overcame the contradictions of capitalism because the uncertain future was regulated based on consistencies in the present. Under the Fordist model, anxieties over the future were repressed through stable certainties in the present (Harvey 1990). The emergence and reflexive stabilisation of the welfare state in this era was in important in this respect and was in congruence with the demand-led economy that augmented surplus capital from productivity (Havey, 1990: Aglietta, 1999). As the Parisian school of regulation theory demonstrated, a social mode of regulation apprehended uncertainty because it limited the potential of risk to disrupt the economic order that characterised the welfare-warfare state. In this model, certainties in the present regulated social relations and ideas towards the guarantees of the future.

This model was continually maintained up until the point when the hegemonic status of the US became threatened by inflationary pressures on domestic enterprise and on the dollar (Arrighi, 1996: 2003). Great lengths were made to maintain the challenge of fixed exchange rates despite the pure dollar standard and the proliferation of capital flight. It was only when risk became privatised as a necessity of economic conditions in an increasingly transnational setting did the imperatives of risk-management and prudential regulation outweigh the national ability to harness the negative impacts of capital flight (Eatwell and Taylor, 2000). Due to a combined process of inflation, stagnation in inter-capitalist competition and a general crises in profitability, capital redeployed out of productive investments and into financial channels of profitability (Arrighi, 2001: 2003). The consequential growth of securitisation and risk-management has inflated the role of the capital market for commanding control of domestic and international capital (Budd, 1999), but has also expounded the ideological muscle of the Anglo-American model as 'necessary' choice of growth and efficiency (Langley, 2004). Financialisation has thus returned as a process of control and as a politics of domination in everyday life (Martin, 2002).

In this sense, the privatisation of risk enshrined in the processes of financialisation has gradually returned the uncertainty of the future to the unfolding present (Martin, 2002). The emphasis on gradual is important, because the re-emergence of insurance as an acceptable and necessary form of speculation has gone hand in hand with the implicit privatisation of welfare and regulatory responsibility (Baker and Simon, 2002). The influx of savings from occupational and personal pensions schemes, which have emanated from middle class savers (Froud, 2001), has made an important contribution to the growth of the capital market and subsequent innovations in personal financial services (Clarke, 1999). In this sense, uncertainty has only returned on the combined basis that guaranteed forms of welfare have come unstuck, which has gone hand in hand with the gradual encouragement of private forms of welfare cover. The demise of welfare has been posed as a risk (danger), at the same time that private risk has been posed as a guaranteed benefit (Baker and Simon, 2002).

In the demise of Fordism, the authors have argued that the self-interested nature of capitalism has returned (Aglietta, 1998). The social mode of regulation that ensured social progress in the Fordist model and which mitigated the uncertainty of the future has all but collapsed because the unstable and uncertain future has returned to the present. In the demise of Fordism, a new mode of government, described as a discursive practice of government, has become self-evident in the reformulation of a more private welfare contract between individuals, state and market (Dean, 1999). Unstable risks in the present have expanded the realm of anxiety that characterises the future. The uncertain future has brought back risks to the present and to the everyday. This provides an interesting proposition that the uncertain is important not just because it is significant to the ongoing pursuit of capitalist processes, but because uncertainty, expectations of the future regulate social practices in the present.

The further point is that a greater emphasis has been placed on the individual not only to regulate the self, but also to regulate uncertainty through an approach to the self (Amoore, 2004). This has become part of the new private welfare model. In this model, uncertainty is only managed through an approach to the self and the regulation of the self requires the apprehension of uncertainty. In this model, risk is not something dangerous as it once was. But something that is to be embraced as a model of welfare (Giddens, 1990: 116), of enterprise (du Guay, 2002) and of individual responsibility (Amoore, 2004). It is characteristic of financialisation as a process of crises-management because it represents an attempt to continue, maintain and reiterate the material expansion and legitimation of securitised credit practices in the global and everyday setting. The privatisation of pensions is an instance of how social welfare is beginning to deepen or popularise processes of financialisation (Langley, 2004). But risk in the market setting continues to rest on a normative contradiction. The uncertain future does not regulate social relations towards social cohesion and solidarity and therefore provides limited scope as a model of 'inclusive' economic prosperity and welfare (Aglietta, 1998). In fact, the uncertain future returns individualism to the unfolding present as market institutions clearly induce the differentiation of identities as an important consumption pattern underpinning competitive businesses (Leyshon and Thrift, 1998).

The shift from Defined Benefit to Defined Contribution schemes has been an important development in the popuralisation of risk, but also socialising the notion that 'embracing risk' is good for you and your future (Baker and Simon 2002). This is significant in the decline of state pensions and the implicit privatisation policies of the Conservative and Labour parties (Blackburn, 2002). Here, Blackburn (2002) argues that there has been successive policies that have made state subsidised pensions unattractive, making private forms more attractive. In a period where shareholder value is everything, cost-recovery has also become important to firms that have been encouraged to close DB schemes to new members and to take up less costly DC schemes (Cutler and Waine, 2001). Here, the emphasis is on the individual to take on the responsibility of pension investment. A non-guarantee type of personal pension, the value of which in many ways is determined by how far and to what extent the 'individual' can afford to pursue risks.

Whichever is the case, the individual is 'included' based on the extent to which he or she makes a decision to include him/herself. In the emerging private welfare society, knowledge is empowerment and individual freedom is based on the extent to which one embraces risk (Baker and Simon, 2002).

In a period of uncertainty, insurance as a form of providing security has often been an imaginary way of apprehending uncertainty. 'Because the primary benefit of insurance is a sense of security that for most people is never tested by a catastrophic loss, the value of insurance rests, in an important sense, in the imagination' (Baker and Simon, 2002: 9). The rise of personal pensions as a result of implicit privatisation policies is a case in hand. In this sense, imagining insurance of a particular kind i.e. the current era of security and gain, has been important both to the growth of private retirement security and legitimate use of this to cut welfare spending as a way of targeting fiscal spending policies (Blackburn, 2002). The problem in recent times is that imagining insurance in a period of uncertainty has not altogether apprehended uncertainty and private forms of welfare provision. Cases of mis-selling in private pensions, stock market shocks mean that the market has not altogether ameliorated the problem of expectations. The consequence has been to dismantle solidarity and legitimacy with the unquestionable implementation of private forms of welfare. The consequence has also been to expose the complicity of the state in the encouragement of private forms of welfare, resistance to which has often placed the state in an awkward position to private welfare lobbyists and consumer groups affected by the return of uncertainty. But while the state has often been pushed and pulled in various directions, it has not led to a radical restructuring of welfare arrangements and state commitments to welfare in favour of a more traditional post-war paternalistic compromise. Instead, many would argue that current emphasis on private welfare arrangements has been encouraged through more precautionary approaches to regulation. The emphasis here on precaution is important because negative welfare risks are often perceived as intangible so that regulation cannot fully be responsible for when things go wrong. This is in contrast to prevention, where risks are more tangible and the failure to prevent them from happening would be seen as a failure of regulation. Precautionary approaches to economic regulation in the insurance world legitimates itself on the grounds that it avoids the problems of moral hazard. Private welfare institutions have an obligation to serve the public and this is further emphasised on the basis that there is no public safety net to bail out institutions and their customer base. For some this precautionary approach could be described as moving towards a form of 'financial self-discipline' where regulation of the self also performs the regulation of finance (Knights, 1997).

We also have to understand that the responsibility to take on board risk is often based on the assumption the individuals are risk-averse. Failure to understand risk and take responsibility is often seen as a problem of information. This eschews a problem-solving approach to risk, which often reiterates the dichotomy between negative and positive risks in welfare. But the return of uncertainty and anxiety has often been framed as divided between negative and positive risks in a new welfare contract. Negative risks are understood as objective related to an external environment and can be avoided. Whereas positive risks are much more subjectively related to the enterprise of the self. As Giddens argues,

> Welfare reform should recognise the points about risk made earlier in the discussion: effective risk-management (individual and collective) doesn't just mean minimising or protecting against those risks; it also means harnessing the positive or energetic side of risk and providing resources for risk taking. Active risk taking is recognised as inherent in entrepreneurial activity, but the same applies to the labour force. (Giddens, 1998: 116).

There therefore needs to be an account that is 'less interested in what is a risk than' what 'is done in the name of risk' (Baker and Simon, 2002: 18). In this sense, risk today is not only about bad risks, but also about opportunity. Many of the phenomena we describe as 'embracing risk proceed from an implicit belief that risk is a positive force that can be directed towards socially useful ends' (Baker and Simon, 2002: 20). The consequence of shifting welfare responsibility onto the market is that the individual, is not judged in terms of a citizen eligible for welfare, but judged in terms of what he/she can offer the business of private welfare provision. Within the discursive context of private welfare provision, the individual is more subject to the constant scrutiny of behaviour models. Such behaviour models are more likely to target specific identities and to gain new ones from competitors. Underpinning welfare products are often narrow assumptions of what captures or incentivises individuals into performing often expected behaviour. Driven by rational assumptions, as Taylor-Gooby (2002) argues, 'policies designed on the assumption that social actors are primarily motivated by individualised and immediate self-interest ignore the various moral rationalities which govern many aspects of behaviour and may damage the benign motivations that inform welfare state citizenship' (inbid, 2000: 2).

Negative risks and the new private pensions model: the return of uncertainty

Flexibility Risk

Flexibility risk refers to the risks and uncertainties that individuals now face with regard to their employment and welfare responsibilities. It is now the case that the government is intent on transferring welfare provision and responsibility to the market place and the individual respectively. From the beginning of the 1980s, Neoconservative proposals have significantly reduced the level of state intervention in the marketplace. The emphasis on flexible labour markets has been a priority of the competition state in order to attract incoming capital as national industries have declined. The increasing composition of the service sector employment and the declining share of manufacturing has meant that jobs are more flexible and part-time. Flexible labour markets and the risks attached to them have to a certain extent become routinised (Amoore, 2004). As Ford (2000) has understood, for unskilled workers, the question is now less focused on the supply of employment opportunities, for there are many around, but the degree to which it will involve 'lower pay/irregular hours/unsocial hours/nominal self-employment' (Ford, 2000: 107). Employment has also become more focused towards 'defensive decisions', so that more parents prefer dual employment roles increasing the need for flexible working practices. Employment becomes defensive. What we really see here is the individual calculating risks attached to uncertainty, especially in relation to flexible labour market risks (ibid: 110).

The commuting lifestyle has been important to flexible labour conditions based on individual choice. Even flexible working practices have become important to the government's work-life balance policy, which has promoted flexible working practices as a way to enhance the sustainability of full time employment and productivity. Such flexible risks also risk individual welfare. The promotion of flexible working practices has in some cases become part of a working benefits package. Uncertainty has arisen due to the flexibility of labour market conditions, but also down to unawareness. The uncertainty of labour market conditions has disrupted savings due to a distrust and lack of understanding of how to get it back once it has been invested. Someone who changes their job six times in their life loses 25-30 percent of their full service benefits of final salary scheme in Britain (Economist, 2002c). And this is important because employees are now expected to change jobs eight times in a career. Employees under DC schemes do not lose out on such things (Economist, 2002c). Women also make-up a healthy majority of the labour force, with the increasing share of part-time employment making up precarious employment. The state pension has tended to be exclusionary in the sense that it is means tested. Means testing does not provide an incentive for mothers and working families on lower wages because it is contradicted by benefits. Flexible labour markets and precarious forms of employment for part-time workers has made labour market flexibility a risk to savers.

Investment risk

The restructuring of the pensions model from Defined Benefit (DC) to Defined Contribution (DC) means that investment risk increasingly falls on the individual. Under the final salary pensions model, employers are responsible for pension liabilities that accrue from investment downturns. Under the DC scheme, the individual is responsible for shouldering the burden of market volatilities. Some have called this the individualisation of risk, which has become relevant in recent times. The three year downswing in equity prices from the beginning of 1998 to 2001, which became known as the tech-stock crash was significant to savers, because for most insurance firms, the greater share of private pensions was invested in equities.

It is interesting during this time to understand that insurance companies over the course of the 1990s became more exposed to equity prices. Insurance companies are more associated with private style pensions despite the misnomer that applies to insurance. Such companies invested a lot in equities to sustain high performance for beneficiaries due to changes in economic conditions where lower real interest rates prevailed, but also to attract new contributors to the expansion of business. This lies in contrast to pension funds, linked more to final salary pension funds, which have been less risky to the individual than insurance companies. We therefore hit upon an interesting debate. Engelen (2003) has argued that the market model of fully funded pensions also suffers from the fallacy of sustainability because of how demographic factors are associated with the nature and composition of financial techniques. As the demographic balance between beneficiaries outweighs contributors then there will be a tendency to enact high performance financial techniques. The unintended implication that Engelen (2003) raises is that this imbalance may become more structurally uncertain with insurance companies than with pension funds suggesting that there is something in particular to the configuration of insurance funds. The difference between pension funds and insurance funds is important because in the former, pension funds which operate on the final salary model is based on the safety of investments due to the implicit ties that relate between contributors and fund-managers. Such pension funds tend to be more passive based on an emphasis of average tracking investments in zones of safety. Whereas insurance firms have tended to be more active to investment decisions in order to attract a consumer base, but also to compete against other institutional investors for revenue. The different prioritises of risk are arranged according to different ethical priorities.

Marketing risk

The private pensions model is based on a save and forget investment model that places particular emphasis on the relationship between consumer savers and financial producers. In particular, financial producers are said to operate in a black box that separates society from the continuing legitimation of financial techniques. Due to how material interests secure this legitimacy through 'performance' then this also tends to depoliticise how performance is created and for whom. This has caused a significant debate on the role of institutional investors in the privatisation of pensions. The retail financial model has been increasingly called upon to take up the role of intermediary for channelling savings into securisited credit practices that are supposed to achieve safety with performance. But investment risk has increasingly called this into question and placed emphasis on the role of trust between lay individuals and expert systems. What needs to be further considered is how investment risk in private pension models is also coupled to marketing risk. What we have to consider is the role of marketing in the make-up of institutional investment practices in the everyday context and their increasing significance to the privatisation of pensions. For example, due to the promotion of retail financial services, the boundaries between marketing and finance, the technical means by which investment or credit is securitised is also dependent on how it is marketed to the consuming public. If there is investment risk, then how it is dispelled in the current model and why do consumers save if they don't know where money is going?

Leyshon and Thrift (1998) have provided an excellent explanation for this grey area that exists between consumer savers and financial producers. As they argue, the systems of trust underlying the economy of expectations has changed the relationship between consumers and producers of financial services at the level of the everyday. The thrust of this financial restructuring as they argue elsewhere was based on a 'flight to quality'. From the crises of accumulation that characterised the early 1970s, financial services have moved increasingly towards 'valorisation the consumer'. This process has become important to the discursive regulation of the financial system that is held together through everyday practices. Such practices are responsible for an 'economy of expectations' that 'surrounds any regulatory system as well as the often unspoken conventions that act both to underpin regulation and...to mangle it' (Leyshon and Thrift, 1998: 30). For the authors, trust in the financial system is held together by an economy of expectations, which constructs, reiterates and maintains the financial system at the everyday level. The point that the authors make is that the nature of trust has changed in the financial system placing emphasis on different kinds of knowledge to inform trust. The restructuring of trust has placed less emphasis on practical knowledge of financial practices and the historical means by which this is recorded. While process based trust is important for the networks of finance, the authors want to make the point that there is less emphasis on relational models of financing. In the emerging financial system, more emphasis is placed on characteristic and institutional based trust. As banks and financial institutions have increasingly taken on a flight to quality, finance is based increasingly on a reading of the social character of financial identities and secondly, this is informed by a closer reading of the consumer as text (Leyshon and Thrift, 1998)

Market competition depends on the ability to know the consumer saver. In this understanding, the business of investing cannot progress without an empirical knowledge of the consumer base that can adequately contribute towards the investment strategy. Identifying the niche of the market depends on knowing the consumer in relation to others. The low risk saver happened to be those that could contribute the most to financial income. Aldridge (1998) is important because as he argues marketing risk has affected all types of consumers. Even those high-income consumers with 'cultural capital' have tended to be effected by the rise of the mass marketed financial products. The private model, 'the solution' is therefore part of the problem. The Sandler report (2002) was important in how it argued that the consumer retail market had led the consumer. Products were sold to consumers rather than being bought. But the Sandler (ibid.) report implicitly argued that part of the problem was a lack of financial knowledge on the part of the individual, implying that there was a need to 'empower the individual consumer'.

The origins of the Stakeholder pension

The Stakeholder pension was introduced as part of New Labour's attempt to re-regulate the private pensions market in order to set a level playing field for consumers and to encourage low-income earners to save for a pension. It was also intended to resolve the new financial uncertainties facing individuals and the negative risks associated with labour market flexibility, investment and marketing. The introduction of the Stakeholder pension product has not been a straight forward story. It was originally inspired by New Left thinking that grew out of a contempt towards Conservative policies and economic changes that produced great uncertainty with regard to welfare arrangements. The progression of the emerging private welfare contract seemed to be producing inconsistencies and contradictions that created overall distrust of the relationship between privatisation and neo-Conservatism. The cases of pension mis-selling in the 1980s and 1990s created public distrust not only towards the Conservatives and its explicit backing of private pensions, but also of financial providers. The financial sector was heavily criticised for short-termism and for the speculative excesses that represented the generation of wealth during the 1980s. The creation of free-markets through de-regulation and privatisation challenged the political principles that underlined these two developments. At the same time however, there was a material interest in the continuity of free-markets and the consumer society. While Margaret Thatcher had famously stated that 'there was no such thing as society', the 1990s were a period of stunted reflection on the significance of politics in a society that became apathetic to big ideas and ideology. Will Hutton's (1995) book *The State We're In* represented an important challenge to the unfolding of de-regulated markets in a political vacuum. Hutton (ibid.) advocated a 'Stakeholder Capitalism' and while it was similar in principle to the Conservative ideas of popular capitalism, it had quite a different representation. As Hutton advocated, 'the great challenge of the twentieth century, after the experience of state socialism and of unfettered markets is to create a new financial architecture in which private decisions produce a less degenerate capitalism' (Hutton, 1995: 298). Hutton called this the 'republicationisation of finance' (Hutton, 1995: 298) and this notion of a more democratic involvement in private matters seemed to underlie a point at which left and right could debate in a 'Third Way' approach to social democracy and free-markets (Giddens, 1998: 47).

New Labour initially represented a political party that had reflected on free-market capitalism and seemed to embrace the ideas of the Third Way of combining free-markets with responsible governance. These were the broad developments that influenced the conception and design of Labour's first Stakeholder pension idea. In opposition, the Labour Government and particularly Frank Field, the front-bench spokesman and specialist on welfare, advocated a radical overhaul of the pension system (*see Annex F*). In opposition, Field used the Stakeholder concept as a 'warm phrase to entice the collective view', 'to recognise older generations' and to 'pick up the ears' of those reflecting on the role of social democracy in order to 'signify that this was not a one-way process', but one that had to be 'based on a partnership in a new welfare contract' [63]. The Stakeholder concept repackaged 'old ideas in a new form'. One of the interesting things about Field's vision towards the Stakeholder concept was the degree to which it could overcome 'uncertainty' and 'insecurity' (*Making Welfare Work*, 2001: 150), both of which had been facilitated by the Conservative years. Reminiscent of Labour's National Superannuation Scheme (see Shragge, 1984), Field's vision was to guarantee universal coverage through mandatory saving, which would be controlled through the proposed Stakeholder's Private Pension Corporation. In recent times, Field has been criticised as an advocate of privatisation due to his proposal to further the relationship between public/saving and private/stock market investment (Blackburn, 2002). In some respects, this criticism has some merit. The stock market is notorious for its 'uncertain' performance and financial institutions have raised the level of 'insecurity' from mis-selling. It therefore becomes interesting to ask what assumptions/variables were factored into Field's ideas over the Stakeholder model so that it was implemented with the assurance of creating 'security' and 'certainty'?

The original Stakeholder pension was based on a model of social insurance and took inspiration from late 19th and early 20th century Friendly Societies (see Clarke, G.: 2002). As the level of job insecurity and uncertainty had increased, Field argued that the side effects of modern living could be challenged through principles of social insurance e.g. a Collective Funded Pension System. Field intimated that the collective pooling and sharing of risk resolves the 'luck' factor involved in today's individualised pension provision (*see Annex F*). The further advantage of the Stakeholder Corporation was that it could provide a considered approach to investment allocation in an accountable public domain. Just as Labour's original proposal was to create a National Superannuation Scheme in order to create distributional and collective benefits, Field's ideas to create a Stakeholder Private Pension Corporation were rejected not by opposition, but by the Treasury[64]. While Field was in office as Social Security Minister, the Treasury was responsible for rejecting Field's ideas on immediate cost-implications and due to a sense that the ideas were not pragmatic. While Tony Blair considered good ideas, he did not or could not follow them through (*see Annex F*). Given Field's expertise in the matter, it is also surprising to learn that his office was not asked to press ahead with the issue of pensions until his last months in office. From Field's perspective, the Treasury and particularly his reference to Gordon Brown had a short-term and one-dimensional view towards dealing with pensions and welfare. For example, despite all the evidence against the constraints of mean-tested pension benefits, the Government maintained this system under the pension credit. Conversely, Field has consistently argued against providing short-term relief and has encouraged an approach that creates distributional incentives between rich and poor.

