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The Consumer, Credit and Debt: Governing the British Economy

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Declaration

I certify that the thesis I have presented for examination for the PhD degree of the London School of Economics and Political Science is solely my own work other than where I have clearly indicated that it is the work of others (in which case the extent of any work carried out jointly by me and any other person is clearly identified in it).

I warrant that this authorisation does not, to the best of my belief, infringe the rights of any third party.

Abstract

This thesis asks the question 'how did an imagined figure of the consumer, with raised levels of indebtedness, come to be identified as central to the government of the economy in contemporary Britain?' It utilises the method of Michel Foucault and governmentality scholarship generally to understand how British neoliberalism approaches the question of how to govern the economy. The first three chapters analyse the governmentality of neoliberalism as it emerged in the think tanks of the New Right, the Institute of Economic Affairs and the Centre for Policy Studies from the late 1950s to the 1970s. The final two chapters analyse the actual practice of government particularly in relation to monetary and banking policy after 1979. I argue that what distinguishes the governmentality of neoliberalism, at least in the economic sphere, is a particular conceptualisation of the consumer. Specifically ideas about who the consumer is and what different acts of consumption represent provides the basis for a political rationality that formed in contradistinction to the human agent identified by progressive liberals, such as J.M. Keynes, who believed that government had a significant role to play in guaranteeing economic security for workers and entrepreneurs alike. In writing the history of how the consumer has been imagined in economic policy in the latter half of the twentieth century in Britain, this thesis attempts to historicise and problematise this figure, making an explicit link between governing for the consumer, the availability of credit and rising consumer indebtedness.

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Chapter 1: Introduction, Neoliberalism and Governmentality

"Every human being is a consumer"[1]

Keith Joseph, 1978

With the onset of a global financial crisis in 2007 and the return of depressions and depression economics across the industrialised and rich nations of the world it is obvious that new doubts should creep into people's minds. Questions are being raised about the state of economics and about the way economies are governed mixed with a fair amount of anger directed towards what the downturn has revealed, a wider than ever gap between the 'haves' and 'have-nots' and governments seemingly keener to bailout banks than they are to help everyone else. In recent economic crises, in East Asia, Russia and Latin America, criticism has been focused on the dogmatism of international economic advisory bodies such as the International Monetary Fund espousing a 'Washington Consensus' of rules for economic policy applied with far more rigour to developing and emerging economies than they ever were to the rich West.[2] However, this time round, perhaps because of the scale of the problem, or perhaps because the epicentre of the crisis has been in countries such as the United States and Great Britain, there is underway a far deeper soul-searching. Rather than focus on specifics, on particular countries, governments, policies, or international agencies, criticism is now being levelled on the broadest possible spectrum, at a level that attempts to encompass the totality of economic theorising and governance. One catch-all term for the target of such a discussion is 'neoliberalism'.

But what does this term mean or designate? Perhaps all that is meant when using the term is the 'free market' or '*laissez-faire*.' In this line of thinking, as with the Great Depression of the 1930s, unfettered capitalism is shown to be intrinsically unstable. And neoliberalism turns out to be no more than a return to the doctrines of the nineteenth century, a new found liberalism, re-implemented in Britain from 1979 by the Conservative Party led by Margaret Thatcher. However this kind of argument seems to fly in the face of so much academic wisdom: the tools of economic policy-making are meant to be that much more sophisticated and the source of so much instability, the gold standard, was consigned to history in Britain in 1931. It certainly appears as if the excesses of *laissez-faire*, particularly with regards to the banking sector, caused the crisis but the excesses of credit so often central to economic cycles

[1] Joseph, K., (1978), p. 5
[2] see Stiglitz, J., (2003), *Globalisation and its Discontents*

of boom and bust of the past were not necessarily connected with corporations and businesses; it would be difficult to say that there has been too much business investment with too little consumer demand. On the contrary it has been consumers in countries such as Britain and the United States who have been doing much of the borrowing and much of the spending that has supported economic growth in recent years. When Thatcher made her damning quip in 1975 that "never in the history of mankind has so much been owed"[3] household debt was under 40% of household income. As of the end of 2007 the same ratio stood at 160%. And whereas consumer credit (overdrafts, credit cards and unsecured loans) represented 4.8% of disposable household income in 1979, by 2007 this ratio had risen to over 26%.[4]

One might well say therefore that neoliberalism represents the return of the free market, but at the same time one has to recognise that its return had coincided with a radical transformation of the British economy, far distant from the manufacturing powerhouse of the nineteenth century beholden by classical liberalism. As recently as the end of 1979, 49% of available employment in Britain was in the production (raw materials and utilities) and manufacturing industries. By the end of 2005, employment in these sectors had fallen to 22% of the workforce.[5] In other words much of the British economy is now geared directly towards servicing the consumer as opposed to manufacturing consumer or capital goods. So even while the sociologists of late modernity, post-industrialism and consumerism[6] have failed to comment on the rise of debt, as if it is an irrelevance to grand societal narratives, their arguments do suggest that, at the very least, neoliberalism as a set of political and economic ideas has had to recognise a world very different from the one confronted by their classical liberal forebears. To this extent alone one could surmise that neoliberals have had to utilise language that recognises that the contemporary economy is very different from that operating up until the First World War.

The starting point for this thesis is therefore the contention that there is a connection between the way the British economy has been governed since 1979, practicing, as I shall explain and demonstrate, a neoliberal governing mentality, and the increased role of services and the consumer in the economy, matched by the increased availability of credit and rising consumer indebtedness. I am thus suggesting that the difference between neoliberalism and classical liberalism is not related to the question of free markets *per se* but to the issue of for whom markets are being made

[3] Thatcher, M., and Centre for Policy Studies, (1977), *Let me give you my vision*, p. 30
[4] Sources: Bank of England and Office of National Statistics
[5] Ibid.
[6] Giddens, A., (1990, 1991, 1999), Lash, S., and Urry, J., (1994), Miller, D., (2001)

free and what markets have been given their freedom. Thus while I am not arguing that neoliberal governments have 'created' the modern consumer identity,[7] my thesis does represent an investigation into the way neoliberalism conceptualised the consumer, how neoliberalism sought to activate a consumer mentality and give consumers their freedom, and why one central and key feature of this new freedom was to be the availability of credit. The free market for neoliberals meant giving consumers the right to borrow, the right to have money created for them by the banking sector as if they were businesses and entrepreneurs, but this new freedom or set of rights was linked to a specific understanding and practice in government of who the consumer actually was; very much differentiated from a meaning incorporated in classical liberal and Keynesian techniques for governing the economy. The over-arching research question that I am asking in this thesis, 'how did an imagined figure of the consumer, with raised levels of indebtedness, come to be identified as central to the government of the economy in contemporary Britain?' reflects the argument, presented here, that neoliberalism is not to be distinguished from liberalism by its belief in free markets, but instead by the human objects that are incorporated into economic knowledge and techniques used for governing the economy.

This thesis examines how the figure of the consumer has been practiced by a particular brand of economics, within key British neoliberal think tanks, the Institute of Economic Affairs and the Centre for Policy Studies, and by the practitioners of economic and especially monetary policy. A notion of the sovereign consumer was activated in arguments that responded to certain microeconomic problems that were perceived in the British economy in the late 1950s and 1960s. Later during the 1970s a grouping that became known as the New Right[8] undertook a full-scale genealogical project in which every aspect of Keynesian economic policy was problematised in order to explain the economic problems with which Britain was beset at the time. The consumer as imagined in neoliberal discourse became the key reference point against which to measure and gauge the 'health' of British society. Problematising the human agents and the forms of knowledge represented by Keynesian social democracy in its specific articulation of 'society', 'economic security' and 'the state' laid the basis for a new political rationality; one that always took it for granted that it was necessary to govern for the consumer.

[7] The genealogy of the consumer identity is a topic that has been written about extensively by Frank Trentmann (2004, 2006a, 2006b). For him the consumer first emerged as a political identity taken up by water users in the late nineteenth century in disputes over the public provision of water supplies in London.

[8] A term first used by David Collard in Fabian Tract 387 (1968) to describe the IEA and similarly minded politicians.

1.1 Neoliberalism and the consumer

As the above suggests my concern in this thesis is with the governing practices of neoliberalism rather than with the any attempt to define it *per se*. My focus is on how neoliberal intellectuals posed the problem of how to govern the British economy and how neoliberal governments actually have governed the British economy. Defining neoliberalism itself turns out to be an inherently problematic endeavour, as evidenced by the fact that philosopher and historian of economics Philip Mirowski provided, in an essay entitled *Defining Neoliberalism* (2009), ten different definitional propositions.[9] No doubt putting together such a list is entirely appropriate; after all why should there be one single definition that captures all the multifarious and complex ways that governments seek to articulate their projects with different and various social and economic domains? Indeed, apart from anything else, neoliberalism has always been an intellectual project, a way in which political theorists, philosophers and economists have sought to think about the problems of modernity, of freedom and of progress, economic or otherwise. It is unlikely that a major movement in twentieth century political and economic philosophy can be reduced to a single definition.

At the very least one certainly needs to take neoliberal intellectual endeavours seriously rather than assuming that whatever has been said, written and done since the gathering in Paris in 1938 of the *Colloque Walter Lipmann* (which brought together European and American intellectuals intent on reinvigorating classical liberalism[10]) is really just a front for the interests of a resurgent elite capitalist class. One might very well say that ideas become so fixed that they are unquestioned and dogmatically applied to explain phenomena but there is, in my opinion at least, little to be gained from starting an analysis of neoliberalism with a framework in which, say, one result of neoliberalism, economic inequality, is then taken to be its cause. In this style of analysis, best typified by David Harvey's recent work,[11] class differentiation becomes both the beginning and end of the story; as such there is seemingly no need to discuss intellectual ideas in any detail. There is, for instance, no detailed discussion in Harvey's books of the ideas of, among others, Friedrich Hayek or Milton Friedman. Perhaps we are expected to believe that these and other intellectuals connected together by way of the Mont Pèlerin Society (founded by Hayek in 1947)

[9] Mirowski, P., (2009) *Defining Neoliberalism* in Mirowski, P., and Plehwe, D., (2009), pp. 417-51
[10] The term 'neoliberalism' was in reasonably broad usage as far back as the 1930s to designate a new intellectual movement concerned with recasting and re-implementing classical liberalism or *laissez-faire*. See Foucault, M., (2008), pp. 161-4; Plehwe, D., (2009), pp. 12-5
[11] See David Harvey's recent book *A Brief History of Neoliberalism* (2005).

would have said anything to disrupt the social democratic consensus and thus reassert the rights of capitalists.