In sum, while the Third Way discourse has tried to resolve the tensions between left and right, the public/private dichotomy continues to signify the political representation of collective approaches on the one hand and individualist approaches on the other. That Field was advocating a private collective model in the tradition of Friendly Societies seems to be overlooked. Field should not be seen as a 'privatiser'[65], but a reforming politician operating within the context of financialisation. The reasons why Field's ideas were not implemented from Treasury view remain open. But it is clear that Field's collective approach to private matters were abandoned in favour of a cheaper Stakeholder plan with individuals and private providers in the driving seat. The further significance is that the original principles of Stakeholder Capitalism have also been abandoned, but the glossy surface of the Stakeholder pension has remained in tact, providing a fresh surface to the meaning of individual responsibility and financial self-discipline.

Apprehending Uncertainty through Stakeholder Pensions

The creation of Stakeholder pensions are an attempt to apprehend uncertainty so that economic practices in the present are regulated and stabilised into natural existence. The construction of stakeholder pensions is underpinned through a behavioural approach to economic rationality and it has in many ways been constructed in such a way as to combine individual knowledge with financial options. There is therefore a tendency to see that the negative risks attached to 'flexibility, investment and marketing' have been mitigated in favour of 'portability, simplicity and transparency' as rationalist assumptions have been written into the design of Stakeholder pensions. In this view, information is clearly a prerequisite of an efficient market with an invisible regulatory hand. Negative risks associated with financial investing have been identified as a problem of economic asymmetries between consumers and producers. Abnormal behaviour committed both by consumers buying risky products and producers mis-selling high-risk products is based on the view that there is a lack of clear information between market participants. Stakeholder pensions have been constructed in large part on the basis of this economic understanding so that information clearly passes between market participants.

Rational Expectations, Transparency and Inclusion

In economic theory, an understanding of the variables that construct rational expectations in a particular time frame understand expectations as the culmination and calculation of expectant values from available information. Patrick Minford, a world economic authority on rational expectations argues, 'by definition the future is unknown. Economics, the study of economic decision-making therefore is concerned with how people deal with the unknowable' (Minford, 1992: 2). To understand expectations and how they are formed becomes important, because they are seen as an important regulator of economic activity. For example, Minford (1992) argues that 'expectations are fundamental in economics' and 'therefore completely integrated into behaviour' (Minford, 1992: 3). To increase information, to make information more accessible through an examination of econometric relationships is to strive for fairer expectations and greater stability. The economic view of expectations and calculation of expectations relates the actions of rational man to information conditions. In this sense, expectations are important in the implicit regulation of the invisible hand, where information is the source of all economic certainty. The importance of understanding rational expectations is to understand the specific economic conditions that affect behaviour in certain ways, allowing for the importance of economic change to be figured into the recasting of predictive behaviour. While economic change is a constant feature of renegotiating rationality that there are non-economic factors, rational expectations suggests that there are other non-economic or in the words of regulation theory 'extra-economic' factors that contribute towards expectations that are irrational. In essence this programme understands the constancy of change as a reason for its continuation as a valid research project. 'Rational expectations is a programme for pushing econometrics to the limits of its possibilities in the prediction of behaviour', 'for it will be the case that econometric relationships can at best only be useful in restricted circumstances where the environment shows considerable stability' (Minford, 1992).

While rational expectations realises the limitations of its methodological practices, we can understand how rational expectations as a discipline has contributed to how regulators and financial practitioners understand individual rationality and consumption. We can also understand the extent to which the design of the Stakeholder product is built upon the assumption that the consumer can be empowered through simplification. The Sandler Review (HM Treasury, 2002b) commissioned by the Government into Medium and Long Term Savings is based on the clear assumption that rationality can be returned to the consumer. As the review argued, 'simplification is the dominant theme of the Review because it is the key to delivering effective competition and to empowering the consumer' (HM Treasury, 2002b: IV). It is interesting therefore to understand the representation of the individual buying financial services as a 'financial consumer' who has been confused by asymmetries and complexities of the market. 'The prize is a demystified model in which the interests of providers and customers are much better defined, in which performance is transparent, unnecessary jargon removed, and on which effective competitive pressures, for the first time, can properly operate' (HM Treasury, 2002b: IV). The Sandler review is appealing to the notion that the consumer can be empowered to the extent that financial products become like any other product sold in the supermarket. The supermarket identifies a product to buy and then decides through preference, which is the most suitable form. This is an individualistic decision-making process and one that relies on simple information, which is based upon the notion of 'caveat emptor', or let the buyer beware. 'Unlike other complex high value-added goods such as cars or computers, it is not only the means of delivering the benefit that is complicated. The benefit itself – the potential for higher income in future through the foregoing of consumption now plus the taking of risk – is complex. This complexity leads to consumer confusion' (ibid.: 2002: 4). Empowering the consumer will therefore facilitate greater transparency and competition between financial institutions providing Stakeholder pensions, so that fees and commission are reduced through supply and demand processes in an efficient market. Transparency of the consumer market in personal finance can therefore create expectations that stabilise behaviour so that the economic unknown can be controlled and anticipated, and so that financial institutions self-regulate their services in the interests of consumers. Based on these assumptions, the Sandler review therefore comes to a problems-solving conclusion in relation to saving:

> Furthermore because the benefits of savings products are deferred for so long, consumers are often reluctant to purchase them, even when confronted with information, which suggests that they should. If consumers are inherently reluctant to engage in the savings process, they are less likely to exert pressure on providers and switching is dissatisfied. The response is more likely to be to forego further saving altogether, in favour of consumption (HM Treasury, 2005: 4).

Transparency: the Stakeholder suite of financial products

At the heart of the Stakeholder product and its position in the market place is the level of transparency that is attached to charges, commission and financial risk. In this sense, a prerequisite of consumer empowerment is information transparency. In accordance with this notion the Sandler Review stated that it 'recommends the introduction of a suite of simple and comprehensible products. The features of these would be sufficiently tightly regulated to ensure that, with certain additional safeguards, a consumer could be sold these products safely without regulated advice' (Sandler, 2002). There are three further important elements to the Sandler review which provide an insight into the discourse of financial consumption. Firstly, the Sandler Review proposed that regulation should be written into the design of financial products and the sale of products as opposed to the regulation of advice, which was the conventional regulatory standard. As savings take a while before they reach maturity and start producing cash flows for providers (it is argued), providers have normally applied an initial charge to the sale of financial products, whether they be with-profit policies or personal pensions. Important to an understanding of the Sandler review is its assumption that rational individuals will only buy products that are fairly priced in the market place. If there is transparency, then there it is logical to think that initial fees and charges will dissuade savers from financial consumption. In order to create incentives to save, the assumption has been to remove completely or to at least lessen the initial fees to a 1 percent cap on charges in order to persuade savers to save (HM Treasury, 2002: 182). Secondly, the 'Review believes that ruling out particular asset classes as inherently 'too risky' would be a serious mistake' (Sandler, 2002: 183). In financial economic theory, due the random walk theory, all asset prices are inherently risky. Ruling any out would suppose that some asset prices create greater risk-rewards than others. Instead, acceptable risks can be taken into consideration as long as the consumer is aware of the 'risks' involved (Sanlder, 2002:

182). Thirdly, one of the most important assumptions of the Sandler review is that by writing regulation into the design of the products and at point of sale, financial consumption becomes 'self-regulatory':

> The review is confident that the features above would create a class of products which could be sold without regulated advice as safely as existing products can be sold within the present regulated advice regime (Sandler, 2002: 185).

Portability has become a feature of the Stakeholder product and it attempt to absolve the uncertainties of providing for a long-term pension attached to employment over a lifetime. One of the important problems that the Stakeholder product deals with is the individual financial insecurity attached to changing jobs. For example, someone who changes work six times in their life loses 25-30 percent of their full service benefits of a final salary scheme. This is important because employees are now expected to change jobs eight times in a career (Economist, 2002). The uncertainty of labour market conditions has disrupted savings due to a distrust and lack of understanding of how to get it back once it has been invested. In order to restore trust in the notion of long-term savings or private pension provision, it has been important for the government to create continuity in persistent self-provision. Two policies have facilitated this process. Firstly, the government has introduced a pension tracing service and secondly, portability has been inbuilt to the stakeholder product so that an employee can transfer the Stakeholder from job to job. Portability therefore facilitates individual confidence in providing for a long-term pension in an era of employment insecurity.

However, portability is less about meeting individual needs than it is about promoting and meeting the needs of labour flexibility. In the past, occupational pension schemes encouraged 'jobs for life' and rewarded employees for commitment and hard work. Labour flexibility and inconsistent labour conditions actually represented a problem for actuarial valuations and pension fund solvency. A degree of labour inflexibility during the post-war period was a social benefit to the long-term success of industries. In contrast, the emphasis on flexible labour markets has been a priority of the competition state in order to attract incoming capital as national industries have declined. The increasing composition of the service sector employment and the declining share of manufacturing have meant that jobs are more flexible and part-time creating flexible employment risks (*see chapter two*). The Stakeholder pension therefore cushions the calculation of risk attached to flexible market decisions made by the individual. It also makes the decision for employers easier to terminate final salary provision and move to a cheaper Stakeholder option with less administrate charges.

Simplicity: Risk-return

In more recent times, financial economics has been responsible for promoting the idea that high returns are a reward for investing in higher risks associated with equity investment. Work carried out as a result of the equity premium puzzle demonstrated that it is quite likely that equity returns will continue over the long-term. Personal pensions sold today sell pension products with a default or life-style component, which means that over the course of an individual's lifetime, contributions will be invested in equities before automatically divesting into safer assets such as bonds when retirement approaches. The default option is automatic to the sale of stakeholder pensions and it regulates the allocation of equities up to 60 percent. Such schemes are known as defined contribution (DC) or money purchase schemes and they rely on the individual to make informed decisions with regard to pension contributions. Secondly, they rely on the individual to shoulder the burden of risk emanating from stock market volatilities. Thirdly, individuals are also responsible for taking out an annuity to lock in income at a guaranteed rate at retirement. The implicit backing from the government suggests that stock market investment is an acceptable measure to safeguard individual savings through sustained equity investment. It is underpinned by the notion that while an appropriately diversified portfolio of equity investments is maintained over the long-term, an individual's savings will turn out, in the majority of cases, to be of greater value had an individual invested in bonds or safer assets. This has tended to naturalise equities and stock market investment as fundamental to social security provision. In contrast to the notion of insurance, all the risk factors associated with external economic conditions are dependent on individual self-mastery. In this sense, inclusion is not facilitated through collective approaches to risk, but through consumer paternalism, a contradiction, because it proposes that equity investment is the best reward for risk over the long-term under the veil of caveat emptor, let the buyer beware.

Flexibility: Financial Knowledge

While the notion of 'lifestyle' is built into the product as an automatic provision setting, this does not necessarily guard against financial volatility. As final income cannot be guaranteed from Stakeholder pensions, the individual is responsible for making the economy work in his/her own favour. While Stakeholders have a default or lifestyle option, the individual also has alternative investment choices at hand. For example, the individual can select from a range of different asset-management institutions that the Stakeholder provider sponsors. The performance of such firms is freely available through administrative links, web information and media. While the default option promotes the service provision in a paternalistic sense, the individual is also free to gain from financial risk based on free choice. This creates the notion that risk is subject to constraint and normalises the depiction that the default is set at an appropriate level of risk. Underpinning this assumption is the notion that rational individuals are risk-averse. Failure to appreciate risk and take responsibility for its control is not seen as an external condition of economic volatility, but a problem of self-motivation. This eschews a problem-solving approach to risk, which often reiterates the dichotomy between negative and positive risks in welfare. Negative risks are understood as objective, related to an external environment and can be avoided. Conversely, positive risks are much more subjectively related to the 'enterprise of the self'.

It is of less significance to be interested in 'what is a risk than' what 'is done in the name of risk' (Baker and Simon, 2002: 18). In this sense, 'risk today is not only about bad risks, but also about opportunities. Many of the phenomena we describe as embracing risk proceed from an implicit belief that risk is a positive force that can be directed towards socially useful ends' (Baker and Simon, 2002: 20). Financial economics has been responsible for the idea that asset prices have no inherent value because they are subject to random walks. Only through knowledge of market values and their average fluctuations can one understand how to calculate and control for risk. Under financial theory, financial economics is responsible for the idea that risk is a factor of information. Under the efficient market hypothesis, stock price changes are a representation of institutions acting on full information under bounded rationality. Further information and transparency can therefore lead to a more efficient market as prices rise and fall, not as a result of speculative tendencies, but as a result of rational agents adjusting to market values. In this sense, negative financial risks associated with investing are associated with economic asymmetries between consumers and producers. In a similar way, the individual is a financial actor and can only gain from investment through a considered approach to probability distributions. Influenced through portfolio theory, financial risk from diversified investment becomes an opportunity because it is no longer a 'negative risk', but a positive risk attached associated with financial self-discipline. For example, the Stakeholder product has been designed so that an individual can choose from a portfolio of different asset-management firms from the financial provider. This is not a selection of different assets, but rather a selection of asset-management firms with different investment philosophies. While history is no guide to the future, it is often promoted as the only and best way to apply knowledge to saving and investment decisions in order to rate financial performance. While personal pensions can be seen as the embrace of risk over uncertainty as part of a normative shift towards neoliberalism, Stakeholder pensions represent an attempt to apprehend uncertainty through the mitigation of negative risks. Stakeholder pensions can be seen as a rationalist consolidation of a Third Way approach to private welfare and social inclusion.

Asset-based welfare

Stakeholder pensions form an important part of a new government taking influence from the United States called 'asset-based welfare'. Sherraden (2002) refers to this as a shift from the 'social welfare state to a social investment state'. As Sharraden argues in this report, the accumulation of assets over the long-term has 'many positive benefits for individuals and families. These positive effects include greater long-term thinking and planning for the future, increased participation in the community and investment in oneself, financial products, property, and enterprise for greater returns. Widespread asset holding promotes engagement in economy and society' (Sherraden, 2002: 5). The Stakeholder product encourages asset-based welfare from the ground up. The child tax credit, the baby bond as well as options to buy stakeholders for children is a new initiative designed to encourage long-term saving. Financial education initiatives are also an important dimension of asset-based welfare and the regulation of the self in a consumer driven market. Only by coupling long-term saving measures with financial education can the government hope to instill self-regulation without responsibilities. Froud et al made the point that the top 40 percent of earners save in the financial markets and they also propose that this has had an effect on the institutional pressures of performance. As most personal assets are held in the cash economy, the market for Stakeholders has intended expand the level of saving in lower income quintiles through free-market inclusion measures. The policy proposal to reduce the cap to 1 percent is important to this social investment state. It is legitimated on the grounds that between

25-30 percent of individual's pension fund for a low-income earner would be taken away through charges. As Harmes explains, 'familiarity and constant interaction with the workings of financial markets may help naturalise investing and self-reliance as a way of life and, more indirectly, cause individuals to evaluate the world around them through the lens of an investor (rather than worker or citizen)' (Harmers, 2002: 15).

Technologies of financial self-discipline: risking the self

The stakeholder discourse has been based on the idea of promoting free choice in a consumer market. However, as all government self-help brochures warns 'whether a stakeholder pension is the best choice for you will depend on your particular circumstances'. The consumer discourse underpinning the Sandler suite does not account for the individual complexities that are involved. It isn't just about the uncertainties attached to the products. It is how they apply to individuals specifically. Individuals buying into a stakeholder pensions face particular choices. It is assumed that choices can be assessed on individual circumstances. For example, a government brochure advises individuals to seek advice on a number of issues pertaining to 'contracting out'. The simplicity that is promoted as part of the stakeholder package 'draws attention away from the difficulty individuals have negotiating their way through the pensions maze if they wish to find the most suitable financial solution to meet their needs' (Ring, 2002: 564). The problem here is that the rationalist assumptions that are built into stakeholders are often quite contradictory. They are, for example, offered to a target market of low to mid income consumers and employees. But contracting out of the state second pension into a stakeholder may not be the most rational choice because a stakeholder after minimum contributions may not lead to a better pension fund than if individuals decided to stick with the state pension. Contracting out may also depend on costly advice from an Independent Financial Advisor (IFA). This is why Stakeholder pensions are further problematised in relation to means testing. Those that contract out of S2P may in some cases be penalised by low contribution levels. For self-employed, those making up a healthy portion of the working population, individuals are not covered by SERPS or the State Second Pension. The Stakeholder is about assessing the risks to the self.

The consequence of shifting welfare responsibility onto the market is that the individual, is not judged in terms of a citizen eligible for welfare, but judged in terms of what he/she can offer the business of private welfare provision. Within the discursive context of private welfare provision, the individual is more subject to the constant scrutiny of behaviour models. Such behaviour models are more likely to target specific identities and to gain new ones from competitors. Underpinning welfare products are often narrow assumptions of what captures or incentives individuals into performing often expected behaviour. Driven by rational assumptions, as Taylor-Gooby (2002) argues, 'policies designed on the assumption that social actors are primarily motivated by individualised and immediate self-interest ignore the various moral rationalities which govern many aspects of behaviour and may damage the benign motivations that inform welfare state citizenship' (ibid, 2000: 2).

Freedom of choice and self-help have been encouraged by the creation of what the FSA has described as 'decision trees', which are framed as an objective tool to help individuals decide the most appropriate form of saving. Langley (2004) examines decision trees as a calculative tool that 'constructs saving for retirement as a technical problem to be solved through logical individualised financial management' (Langley, 2002: 6). Such decision trees encourage self-help without responsibility for individual choice of saving, because they are designed by purpose to translate rational information into common sense options and solutions. This kind of self-help represents the neoliberal dilemma of appealing to voluntary and rational behaviour without explicit government intervention. This has been complicated to the extent that such forms of governmental self-help have been designed for the more vulnerable saver as part of the overall cultural project to include individuals into positive financial risks.

With respect to Stakeholder pensions, the low income and vulnerable saver is written into the logic of decision trees with respect to how rational incentives are correlated to necessary economic behaviour. Firstly, the FSA's decision trees are designed to create certainties, not of the future, because the future is unknowable, but of the self. By plotting the relevant information into the decision tree, an individual learns that the negative risk is actually created by the degree to which one cares for the self. For example, individuals are encouraged to increase their contributions based on common sense tax incentives. As contributions rise, tax incentives rise too. We know that the vulnerable identity is prefigured into the decision trees because such tax incentives are fixed for low-income earners. For every £1 that is contributed the government will contribute an extra 28p. This means that for every £100 that it contributed; most providers will accept a contribution of £78 making the tax return of £22 an automatic condition of contribution. Therefore, monetary return accrued from fixed tax incentives is only augmented by the level of monthly contributions that individuals determine on a voluntary basis. For example, an individual (in the targeted age bracket without a pension) that pays the minimum Stakeholder contribution of £20 is calculated to receive £86 retiring at the age of 65 and £69 at the age of 60. If individuals contribute £200 per month individuals will receive a pension of £860 at age 65 and £595 at the age of 60. As we can see, individuals are reminded of the benefits of working longer up to the age of 65 where sustainable contributions in addition to tax incentives create financial certainties, not as a result of financial markets or government developments, but of certainties determined by the self. Such technologies of the self are based on the assumption that individuals will react to financial incentives positively, as opposed to creating feelings of anxiety that may arise from such responsibility. But we have to remember that such tax incentives are automatically built into the sale of the product, emphasising that the only concern for individuals is their level of contribution.

We can be sure that identity is built into the calculation and sale of stakeholder products because tax is not variable by the level of contribution, it is based on the level of earnings. For high earners, the benefits of tax relief on Stakeholder pensions are greater, but less automatic. For example, a high earning individual that contributes £100 will receive up to 40 percent tax relief creating an incentive for earners with a salary over £30, 000. Despite providers making this feature a marketable, this has not been written into the sale of Stakeholder products due to regulations, which means that the financial incentives through the sale of Stakeholders are acquired manually. In effect, rebates on tax are only honoured through self-assessment. The contrast between automatic and manual is an important yet subtle process of the market. For lower income earners, incentives are based purely on their level of contributions towards their pension. For higher earners the risk of the self is greatest, because it not only depends on their level of earnings, it also depends on their will to know the market and their financial ability to make knowledge work. In other words, higher income earners are encouraged to know the market because this pays particular dividends, but requires a discipline of self-management, which usually requires additional financial advice.

While Stakeholders offer greater tax advantages for higher earners, the government has tried to prevent higher earners gaining from a form of pensions arbitrage. For example, specific exemptions are made on individuals if they belong to an occupational fund and if their income is above £30, 000. But this has often been contradicted by the provision of stakeholder pensions for children and the caveat that allows for the provision of female partners. It has now become well known that Stakeholders have benefited high earners, who have contracted out of other pensions or set up new schemes for family members. The market for stakeholders has tended reiterate the gender and class bias of pensions, by creating an opportunity for 'pensions arbitrage', so that rational man can avoid the tax man from surplus funds, but at the same time provide a pension for a spouse or partner. While all individual circumstances are accounted for in Stakeholder pensions, a recent report pointed out the different between the target market and the market target. Of the 600, 000 contracts sold between 2001 and 2002, 200, 000 were know by the ABI to have been acquired for such purposes (Financial Management, 2002: 5). In essence, Stakeholders have been taken up away from their intended target market of low to mid income savers. Research by the ABI also encouraged the view that this maybe implicit in provider's lack of surveillance of the intended market. For example, of the 1, 151, 371 contracts sold, the ABI could only account for 18 percent of contracts whereby information was known regarding the relationship between take-up and earnings (ABI, 2002: 7). This is quite puzzling because a condition of sale of Stakeholder pensions is premised on the knowledge that consumers are within the targeted threshold. But most Stakeholders have been sold by IFA's suggesting that the role of advice has actually played a part in making money work on the basis of a kind of regulatory or pensions arbitrage. Instead of Stakeholders providing for social inclusion, the market has ensured the 'super-inclusion' of a more exclusive kind (Leyshon and Thrift, 1998).