Mirowski is undoubtedly right then to focus our attention on the very serious economic theorising undertaken by neoliberals; and to this end has highlighted what he believes to be some of the key neoliberal propositions: that businesses competing in the market place for customers can do little that is wrong; that political and economic inequality is entirely acceptable; that capital, not necessarily labour, should flow freely; that politics is treated as a market which, if incorrectly structured, becomes nothing more than a beauty parade of promises in an upcoming election; that the state has to be strong even if its balance sheet is shrunk; that the fundamental experience of freedom is to be located in the choice-making practices of autonomous self-governed individuals. Nonetheless reading Mirowski's essay one is still left with the impression that neoliberalism sets out to practice a kind of deception on its subjects. The list opens with the recognition that Foucault got it right as far back as 1979 when in his annual lectures to the Collège de France he highlighted the constructivist tendencies of neoliberalism, that the conditions of a free market would not necessarily persist naturally and had to be assembled and permanently monitored. Yet ultimately neoliberalism, we are told, advances the plan and operation of a "technology of persuasion" in which there is a class of all-knowing intellectuals telling everyone else that knowledge is always partial and to be discovered during the market process. The truth of neoliberalism, we are asked to believe, rests upon a contradiction in which the few reserve the right to designate appropriate forms of social and economic organisation, while the majority accept "degraded" truths and a partial freedom.[12]

It would appear therefore that thinking about neoliberalism often seems to throw up irreconcilable contradictions, between say the neoliberal requirement for strong government and the inherent neoliberal or liberal distrust of government; or between the need to construct a viable market order and the naturalist metaphors through which the market is so often thought about; or finally, between the idea that free markets promote democracy and the reality that free markets seem to be able to exist in a stable fashion in non-democratic regimes. Given such apparent contradictions it is not surprising that attempts to define neoliberalism have often fallen back on the idea that there must be some kind of greater historical truth explaining it all, such as class exploitation. To avoid such an analysis, therefore, one needs to be very careful about what kinds of questions are being asked. To discuss the nature of

[12] Op. cit.

neoliberalism as a history of ideas might be to put too much emphasis on its creation by 'great minds', as if neoliberalism is a conspiracy that came from nowhere, out of time, so to speak. Likewise if we consider neo or classical liberalism as a set of philosophical and normative reflections upon rule, or as a set of reflections on how to legislate for freedom then liberalism is always going to be subject to claims regarding its contradictory status. After all there will always be disagreements both about what acts constitute coercion, and the extent to which government intervention aimed at limiting this coercion itself constitutes coercion.

On the one hand philosophers and political economists following in the footsteps of Marx see the supposed contradictions of reality as evidence for an alternative reality underneath. The falsity of the surface is replaced by the truth of class warfare beneath. On the other hand when reading the work from within the liberal tradition one is often left with the impression that government is primarily concerned with solving philosophical conundrums about how to minimise aggregate levels of coercion within society. In turn the history of political ideas often becomes about tracing how the 'great' ideas of 'great men' spread and were ultimately taken up by political figures and enacted in government.

Instead, this thesis proceeds from a different starting position: liberalism in whatever guise, classical, welfare focused or neo, is considered as a rationality of rule,[13] rather more focused, for instance, on providing security, whether economic or territorial for the population than on philosophical questions about coercion. Rather than searching for the truth underlying neoliberalism, to understand neoliberalism is really to understand that (neo)-liberal government has never lost its will to govern. One therefore needs to explore the question that it asked and continues to ask: how to govern? And in the case of this thesis, more specifically, how neoliberalism posed and answered the question of how to govern the economy, both as it problematised other governing mentalities from outside government and how, once in power, it actually practiced governing the economy. This thesis is meant therefore as an analysis of governmentality, a term that originates with Michel Foucault, intended to immediately signify that government has a will to govern, a will that practices certain kinds of 'positive' knowledge, that seeks to operate in the world for certain purposes and has never sought to make itself inactive: liberalism, it goes without saying, has never been the same as anarchy.

[13] Rose, N., (1996), pp. 39

The term 'governmentality' implies both government and mentality. Government is always taken to signify a form of rule in which governors aim in a more or less calculated and rational way to conduct or regulate human conduct or behaviour – government aims to shape with some degree of deliberation aspects of behaviour according to sets of norms and for a variety of ends. The latter aspect of the term, 'mentality', emphasises the way in which thought involved in the practice of government is collective and taken for granted.[14] One could thus go as far as saying that this method represents a sociology of government, in which one analyses a collective way of thinking about the world shared by a set of actors. And as with any sociological study empirical work is focused on practice, in this case what kinds of notions of human agency are to be found both in the discursive practice of the think tanks of the New Right as well as in government activity itself. As such there is no narrative about how ideas filter from the academic to think tank and then legislator. Yes certain figures become emblematic of a particular political movement; certain writings are taken to encapsulate a mentality particularly effectively. However what makes a governing mentality is precisely that each part of the collective holds in mind a set of forms and objects (for example what is society and who represents *homo economicus*) that are taken for granted and that are utilised and referenced, without question, in theories and arguments.

More generally, in this perspective, government is taken to involve the conduct of conduct; that is governors pose themselves to the problem of regulating and possibly changing the behaviour of the governed. This duty of government, this will to govern has, according to Foucault been shared by all governors since at least the mid-sixteenth century.[15] In the process of governing, however, the will to govern requires governors to utilise knowledge (*connaissance*), such as natural history, the analysis of wealth, political economy, sociology, and life sciences to understand the 'true nature' of those that they are governing. Clearly forms of knowledge change, 'positivities', to use Foucault's term, shift and alter, changing the way that human objects are understood. Thus while, in the broadest possible sense, the role of government remains the same, that is the regulation of conduct, what government chooses to recognise as the appropriate and correct objects for their deliberations and legislative programmes changes.

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[14] Dean, M., (1999), pp. 9-17

[15] See Foucault's essay, *Governmentality*, in Burchell, G., Gordon, C., Miller, P., (eds.), *The Foucault effect: studies in governmentality* (1991), pp. 87-104. In it he discusses how a particular rationality of rule emerged after the Renaissance that saw sovereigns as immanent to the state. Rule was rationalised in terms of placing people and things in their correct order rather than simply as trying to maintain control over a parcel of land. This *raison d'état*, of the cameralist or mercantilist state, was the forerunner of other rationalities of rule, such as liberalism. Foucault's point is that liberal modalities of rule are still about active government, they are not about no government.

This means that the study of governmentality is effectively an archaeology of political knowledge, the point of such an investigation being, as Foucault suggested in *The Archaeology of Knowledge* (1969), to show whether a certain form of political behaviour is

> "Shot through with a particular, describable discursive practice...this positivity would determine the element in politics that can become an object of enunciation, the forms that this enunciation may take, the concepts that are employed in it, and the strategic choices that are made in it."[16]

An archaeology of political knowledge, in this case neoliberalism, does not therefore focus on what moment this revolutionary consciousness appears, the insight if you like, that brings a new political *savoir* into existence. Neither is there a biography of the revolutionary man, say of Hayek or of Friedman. Instead, the point is to try and explain how a discursive practice and a body of revolutionary knowledge are expressed in political thought, behaviour and strategies, that is to say in discursive or actual practice.[17] Thus, to reiterate, I am not searching for the ultimate 'origin' of a politics of the consumer that might be found in the insights of a single great thinker or in a small group of thinkers such as the Mont Pèlerin Society.

Instead I am looking to see how a taken-for-granted perspective and un-problematised human reference point, the consumer, came to be 'locked in' to political knowledge and utilised both to problematise Keynesian techniques for governing the economy and as the basis for a new governmental programme. Put in the broadest possible way, my research has aimed to elucidate the formation of the neoliberal political *savoir*, a way of political thinking and governing that references a specific imagined figure of the consumer. To write about neoliberalism in this fashion is to try and bring to attention the nature of the consumer as he or she appears in the neoliberal governing mentality, political rationality, mentality of rule or political *savoir* (I am essentially using these terms interchangeably) without necessarily being made explicit in pamphlets, speeches or political acts, precisely because those practicing neoliberalism reference the consumer as a 'natural' state of being that does not need to be problematised. That is to say that the consumer is constantly identified in the archive without the authors ever fully questioning the complex sense of being and subjectivity they are ascribing to this figure; a sense of being, as I shall explain, which is far more complex than ascribed in traditional neoclassical general equilibrium theory.

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[16] Foucault, M., (2002), pp. 214
[17] Ibid.

How this figure has been imagined, made up and governed for in the neoliberal governing mentality is of course what this thesis is all about. However it is essential to point out at this stage that in talking about governing the consumer and for the consumer, I am immediately suggesting that this reference point is a distinct and unique object in history. Economies are seen to be composed of consumers; this is, one might say, so taken-for-granted that those in government do not even have to be aware of the exceptional historical contingency of the object they call 'the consumer'. But the consumer, as practiced by neoliberalism, is in fact an object of rarefaction, not at all a natural thing.[18] Thus as history moves by way of disjuncture and discontinuity from one practice to another, fundamental reference points alter and, as with the consumer, come into existence. This is precisely why political programmes always seem to be talking beyond each other, never to each other. Thus the consumer is a real object for neoliberal government; yet, as I shall discuss, there was no similar object for classical liberalism or the progressive liberalism of the early twentieth century. And of course this is not to say that 'the consumer' is an ideological reification, there is no "great interpretative postulate" of history being posited here; the consumer is no mystification of class relations: it is what it is, it is entirely real for those that practice it in their discourse and yet it is at the same time entirely historical. The consumer is part of neoliberal discourse; in turn discourses are, "limited practical domains which have their boundaries, their rules of formation and their conditions of existence: the historical base of discourse is not some other, more profound discourse, at once identical and different."[19]