In sum, the implication of this is that the individual is not so much at risk from external and objective financial risks, because these are uncertain and inherent. But the individuals is at risk from the self, the notion that self-harm is the result of an ineptitude not to know the market and secondly not to care for oneself. In effect, the problem is down to no one but the self. Only by making oneself aware and by making greater contributions, will the individual overcome ignorance. Stakeholder pensions are an attempt to revamp long-term savings and to re-suture the individual as an 'investor subject' so that stock market processes are tied up the everyday practices of financialisation. While we have attempted to outline the streamlines of financial self-discipline and the assumptions that underpin it, it is important to consider the relationship between financial self-discipline and the low take up of Stakeholder pensions. The market for stakeholder pensions is estimated to be as large as 12.1 million, yet the take-up of stakeholders has so far been extremely small in comparison.

From their inception in 2001, an approximated 1.5 million stakeholder pensions have been sold. In order to understand the contradictions underlying the notion of inclusion and financial discipline, it will be important to examine three different areas that could help us understand the priorities of the Stakeholder market. In the next section, we examine the barriers to inclusion in the context of an inter-generational conflict and we try to understand how financial self-discipline has been reconstructed in order to resolve a low take up of Stakeholders and an engagement with asset-based welfare.

The commercial market for Stakeholder pensions: An economy of qualities?

Callon *et al.* (2004) make an important contribution to our knowledge of the micro-politics and performativity of consumption in the marketplace. They begin by differentiating between an economic good and a product. An economic good implies a 'degree of stabilization of the characteristics that are associated with it' (ibid: 61), whereas a product 'is an economic good seen from the point of view of its production, circulation and consumption' (ibid: 61). This is an important contrast because the authors identify that the economic good excludes its cultural, political and individualised contexts. The good has no history and no expectation. It is coupled only to rational information conditions and therefore omits choices based on emotions and symbols, those seemingly irrational characteristics that disentangle the mind/body distinction (Amin and Palan, 2000). Conventional economics tends to bracket 'product definitions' and 'market structures' so that the 'cultural composition of demand, tastes, preferences and all other aspects of consumption' are 'taken as given rather than treated as dynamic or needing explanation; they are frameworks within which rational choice can be carried out' (Slater, 2002: 69). Unlike the economic good which focuses on the single moment in time as a prerequisite of rational calculation, the product is conceived as a 'process' and as a 'sequence of transformations' (Slater, 2002). It 'describes, in both senses of the term, the different networks of co-ordinating actors involved in its design, production, distribution and consumption. The product singles out the agents and binds them together and, reciprocally, it is the agents that, by adjustment, iteration and transformation, define its characteristics' (Callon *et al.*, 2004: 61).

Callon *et al.* (2004) defined this service relation as an 'economy of qualities' because the concept of a product is defined as a process and a reflexive cultural practice between consumers and producers, which persistently gages and adjusts the quality of products in relation to others. It is a continuous process because the product is not only assessed in terms of its qualities, it is defined by its relation to the assemblage of interests that constitute the service-consumption relation. In many ways, the product is assessed through expectations of its qualities before and after its consumption, which raises the question of how individuals make decisions towards certain products if they are constantly in process. Transhistorical interpretations of culture pose the view that whereas once authority dominated over individuals, the post-traditional culture has encouraged self-expression and a self-awareness of individual identity. At least on the surface of things, the consumer culture encourages reflexivity as identities engage in a democracy of tastes.

While this post-modern interpretation of identity and consumer reflexivity is at first compelling, it falls on a rather discursive expression of identity, without understanding how and why identity is subjectively entangled in the continual reflexivity of consumption and production. This is not an attempt to take as given the role that identity plays in the discursive choice of products and their consequential evolution. This is because the economy of qualities is also a framing process of what Callon (1998) has called 'performation'. Here, economic discourses are important in framing the organisation of markets and by their nature, the calculative tools that enable individuals to make product choices. In once sense, the economy of qualities is a progression of this thesis, because it recognises that markets and products are not just framed into existence by economics, they are also judged by the reflexive assessment of individuals consumers. What this lacks however is an understanding of how identity constitutes the reflexivity of markets. We can therefore improve this understanding by referring to Hall's ideas that identities too are reflexive because they are 'sutured' through the continual development of discursive practices. This is significant to the economy of qualities because it attempts to explain reflexive consumption by taking into consideration how life and therefore consumer experiences (or discursive events or even practices) become 'sutured' into the living memories of individuals, so that identity is expressed through the continual attachment to and assessment of experiences that raise and satisfy expectations. As Storey (1999) explains, 'cultural consumption is perhaps one of the most significant ways we perform our sense of self'[66] (Storey, 1999: 136). This does not place undue emphasis on identity and consumption, because in the economy of qualities, consumption and production centre on identity and its 'boundary maintenance' (Jackson, 2004). As Callon et al (2004) explain,

> Markets evolve and, like species, become differentiated and diversified. But this evolution is grounded in no pre-established logic. Nor is it simply the consequence of a natural tendency to adapt. Economic markets are caught in a reflexive activity: the actors explicitly question their organisation and, based on an analysis of their functioning, try to conceive and establish new rules for the game (Callon, 2004: 58).

We therefore have to ask the question. Is the Stakeholder market an economy of qualities? The answer to this question is obviously complex and needs to consider three factors: (1) a consideration of Stakeholder pensions as a consumer product (2) regulatory barriers to reflexivity (3) the inter-generational contingency of two opposing financial identities. Once we consider these issues, we can understand how individual calculation in the context of pensions is constituted not only by the inherent uncertainty of 'pension products', but the interests of financial institutions interested in the reflexive nature of markets. Unlike twenty years ago, where reflexivity was orientated towards persuading the saver into private welfare provision, reflexivity is underpinned through the generational divergence that sets the vulnerable financial consumer apart from the older middle income investor subject. The generational divergence is important because it underpins the priorities of the retail market, which are orientated more towards immediate financial security than long-term financial security. Understanding these factors can enhance our view as to why apprehending uncertainty while retaining priority for positive risks in private welfare is flawed. It also provides an understanding of the government's current regulatory dilemma, which is to go back on the requirements that it made towards Stakeholder pensions and its market. We see here that the government is lifting charges making the market more reflexive to encourage long-term saving in the economy. But this as we shall see creates two implications for social welfare. Firstly, it means that the market is used once again to frame calculation, which raises the issue of mis-selling once again and secondly there are serious questions as to whether social inclusion can be framed through the private welfare model based on its tendency to be 'reflexive'.

The Stakeholder Pension: A Financial Product?

To deal with the first issue, the provision of private insurance whether for life or for retirement has been a deeply intractable problem in history (O'Malley, 2002). Yet, in the contemporary context, the expansion of private pension provision based on the consumption of an investment 'product' with a service relation is a relatively new phenomenon, which began only as a marginal activity in the 1960s and grew in importance as a result of implicit privatisation agendas and financial deregulation. While this is the case, pensions products are unlike any other consumer product considered by the Callon *et al.*, (2004) in the economy of qualities. The length of entanglement is much longer and uncertain because the contributory contracts are binding between expert systems and lay individuals. Individuals have the choice of divesting, but at the expense of charges and greater uncertainty. For example, Market Value Adjusters (MVAs) are a form of financial discipline enacted on individuals who decide to divest from schemes early. Stakeholders as we have suggested entice individuals into the positive benefits of risk through welfare inclusion. But Stakeholders have no history. There is no evidence of failure unlike other forms of private pensions, i.e. with-profits. Stakeholders have attempted to resolve this problem through differentiation. Stakeholders are different because they are 'simple, flexible and transparent'. But even though the initial establishment of the Stakeholder is built on differentiation, the product relies on expectations of its performance, rather than a prior experience of its use-value. At the everyday level, pensions are inherently forward looking and 'imaginary' (Baker and Simon, 2002).

Barriers to reflexivity

Due to the imaginary imperatives of pensions to be forward looking, consumption can only be attained through trust of expert systems. In the past this has been secured through mass marketing, which has tended to undermine high risks as low risks. The reconstruction of Stakeholder pensions has been an attempt to distinguish negative risks from positive risks as rational expectations have been written into the design of the product and its supporting infrastructure. The initial cap of 1 percent as outlined by the government and favoured by independent reviews had the effect of limiting the marketing role of providers and their ability to create marketable trust. The initial cap was favoured because it was based on the assumption that self-help, the market for independent financial advice, in addition to the role of the FSA would foster a moral imperative on the nation as a whole to lead market demand. This did not happen. IFAs have concentrated on the top scale of the market where fees and commissions have been highest, meaning that the bottom end of the market, the target market, has consumed necessities such as endowment mortgages (another form of pension), while the top end of the market benefited from pensions arbitrage. As a result, Stakeholders aimed at their target market have been mainly been sold through branch networks or on the high street, which explains the elusive figures for earnings and take-up. In their defence, providers have argued that it has not been in their interests to make the product work because regulations have been costly, not only in terms of the consequences of miss-selling, but also in terms of the financial resources that would be used to pool investments on behalf of market participants with a record of poor contribution and persistency levels. At least 75 percent of the total explicit cost of providing a pension under the current regime is incurred as an upfront cost. As the Pensions Commission report on long-term savings has made clear (PC, 2004), this is independent of the size of premium, which means that it is also because there are strict regulations on mis-selling in the initial stages of selling. In effect, the apprehension of uncertainty has effectively asked providers to go against the grain of valorising consumers as either high risk and useless and low risk and middle class (Leyshon and Thrift, 1998: Alferoff, 2004). As a result, social inclusion has been ineffectual to financialisation.

One of the arguments for a lack of provision is that the financial services sector will not market the long-term stakeholder product because it is based on the argument of 'cost-recovery'. Under such a premise, the financial services sector would only begin to make margins on its investment in stakeholder consumers when the market was sufficient enough and when it matured so that returns on capital created income for the firm. This maturation phase would happen in approximately within 10-20 years or so on the basis that the captured market was large enough and that contributions were persistent. While the argument of cost-recovery provided by the industry is no doubt important, it is not entirely persuasive. This is partly informed by the successful take-up of personal pensions in the early 1990s. In between 1992 and 1993, personal pension sales multiplied the government's estimated figure of take-up by a factor of 10 (Waine, 1995: 324). By the end of 1993, 5 million people owned a personal pension due in large part to the transference out of SERPS. This was not only supported by tax advantages, but it was facilitated by an interested private sector willing to acquire new business and leverage for growth and expansion of new areas of business. What is particularly informative about this period is that the financial industry made no bones or complaints over having to increase their leverage. As was the case with Equitable Life, this firm leveraged itself to the extent that it made promises to honour beneficiaries based on none-existent contributors and excessive assumptions towards the performance of equities and risk-management. This personal pension business was lucrative given that there was an incentivised market to invest in long-term investments. In comparison, although the market for stakeholders is large, there is not the level of incentive for consumers or producers.

What a difference a generation makes

However, it is necessary not to understand this purely on the basis of cost and interest. Stakeholder pensions should be seen as a cultural project of re-emergence designed to re-suture the vulnerable consumer into long-term private pensions. To understand why Stakeholder pensions have disappointed expectations, it is proposed that this product market has to be seen in relation to other investment products and in the context of an inter-generational tension between two opposing financial identities with different reflexive stakes in the processes of financialisation. As Ferguson argues,

> Redistribution between generations is not new, of course. Large public debts and unfounded public pensions have always meant a transfer from the young and unborn to the old, just as public spending on education transfers resources from old to young. However, the current scale of generational imbalances is unprecedented. The old are substantial net beneficiaries of most first world fiscal systems, not only because of pensions but because they are the biggest consumers of subsidized health care; they are therefore the obvious targets for policies aimed reducing spending. But unlike the young and unborn, they also have votes. The question this raises is how far objective conflicts of interest between generations could become subjective political conflicts. (Ferguson, 2001: 219).

Stakeholders are a long-term pension investment designed for younger, low to mid income savers. Based on the notion that these products are 'bought and not sold' (under Sandler), then the emphasis of their provision has been on the individual to make a responsible financial decision towards the future. In the current climate, the concern for the low to mid income consumer has been immediate and short-term financial security of the self. The young vulnerable consumer has been sutured in the ephemeral economy of qualities that exchanges credit for consumption. The young have been sutured in the consumer society and face the prospect of living longer, working harder and risking financially more than older generations due to how financial assets are encouraged to work harder in order to maintain the standard of living. Flexible mortgages tied to the stock market are an example of how consumption and saving are linked to a younger, more flexible generation. Most IFAs are focused on selling more profitable products in relation to personal pensions which have been in decline. Personal pensions have therefore been a low priority, where the front end of the business has been focused on 'protected products, such as single premium products, income draw down and annuity related products such as mortgages' (Pensions Commission, 2004: p.220).

Whereas Stakeholder pensions are long-term and uncertain, designed for young low to mid income savers, (non-pension) investment products have shorter time horizons, the risks are more explicit and the gains are more substantial. The leveraging of such products tends to be greater and the fee and commission structure is also greater. As mid to high income earners have the capital and the will to know the market, this is becoming a more lucrative business for financial institutions in comparison to the costly and unreflexive demands of long-term pensions[67]. Greater returns can be earned through more highly leveraged portfolios where the emphasis on performance is higher and probably more 'active'. In comparison to the stakeholder model, which tends to be more passive. This provides this business with more ways of differentiating and developing financial products in relation to long-term savings which are not as dynamic. This market has also become significant to a generation of post-war savers, whose incomes and surplus capital has significantly risen and which has experienced the failures of expert systems and the interventions of government to make random pensions steals. Whereas the younger, more vulnerable saver is disciplined to save for the future, the financial services industry has diversified, reflecting upon a more financially paranoid generation who feel more financially secure knowing that investments are short-term, actively managed and more able to fulfil the patrimonial relationship that Boyer talks of between consumption and investment. This parity of financialisation, between saving and investment is also at the same time its central contradiction, and drives a wedge at hear of long-term saving.

The implication is that the market has reflexively adjusted towards the needs of consumer savers and away from the distrusted long-term investment product. This is not just based on an account of cost, because it is also related to the contingent emergence between vulnerable consumers on the one hand and baby boomers on the latter. This can seen fully in relation to how the market for Stakeholders has slumped in relation to other short-term savings. As a result, Stakeholders have been positioned alongside a more vibrant dynamic and reflexive market for consumer savers that have taken into account historical circumstances and fears of pension short-falls. This is significant for three reasons. This market is more short-term and locks in savings for shorter periods of time.

There is therefore less risk from financial markets and random government grabs. Secondly, such markets are actively encouraged from governments. Efficient tax savings have been allowed on ISAs for example. This has been an important market for the financial services market, which intensely lobbied the government to keep this market open. Thirdly, this market is performance led and makes no bones about whether there could be or might not be risk involved. Investment within these schemes is based on the premise of risk. Fourthly, such products are designed to be open to all. But only those who can afford to take risks and those who can afford to take pension breaks are encouraged to do so.

We therefore have a long-term savings market in the form of Stakeholder Pensions which is limited in its reflexive nature to reconfigure the structure of its products. This seems to be the contradiction of Stakeholders. They try to apprehend uncertainty by stabilising expectations towards the future. But in limiting the market in its capacity to sell the positive benefits of financial risk, the financial services market relies on the individual to make a financial choice over the most appropriate financial decision. This places emphasis on the individual to make responsible decisions towards investment, not solely based on the monetary incentives of investment itself, because this is inherently uncertain and an objective reality of the economy. Rather, there is a responsibility to the self to make the most monetary gain from a clear understanding of the market and its complexities. Risk does not come investment, it is attributed to the self and the extent to which individuals reduce uncertainty through a clear reading of the financial services market and its networks of reliance. As Martin explains,

> Financialisation, far from being the other side of the norm, establishes the rountinisation of risk. Risk becomes normative not so much because it rewards its adepts with success but more because the embrace of risk means one is embedded in the reality of the present. A risk taker is one who lives for the moment – the historical moment in which risk management ascends to the status of common sense. To be risk averse is to have one's life managed by others, to be subject to their miscalculations, and therefore to be unaccountable to oneself. (Martin, 2002: 106)

In this regard, the market for stakeholder pensions has been apathetic because there are contingent and regulatory dilemmas preventing insurance from raising the imaginary scope of expectations to instil certainties in the future and stability in saving practices. Callon's implicit suggestion was that individuals calculate uncertainty, not through a rational approach because this was impossible, but through a calculative network that gave meaning to certain forms of economic behaviour. This is emphasised even more in the pensions world due to how calculation and reflexivity is focused on the initial processes of choice and consumption. Pensions are forward looking and depend on positive expectations for their sale. What seems to be happening is that commercial financial institutions have been limited in their marketing role to raise individual expectations towards stakeholder products. The regulatory environment runs a tight risk-preventative framework which makes sure that institutions do not overly influence individuals decisions. This means that there is a reliance on the point on individual knowledge and free-choice to decide. The reflexive nature of the stakeholder market is therefore limited in its ability to adapt the nature of the product in relation to other competitors who face the same the problem. Stakeholder pensions may have been differentiated from their past, but they are easily differentiated from other providers in the market. By limiting the charging structure, the government effectively provided a legitimate reason to diversify business towards areas of 'business sense'.

The return of reflexive markets

In the wider political environment of the financial services industry, Stakeholders have not represented a competitive product for the industry to make money out of. It is an irony that the government has passed this product onto the private market to sell on the basis that these products are consumer demand driven. This is so because the financial industry won its case to increase the charge cap from 1 percent to 1.5 percent, so that the industry effectively raised the level of flexibility to contribute towards the marketing of the product and the necessity of pooled resources. The industry has complained that the Stakeholder product is dead in the water because the government's cap on charges has been too excessive. Whereas private pensions have usually been sold through Independent Financial Advisers (IFAs), Stakeholders have been mainly sold through branch networks. This has tended to limit the exposure of Stakeholders sold as a personal pension. Powerful lobbying by the financial industry on this issue even raised the eyebrows of senior government advisors. The preferred benchmark was 2 percent for the financial industry set at a compromise, but this lay in direct challenge to groups such as the Consumer Group, which produced evidence that this would damage or at least depress the sail of stakeholders. After four years since its initial inception in 2004, the government has since raised the cap to 1.5 percent, which the industry argues is not enough. It is interesting that this increase has largely been legitimated on necessary and technical grounds. The argument is that the 1.5 percent cap makes it more flexible for the market. It is based on the assumption that the 1.5 percent cap will be in place for the first 10 years and then return after 10 year, but this will still create a median of 1.2 percent. It would seem that making it more expensive for the consumer, increases the incentives to sell the product, making it more likely that the framing of stakeholder pensions will become more reflexive. The increase in the cap to 1.5 percent means that it could be inherently expensive for low to middle income savers to save based on the rational model of expectations. Once the total costs have been calculated for an individual contributing over a 30 year period and achieving a 4 percent return, then it is estimated that 30 percent of the fund would be absorbed through total costs. During the period when Frank Field proposed the stakeholder model the equity market was delivering unpredicted returns in historical context. In essence, what is clear is that in a rational economic understanding of saving, then it would be damn right foolish to expect the vulnerable saver to save under this model and accounting for such charges. But under cultural economy model, it makes sense, because the market is far more able to frame the saver persuasively into entanglement when calculation secures the inherent nature of ignorance towards the imagination of the future. Even the Pensions Commission was sceptical that financialised inclusion could be attained,

> The issue which therefore needs to be debated...is whether this implies that there is a segment of the pension market, comprised of lower income savers and people working for small firms, to which a free market will never be able to sell pension products profitably except at RIYs which make saving unattractive[1] (PC, 2004: 224).

It is crucially important that the Financial Services Consumer Panel saw that the relaxation of the regulatory panel was a real threat to returning 'miss-selling' to the public. This is very important because it shows from a cultural economy point of view why the stakeholder product has failed. The product is unlike a good because it is a dynamic and unfinished project. Government regulations prevented the market from developing along competitive and reflexive lines. From its initial inception providers have wrangled over the sale of Stakeholder pensions. The media and the financial industry acted as the voice for squashing the perception of this product and its use. Since Sandler, Stakeholders have tended back towards the reflexive nature of the market for controlling the product, which means that the old problems have returned except in a regulatory context of greater awareness towards the issues of mis-selling. The industry has therefore allowed the product to be reflexive process once again. This is where it becomes important to understand that the government tried to apprehend uncertainty by delivering inclusive welfare through positive risks. The question is, how is regulatory environment managing uncertainty, while at the same time maintaining risk. This is where it become vitally important to get the views of the Financial Services Consumer Panel (FSCP), because they have argued that 'any relaxation of the current regulatory regime would result in a real risk of miss-selling'. But the FSCP argues that the model or the sale of simplified investment products can only be done through direct advice to achieve security. Except this model is also costly to those cannot afford it. There is therefore the dilemma of a popularised campaign on pensions.

Lessons form history

It is important here to say that there are remarkable parallels between the de-regulatory debate on stakeholder pensions and the rise of industrial life assurance in the 18th century (O'Malley, 2002). As O'Malley (ibid.: 2002) makes clear, the government encouraged the rise of Friendly Societies to provide 'life, burial, and sickness insurance for the working class' to alleviate pressure on the poor rates. Friendly Societies had been encouraged by government to 'replace their traditional emphasis on fraternalism and benevolence with actuarially based principles of fund management' (O'Malley, 2002: 98-101). The actuarial principle was encouraged because it made more sense to business, but the consequence was that 'members became divided and ordered according to their levels of contributions and risk categories'. Friendly Societies were soon to be taken over by Industrial Life insurance companies, which became the principle 'institution for governing working class thrift'. But more accurately, the sale of insurance policies to the working classes was based on the 'disciplinary nature of the collecting strategies of industrial life insurance'. Very much like the sale of personal pensions or the much vaunted need of IFAs for the sale of Stakeholders to the excluded, the sale of policies was characterised 'by the deployment of an army of agents' with rather intrusive strategies of ensuring sales. Such sales tactics were perceived as absolutely necessary because 'it was claimed that they did not have the social and moral resources to sustain, unassisted, the long-term commitment required to maintain insurance policies' (O'Malley, 2002: 101). William Beverage made an interesting comment with regard to the commodification of insurance when he argued that 'life assurance among people of limited means, is so different from most other commodities that it cannot be safely treated as an article of commerce' (quoted from O'Malley, 2002: 105).

Very much like the current political concern as expressed by the Sandler (2002) report etc., the role of industrial life assurance was criticised for its 'expense ratio', which in today's terms means that that a percentage of as a high as 25 to 50 percent of an individual's premiums were taken away through commission. While for stakeholders this represents an estimate of up 30 percent, the Pensions Commission has still remarked that this, just like the 19th century debates over industrial life assurance, was a disincentive to 'instil a moral virtue – a free-willed embracing – of thrift' (O'Malley, 2002). Just as then, the issue of mis-selling was an issue or 'overselling' as pressure on sales increased. To resolve this issue, the Gladstone government introduced in 1865 a 'state-run fully contributory life insurance system designed to drive the industrial insurance companies from the market' (O'Malley, 2002: 102). Very much like the introduction of the Stakeholder product, it was anticipated that this would resolve both problems of cost-efficiency and provide greater returns, while at the same time persuade people to save in an impartial scheme that would not be threatened as a result of overselling. Just like Stakeholders, O'Malley argued that the scheme within a couple of years had failed 'with few people entering the scheme'. It was concluded that the system would only work given that poor people were invited or *persuaded* to save by government-led insurance collectors. This system was not put in place because of fears of a public contrivance of the thrift and free-will, which the liberal government supported. As O'Malley argued, this created a serious dilemma at the time.

> Available technologies of insurance for the poor thus appeared to be compromised: first because of the volitional basis of moral virtues such as Thrift (which, under the regime of moral virtue, had to be exercised freely and habitually) was compromised by the necessity for some form of compulsion; and second because the apparent impossibility of avoiding high collection costs meant that the institution of industrial life insurance wasted thrift' (O'Malley, 2002: 101-102).

It is odd and intriguing that the precise way that O'Mally describes the political dilemma of life assurance in the mid 19th century mirrors almost exactly the current dilemma with Stakeholder pensions. In similar terms, stakeholder pensions have not been sold to the public because people have not been persuaded to buy into them. Only by making them more expensive initially, then lifting the cap from 1 percent to 1.5 percent, has the government been able to encourage the financial industry to promote stakeholder pensions. But this returns the issue back again. Inclusion is paid at a price of individual ignorance. Ron Sander, responsible for an independent review of long-terms savings made a revealing comment reflective of O'Malley's analysis of Industrial Life Assurance:

> I come back to the fundamental point that a system which has weak consumers, conflicted advisers, inherently complex products and a commission-led incentive process for sales is almost certain to produce at the margins the sale of unsuitable products. The more the system is tightened up –which is in many respects a desirable thing – the more cost is added to the process and more saving is made uneconomic for the smaller saver.

We therefore have to come to a conclusion. The notion that the individual can in some sense be empowered, generically, without material consideration is a false premise and should be consigned to the dustbin. As Callon *et al.* (2004) makes clear, calculation during uncertainty only occurs in the context of a suitable framing process that interacts with individuals and gains feedback in an economy of qualities. The sale of stakeholders or their lack of sale, just like the failure to centralise the post-office life insurance in the 19th century, has failed due to a lack of reflexive framing, which is intent on regulating the imaginations of individuals into the idea that they acted with free-will and responsibility.

The Progressive Risk Regime and the Care of the Self

The FSA has argued that it has taken 'no steps over the differentiated regulatory regime to govern the face-to-face selling of lower investment products' (FSA, 2003). There is the proposal of a streamlined approach to selling products for improving access and competition, but there is the fear of miss-selling to the public. We should take into account the key argument that those who have an occupational pension and can benefit from the new Stakeholder suite probably require consultation, leading them into medium term investment products as outlined by Sandler specifications. This means that the target range for low to mid income earners who are more vulnerable invest in the conventional stakeholder with a less equity stake, or not at all, because they do not rely on consultation (FSA, 2003).

Rather than creating the notion of a market free for all, the stakeholder market is setting up implicit regulatory contours that differentiate between different financial identities. To look at what seems to be happening. Financial services firms and IFAs will benefit from middle income earners who are wanting to contract out of occupational pensions. This is more likely to be reliant on advice. The commission charges are greater for these products because the risks are conducive to the products. This is in contrast to low to mid income earners who are more likely to be a first time buyer of a pension and reliant either on their firm to provide information, or the high street. In essence, the regulatory environment is controlling for risk by differentiating between financial identities. It would seem apparent that the creation of the Sandler suite is building a consumers hierarchy of risk for different financial identities. In passing pensions and their marketing over to the marketplace, the government is making an assumption that the market can fairly distribute and include the vulnerable consumer saver. It is therefore useful to examine how the introduction of stakeholder pensions attempts to apprehend uncertainty, yet at the same time control for risk. This seems to be key problem. The risk comes not from the systemic nature of the financial system, but from the risk of the self.

What has happened it would seem is that the industry and government have realised that they cannot use the market to sell stakeholder products based on a simplicity, flexibility and fairness. In effect, the Sandler report was a damning report against the inherent nature of industry as unfair. The government has come to a compromise. They have recognised that for the Stakeholder to be a flagship pensions product it has to be differentiated and moulded to the contours of the consumer savings market. In a progressive tax regime system, revenue collected rises more than proportionally to income. In a progressive risk regime, risk exposure rises more than proportionally to awareness and affordability. At the lower income levels, savers are dissuaded from saving in pension schemes or investment vehicles where the risk is greatest. But such risks are not primarily based on investment losses, but also from the erosion of contributions from fees and commission. As the ladder increases, so does the commission and fees structure, which goes up in accordance with the particular financial practices of the firm. This progressive risk regime would be constructed through 'filter questions' in the industry and at the grass roots level. The notion of a progressive risk regime is seen quite fundamentally in the FSA's discussion papers with the financial industry. Important to this was how the financial services sector agreed that the specifications of the products included in the Sandler suite, including the 'level and application of capped management charges, would shape the level of risk' (FSA, 2003: 9). As it was argued, 'a one size fits all' approach to the regulation of simplified products was seen to be a risk in itself. This partly relates to other side of the coin. Firms marketing products to consumers with little chance of recovering their cost of capital investment would also meet prudential requirements of risk (FSA, 2003, 9). Managing not to match the appropriate risks to the appropriate consumers 'risks' mis-selling certain products to the consuming public. This seems to be a strange irony. The risk in this sense is not the same for all. Risk is fully individualised to the personal conditions of the self. What is more, it is still under consideration of whether signing up to the progressive risk regime means that you are also eligible to complain to the Financial Ombudsman if you have received advice and then complain (FSA, 2003: 13) This aspect of risk is also based on 'knowing your consumer' (FSA, 2003: 14). In simple terms, this means, know the level at which the individual can afford to take risks and the level of awareness that an individual has towards financial risks.

Conclusion

While personal pensions can be seen as the embrace of risk over uncertainty as part of a normative shift towards neoliberalism, Stakeholder pensions represent an attempt to apprehend uncertainty through the mitigation of negative risks. Stakeholder pensions can be seen as a rationalist consolidation of a Third Way approach to private welfare and social inclusion. The first point about Stakeholders is that they are a form of defined contribution pension. This effectively means that all contributions are flexibly invested by the individual who has investment autonomy. The second aspect to this is that there is no level of guarantee. Stakeholders, either in the form of personal pensions or in their occupational variety do not guarantee contributions or returns from investment. Thirdly, Stakeholders are invested in the stock market with a maximum cap on equities of 60 percent. This is precisely why Stakeholders have become a flagship initiative of the Labour government, because it is an initiative which is attempting to promote the wealth generating capacities of financialised forms of accumulation, which incorporates the Third Way thesis to 'socially include' the masses. An important part of this is the creation of market transparency by limiting the amount of commission providers earn on selling Stakeholder pensions. It is legitimated on the grounds that between 25-30 percent of an individual's pension fund for a low-income earner would be taken away through charges. Transparency is also encouraged through simplicity and the creation of the 'default' lifestyle option for savers. This facilitates the notion of save and forget, but it also means that investment is taken out of equities and into bonds for safety approaching retirement. The final dimension to Stakeholder pensions is that they are intended to revamp long-term savings and to re-suture the individual as an 'investor subject' so that stock market processes are tied up in the everyday practices of financialisation. In this sense, building asset-based welfare and encouraging stakeholders for children is a governmental policy designed to foster the 'mass investment culture'.

In this chapter, we have demonstrated that the introduction of the Stakeholder pension has been part of a governmental framework and strategy to determine self-regulation in the market for private pension provision. Re-embedding financialisation has been underpinned by a reflexive governmentality that has meant to stabilise and foster normal consumer relations between pension providers and paying customers. This has been based on the economic theory of 'rational expectations', which begins from the rather ambitious notion that rationality can be achieved through pure information conditions. Conversely, the notion that the individual can gain empowerment through access to simplified information is a misnomer. This is because the introduction of the Stakeholder pension has been built upon a prior history that has taken flight. In other words, it isn't the target market that have gained from Stakeholder pensions and it will not be low income earners or young professionals who will gain from the new information conditions. The aim to create rational expectations goes against the grain of material factors, which seem to be underpinned by the nature of demographic factors. For example, low-income earners and young professionals have different priorities to older generations. While the former are concerned with their own credit conditions, older generations, usually higher income groups want to know where to place their money and how to avoid death and taxes. Producers seem to arrange their own priorities accordingly.

Secondly, the commercial market is a business and cannot persuade savers without firstly marketing the product or secondly making profit from custom. As Callon (1998) makes clear, calculation of uncertainty only occurs in the context of a suitable framing process that interacts with individuals and gains feedback in an 'economy of qualities'. The implication of this however is that individuals become entangled in economic discourses, the intentions of which are questionable if we are to assess their welfare interests. Additionally, it is illogical to ask commercial providers to persuade people to save and not to make profit from their competitive actions. Perhaps this even demonstrates the ethical difficulties and tensions of re-embedding financialisation. In essence, any attempt to implement inclusive strategies through commercial options, especially based upon prior historical forces, will be subject to counter-forces making any such policy 'rhetorical' rather than practical. For example, providers and intermediaries acting in the market do not go out of their way to sell this product or even persuade individuals to use this product[68]. Providers compete for high net worth individuals instead. This therefore opens up a space as how to re-include individuals, not through consumer discourse, but through a re-distributional approach that provides incentives for the rich and poor in order to build social solidarity through political economy.

Chapter Nine

Conclusions: Re-politicising Financialisation

Theoretical reflections

We have attempted in this thesis to contribute an approach towards a cultural understanding of IPE that examines the past as a series of episodes that cannot be separated or undone from the present. It was argued that we can begin to understand our world better by understanding how and why we believe in the representations that make sense to us and which compel us to act. In this sense, we intended to provide an understanding of how knowledge, belief and disposition are related to one other. We arranged each of the concepts into the following framework of analytical tools: governmentality, expert-systems and reflexive economic practices. In many ways, the past is regulatory over the future not just because it is path-dependent, but because the present remains consistently unreflective of how to change the world in a way that is beneficial for the public sphere as a whole.

If one thing is certain about cultural economy, it is a method that strips away the superficial layers of realism and positivism that hold up a mirror image to the representations of economy, power and rationality. By unwinding the surface layers of political economy, cultural economy provides a much wider scope of causality that examines the interrelated intricacies and subtleties between behaviour, knowledge, language, practices and habits within a specific historical context that is constantly adapting and changing in uncertain ways. Cultural economy also represents an ontological change in the nature of capitalist economy. Karl Marx looked at the mechanistic relationships that governed the structures of capitalist logic and intimated at the ways in which the capitalist economy functioned. What this led to, in many respects was a paradigm shift in how we understand the economy, because from this moment on it was gradually recognised that capitalism was reproduced socially, that it was a normative output produced by people, symbols, beliefs, language etc., and that the nature of capitalism itself, like any species in dynamic conditions, adapts and changes not because of the external effects of the system, but because of the internal interactions and consequences of agents reacting to and 'within' the social spaces of capitalism. Cultural economy is therefore a general recognition that society and the elements that give society meaning, such as institutions, beliefs, perception, visualization etc., are also the incremental and subtle ingredients that compose the economy.

Incorporating culture into political economy provides first and foremost a method of demystification to historical and social enquiry. But how is there a reaffirmation of reality and why is it so easily accepted and depoliticised? Essentially, cultural economy moves away from the hermeneutics of suspicion and looks more carefully at how and why seemingly non-political habits can have a direct political contribution through their unchallenged natural proclivities. The notion of habit, as presented by Bourdieu, is important because it is an amalgamation of perception, practices and routines that all come together to create a seemingly innocuous way of behaviour. Veblen is quite important here also because there is a sense in which social change, especially today, occurs as a result of non-insightful tastes and fashions. Veblen argued for example that the consumption of the rich effected the behaviours of the rest of society. This theory is important in the sense that it places an emphasis on the factors that explain the commodification and popularity of certain 'exchange values'. It is also important because it places an emphasis on the importance of desire and seduction.

Global Limbo Economy and Reflexivity

If one of the points about reflexivity is that the direction and nature of social change is based on new information and knowledge of present conditions, then it should also be added that every present contains a social organisation, attitude, language that not only structures the present, but also influences how the present, by nature of its organisation and competing discourses, determines the future or the path of social change. Since the break up of the postwar post-liberal consensus in the 1970s, the pattern of thought and behaviour has become multi-dimensional and has progressed the bounds, directions and inhibitions of free-market order and culture to more sophisticated globalising heights. Anthony Giddens captured this quite perfectly when he argued that late modernity, the contemporary period, has been 'radicalized' due to the consequences of modernity. Giddens as well as his German colleague Ulrich Beck observed that the character of late modernity is captured by a new phase of modernisation described as 'reflexive'. As Giddens argued, 'the reflexivity of modern life consists in the fact that social practices are constantly examined and reformed in light of incoming information about these very practices, thus constitutively altering their character' (Giddens, 1990: 38). The reflexive nature of radicalized modernity is captured by the notion of choice or the notion that knowledge is power. All around individuals are tailoring their personal identities to an exploration of private or personal solutions that are forever in motion. The recalibration of institutions, whether private or public, to this reflexive process is what makes the political so frustrating and uncertain. It is frustrating principally because the ethical becomes privatized, contestable and malleable, so that the public sphere is shaped and determined by the novelties, opportunities and threats of the ever-expanding spectrum of economic culture. From this, there is at the least the concern that the political becomes delimited as a result of the endless choices and opportunities that the spectrum of economy opens up. If indeed we have moved from a period of one-dimensional thought to a period of multi-dimensional thought, this raises the question of whether the range of the political has been widened beyond its technicalisation and whether once again, the political can bring together rather than divide, or whether individualization inspires a new and effective kind of political action. Both Giddens and Beck remain optimistic on this question, but both authors warn that late modernity contains many opportunities, but also many dangers. But once we begin to think of the immediate context of reflexive modernisation, it contains many dispiriting implications for the range and effectiveness of the political and the cultural economy that supports it.

For example, it has long been the normative concern in the discipline of International Political Economy that transnational markets have risen like a 'phoenix from the ashes' transcending the boundaries of the state, eroding the postwar relationship between state and civil society and juxtaposing the imperatives of the international economy against the normative and practical concerns of domestic society. In many ways, contemporary times contain parallels with Hobbes' argument, that in order to ward off the unnecessary consequences of the free-market, there has to be strong state, a leviathan. It has always been a puzzle in IPE, why scholars of the discipline lamented over the 'retreat of the state'. In terms of one-dimensional thought, was this afterall, not a good thing? For the state, far from losing its power, gained its power by helping to swing the pendulum of history in the direction of decentralized globalisation. Far from a retreat, the state has become a conundrum of global economic transformation. In one of the most discerning concepts of the discipline, the state was managing quite universally to transform itself, based on the emerging global structures of post-communism, from a welfare-nation state into a 'competition state'. If we draw upon the liberal sentiments of the Enlightenment period, the authors of this period thought it necessary that a distinction be made between public affairs and private life, or the affairs of the state and those of civil society. But in comparison to the period of nationalising modernity when this distinction was finally (if not superficially) achieved, the period of globalising modernity as we call it in this thesis, has increasingly blurred the boundaries between public and private through policies of privatisation, de-regulation and liberalization. In short, there has been a privatisation and decentralization of the public sphere of order and control, where the internalized self manages to thrive and find cursory meaning.

What comes to light here especially is the seemingly obvious point or normative concern that our exploration of self, our internalisation of modern culture is part of and inextricably linked to the radicalisation of the economic sphere and its total suffusion and inclusion of all areas of politics, art, culture, society, community, globality and individuality. One may expect to find as a prognosis to this brief digestion of historical thought that the political has been lost, that we have arrived at what Cox describes as post-modern non-politics, or what Habermas describes as 'post-histoire'. Not necessarily so, nor even is it worthwhile to lament on this point for too long, because it may only lead to its tautological affirmation. Instead, we could argue that our global political economy is in a state of limbo.

If Limbo is a political and historical condition, is it a passing phase or something more lasting? This is where the analytical and unassuming significance of Limbo makes its mark. The concept of Limbo denotes that there has been a suspension of purpose of some kind and secondly an uncertain reliance or dependence on something external, something uncontrollable and uncertain, which can in many ways re-instate purpose. This would tend to characterise and diagnose the political condition of the global economy quite well, because it would seem that our politics has reached somewhat of a stalemate. As the tripartite system of corporate and collective government known better as Welfare-Fordism came under attack in the 1970s, Western governments and especially those states most influenced by Anglo-American policies, sought to confront the threat to globalising hegemony through an embrace of neoliberal policies and rational choice models that would take advantage of the international economic arbitrage that was well under way in the post-war period. The consequence of this is that there has been a return of the self-regulating market and of market society, except this time on a more sophisticated globalising scale and this has been fuelled and socially accepted in part by a growing financial services sector that has become a regime of accumulation in its own right. It is as if we have become accepting of this technical reality and all of its social and economic implications and consequences, without really understanding what effect this has had on our political freedom, control and accountability of unchecked economic logic and tendencies. What's more is that we are somehow caught up, mesmerized and intimidated by its omnipotent character and intellectual infrastructure and believe somehow that we can tinker our normative concerns towards the nature of the good society to suit its structural priorities. Some may think that this is a radical perspective that fits well with the anti-globalisation movement and that this perspective has no practical contribution because it does not believe in the profitability motive. On the contrary, the point is that the economy and especially the global financial economy has become so far removed from non-economic priorities, such as society, community and culture, that the tail now wags the dog. What is worrying, especially from a historical perspective, is that there seems to be some sort of structural continuity to this and from this point of view Limbo maybe a historical stage difficult to overcome, if not dangerous left to its own anti-Islamic tendencies.

The puzzle of course is what has caused this political condition of globalising modernity and what regulates this political condition as a seemingly sustainable, if not repetitive process? This is a puzzle in political terms because political Limbo has become an accepted and normalised way of life despite the Polanyian notion that a self-regulating economy creates spontaneous bouts of social protection. In other words, transnational governance without effective government seems to be a sustainable aspect of the global political economy. Some have argued that the undercutting of modernity through reflexive modernisation has brought about this in-between stage in political culture, while others still point to the irony that this political culture is unable to transform itself politically because of its dynamic character. For example, some have argued that the solid modernity has been replaced by liquid modernity, or that organized capitalism has been replaced by disorganized capitalism, or that Fordism has been replaced by 'flexible accumulation'. There is however scope for another explanation, which would not only explain the causes of political limbo, to a certain extent, but would also explain the synchronic nature of politics and its repetition. The interesting explanation offered here is called 'Financialisation', a process that apparently gives with one hand, while taking away with the other, something that offers a regime of accumulation by dispossession. Here, the scope of the political and its effective subversion is located in the area of political culture, which is inseparable form cultural economy. It is in this thesis that we have attempted to understand the cultural political economy of Financialisation. The Politics of the Global Economy is not missing, it is in Limbo, caught between a vice of opportunity and potential neglect.