My claim of course is not that there was no consumption in classical liberal thought. But in the theory of political economy what counted as productive was human labour congealed into something physical, essentially food or manufactured goods. Thus for John Stuart Mill consumption used up resources and consumer credit was essentially profligate, wasting even more resources. Mill's classical political economy had nothing whatsoever to do with consumption; consumption never needed encouragement, what mattered from a legislative perspective was that there should be no obstacle to producing for those who wanted to produce. Moreover there was no point encouraging 'unproductive consumers', if someone wanted to consume more; what mattered was that they would be free to produce something

[18] I have borrowed this phrase from Paul Veyne (1997), pp. 159-71. Veyne however was not referring to consumers but to the very idea that there is any object that we can call through time 'the governed'.
[19] Foucault, M., (1991), *Politics and the Study of Discourse* in Burchell, G., Gordon, C., Miller, P., (eds.), *The Foucault effect: studies in governmentality*, p. 61

that could be exchanged for the good they desired to consume.[20] And while later economic thought has never displaced the idea that one should work harder in order to earn more, in order to consume more, it has been supplemented by a new idea, totally anathema to classical political economy: the idea that consumers have a right to borrow because consumption could be productive, could add to human capital, and thus be viewed as an investment in the self.

In one sense of course the question arises, was not John Maynard Keynes responsible for the invention of the consumer? Keynesian ideas certainly provided a key body of political practice for neoliberals to problematise. However it is critical to note that Keynes' theory was not a theory of under-consumption but one of under-investment. Consumption was part of aggregate expenditure but it was capital investment often financed by new money that was seen to provide economic growth. Keynes was no classical liberal but, as I will argue in chapter 2, neither did he practice an imagined figure of the consumer that has become central to government in a post-Keynesian world. Keynes' thought was part of an assemblage of governmental techniques that, opposed to classical liberalism, required state intervention in production. Yet even so, as with classical liberalism, government still governed for production.

So here one can locate continuity between classical liberalism and the kind of progressive liberalism practiced by Keynes. Following the Foucauldian perspective, classical *laissez-faire* never meant the absence of government, but instead governing for the freedom of the producer. Market freedom meant, first and foremost, the freedom to produce, and a certain kind of freedom, practiced by capitalists, labour and landowners brought about equality in the market place. The market was, to use Foucault's term, a "regime of veridiction", a place that produced truth, natural prices, equality between buyer and seller and commodity values in exchange that were commensurate with their costs of production. Thus, for Foucault, producing freedom and equality in exchange required a multitude of limitations and controls, forms of coercion and obligations that could often rely on threats. In the nineteenth century these took a variety of forms, from campaigns that extolled the virtues of thrift, to campaigns against disease, vice and the general degeneration of individuals and families. And while Bentham's Panopticon ensured that the behaviour of deviants could be corrected, its application in schools and factories meant that the conduct of individuals could be addressed to increasing profitability and

[20] Mill, J.S., [1844](2006), pp. 33-51

productivity. Control was the mainspring of freedom,[21] and liberalism's regulating of conduct could imply a very brutal yet intrinsically 'liberal' experience.

From the perspective of its governmentality therefore liberalism was never about freedom *per se* it was about using free action within the market to constitute a standard of truth, the natural price. Liberal governmental practice,

> "Is a consumer of freedom as it can only function insofar as a number of freedoms actually exist: freedom of the market, freedom to buy and sell...[Thus]...it consumes freedom, which means that it must produce it...[and]...it must organise it...The formula of liberalism is not 'be free'...[an]...immediate contradiction...[it is]...I am going to produce what you need to be free. I am going to see to it that you are free to be free."[22]

Classical liberalism governed by taking for granted the figure of the entrepreneur, a man of abstinence and prudence, foregoing consumption for the sake of his investments. What needed to be produced for entrepreneurial freedom was the possibility of maximum productivity, essentially, as Karl Polanyi told us in *The Great Transformation* (1944), markets in land, labour and money. Of these three factors, Polanyi's genealogy of catastrophe (depression in the 1930s followed by the Second World War) placed special emphasis on the classical liberal monetary system, that is to say gold backed currency for consumption purposes, a complex system of credit-money and bills of exchange for entrepreneurs. Joseph Schumpeter's narrative in *Capitalism, Socialism and Democracy* (1943) was of course a very different book, but even so he argued that capitalism itself was a special case of commercial society in which banks create deposits for the purposes of enterprise.[23] But the question remains: what is enterprise? For both Polanyi and Schumpeter the answer was related to entrepreneurial production: a banking system was required in the nineteenth century to meet the credit needs of entrepreneurs. Thus it would seem to follow that if everyone is considered an entrepreneur and if certain consumption practices are viewed as productive of human capital, then a different arrangement of money and credit is needed than in the classical liberal era, one that can meet the borrowing needs of consumers, fostering and eliciting the 'natural' enterprising spirit in everyone, whether producing or consuming.