Re-thinking Financialisation

Contemporary financialisation, as we experience it today, is actually the estranged and teenage son of modernity. It is *estranged* because unlike modern financialisation, precipitated under the British, it has outgrown its national and familial ties to become global and corporate in scope, more experimental in its development of global finance as a regime of accumulation in its own right. It is a *teenager* because it is relatively young, but not quite a child anymore. Protected by the vanguards of the postwar multilateral economy, this child of the late 19th century was only really let out to play in the 1970s, in response to a crisis in corporate profitability that encouraged accumulation onto a financial track. But financialisation today is not quite an adult either. It's future is still coerced by its drunken parentage in the form of the US, which has acquired and encouraged global debt proliferation so that the solution is more drink or careful rehab, and while this is a genuine threat to the continuation of financialisation and everything that underpins it, it is also a promise that the estrangement between parent and son will continue. Like a teenager, it avoids strict parental constraints, nor does it listen to wisdom or others with a purchase on its regular flagrance, even from its national suitors; and while it continues to experiment globally in its perpetual and volatile promotion of the good times, it anxiously yearns for belonging, stability and acceptance from all those who despise its capriciousness and inequalities; even by those who don't know him by name. Finally, it is male because it is aggressive in its nature, make-up and representation, yet to be rounded into an adult of all global sensitivities.

Financialisation, in essence, amounts to finance becoming a regime of productive accumulation in its own right: where there is debt, there is interest, where debt is fungible and can be commodified, it can be sold, where it can be sold, it can be traded, where it can be traded, it can be hedged through the purchase and sale of its *notional* values. The fact that we call this type of financial accumulation 'an industry' is not out of touch with the impressionism described here. As an industrial exploit, financialisation promises to contribute directly towards Gross National Product through taxation and employment, even if it does not do so indirectly through the allocation of national investment, because financial accumulation feeds off the productive fetishism, management and circulation of global financial assets/liabilities, and this is legitimated – seemingly, through the containment of its own contradictions below 'fever-pitch'.

But financialisation is not just economic. Just walk into any newspaper agents and look at the plethora of financial papers and magazines that have emerged in the last decade to help us understand the physical knowns and unknowns of this financial jungle and how we can effectively calculate its charms and dangers. For example, *Investors Chronicle*, *Shares magazine*, *Money Week* and *Moneywise* are all magazines that have grown out of the 1990s bull market. Such magazines inform, advise and provide solutions for people interested in improving their technical management of personal finance. If there is any indication that this kind of 'wealth management' has become 'more' important then just buy the Economist or the Financial Times on a Monday. Since 2006, the Economist now provides a specific column called 'Buttonwood', like its regular columns 'Bagehot' and 'Lexington', dedicated to when New York's Walls Street traders signed the agreement under the Buttonwood tree that led to the creation of the New York Stock Exchange. Since 2002, the Financial Times has printed a weekly paper called *FTfm* that deals with newsworthy events in the asset-management industry.

It is often said that art is an imitation of life, but in this case it would seem that knowledge is an imitation of financial necessity; and this is what financialisation essentially provides, an indisputable relationship between liquid finance and liquid knowledge. In other words, the creation of money out of money requires its expertise: flexible knowledge is a function of liquid capital. How financial reality becomes known, used and in what way is all part of making our indebtedness to credit and debt dependent on the knowledge that perceives and understands its known technical dimensions, to the extent that our dependence on finance, is not just quantitative, but qualitative, *how* finance is managed personally and professionally. The 'how' question seems especially important in this, because it omits the more important and philosophical question of the *why*. It is noticeable for example that taxi drivers, known for their openness and infinite knowledge of everything provide an indication here, because they are always able to talk financial shop with grumbling punters: the price of houses, the sustainability of house values, rises in interest rates, anecdotes of financial success and pension provision. It is possible that the economy reduced to its banality is the substance of daily minutia devoid of personal or philosophical reflection. It raises the possibility that the substance of technical argument is the subject of human conversation, ingenuity, identity and imagination, and the two bend in on against each other. In other words, the financial reality that we experience daily is underpinned and constructed not just by financial practices and institutions, but through methods of calculation, financial knowledge – professional or otherwise, which garners perception, initiates language and discussion, conversation and representation, reinforcing ideas by excluding others. Once we begin to think of financialisation this way, it isn't just an economic phenomenon of rational significance, but it is also sociological informed and culturally dynamic, which raises a certain curiosity towards its unchallenged supremacy in addition to the ontological and teleological arguments that reinforce its depoliticisation.

One of the conclusions of this thesis is that financial institutions will continue to find high yielding investment for a generally more expectational and unequal society of saver-investors. Secondly, on this basis, it is important to consider that the banality of the social organisation of society cannot be written out of financialisation. For example, Veblen argued that the consumption of the rich have an effect on the consumption of the poor. Finance is no different in the sense that it provides and facilitates conspicuous consumption, in fact, it can be interpreted as a source of conspicuous consumption in itself. The point here of course is that we cannot ignore from our investigation of repetition the notion that the culture of financial investment at the level of everyday saver facilitates the ongoing sophistication of retail finance and investment at the highest levels of global finance. In other words, the high income class of saver is helping to shape the entire structure of the retail investment world, how it is regulated etc., so that society moves reflexively deeper down the channels of stock-market inspired investment, but in a way that is thoroughly unequal, incongruous and contradictory.

The problem with financialisation, to put it simply, begins and ends with thinking of the 'future as an autonomous space'. Placing too much faith in a perceived epoch that we see as outside of us, jettisons our responsibility to the nature of change and the nature of our own thoughts towards its present make-up. In the financialised era, history is allowed to proceed in its essence as individual 'right', not as *collective responsibility*. Placing emphasis on collective 'responsibility' brings modernity back to a place where past, present and future becomes re-coupled. The reason for this is mainly and simply because it acknowledges subjectivity and its *relationship to actuality* not as an individual voyeur of life, but as a relational agent of change. Tuning into collective responsibility, it should be noticed, immediately acknowledges the agent as an *historical* being or actor, an agent ascribing historical circumstances, experiences and identity – and secondly, it acknowledges the agent as a *cultural* being or actor, an agent of belonging that forms the specific input-outputs of a complex and discursive social order. An attempt that separates the subject from the specificities of modern history as it unfolds, affords the subject (limited) *choices* that precede existence – and *decision-making*, devoid of its social manifestations, which can only abnormalise or excuse behaviour in their specific contexts.

We can therefore differentiate between two different types of responsibility. Firstly, decoupling the agent from history and the hermeneutics of culture forces a quasi-juridical responsibility that is *post hoc*. Choices are determinable by autonomous decision-making that are made responsible only after the event has taken place. While quasi-juridical responsibility is founded upon the illusion of historical and cultural separation, responsibility or irresponsibility directly corresponds and is susceptible to the specific input-outputs of culture. In contrast, collective responsibility accepts that we cannot avoid the inherent flaws of the subject 'inside modernity' or 'without modernity'. Some might argue that this is an explicit form of moral relativism. On the contrary, it merely states that the *ad hoc* nature of collective responsibility should precede the *post hoc* maintenance of juridical responsibility. Replacing individual 'right' for 'collective responsibility' refashions the problem of self-assurance: the question becomes *not* 'why' we should construct normativity, but *how* we can 'legitimate' normativity. The former anxiously clambers for rational correction based on the essence of life as it appears continuously in its contestable form. On the other hand, by acknowledging the agent as a historical and sensitive cultural subject of experience, collective responsibility asks us to confront our own inner curiosities towards the future-past and the internal/external contradictions that belie the compulsive methods of our means-ends relationships and juridical responsibilities. In this sense, the collective becomes the social reference of subjective imaginations enabling a method of political navigation that plots the waves of history like a silent revolution. As Newton eloquently demonstrates the point, '...revolution must be something that keeps the space of the universal open to the possibilities of the particular, and keeps the space of the particular open to the possibilities of the universal (Newton, 2004: 152).

In order to re-politicise financialisation, it is perhaps more fruitful to think how we can restructure and re-organise the circuits and incentives that direct and channel savings. One proposal could be to establish regional pension funds where local savings are tied to the allocation of regional investment projects. Such funds would function like social insurance institutions, but their performance would be explicitly tied not just to monetary criteria, but to the performance and growth of regional economies. Under this proposal, it would be mandatory for people to save with their regional pension fund. Accountability would be a natural consequence of this arrangement, because the performance of regional pension funds and their investment projects would be carefully watched and overseen by people in the locality. This proposal might even replace the Private Finance Initiatives that allocate investment efficiently, but at the cost of accountability, transparency and long-term costs to the public tax payer. Regional pension funds would force people to become involved in the politics of the region, because their savings would be directly tied to the visible effects of investment. Let us cut the anonymous cords of financialisation and tie them, once again, to the communities that define and enable our belonging.

Appendices

Annex A – Web Questionnaire

One: Thinking of an Equitable Life: An Assessment of Policyholder's (Reasonable) Expectations and their Origins

Annex A: Web Questionnaire

Background:
After lots of correspondence between myself and trapped Equitable Life policyholders, and those effected by the crisis generally, I decided that a questionnaire would be good idea. I asked Michael Nassim, a professional working on the case how I could distribute the questionnaires. I think it was Mr. Nassim who came up with the idea between us. I received all of the responses I have now in my possession within the first three or four months. I made a drastic mistake of placing two addresses on the questionnaire. The University address on the front and my home address inside. More than a few, admittedly, got lost in the process. Due to a low participation rate thereafter, I decided I did not want my details exposed on the web so I asked for them to be removed. However, the information I received proved invaluable. It steered my research in new directions that I otherwise would not have taken.

Title:
Thinking of an Equitable Life? An Assessment of Policyholder's (Reasonable) Expectations and their Origins

Responses:
Twenty full responses

Website:
Equitable Life Members Support Group

www.cookham.com/community/equitable/questesrc.doc

Equitable Life Trapped Annuitants

www.elta.org/uk

Time:
Est. May 2005 – May 2006

Questionnaire

Title:

Thinking of an Equitable Life? An Assessment of Policyholder's (Reasonable) Expectations and their Origins

Private and Confidential

Please send completed questionnaire to:

Author: Adam M. Stephenson
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ESRC Reference number: R42200134428

Condensed Version

Aims and Objectives

This independent research has been sponsored by the Economic and Social Research Council (ESRC). The ESRC is an independent organisation, established by the Royal Charter and funds research and training in social and economic issues. It has an international reputation both for providing high quality research on issues of importance to business, the public sector and government. The ESRC's budget of more than £100 million, received mostly through the Office of Science and Technology, funds over 2, 500 researchers in academic institutions and policy research institutes throughout the UK. The quality of life and economic well-being of the UK and its citizens are just two of the many, policy-relevant issues addressed by the ESRC's portfolio of research and training activities.

This particular research (ESRC reference number: R42200134428) is aligned to the broad aims and objectives of the ESRC. In the wider context of global finance and everyday economic practices, this research critically examines the privatisation of pensions in the UK. Research on Equitable Life is placed alongside two other investigations into Stakeholder pensions and Final Salary pensions. Of particular concern to this project as a whole, is the notion that privatised pensions and pro-market regulation can avoid cases of miss-selling, while at the same time facilitate social inclusion and fairness through the marketisation of various saving practices (short, medium and long). The Sandler suite of simplified investment products is an endorsement of this pro-market approach, which is an attempt to popularise saving practices in accordance with the views of the Turner report. Current economic and regulatory debates tend to view Equitable Life as an abnormal blip in the development of a much more sophisticated approach to risk-preventative regulation. Therefore, the trend towards privatised pensions tends to be de-politicised without any real understanding or debate with regard to how financial institutions (such as Equitable Life) have sustained their investment practices or how this has had social consequences. In contrast, this research takes the view that Equitable Life and the processes that sustained this institution over time, can contribute a great deal of understanding with regard to how financial institutions relate to savers and how regulation can prevent cases of malfeasance and miss-selling.

The intention of this research is to investigate the origins and impacts of Policyholder's (Reasonable) Expectations (PRE) in relation to Equitable Life. PRE refers to a statutory concept provided by the Insurance Companies Act of 1982 which provided a loose and *ad hoc* framework for defining what constituted Policyholder Reasonable Expectations. This allowed companies such as Equitable Life to provide a unique approach to bonus information, allowing investment strategies to be underpinned by loose approaches to regulatory capital. PRE is not only important because it benefited Equitable's approach to marketing, it was actually pivotal to its core financial and business strategy for the time. Set in this context, this research explores the institutional relationship between Policyholders and Equitable Life in the wider economic and political context of deregulation and privatisation. This will consider the reasons for saving with Equitable Life within different contexts, but it will also consider how and why Policyholders sustained their saving practices with Equitable over time. There is therefore an attempt to understand how Policyholder's Reasonable Expectations were constructed, how expectations were sustained and how this had an impact on Equitable's financial and marketing strategies.

The emphasis on PRE is important to this study because it demonstrates the importance of taking seriously an aspect of regulation called 'Conduct of Business'. The Financial Services Authority (FSA) has recently made this an important part of its regulatory strategy. But there is a danger that Conduct of Business regulation becomes undermined by attempts to popularise sophisticated retail financial products to the public through innovation and de-polarisation. A critical examination of Equitable Life that will consider the importance of PRE is an important aspect of challenging de-regulation and the philosophy that underpins it.

All of the questions in this enquiry are broad and qualitative. They are designed to be open to the interpretation of individuals, who are free to disclose as much or as little information as they feel necessary. Most of the questions rely heavily on memory and in particular, this questionnaire is unique in asking individuals to remember how they 'felt at the time'. The author of this research asks that participants try to consider *why* they had particular feelings or opinions towards their financial decision-making in relation to Equitable Life. The 'why' question is important because it asks participants to consider how their expectations were derived and how their expectations influenced their individual economic decision-making in relation to particular information conditions. Participants may feel that their expectations drew upon the following: (1) information from Independent Financial Advice (IFAs); (2) adverts on TV; (3) marketing campaigns; (4) the direct administrative relationship with Equitable Life; (5) tax concessions and implicit government backing; (6); feelings of trust.

This questionnaire is anonymous for all participants. It is highly confidential and independent research. However, participants must be aware that all of the information will be used in the publication of research, which follows the broad directive set out above. This research is aimed for publication within Economy and Society, a peer reviewed journal that is at the top of its class in research and excellence.

As the author will be working at home over the summer period, could all participants please send their completed questionnaires to the personal address below. Any queries or problems, please do not hesitate to call or e-mail using the contact information provided below:

Personal Address:	**Personal Contact**	**E-mail:**
Adam M. Stephenson 67 Runnymede Road Darras Hall, Ponteland, Newcastle upon Tyne NE20 9HJ	(01661) 827262 07736113823	M.A.Stephenson@ncl.ac.uk

Thank you for your participation,

Adam M. Stephenson

Section A: Background information

---

1. Could you please specify your Age, Gender, Occupation or Previous Occupation?

a. Age: ....

b. Gender: ....

c. Occupation: ....

d. Previous occupation: ....

2. Could you please indicate the nature of your current involvement and interest in Equitable Life? Please tick or specify your interest and involvement.

a. Litigant (*go to question three*):

....

b. Complainant (*go to question three*):

....

c. Non-complainant (*go to question four*):

....

3. If you describe yourself as either a litigant or a complainant could you please indicate the nature of your case and its current status?

....

....

4. Are you currently a member of an action group or organisation that represents the concerns or interests of Equitable Life's policyholders? If so, can you specify the organisation and your involvement in this organisation? (*If you are a member please see question* five. *If not, please go to section B).*

....

....

......

5. With regard to question four, to what extent have Equitable Life's Action Groups made an impact on current regulatory policy in relation to private pensions?

....

....

Section B: Saving with Equitable Life: the origins
Brief:

This section is designed to understand the reasons why individuals were attracted to Equitable Life. It is understood that many of the questions in this section rely on long-term memory. If it is possible, please try to answer the questions with an understanding of how you felt at the time and what factors influenced your decision to save with Equitable.

6. What particular policy or policies did you take out with Equitable Life?

....

7. How did you find out about it/them?

....

8. On what date did you take out your policy or policies with Equitable Life?

....

9. Why did you save with Equitable Life?

....

10. As far as you can remember, what specific factors influenced your decision to save with Equitable Life?

....

11. Did you shop around before making a financial decision to save with Equitable? If not why?

....

12. What was remarkable or unique about Equitable Life that made this financial institution so attractive to you?

....

13. How did you differentiate between Equitable and other financial institutions? What factors informed this differentiation?

....

14 Did you receive help before making your decision to save with Equitable? If so, what organisation was it and what kind of advice was given?

....

15. Did you assess the level of financial risk attached to your policy with Equitable Life before you confirmed your policy? If so, how did you assess financial risk?

....

....

16. Were you aware that there were risks attached to saving with Equitable Life? If not, why not? If yes, why did you save with Equitable?

....

....

17. In your experience with Equitable Life, did you ever come across or learn of Equitable's Free Asset Ratio (FAR) or their policy of 'full distribution' without the backing of an estate? If so, how did this effect your perception of/reaction to Equitable Life?

....

....

Section C: Equitable Life, Information and Expectations
Brief
This section is designed to understand the relationship that operated between policyholders and Equitable Life. The wider aim is to understand how Equitable Life maintained expectations and what affect this was to have on its financial and marketing strategies. The following questions therefore try to understand how Equitable Life made policyholders feel, but also try to understand how the wider commercial environment influenced individuals in their relationship with Equitable. This section is intended to understand events before Equitable Life's financial situation became fully exposed.

---

18. When you took out your policy with Equitable, can you sum up how you felt about it and what expectations you had towards your financial future? Secondly, what were your feelings based on?

....

....

19. Did you make regular contributions to Equitable Life or were there instances when you saved more or less? (*If there were, please indicate any possible connection with your answer to question 12*).

....

....

20. What other factors influenced you to increase or decrease your contributions?

....

....

21. Can you please describe or sum up how your policy values and/or bonus information made you feel about your financial future?

....

....

22. What particular bonus information did you focus on and why?

....

....

23. Can you describe any instances where you felt assured that your decision to save with Equitable Life was the right one? What in particular assured you?

....

....

24. In the time that you held your policy with Equitable and before news of Equitable's troubled status, was there any time when you double-checked the security of your finances with Equitable Life?

....

....

25. If not, can you please explain why you didn't make an enquiry? If yes, can you please explain why you made such an enquiry, what information/advice you drew upon and what the outcome of this was?

....

....

26. In line with the brief outlined above, can you contribute anything else that would help an understanding of how Equitable Life and the wider commercial environment influenced, firstly, your 'initial' decision to save with Equitable Life and secondly, your decision to maintain contributions to Equitable Life?

....

....

Section D: Learning of Equitable Life's financial situation

Brief:

This section is concerned with the asymmetry between policyholder's expectations and Equitable Life's real financial situation. The aim is to assess how policyholders became aware of Equitable Life's financial situation and how policyholders reacted to it, what advice they received during this time, and what final decisions were made based on information conditions at the time.

---

27. When did you first become concerned towards Equitable Life and what in particular concerned you?

....

....

28. What information specifically did you draw upon and where did this information come from?

....

....

29. How did this make you feel?

....

....

30. How did you react to your concerns?

....

....

31. What was your final decision towards your relationship with Equitable Life? How was this decision informed and why did you make this decision?

....

....

Section E: Other
Brief:
You are invited to comment on anything extra that has not been taken into account and which is significant to the overall 'Aims and Objectives' set out on page two above.

---

32. Additional Comments:

....

Annex B – Literature Map

One: Literature Map of Financialisation

School of thought	Author(s)	Research Focus	Research aims	Findings
International Political Economy (IPE I)	(Germain 1997: Strange, 1998: Underhill: Cerny: 2002)	Global Finance and the State	Of central concern here is why the state has been in retreat and how and in what way market forms of private governance rival or have replaced publicly scrutinised institutions at the national and international levels.	1. Global finance, its management and regulation at the national and international levels suffers from a democratic deficit. 2. Private forms of governance have taken over from state and non-state organisations in the management of global finance. 3. Global finance has become decoupled from the real economy
(New) International Political Economy (IPE II)	(Sinclair, 1994: Gill, 1995: Harmes, 1998: Hoogvelt, 2001: de Goede, 2004: Harmes, 2002: Langley, 2002)	Global Finance in the Everyday	Within new IPE research, there has been a greater emphasis on culturalising, historicizing and socialising financial practices in the everyday context of financial market relations. To go beyond state-market relations, new IPE research has explored the systemic aspects of the political by examining how economic activity is both socially and historically constituted in more complex power relations.	1. Financial practices are historically and culturally embedded in social relations that connect the local to the global. 2. Financialisation in the form of innovation, disintermediation and risk-management has become a powerful influence in the way that it manages and organises society, markets and states. 3. The legitimacy of financialisation is subject to the performance of economic institutions, which is devolved *from the responsibility of the state* and increases the emphasis on individual risk-taking
Economic sociology	(Krippner, 2002)	Financialisation	To prove and explain the expansion of financial services and financial avenues of investment as evidence of financialisation.	1. Profit-making through financial channels proves that financialisation is taking place. 2. Financialisation has increased and has become a fundamental process in the development of post-1970's capitalism.
Political economy	(Clarke, 1999; 2000; 2003)	Pension Fund Capitalism	To understand the causes of financial change and the decision-making processes within pension fund capitalism, and to assess the implications for investment and regulation.	1. Financial change in the form of privately controlled investment creates many serious consequences for inequality *not only in pension benefits, but for urban regeneration.* 2. The state must deal with the inevitability of global financial change and the integrity of financial institutions for creating consumer investment protection.
Regulation theory	(Aglietta, 1998; 2001: Boyer, 2000: 2005)	The Finance-led regime	To understand (mainly in theoretical terms) how the finance-led regime regulates macroeconomic behaviour between households, firms and institutional investors caught up in the capital market.	Economies are in transition towards the *finance-led regime*, where finance will impose its logic in terms of performance on saving and investment. Creates a self-fulfilling economy.
Critical political economy	(Waine, 1992; Froud, 2000. Cutler *et al.*, 2001: 2002: Engelen, 2003)	Financialisation and market risk-transference	To critically examine the arguments that underpin the promotion of the stock market and private forms of saving as the most progressive attempts to modernise the economy. Within this, the causes of risk-transference, financial volatility and the transition from DB to DC pension schemes are considered, much like the finance-led regime, in the context of their attachment to financialisation and shareholder value.	1. *Financial Inevitability.* presents sceptical findings of the inevitability of financial change and the transfer of risk towards individuals in the market place. 2. *Third way politics*: argues that the politics of neoliberalism has been designed to promote private pension provision (or coupon pool capitalism) as a way of dealing with the corporate and state sponsored pension's burden. 3. *Instability:* financial instability will be *increasingly* socialised in an economy that naturally excludes those that cannot afford to embrace risk.
Neo-Gramscian political economy	(Harmes, 1998: 2001: 2002)	Mass Investment Culture	To understand how and why society is becoming more interlocked into a financial culture of popular investment that supports and contributes towards neoliberal legitimacy and financialisation.	1. State and commercial institutions have been actively engaged in strategies designed to create a mass investment culture. 2. Popular *investment has been internalised* to such an extent that individuals and markets react to one another helping to legitimate neoliberal policies and justify market individualism.
Sociology	(Aldridge, 1997: 1998: 2003: Peggs, 2000)	Personal Finance and Pensions	In trying to understand the transition towards the passive privatism of personal pensions, the sociological approach has been to understand how and why individuals make decisions of personal investment in the context of a mass-market for consumer financial retail products.	1. Increase in pension choice has been negative rather than positive. 2. *Choice of personal pensions* has been influenced by the level of marketisation However, those groups with a more 'sceptical habitus' are less likely to be duped by mass marketing information. 3. The power relationship favours producers rather than consumers in determining the role and development of *consumer finance*
Social constructivism	(Morgan, 1992)	Life Assurance and Consumer Finance	To understand how and why the market has been socially constructed by state and market relations.	Having imposed paternalistic notions of consumer protection on savers to encourage saving, the Life Assurance sector has had to adapt as the expansion in consumer information and demand has altered the power dynamic between consumers, producers and regulators.
Cultural economy	(Thrift, 1994. Leyshon and Thrift, 1994: 1997: 1999: Tickell, 2000: 2003a: 2003b).	The Cultural Turn in the Monetary Economy	This research interest is both focused on the epistemological notion that culture and economy cannot be separated, but also on the ontological claim that capitalism and particularly *the monetary economy has entered a cultural turn.*	1. Based on the popular consumption of finance and the theatricality of financial markets, the financial audience now plays a more fundamental role in shaping *financial services and markets.* 2. In the new financial literacy, financial knowledge does not lead to power. A 'new money imaginary' has created new ideas on what money can do in the modern economy. As consumers now play a more active role in shaping retail financial investment, *this has created new problems for regulation and consumer protection*
Post-modernism	(Sinclair, 1994: Porter, 1999: 2003).	Finance and Decentralised power	To understand how the essentially *unique development* of knowledge based capitalism is creating new mechanisms of power that control markets and state-societies that are now self-fulfilling.	1. Private forms of economic surveillance have become the decentralised mechanisms of economic control. 2. The economy is now built by decentralised ideas towards how economic properties, symbols, instruments, calculations etc are created which have been accepted and naturalised at all levels. Knowledge has had an ontological effect. 3 Economic knowledge has deepened through a greater awareness to market discipline
Post-structuralism	(Ericson *et al.*, 2000: de Goede, 2003)	Global Financial Discourse, Risk-management and Insurance	This research interest deconstructs how and why risk-management and insurance based on *neoliberal principles of financial control* have been supplanted into a discourse that has also become the principle ideological avenue for controlling modern economies.	The modern era of technical finance has become a *self-fulfilling logic, where more and more risk-management instruments* are created to deal with the commercialisation of the future and a discourse that takes up demand. The financial sphere is ruled by competing discourses that shape the overall nature of finance in relation to society, markets and states. The discourse is determined on increasing individual control of financial risk.
Science Studies	(McKenzie, 2002. 2004)	Opening the Black Box of Finance	This research delves quite specifically into the technical dimensions of global finance hidden from public scrutiny and it understands the extent to which financial change is instituted through *the performativity of financial theory.*	1. The financial world quite deliberately excludes factors that would disturb the opaque world of financial prediction. 2. The financial world is full of sociological processes that make the development of financial theory more unstable.

Annex C – Table

One: A Brief History of Financialisation: Crisis, Re-invention and Stability

A Brief History of Financialisation: Stability, Crisis and Reinvention

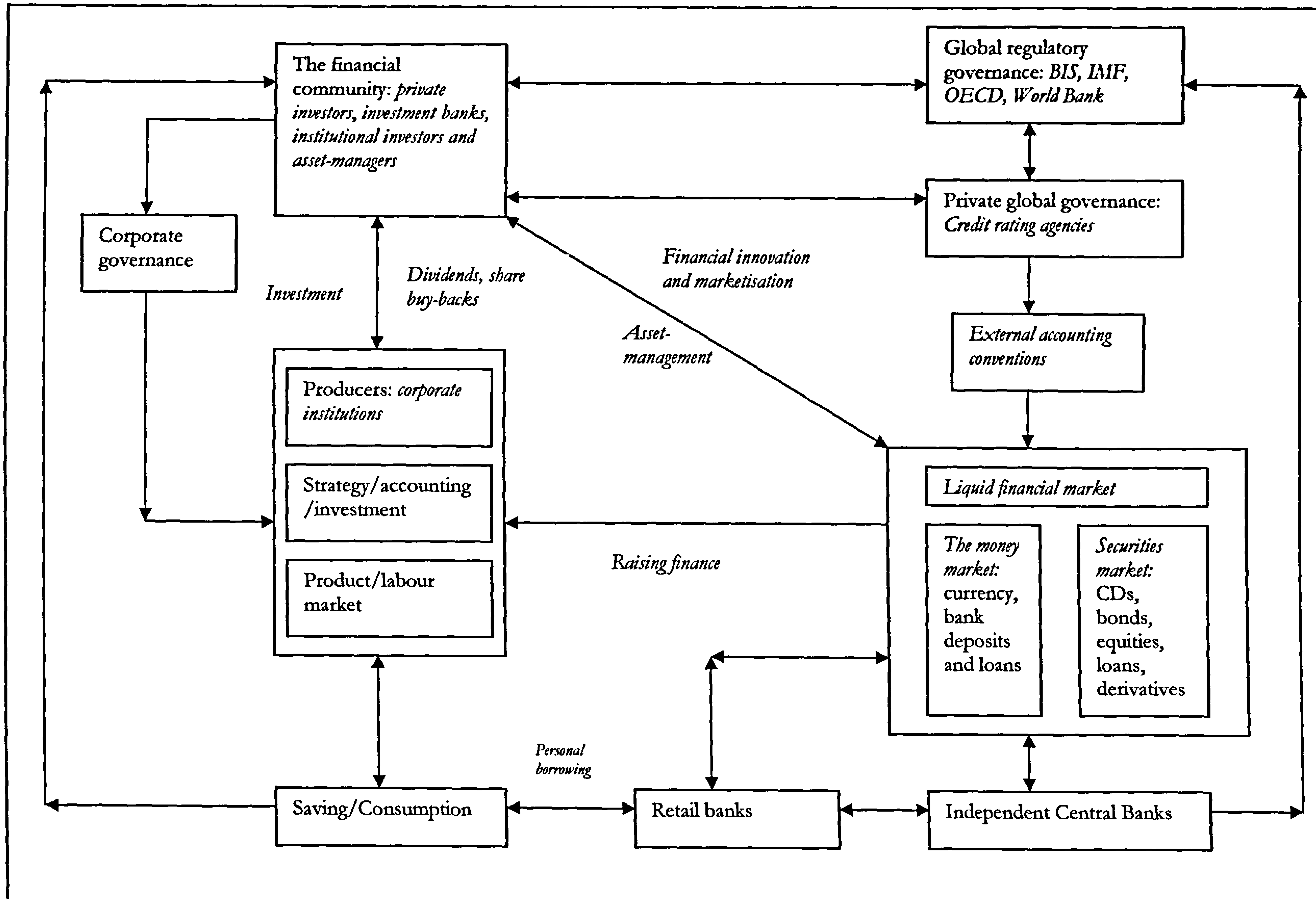
Nature of Crises	Date	Episodes	Consequences	Causes	Reform	Structural consequences
Crises of Anglo-American Intermediation	*1974-1975*	-Britain's secondary banking crises -Crisis of Franklin National Bank in the United State.	-Forced central bank to prevent collapse of 30 banks. -Fear of systemic collapse.	-Competitive pressures encouraged mainly deposit taking finance houses to over fuel purchase of consumer durables/property sector in a time of inflation/tight money. -Imprudent foreign exchange speculation.	Banking Act improves powers for Bank of England. Encouragement of central banks as financial stabilizer	Shift of emphasis from domestic to international banking and services. Re-establishment of authority of Bank of International Settlements since 1931.
Crises of International Intermediation	*1980s*	*Third World debt crises:* Mexico, South America, Africa, East Asia	By end of 1990s, developing countries owed $1.3 trillion in debts to developing countries	High inflation/high interest rates/surplus capital from OPEC countries encouraged aggressive international bank lending to emerging markets through syndicated loans.	The Bank of International Settlements (BIS) require banks to have reserve assets of 8% for all lending.	1970s crises/competition creates domestic restructuring: -Capital account liberalisation -Deregulation/Privatisation -Disintermediation/Securitisation -Decompartmentalisation -Financial consumerism -Loopholes in off-balance sheet regulation
Crises of Anglo-American De-regulation	1980-1990s	- (US) savings & loan crises (1985) - UK Pensions raid (i.e. Robert Maxwell) - Worldwide Stock Market Crash (1987) -Crises of popular capitalism - Negative equity (UK) - (UK) Pensions mis-selling (1988/94) -UK Property crash	- Cost of S&A crises $150 - £400 million stolen from pension fund - Global stock markets fell by average 20 percent. Devalued value of personally owned shares encouraged by privatisation. - 247, 000 houses repossessed (1990/93) - Total cost of mi-selling $13.5 million	- Unregulated investment of banking deposits. - Use of corporate pension funds to create asset performance. - Herd behaviour heavily influenced by overvaluation/computer trading - Post 1987 tax relief on mortgage interest, personal savings invested in property, aggressive selling of financial products avoids Stock Market inspired depression, but creates negative equity in forthcoming years.	- (US) Recovery and Enforcement Act - (UK) 1995 Pensions Act in response to Robert Maxwell	- Greater monitoring of risk in relation to borrowers and lenders. - Greater synchronization between stock markets and derivative markets. - Depersonalised banking. -Banks lose their dominance as main providers of finance. Domestic banks restructure internationally and become much more integrated and competitive in the capital market. -Non-financial institutions enter into financial services.
Crises of Global Liberalisation/ Disintermediation	1990-2001	-European Exchange Rate Mechanism crises -Rogue Trader -East Asian crises - Structural adjustment policies of IMF and World Bank.	- UK raised interest rates to 15 per cent & spent £15 billion supporting sterling; George Soros' hedge fund famously earned £1 billion from speculation. - Collapse of Barings: Nick Leeson generated losses of £880 million. -Full scale collapse of East Asian markets. -Structural adjustment deepened financial meltdown in Russia, East Asia, Argentina.	- Massive speculation against Sterling forces Britain out of ERM. - Failure of Barings Bank to monitor irrational performance in East Asian markets. - Flight to quality of Western portfolio capital from East Asian region. - Privatisation, liberalization and de-regulation policies precipitated capital flight/exchange rate falls	- Second round of international banking regulation set in motion Basel 2. - Calls for a new accountable international financial architecture.	- European currency bands are widened to prevent speculation. -Anti-globalisation movement expands -Russian government becomes more authoritarian in response to crises. - Terrorist attack on twin towers.
Crises of Calculation	1998-2001	- *Finance.* Long Term Capital Management (US), Equitable Life (UK) - *Corporate:* Enron, World.com - *Accounting:* Arthur Anderson, Credit Rating Agencies	- LTCM required a $3.65 injection organized by Federal Reserve to prevent world systemic crisis. - Equitable life unable to meet £1.5 billion liability created by unrealistic investment practices. - Enron: largest bankruptcy in US history - Arthur Anderson and credit rating agencies seen as complicit in Enron	- General over confidence in innovative methods of financial calculation to predict market events without any financial backup. - Exploitation of intangible value to record performance. - General failure of accounting world to account for value fairly.	- (US) Corporate governance legislation: Sarbanes-Oxley statute - (UK) enquiries: Myers, Sandler, Higgs, Penrose	-Greater reliance on independent banks to prevent systemic contagion. -Greater reliance on expert knowledge of both commercial law and accountancy -Greater private and public regulation/scrutiny of off-balance sheet liabilities. -Obfuscation of financial transparency through mass financial reporting. -Greater innovations in securitisation
Crises of New Economy	2001-2003	-The 2001 tech-stock crash	-Worldwide losses worth £2.5 trillion of investment in the telecommunications sector.	- The maturation of pension assets/feeling that asset prices reflected true value of new knowledge economy/greater financial services for wholesale/retail	See above.	-Greater use of hedge funds to create returns in a bear market and to create asset-liability matching for troubled pension schemes.
Crises of Securitisation?	2003 - ????	There have been significant concerns regarding asset-back securities and mortgage lending in the United States	Depends on the systemic linkages of global capital. China and East Asia's massive investment in US Treasury bonds could play a significant role if confidence is disturbed.	Too much confidence in risk-management and sophisticated financial products where no one really knows 'who owns what' debt?	Unknown…	Greater transparency probably!

Sources: Economist (1998: 2004: 2006), Leyshon and Thrift (1997), Shut (2005), Roberts (2004) in addition to web research

Annex D – Diagrams

One: The Structural Circuits of Financialisation
Two: Gross National Debt (*source:* DMO)

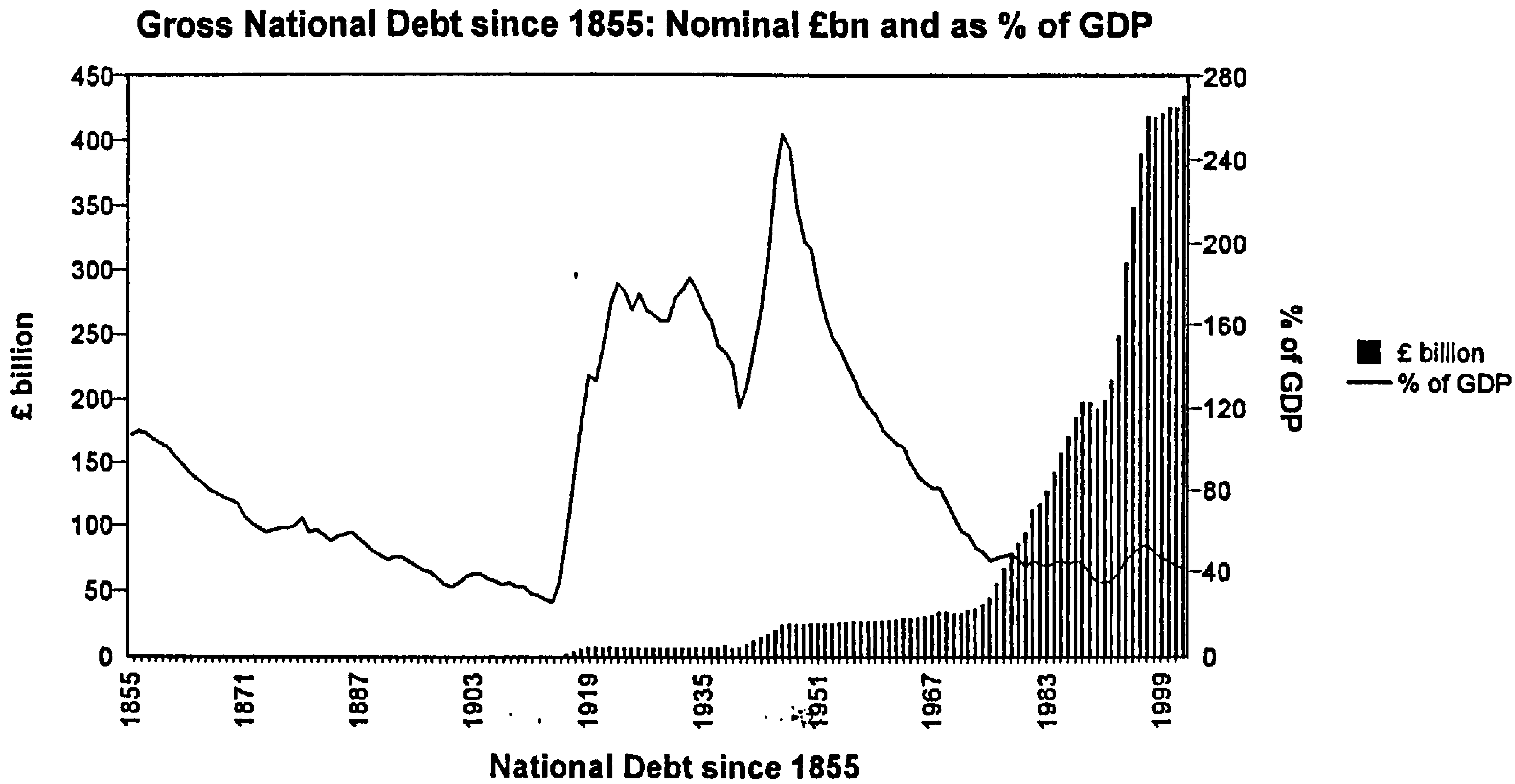
The Structural Circuits of Financialisation



HISTORICAL NATIONAL DEBT DATA

Data Date: 15-May-2007

To export the information from this report click on one of the buttons at the end of this page.



Year	Nominal Amount (£ billion)	% of GDP
1855	0.805	107%
1856	0.834	109%
1857	0.836	108%
1858	0.830	105%
1859	0.827	103%
1860	0.822	101%
1861	0.821	97%
1862	0.824	93%
1863	0.825	89%
1864	0.821	86%
1865	0.816	83%
1866	0.807	80%
1867	0.805	78%
1868	0.806	76%
1869	0.805	75%
1870	0.801	73%
1871	0.796	66%
1872	0.793	63%
1873	0.785	61%
1874	0.779	59%
1875	0.775	60%
1876	0.777	61%
1877	0.770	61%
1878	0.772	62%
1879	0.773	66%
1880	0.772	59%

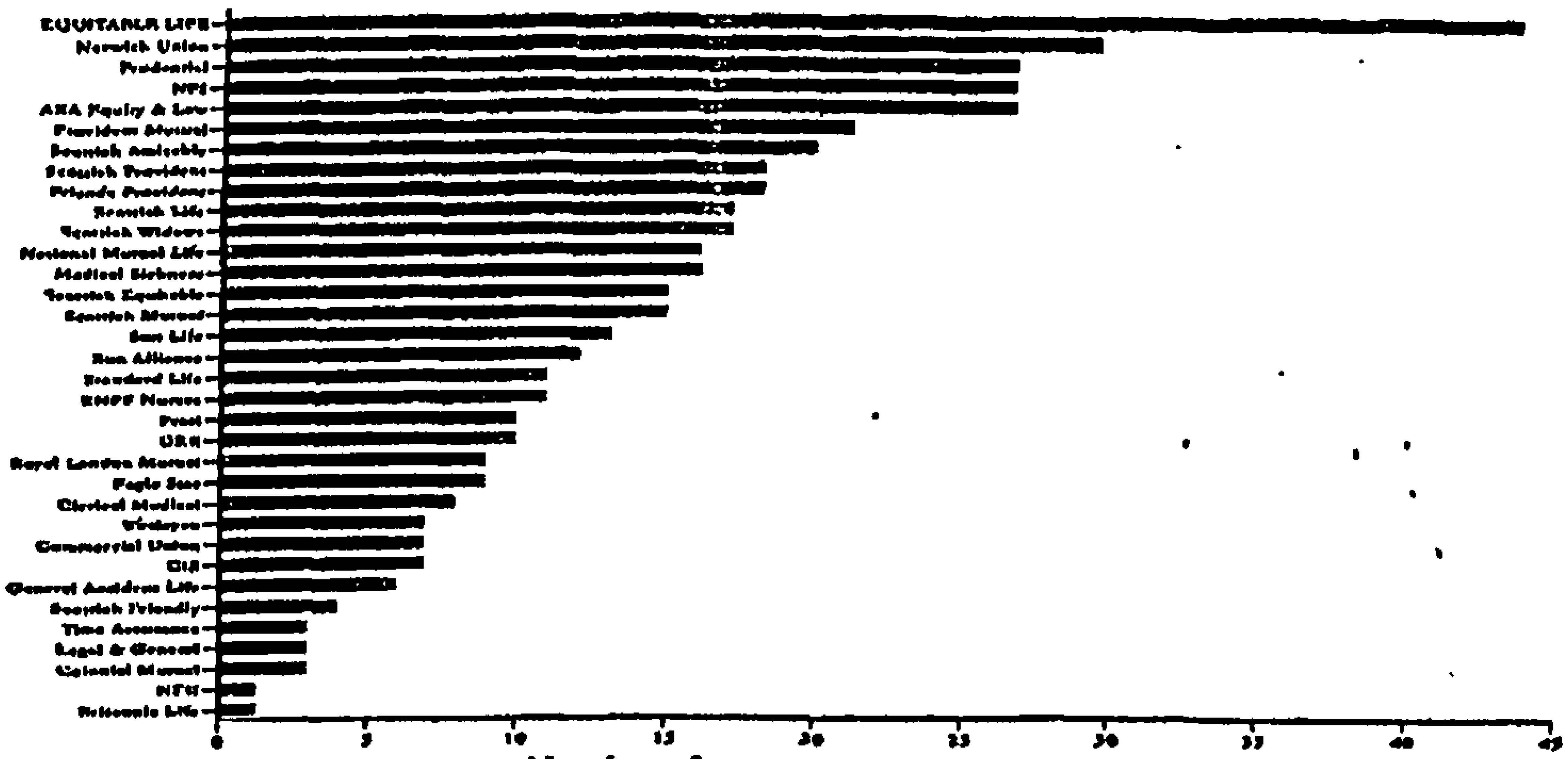
Annex E- Equitable Life information

One: Examples of Equitable Life's media and advertising campaign
Two: Example of annual bonus statement for with-profit annuity policy

Appendix 1

WHICH COMPANY WOULD YOU CHOOSE YOUR PENSION FROM?