This at any rate is the argument of this thesis, the result of research conducted in the archives of predominantly British neoliberal thought and governmental practice (the nature of which I will discuss below); research aimed at understanding what kinds of freedoms neoliberalism sought to govern for and activate. In a sense the search

[21] Foucault, M., (2008), pp. 31-2; 64-7
[22] Ibid., p. 63
[23] Schumpeter, J., (1943), p. 167

began as a quest to discover the kinds of human objects that neoliberals thought about and yet at the same time thought needed to be produced. Following Foucault's lead in the quote above I asked of the material I was reading what sorts of freedoms neoliberalism identified as natural yet at the same time had to produce and utilise for the sake of economic progress. The answer that became apparent was related to the figure of the consumer, the sovereign consumer, the consumer as investor and ultimately the consumer as entrepreneur-of-the-self.[24] How this figure was 'made up' (to use Ian Hacking's term[25]) in economic thought, how it was activated as a political programme, and how it was governed for then became the central motif through which I came to investigate the practices by which neoliberal government seeks to govern the economy. To reiterate I am posing the question: 'how did the imagined figure of the consumer, with raised levels of indebtedness, come to be identified as central to the government of the economy in contemporary Britain?' Yet the question is itself an iteration of a set of prior questions asked about the neoliberal mentality of rule in my search for the fundamental reference points of this particular political *savoir*.

1.2 How to do a study in governmentality

This section of the introduction is essentially about method: both discussed in abstract terms (how to do archaeology) and in its application in governmentality studies to the investigation of neo/advanced liberalism. Of course central to any discussion of method is an explanation for the selection of archival material, why I have selected and read what I have in order to answer the question that I have posed. (I will cover these questions in section 1.3). However, there is also the question of how to read the material, and how, as in the case of this thesis, to isolate the reference points of a political *savoir*, that is, as Foucault said, to describe a "discursive practice...that determines the element in politics that can become an object of enunciation, the forms that this enunciation may take, the concepts that are employed in it, and the strategic choices that are made in it."[26] The first stage in doing this is, I believe, appreciating what politics actually is. "What is politics," Foucault asks, "if not the interplay of these different arts of government with their different reference points and the debate to which these different arts of government give rise. Here is where politics is born."[27]

[24] This term, I should add, was used by Foucault in his 1978 to 1979 Collège de France lectures to describe the neoliberal *homo economicus*. See Foucault, M., (2008), p. 226
[25] Hacking, I., (2002), pp. 161-70
[26] Op. cit.
[27] Foucault, M., (2008), p. 313

Political programmes, projects encapsulated in visionary politics, one might say, speak over each other, beyond each other, but not really to each other. Yes there are egos, factions and cliques with their internecine squabbles and battles for the spoils of supremacy; that is the ability to be the ones who pull the levers of power. But politics 'below the surface' is a confrontation of reference points each making up different taken-for-granted objects, some related to individual humans such as 'the entrepreneur' and 'the consumer', some related to larger objects such as 'society', 'economy' and the 'state'. These objects cannot be said to exist permanently through time: everything is historical. ("We do not encounter the evolution or modification of a single object that always appears in the same place...there is no concrete trans-historical truth...man quite clearly is a false object."[28]) The state, for instance, is not something stable or permanent, what is of far more importance is the governmentalisation of the state, the tactics of government that make possible the continual definition and redefinition of what is within the competence of the state and what is not.[29] Governmentality studies begin therefore by recognising that history is a struggle over what has been called truth, what objects are claimed as natural and thus need to be governed for.

Foucault provided three key methodological pointers.[30] Firstly, analysis must begin with a systematic scepticism towards all anthropological universals. One must investigate what conditions make it possible for people, using a set of rules regarding true and false statements, to recognise a subject, or a universal. It is only, for instance at the end of the eighteenth century that it becomes possible to recognise 'economy', on the one hand, and its double, 'society', on the other. Secondly, this means that analysis must abandon any attempt to move up from data to the constituent subject, and then, having discovered that subject, use it to account for every possible object of knowledge. Such a method of analysis is entirely opposed to that used by economics, which for instance having accepted the existence of a representative agent has used that agent as a device for problem solving. Thirdly and finally, analysis needs to address practices. One needs to understand what was constituted as real for those who sought to manage reality and constitute themselves as subjects capable of knowing, analysing and ultimately altering realty. How, for example, did neoliberalism come to know the enterprising subject, what knowledge did it put to

[28] Veyne, P., (1997), pp. 171-5
[29] Foucault, M., [1978](1991), *Governmentality*, in Burchell, G., Gordon, C., Miller, P., (eds.), *The Foucault effect: studies in governmentality* (1991), pp. 102-4. Thus Andrew Gamble (1994) is quite right to ague that Thatcherism mixes a supposedly contradictory impulse of a strong state and a free market. Nonetheless recognising this in no way implies that one should launch a search for a theory of the state that explains this, as if what is constant is always the state.
[30] Foucault, M., [1983](1994), *Maurice Florence*, in *Aesthetics, method, and epistemology/Michel Foucault*, p. 461-2

use in knowing and analysing the 'British disease', and how did it go about trying to create a society of enterprising consumers?