With-Profits Track Record of Results



Number of top ten appearances

Source- Planned Savings surveys of regular contribution with-profits personal pension plans 1974-1996

Many people put good investment performance high on their list of priorities when choosing a pension plan Making sense of competing claims can, however, be a difficult business

Well, our simple table above should give them the facts they need to make an informed choice

The table shows the number of times a company has appeared in the top ten investment performance results for regular contribution with-profits personal pension plans across all durations measured - according to annual surveys by the industry journal *Planned Savings*

The Equitable Life has had a top ten placing in such surveys every year since records began in 1974

In fact, no other company comes close to The Equitable's tally of 43 placings out of a possible 52 over that 22 year history Scoring highly one year is laudable, but it is consistency of results year-in year-out that gives people the peace of mind they want

But remember, past performance does not guarantee future performance

HEADSTART

One good reason why The Equitable has given its investors such great performance over the years is because their money gets a headstart The Equitable has commendably low expenses and so our with-profits pension plans have the lowest charges on the market Source *Money Management, October 1996* That means that more money is invested on your behalf

Indeed, The Equitable received a Five Star rating for its personal pension plans in a recent survey by Money Management magazine So, if you want to feel confident in your choice of pension plan, ask for more information today by calling (0990) 38 48 58, or by completing the coupon below

With The Equitable Life great value leads to great pensions

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To The Equitable Life, FREEPOST, Walton Street, Aylesbury Bucks HP21 7BR. DTCTC

I would welcome details on The Equitable's pension plans
I am self employed ☐
I am an employee not in a company pension scheme ☐

NAME (Mr/Mrs/Miss) ____________________

ADDRESS ____________________

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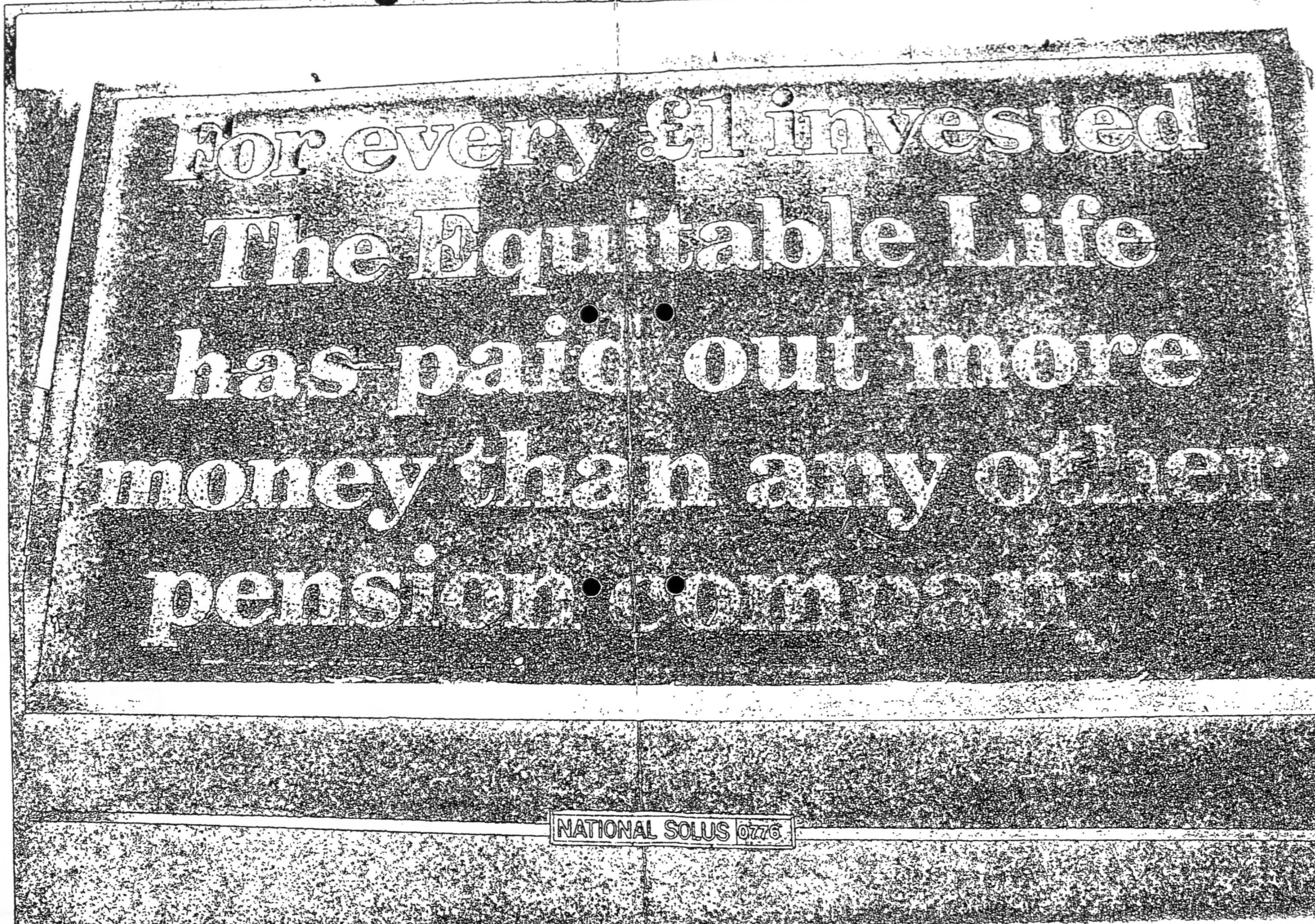
Postcode ____________________

Tel (Office) ________ Tel (Home) ____________________

We guarantee that no company outside The Equitable and its subsidiaries will receive these details If however, you would prefer to receive no further information from us, please tick this box ☐

The Equitable Life

You profit from our principles


for every £1 invested
The Equitable Life
has paid out more
money than any other
pension company
NATIONAL SOLUS 0776

Reading this letter could double your pension.

Founded 1762

The Equitable Life Assurance Society

You gain because we're different.

THE EQUITABLE LIFE ASSURANCE SOCIETY

FOUNDED 1762

Private and confidential

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28 June 2005

Our ref: CSC/ANSTWPA

Dear [redacted]

With-Profits Annuity Policy - Annual Statement

Annuitant [redacted]
Policy number [redacted]
The anticipated bonus rate on your policy is 5.5%

Please find over the page the new level of payment on your with-profits annuity policy for the year starting 1 July 2005.

Following feedback from a number of our policyholders about how we work out payments, we enclose a leaflet 'How your with-profits annuity works'.

If you have any questions about your annuity, please telephone us on 0870 901 0052 or write to our Client Servicing Centre at the address shown.

Yours sincerely

Dave Pearce
Head of Customer Service

-continued overleaf-

Payment details

[redacted]

Annuitant [redacted]
Policy number ANN0065405
The anticipated bonus rate on your policy is 5.5%

For the year starting 1 July 2005, the gross annual amount of annuity payable (whi[redacted] annuitant survives and subject to the policy provisions) will be £863.92. This is made up as follows:

Basic annuity	£836.32 p.a.
Declared bonus annuity	£21.05 p.a.
Final bonus annuity	£6.55 p.a.
Total gross annual annuity payable	**£863.92 p.a.**

[redacted]

We will pay your annuity in monthly inst[redacted] 2005. We will make each payment after taking off income tax under the PA[redacted]

Your monthly net payment, based on your tax code and current tax rates is £56.15.

Annex F: Interview

One: Interview with Rt. Hon Frank Field MP

Interview Questions prepared for Rt. Hon. Frank Field by Adam Stephenson

Interview conducted May 2005
Italic: Frank Field
Non-Italic: Adam Stephenson

Interview Brief
I have set out below my questions for the interview. The brief is to understand what motivated the notion of a Stakeholder pension and what assumptions it was based on. Secondly, the enquiry is interested to understand the differences between the original Stakeholder idea, which was advocated in opposition and in the first few years of office, and the actual implementation of Labour's flagship policy towards Stakeholder pensions. Not only do I have interests in understanding 'why' there is a difference between theory and practice, I am interested to know how this relates to the financial sector and what role the financial community has had in altering the original vision. I then go on to ask some specific questions with regard to social inclusion and private pensions and whether it is achievable to sustain a relationship between them. Lastly, I ask for general opinions on the current state of the Stakeholder pension and how it has lived up to the intended vision.

I wish to thank you very much for this opportunity and I look forward to our discussion. I will not be recording the conversation.

Theme One: The Stakeholder Pension and its Origins

1. Briefly, what was the purpose of the Stakeholder approach to Pensions (specifically) and Welfare (Generally)?

   Old ideas in new form. The Stakeholder concept was used to 'pick up the ears'. To signify that this was not a one-way process, but that it was based on a partnership or new welfare contract.

2. To what extent was the Stakeholder notion (and specifically the original Stakeholder pension idea) a reaction to the free-market philosophy and deregulatory developments of the 1980s? How did the Stakeholder approach differ from the idea of Popular or Shareholder Capitalism advocated by the Conservatives?

   Popular capitalism – home ownership. Sale of conservative houses. Own individual wealth. Darrendorf commission (??). Will Hutton was important here.

3. Why was there a need, in your view, for a Stakeholder approach to capitalism and why was it necessary to include the private sector within this approach?

   I think what Mr Field was saying was that the private model could decentralise away from government, making things more cost-competitive. Instead of being cajoled by commission-led agencies, which would have a monopoly on prices. The private sector could be brought into make things work more efficient. This did not mean that governance would be privatised. This relates to the second *important factor here. State bureaucracy could contribute towards treating welfare as a means of giving out money to the poor, which is something that Mr Field has tried resist. Instead, people need to be able to fend for themselves in a collective way. In this way, the private sector could be brought in to create a much more efficient delivery system on a collective basis, that would limit the bureaucracy of the state, while holding or maintaining the democratic emphasis. In other words, Mr Field provides a different view of how to combine the private and public sector in to a collective sense of the world, which is being knocked down by the current privatisation scheme. Trying to create collective values.*

4. The new Labour emphasis on the utilisation of the private sector has been described as a Third Way approach to capitalism, combining free-markets with responsible governance. But to what extent was this change in philosophy based on the necessity to restructure New Labour towards the expectations of the middle class electorate and the consumer culture that had proliferated?

   Recognition of older generation. Warm phrases in order to entice the collective view.

5. One of the interesting things about your Stakeholder concept was how there was, in your view, a pressing need to overcome 'uncertainty' and 'insecurity' (*Making Welfare Work*, 2001: p.150), both of which had been facilitated by the Conservative years. One of the things which is interesting, is how your ideas linked universal private coverage to the performance of government bonds and equities. The stock market is notorious for its 'uncertain' performance and financial institutions have generally raised the level of 'insecurity' with regard to personal pensions (e.g. mis-selling). The question, therefore, is what assumptions/variables were factored into your ideas of a Stakeholder model so that it was implemented with the assurance of creating 'security' and 'certainty'?

   Was this mostly based on the function of the 'Stakeholder' Private Pension Corporation?

   The level of insecurity heightened as job insecurity increased. Uncertainty on the other hand would be challenged by PAYGO and Collective Funded Pension System alongside. The advantages of the collective scheme are that risks are shared between different backgrounds and over time. Share risk and pooling risk in a collective sense. Key question of Pension Reform Group: How do you recreate the sense of collective partnership.

   Mr Field also suggested that it was one of luck whether one would be in a favourable position or not, regarding the investment of pensions. This is precisely why collective fund was supposed to deal with this level of uncertainty, because it would invest on a considered approach of the future investment choices, which is completely antithetical to what is happening now.

   Another important point is that we talked of 'privatisation'. People have accused Field of further privatising pensions. But that is not true. Field advocated to have the private sector play a role under a highly accountable public body that would limit uncertainty.

Theme Two: Theory versus practice

6. Why is it that your particular ideas towards Stakeholder Pensions were not implemented and was it truly 'Thinking the Unthinkable?'
7. While you were Minister, which groups or vested interests resisted your ideas the most and why?
8. What is the main difference between the stakeholder model you advocated and the model in place now?
9. If you could wave a magic wand, what parts of the Stakeholder pensions model would you change today and why?
10. In 'Making Welfare Work' you advocated universal private pension coverage. Why is it, do you think, that the government has preferred the voluntary system of private pension coverage? What in your view motivates the voluntary preference and will it last?

Brown – different approach to welfare completely. Believes that paying out to the poor and maintaining means testing is ok, especially under pension credit. Compares Brown to Lloyd George. I think what Field suggests is that the Treasury is important here in maintaining a simple and short-termist view of how to deal with pensions and welfare. Not thinking long-term. Questions remains as to whether this is about issues of cost. The point was also made that efforts on pensions were made in the last 12 weeks of Mr Fields position from where Stakeholders began to take shape. This kind of raises questions of priority. Field thinks that Brown looks upon Welfare with a one-dimensional view. This view seems to be one of paying out to the poor, providing short-term poor relief, as opposed to an approach that encourages distribution, providing incentives for the rich that also maintain the needs of the poor. Brown was determined that the original stakeholding idea was not going to happen. On this issue, Field argued that one of the problems was that it was hard to get across to people how to argue for a greater role and participation of the private sector, without placing an emphasis too much on privatisation. Here, it would seem that there is still a problem with the public/private dichotomy and how arguing for a particular relationship between them can face particular difficulties. It can't be stressed enough how the Treasury has an influence here in organising the pensions according to Field. See article he wrote on his website. Another aspect that was concerning to Field was the extent to which Blair encouraged good ideas, but did not follow them through.

Theme Three: Relationship with the financial sector

11. During your time as Minister of State in the Department of Social Security, what kind of relationship did you have with the financial community at the time?
12. How did the financial community perceive your ideas for reform and how much time did you spend working with the financial community on your ideas?
13. What are your thoughts on the financial sector and how influential is the financial sector in shaping regulatory and social policies towards pensions?
14. To what extent do you think that current Government policy towards Stakeholder Pensions is influenced by the interests of the financial sector?
15. If it is influenced, how does it influence and why does the Government trail the wishes of the financial sector?

Thought that financial sector played a role. He thought that he had a good relationship with financial sector. On this issue, Stakeholders would bring in business. But Field also pointed to something on the relationship between the stakeholding minimum and the pension credit.

Theme Four: Private Pensions and Social Inclusion

Context for questions 17 to 20:
William Beverage made an interesting comment with regard to the commodification of 19th and 20th century insurance when he argued that 'life assurance among people with limited means, is so different from most other commodities that it cannot be safely treated as an article of commerce' (quoted in O'Malley, 2002, p.105).

The Pensions Commission with regard to the contemporary situation said something similar, except with a different emphasis:

> 'The issue which therefore needs to be debated...is whether this implies that there is a segment of the pension market, comprised of lower income savers and people working for small firms, to which a free market will never be able to sell pension products profitably except at RIYs [reduction in yields] which make saving unattractive' (PC, 2004: 224).

Ron Sandler in a recent discussion (2004) with the HM Treasury Committee on 'Long-term Saving' recently argued, highlighting the concerns of both Beverage and Turner that:

> 'I come back to the fundamental point that a system which has weak consumers, conflicted advisers, inherently complex products and a commission-led incentive process for sales is almost certain to produce at the margins the sale of unsuitable products. The more the system is tightened up – which is in many respects a desirable thing – the more cost is added to the process and more saving is made uneconomic for the smaller saver' (Ron Sandler, 2004).

16. The question I want to ask therefore is can a private Stakeholder model ever promote the interests of the socially excluded, without either mis-selling or inefficiencies?

    One of the things about depolarisation is that it will make the industry more competitive by forcing IFAs to be clear about their relationship to certain kinds of providers, creating clarity over fees and commission, while at the same time offering the most suitable products. As far as I know, depolarisation will cover the whole industry including Friendly Societies. One of the positive things about Friendly Societies is that they can offer low commission levels. But one of the implications of depolarisation is that marketing will come into play, much like it did before Prime Minister Gladstone (1865) set –up a state-run fully contributory life insurance system designed to drive industrial insurance companies from the market, which was linked to the post-office.

17. I noted in 'Making Welfare Work' that you were critical of William Beverage and his criticisms of Friendly Societies (despite as you noted his ironic sympathy

for them). But is their return in addition to de-polarisation a good thing in light of a fresh concern towards social inclusion and future cases of mis-selling?

18. Or more specifically, can the voluntary system under the private model ever create social inclusion?

As I understand it, the private model forecasts their level of revenue based on two things, the level of contributions and the level of persistency. In the initial stages, even if these two factors are accounted for, market institutions will only begin generating cash flow after a certain period. As institutions will have to use their own assets to cover costs.

19. Lastly, why is it so difficult to create welfare alternatives that are based on accountability and altruism?

Does not believe that private pensions on their current level can create social inclusion because of issues such as the pension credit, maintaining means testing, and increasing the cost of contributions for the poor. Stakeholders have turned into a safe haven for those looking for a safe haven for their money.

11. Notes

[1] Distancing himself from the Western rationalist tradition that has maintained truth as essence, Martin Heidegger reverted to the Ancient Greek concept of truth as 'unhiddenness' in order to debunk conventional wisdom (Heidegger, 1988/2002).

[2] Rainya Chume from West Africa visited England in 2006 while staying at friends and made this statement.

[3] 'Far beyond' traditional history 'with its concern for the short time span, for the individual and the event' we find a history 'capable of traversing even greater distances, a history to be measured in centuries this time: the history of the long, even of the very long time span, of the long durée' (Braudel, 1980: 27).

[4] Monetary expansion occurred between 1926 and 1929 and monetary contraction between 1931-33 (Economist, September 21st 2002: 20).

[5] This is the title of Hobsbawm's third chapter in The Age of Extremes (1995).

[6] The Triffin Dilemma was named after Robert Triffin's observation made in 1947 that the Bretton Woods system would depend on the US balance of payments deficit, which would cause an excess growth of foreign dollar balances relative to US gold reserves, calling into the question the convertibility of US dollars. De Gaulle saw the Greenback's reserve currency status as an 'exorbitant privilege'.

[7] In this research Pontusson (1995) compares the performance of Liberal Market Economies (US, UK, Australia, New Zealand, Canada) with Continental Social Market Economies (Germany, Belgium, Austria, Netherlands, Switzerland) and Nordic Social Market Economies (Demark, Finland, Norway and Sweden) in an effort to demystify the myth of 'equality versus efficiency'.

[8] At the end of the 1950s, Britain's economy was worth £320 billion pounds annually (BBC, 2006).

[9] During my time at Newcastle University I worked as a part-time researcher at the Small Enterprise Research Unit that looked at the implementation of work-life balance policies and gender inequalities. On the whole, a lot of the research at the time provided a very dim view of self-employed forms of work arguing that it created problems for the individual in the areas of health and safety, social security and employment certainty.

[10] Go to, http://www.statistics.gov.uk.uk/pdfdir/msuk0507.pdf

[11] I heard this concept in a seminar discussion at one time led by Barry Gills, but I can't give the exact reference for it. It basically refers to the idea, similar to Germain's (1996), that hegemony is not state-centred in spatial terms. It is actually an amalgam of different economic institutions and ideas that have spun out at the end of the cold war, as a result of various state attempts, especially in the West i.e. US and UK, to benefit from transnational economic activities in order to reinvigorate domestic economic growth. From a critical point of view it is an ideology underpinned by free-market logic and assumptions, which continues to spin out the realist notion of 'Liberal Democracy' as the final model of human freedom. From a post-colonial point of view, it is another example of Western standards of superiority and ethnocentricity re-imposing their will over other alternative forms of global governance.