The first and critical move of any analytics of government is the identification of problematisations; that is how government has sought to regulate or conduct conduct itself is called into question. This might of course be related to government with a capital 'g', but equally it could refer to how governors conduct themselves or how the governed conduct themselves.[31] In fact, to this extent Colin Gordon (who was Foucault's research assistant) has argued that Foucault's whole work can be seen as a study of problematisations, that is "of the ways in which human beings conceive and address their own selves and the different aspects of their individual and collective being as problems."[32] Nonetheless in this study of governmentality it is essentially government with a capital 'g' that is the focus of attention, and the way that particular regimes or practices of government, utilising particular techniques, language, grids of analysis and evaluation and forms of knowledge and expertise have been problematised.

Of course government with a capital 'g' is an institution that is far removed from the people that it governs, especially in liberal regimes. Thus I am not claiming that government is so effective that it can determine forms of subjectivity. Instead this thesis follows the governmentality perspective. On the one hand the intellectuals and governments practicing a particular mentality of rule take for granted that certain human agencies are natural and proper. Yet, on the other hand, they also recognise that they have a role in trying to "elicit, promote, facilitate, foster and attribute various capacities, qualities, and statuses to particular agents."[33] In doing this government practices forms of knowledge and believes itself to be acting on those that it governs. Government seeks to identify, yet as shall discuss in chapters 5 and 6 also misidentifies, the behaviour of those that it governs, as if their attitudes and conduct had been successfully modified so as to conform to behaviour that is considered natural and proper. Government is nothing but optimistic about its own powers, which is precisely why Mitchell Dean, following Foucault, has referred to it as "not bad...but dangerous."[34]

The point I am making is that one can employ an archaeological method when examining economic ideas and economic policy. In Foucault's own words,

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[31] Dean, M., (1999), pp. 27-8
[32] Gordon, C., (1986), p. 297
[33] Dean, M., (1999), pp. 27-32
[34] Ibid., p. 40

> "The grid of governmentality, which we may assume is valid for the analysis of ways of conducting the conduct of mad people, patients, delinquents, and children, may equally be valid when we are dealing with phenomenon of a completely different scale, such as an economic policy, for example, or the management of a whole social body."[35]

The question that is therefore most valid for studies of the neoliberal mentality of rule is, what are the kinds of individual and collective objects being problematised, or brought into question. Thus while so far I have focused in this introduction on certain differences between classical liberalism and neoliberalism, framed around the distinction between governing for production and/or consumption, neoliberalism in fact took shape in contradistinction to a governing mentality that had already long since displaced classical liberalism. One might call this latter mentality or political rationality welfarism, social liberalism, 'new' (as opposed to 'neo') liberalism or even Keynesianism (in its later economic policy guise), but in general it can be characterised, at least in Britain, as a governmental rationality that practiced a particular articulation of freedom and society; a political *savoir* in which rule was geared towards an irreducible social sphere in which and through which individual humans would find fulfilment and progress. It was a mentality of rule assembled in Britain as a progressive liberalism in the late nineteenth century by, among others, Hobson and Hobhouse and various Fabian socialists and which was practiced in the welfare reforms of the 1906 Liberal Government.[36] Most importantly this social mentality of rule identified society as an organic reality that had to be governed in a way that meant that society could function.[37] Social pathologies resulting from inequality and injustice, like unemployment and crime, had to be tackled on the basis of restoring society to its natural, full and functioning state. In all of this government had a special role; it was a place where benign politicians mediated and ensured the functioning of society informed by the relevant experts.

The point therefore about governmentality studies is that what is important is not to search for a definition of neoliberalism or what Nikolas Rose calls 'advanced liberalism', but to describe the practices of neoliberal rule and how this assemblage of practices emerged as a discursive strategy for problematising another regime, a

[35] Foucault, M., (2008), p. 186

[36] Michael Freeden's *The New Liberalism* (1978) gives a full account of the progressive liberalism of Hobson and Hobhouse, where it came from, how it developed and how some of its ideas transformed the Liberal Party, leading up to and beyond the 1906 Liberal Government. Richard Cockett also discusses the collectivism of the 'New Liberals' in *Thinking the Unthinkable* (1995), specifically in the chapters on Keynes and the Beveridge Report.

[37] Burchell, G, (1996), Rose, N., (1996), Rose, N., (1999), pp. 99-136. French sociologist Emile Durkheim is probably the most famous representative of this organic view of society.

mentality that took the social as a taken-for-granted object that needed to be governed for in a particular way. In general governmentality studies seek to

> "Identify the emergence of [the new] regime, examine the multiple sources of the elements that constitute it, and follow the diverse processes and relations by which these elements are assembled into relatively stable forms of organisation and institutional practice."[38]

Thus the question can be raised: what kind of social realm, what kind of society and what kinds of human agents have advanced liberalism practiced? Specifically governmentality studies have focused on how a new highly complex regime of rule has brought together in different ways a variety of programmes of reform and change all of which have problematised the earlier articulation of government, state, society, security (particularly economic) and freedom. And the use of the term advanced liberalism, as opposed to neoliberalism, is meant to signify precisely that this mentality of rule is so much more than just about economics and governing the economy; although clearly much of the language of economics, that is the language of choice, becomes activated as it shifts from one domain of governmental activity to another. Advanced liberalism, so it is argued, reconceptualises all aspects of social behaviour, not just economic action, as calculative actions undertaken through the universal human faculty of choice: the economic logic is thus extended to the provision of health, education, and insurance. In turn, these services are reconstituted in terms of developing one's human capital; the user of the services must view him or herself as a consumer of health and education. As for economic security, this is now guaranteed in the long term not through government expenditure programmes but in attempts to foster entrepreneurial thinking.[39]