[12] Unlike any other period in history that relied on one financial center (e.g. Amsterdam, London, New York) as the credit recycling city-mechanism for the world economy, the spatiality of contemporary world practices, according to Langley (2002), has followed a 'centralisation-decentralisation-(re)centralisation' dynamic, so that the World Financial Centers of London, Tokyo and New York act as a regional 'triad' that performs in concordance with off-shore financial centers with 'no single PFC' likely to 'dominate at present' (Langley, 2002: 94).

[13] ICTs have enabled firms to be much more flexible and global in their productive approaches to procurement, manufacturing, assembly, logistics, management and R&D. Companies are not only competing on the quality and design of the product, but issues such as delivery time and procurement, which have placed an emphasis on the running costs of administration and customer service. While ICTs have certainly made labour costs more efficient in manufacturing, especially in Western nations, ICTs have not necessarily reduced the costs of production overall because the amount of productive considerations has actually increased. But ICTs have certainly allowed for companies to spread their production structures or supply chains across cost efficient national economies, which have also embraced 'informationalism' as part of the global state strategy to pursue. For example, as ICTs have hooked up rich nations in the West with emerging nations in the East, the 'combination of technology and management know-how' has encouraged firms to 'outsource' core productive functions, such as IT services or administration, to cheaper well qualified firms within the emerging economies.

[14] According to a recent report, for every dollar American firms spend on service work in India, the US economy receives $1.14 in return. It is important to remember that 'remote' work is underpinned by the economic principles of competitive advantage and flexible labour markets. It's no wonder then that 80-90 percent of all remote service work in India comes from either Britain or America.

[15] George Soros is now famous for his ethical writings on the global economy, an irony, because he became a household name, especially amongst academics, financiers and politicians, for his management of a hedge fund that profited $1billion from a speculative attack against an overvalued pound sterling, when Britain was trying to align its currency to Europe's Exchange Rate Mechanism (ERM) in its first steps to join the Euro currency. Losing £15 billion trying to prop up sterling and raising interest rates to 15 percent, the Major Government was forced to pull out of ERM and devalue its currency. Politically, ERM had a devastating effect.

[16] Throughout my research and conversations with everyday folk, people have consistently made reference to the stock market as being solely constituted by companies and their share prices, or have reiterated the common perception that the stock market solely provides finance in return for public equity. This is true, but it misses the micro-political reasons for floating, re-issuing and buying back shares, but more importantly, it ignores all the other forms of debt securities, in addition to their derivative forms, that are raised and then traded on the stock market. There is a feeling that this perception could have something to do with the mass privatizations of national companies such as BP, British Gas or BT during the 1980s, where ordinary people were invited by the government to share in their policy of 'popular capitalism' or 'shareholder democracy'. The significance of this is that ordinary people remain oblivious to important financial trends that figure outside their range of perception and understanding, when they don't quite realize that the other forms of financing, the other securities listed on the stock market, are where their money is going. Perhaps if people cared less about how much their savings returned and more about where their savings were going, there would be more accountability between experts and people, between politicians and experts.

[17] Tables thirteen and fourteen are not specifically Stock Market listed firms. They are an aggregate of all manufacturing and non-financial service sector activity in the UK economy. Some will be listed, some will not. But this nevertheless gives us an understanding of the interrelation of activity between corporate profitability and investment in the real economy, and trading in the stock market.

[18] To be fair to the social accountants they argue that coupon pool capitalism is 'not the secondary market in issued shares or the secondary and primary markets together because it includes all coupon investment opportunities, including bonds, venture capital and securitised paper. The size and composition of the coupon pool influences the behaviour of households or, at least, those households which save/invest on a significant scale' (Froud et al, 2002:78). While the social accountants provide an explicit account of the relationships and effects of activity in the equity coupon pool, they do not explicitly look at how the other coupons and the institutions that trade them fit in with their analysis. It is a small point, but one worth looking into because there is a historical momentum to financialisation that is linked to the intensification of its core logics.

[19] In the traditional banking model, banks act as an intermediary between depositors and borrowers, so that savings are rewarded through a rate of interest on deposits that are then used to supply borrowers with credit at a higher rate of interest, allowing banks to pocket the difference. Given that borrowers are far more likely than depositors to fail this contract and given that lending is a scrupulous process, such a model is well justified. However, since the 1970s, this traditional banking model has been under attack and is now a marginal method of banking revenue and debt financing in comparison to other areas of financial growth and intermediation[19]. One of the key differences between bank lending and bond financing is that the former is based on much shorter time horizons than the latter. For example, money markets typically lend short-term loans with maturities of anything between a few hours or a few years, but because the transactions costs are high, the amount of lending involved tends to be high also. In other words, the benefits of lending have to outweigh the costs of doing so. This is an issue for bankers because lending is a risky business and requires a high degree of assessment, not only of creditworthiness, but in terms of liability safeguards and supervision. Under the Basel agreement on international banking regulations established in 1988, international banks have been obliged to put aside 8 percent of spare capital aside for every penny lent. The other difference is that the value of specific amounts of bank lending does not change over time or due to volatilities. Whatever is lent is returned at a specified date in addition to compound interest. In contrast, the price, yield and value of a security or bond changes in relation to the vagaries of capital market transactions. Bank lending is of course perfectly acceptable when there is an assured sense of diligence and monitoring of loans, but the integrity and robustness of this most basic method has succumbed time and again to periods of recession, competition and speculation.

[20] For example, the traditional method of banking, both domestically and internationally, received a hammering in the 1970s and 1980s when international banks in the West massively over-lent to third world nations and emerging markets creating a massive debt over-hang that became known as the international debt crisis (Aliber, 2002: 179-195). Over the long course of the 1970s and 1980s, the transition from geo-economic inclusion to exclusion (Leyshon and Thrift, 1997) and from financial compartmentalization to competition (Cerny, 1994) in the international financial system caused two

upsets in the UK that changed financial services and the monetary system forever. For example, in the 1970s, 'fringe' banks, a relatively new institution began a trend in the UK of property inspired over-lending. Such banks over-borrowed from short-term money markets, a form of unsecured lending, and over-lent to property developers and mortgage lenders in the 1970s, on the twin assumption that they could re-borrow at favourable rates and where property values would stay buoyant (Roberts, 2004). In the 1970s, the UK faced their first biggest domestic banking crisis called the 'secondary banking crisis' when the 1970s recession caused credit rates to tighten and property values to crash (Roberts, 2004). This episode was one half of a development that signaled the end of traditional banking and the case-by-case assessment of creditworthiness; and partly explains why unsecured lending was replaced with secured lending in competitive credit conditions, an 'illusory' approach that secured loans against the value of the asset that was being financed (Warburton, 2000: 58). Global financial re-regulation in the 1980s, led by Thatcher, was motivated by an attempt to 'integrate British financial institutions better with international financial markets' (Leyshon and Thrift, 1997: 209: Roberts, 2004), making Britain more competitive as a financial entrepot, and in doing so, forced clearing banks to compete with other financial institutions such as building societies in the area of personal finance, or merchant banks and securities brokers in the areas of corporate finance (Cerny, 1994). In the 1980s, the international debt crises was compounded by another domestic property crash, this time led by clearing banks and building societies, and as interest rates heightened through a general policy of monetarism in the 1980s and 1990s to control and minimize inflation, government's all over the world began to tap the bond markets for long-term financing (Warburton, 2000: 60). 'In essence', as Warburton argued, 'government borrowing in the bond market replaced consumer borrowing from the banks' (ibid, 2000: 60). International banks and their lending practices, which had once dominated the international financial system, were forced to consolidate and strengthen their assets and re-think the new financial climate that had over-taken them (Warburton, 2000: 53-69). Leyshon and Thrift described what happened in the aftermath as the financial sector's second 'flight to quality' (Leyshon and Thrift, 1997: 200) as the financial sector as a whole transformed itself through disintermediation/securitisation; financial market integration or what Cerny (1994) called 'de-compartmentalisation'; financial capital centralization or monopolization; and financial re-regulation (ibid: 204-205).

[21] Please see 'national debt' at: www.dmo.gov.uk.

[22] For an understanding of monetisation please see the glossary of terms at the beginning of this thesis. In simple terms and reflecting the sentiments of Warburton (2000), had the government decided on a policy of monetisation, as opposed to bond market financing, the increasing supply of money would not have been matched with money demand as ordinary households and banks, after the 1980s property crash, would have been forced to repair their balance sheets. Or else, the increasing supply of money through monetisation would have been counter-balanced by high interest rates to control inflation and the need to increase the value of sterling. Like an episode of 'back to the future', Warburton (2000) argues that all in all, the economy would have been forced to re-find that typically British and reserved respect for money that was lost during the spending spree of the 1980s, a respect that was finally lost according to Warburton, when the UK government took the lead in taking the state's budget off the balance sheet, increasing its potential to borrow from the financial markets, at the very same time that it was fuelling its institutional growth through financial de-regulation. As a result, respect for money has dissolved at the same time that our avarice appetite for unsecured goods has increased, at the same time that the level of debt, both in the financial markets and closer to home has proliferated, necessitating for its careful private management and its dumbing down by the experts, reflecting the general level of attention and ignorance by ordinary people about the size and obscurity of global debt and the implications 'if' it all comes crashing down.

[23] There is a certain hilarity to this notion of low inflation economic growth, because essentially economic growth, the expansion of gross domestic product and income, should invariably raise the distributional share of income per head, but today's economy as we have shown already, tends to place an emphasis on sectors that do not inspire wages to grow in proportion to profitability i.e. service sector growth, or else emphasis is placed on technology sectors that are too small to be effective in aggregate terms, and lastly, the financial sector has a great disparity in wage rates and is concentrated geo-economically. Where affordable necessities and commodities are lacking, especially in highly populated income areas, finance is used to fill in the gaps, which is a tenuous implication, because interest rate rises, used to control inflation hit low and mid income earners first. All in all, Britain's economy is built to draw in social terms, not to win, which means that the status quo is good and designed to constrain economic politicization and increase the suggestion of individual responsibility, even though it is structurally imposed; and this reflects the kind of bland politics and social naivete that is at the heart of British politics today, in addition to an implicit and contrived imperial superiority that pays no real attention to what

Britain's economy is founded upon or how Britain compares to other countries that will soon catch up in more than economic terms.

[24] There a number of reasons for this. Firstly and fundamentally speaking, imagine a financial system that continually issues new forms of debt in the form of securities, whether it be government debt or mortgage debt, which are then repackaged (folding in other obligations) or simply traded at different yield values reflecting their underlying reward for the price of risk. Bear in mind however that a government security, such as a UK Gilt or US Treasury bond pays less of a dividend than a corporate security, such as one issued by GM motors, because the likeliness of default is greatest for those without the resources of the state. The financial system is constantly competing on the cost or yield value of financial instruments that are sold in the global financial market place. There are always borrowers that require a low cost of interest and lenders (or investors) that require a high yield. But there are always borrowers ineligible for the lowest debt obligation and there are always lenders willing to take the risk of their capital being used in exchange for a higher return. Very much like Marx's discussion of commodities in the initial chapters of Capital, as long as debt issuance can create pricing differentials and as long as such debt can be traded to match appropriate demands, the enveloping of debt through the financial market and its secondary trading can constantly suppress and compete away what it costs to lend money. In essence then, the bond market is very much like a game musical chairs. As long as there are enough chairs or borrowers to sit on when the music is playing, then lenders are always secure in the knowledge that they can call in their loans for support. But if debt issuance and speculative trading begins to inflate the amount of people, investors and assets running around the chairs, things can get pensive and profoundly unstable if lenders can't find a chair when the music stops.

[25] Quote taken electronically from Part Three, Chapter 8, paragraph 41, at http://www.econlib.org/library/Knight/knRUP.html

[26] As Burn meticulously documents, even throughout the Bretton Woods era, private and public officials seemingly operated in a network of monetary governance and persistently favoured a sympathetic view of the City and its heritage as an international financial centre poised to take advantage of international capital movements.

[27] For example, America's pivotal industrial might after World War two ensured that massive public and commercial investment in Europe ignited European and East Asian trade and growth, solidifying trading links to the US and the dollar as the reserve currency, leading to De Gaulle's criticism of America's 'exorbitant privilege'. As the US balance-of-payments deficit deepened, international reserves of US dollars increased relative to US gold reserves making convertibility increasingly tenuous. As European growth continued, the Eurodollar markets emerged on the back of surplus money created through American exports strengthening the off-shore role of US and European banks for funding balance of payment deficits. As America pursued its role as world policeman and as the US state increasingly tried to strengthen its payments deficits through various capital controls, this actually encouraged the privatisation of the monetary system and development of the Euromarkets, from where US banks had a competitive advantage.

[28] This point came out in a debate between de Goede (2003) and Laffey (2004).

[29] Bourdieu (1998: 92-109) argues that 'practices are always double truths' in an economy of symbolic exchange, rendering 'a contradiction between subjective truth and objective reality', where individual 'self-deception is sustained by a collective self-deception, a veritable collective misrecognition is inscribed in mental structures and in mental structures, excluding the possibility of thinking or acting otherwise'.

[30] I came across this concept years ago in a lecture by David Campbell of now Durham University. I did not understand it all then, and now I hope I can borrow it in order to denote my own usage.

[31] In his history of post-war Europe, Tony Judd described the 1970s as the decade of 'diminished expectations' and the most 'dispiriting decade of the twentieth century' (Judd, 2007: 477)

[32] I rely here on a document called 'Monetary Policy in the UK since the Second World War' by Gavin Cameron, whom plots the different stages of monetary policy in the post-war period (e.g.: 1945-1947 = cheap money/1948-1951 = 'Neutral' Policy/1951-1960 = The 'New' Monetary Policy/1960-1971 = Special Deposits/1971-1973 = Competition and Credit Control.

[33] For example, Hobsbawm argued that over the course of the 19th century prices had continually fallen and were lower at any other period at the end of century, where 'the mere word inflation was enough to describe what we now call 'hyper-inflation'' (Hobsbawm, 1995: 89). Increasing demands on the state by social forces meant that the state, during the early 20th century, now acted in ways haut finance did not understand (cf. Eichengreen, 1996: Cox, 1987).

[34] In May 2005, the target was an annual inflation rate of the Consumer Price Index of 2 percent (Bank of England, 2005)

In May 2005, the Monetary Policy Committee (MPC) based on the Consumer Price Index of 2 percent.
[35] In 1978 net investment in domestic equities by British institutional investors equalled £1.9 billion and £459 million in foreign shares. By 1982, this was £2.4 billion and £2.9 billion respectively (Roberts, 2004: 41).
[36] The monetary target shifted from M3 to M0 which meant that monetary targeting no longer existed despite the intention (Cameron, 2004).
[37] In 2005, this was measured by the Consumer Price Index (Bank of England, 2005).
[38] Post-war unemployment averaged 2 percent (Guardian, 2002).
[39] Source: Office for National Statistics, at http://www.statistics.gov.uk/statbase/TSDdownload2.asp
[40]Source: Office for National Statistics. In 2006, Government deficit was 2.7 percent of GDP or £35.4 billion. Go to, http://www.statistics.gov.uk/cci/nugget.asp?id=27
[41] I have taken these figures from Blake (2000) who does not see it the way I do, because he argues that his 'figures indicate that 72 percent of supplementary pension scheme members in 1996 were SERPS or an occupational scheme and 28 percent were in personal pension schemes' (ibid.: 225). Upon a closer inspection, the private sector is larger than the state sector.
[42] The spouse's member's pension entitlement was also cut in half (Blake, 2000: 226).
[43] Correspondence with Michael Nassim, a private investigator in the case against Equitable Life.
[44] This was surely the case in the 18th century where individuals speculated on the lives of (sometimes random) others, whose lives were identified as posing a risk and an opportunity of return (Clarke, 1999: 2002). As Clarke's (2002) study of 18th century insurance demonstrates, moral reflection was the outcome of speculative failures and provoked the creation of a more collective and ethical approach to insurance that developed in the spirit of scientific advance and political freedom. While insurance is constituted by its potential to manage the uncertain, the uncertain is also built into insurance so that potential dangers can be managed if they are realised. Given that risk is also 'collective', Ewald's implicitly saying that insurance also manages the uncertain as well as calculating risks (Ewald, 1991: 202).
[45] In 1984, a good 27 years after Equitable Life had been selling conventional with profit policies (CWPs) the government abolished the Life Assurance Premium Relief (HM Treasury, 2002b: 153-157). However, the 'qualifying regime', which had been introduced alongside the tax break remained in place and has so far given unfair advantages to high-income earners who have been able to pay more into their fund and guarantee a fixed period of saving (HM Treasury, 2002b: 153-157). The effect recognised by the Sandler report (ibid.) has been to make the life assurance tax regime 'regressive' (ibid.: 2002: 155).
[46] Shelly, M (2002) 'Regulation of UK Life Insurers by appointed actuaries monitoring Policyholder's Reasonable Expectations', attained from web in 2001. See Shelly et. al., where the authors make the same point (2002).
[47] Correspondence with member of EMAG and retired solicitor.
[48] Interview with leading public investigator into Equitable Life. Name Anonymous.
[49] Interview with leading public investigator into Equitable Life. Name Anonymous.
[50] Interview with investigator and verified by questionnaire responses.
[51] Interview with leading public official investigating Equitable Life.
[52] As the Penrose report stated, 'the change of practice introduced in 1990 released £557 of surplus in a year when the society had suffered negative investment returns. The society was enabled to allocate a substantial rate of return to policyholders for 1990 and 1991' (Penrose, 2004: 140-170).
[53] Office for National Statistics 2007, 'Pension Trends', www.ons.co.uk.
[54] Office for National Statistics 2007, 'Pension Trends', www.ons.co.uk.
[55] See Erza (1980), Lillevold and Eyland (2004) and Booth (1999) for excellent and simple descriptions.
[56] The 'aggregate method' and 'discontinuance target method' have been popularly used in the funding approaches to UK pension funds. The former takes the full value of the benefits due on their remaining service and discounts their value minus the assets to produce the extent of the liabilities in a closed pension fund model. The later fixes the time of the benefits, commonly 20 years and makes assumptions on new entrants, so as to smooth fund solvency in attempt to 'equalise the generations'. The latter is more of an American usage and treats each year as a separate entity. It 'takes the benefit each year, based on current salary, valuing that and paying the result as normal contribution' (Colbran, 1982: p.363). It is interesting to note that the US approach is more likely to meet the interests of the accountants accrual concept, unlike the UK approaches, which would suggest the US approaches are more in touch with accounting principles.
[57] I have lost the reference for this quote. I believe it is in Puckridge (1948).
[58] Correspondence to the Editors of the Journal of the Institute of Actuaries 1958 by S. M. Thompson on 'Equity Linked Products' (1958: 141).
[59] Lost reference. Please see Scholey (1969).

[60] Booth et al (1999) argued that the 'The purpose of using a stochastic investment model is to enable more complex problems to be analysed by simulation than can be analysed mathematically: the stochastic investment model can be used to simulate probability distributions of future investment returns, where is it not possible to find an analytical distribution. It is therefore possible to obtain measures of variability using stochastic models, which is not possible using a deterministic approach' (Booth et al, 1999: p.113).
[61] The Myners (2001) review surveyed 226 trustees and 75 scheme administrators. As the report made clear, 'many trustees currently bring very limited time and expertise to their investment responsibilities'. The reports finding are summarised: 62% had no investment qualifications; 26% received less than one days training when first appointed; 69% received less than two days; 54% had no investment committee or in-house professionals to help them on investment matters; 44% did not attend any training courses; 49% spent less than three hours on preparing investment matters.
[62] Discussion with consulting actuary, July 2005.
[63] Interview with Frank Field, July 2005.
[64] Interview with Frank Field, July 2005.
[65] Frank Field (interview) argued that the private model could decentralise away from government, making things more cost-competitive. Instead of being cajoled by commission-led agencies, which would have a monopoly on prices, the private sector could be brought into make things work more efficient. This did not mean that governance would be privatised. This relates to the second important factor here. State bureaucracy could contribute towards treating welfare as a means of giving out money to the poor, which is something that Mr Field has tried resist. Instead, people need to be able to fend for themselves in a collective way. In this way, the private sector could be brought in to create a much more efficient delivery system on a collective basis, that would limit the state, while holding or maintaining the democratic emphasis. In other words, Mr Field takes a much more nuanced view of how to combine the private and public sector in to a collective sense of the world, which is being knocked down by the current privatisation scheme. Trying to create collective values in the tradition of Friendly Societies.
[66] Storey does not come from a transhistorical point of view. His view follows Hall's that identities are sutured through discursive practices.
[67] Initial figures from Abbey National support this view although it is not known how sustainable this is as a development. As Abbey's figures suggest, 'new business premiums for investments' has fallen from £866m in 2002 to £476m in 2004. This is contrasted against 'new business premiums for pensions' which have fallen from £1,342m in 2002 to £292m in 1004. This shows in both cases a dramatic loss of business in both investments and pensions. But it shows that the business of investment has overtaken pensions by nearly £200m.
[68] I attended a financial planning seminar by a well known pension provider where the expert openly said that there was no money in selling the Stakeholder product to me. He then told me I would receive a follow up call. I didn't receive one.

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