Thus the breaking up the social world into a multitude of markets is conducted for the benefit of the social: the existence of the social realm is never denied; but the idea that it is coterminous with the state has clearly been problematised. So while the 'social' still exists, simply stating that one is governing for the welfare of the social order is deemed insufficient to ensure the effective regulation and management of government itself and all its connected agencies.[40] As such the advanced liberal governing mentality problematises expertise and bureaucracy. Both capacities are viewed with a certain air of self-serving scepticism, the result being the activation of new forms of public management such as accountability measures and performance pay.[41] Much is done to increase productivity by constructing mechanisms that seek

[38] Dean, M., (1999), p. 21
[39] Rose, N., (1999), pp. 141-2
[40] Ibid., pp. 137-47
[41] Ibid., pp. 148-9

to emulate the discipline that only the market is seen as giving to producers. This represents, as Dean has argued, the governmentalisation of government; that is the explicit move to construct ways whereby market mechanisms can conduct the conduct of those that govern.[42] Where government is necessary, a brand of neoliberal economic theory known as public choice theory constantly places a question mark over whether these officials and experts can be relied upon to be benevolent despots. The assumption is always that it is safer to assume that they cannot.[43]

On the one hand governments, in accordance with public choice theory, have attempted (with more or less success) to bind their activity to specific fiscal rules (e.g. balanced budgets over the economic cycle) and monetary rules (e.g. stable and low consumer price inflation). On the other hand, especially where these kinds of fixed constitutions are not practicable, whole slurries of accounting and audit technologies have been used to regulate and check government activity. These have included the rolling out of net present value accounting to nationalised industries in the 1970s, with the aim of fostering a certain kind of managerial attitude,[44] to an obsession with the use of audit to check and verify decisions, ensuring through the construction of audit trails that decisions can always be evaluated and made visible.[45]

Tied up with this ethics of individual expression of choice advanced liberalism introduces what Patrick O'Malley has called a 'new prudentialism'. The responsibility to use risk assessment, previously a technique for providing social security, is pushed downwards such that it is now the province of self-governing individuals. In turn these newly empowered subjects, enabled by the state, are required to use risk speculatively as adventurers in search of self-fulfilment and achievement.[46] Work and career are likewise re-imagined: employees are now thought of as entrepreneurs and insecurity and flexibility are given positive ethical values.[47] To this extent, therefore, state provided social security just inhibits the ability of individuals to utilise risk in such a way. Thus as a corollary the unemployed person is transformed into an active choice maker, encouraged to be enterprising, and in certain regimes (such as in Australia) is asked to practice their choice-making capabilities by choosing from competing job agencies.[48]

[42] Dean, M., (1999), p. 6
[43] Brennan, H., and Buchanan, J., (1981), pp. 19-23
[44] Miller, P., and Rose, N., (2008), pp. 39-42
[45] See Power, M., *The Audit Society*
[46] O'Malley, P., (2004), pp. 57, 71
[47] Rose, N., (1999), pp. 156-7
[48] Walters, W., (2000), p, 154; Dean, M., (1999), p. 161

Citizens are thus reconceptualised as active citizens. The language of obligation, duty and social citizenship is problematised and replaced by a political discourse that seeks to match its forms and interventions to an image of citizens as beings naturally striving to actualise themselves in their secular life: seeking always to be fulfilled.[49] Certain technologies of government interact with technologies of the self, the governed are convinced to participate in their own empowerment; raising their self-esteem (and thus their desire for self-actualisation and fulfilment) becomes almost a mission statement that is required of certain 'under-performing' sections of the population.[50] And where citizens do need to combine energies and demand action from government, in order to better facilitate their own self-management, the community becomes that organically formed space for political action and agency.[51] That this way of being is meant to represent a natural human proclivity and yet at the same time also an artefact of government practices is a problem left unresolved.[52] It is simply that humans are at their best when they practice these kinds of ethics upon themselves; it is government's job, properly governmentalised of course, to facilitate and help with this process.

The above review thus gives a flavour of this complex of practices that governmentality studies have referred to as advanced liberalism. New forms of individual and collective agency are practiced and encouraged in this historically contingent political rationality. At each point practices related to the social, as identified by progressive/Keynesian liberalism are problematised and replaced by new reference points which appear, at least to those that govern, to better capture what is out there, or to put it more aptly, what could be out there if only government could regulate conduct accordingly. Thus governmentality studies have highlighted how advanced liberalism has problematised the following: the state as coterminous with society, benign non-self-interested government and expertise, insecurity and security, the unemployed, community and citizenship. The method of analysis is thus always to bring to the reader's attention the definitions of the human condition and the portrayals of subjectivity and collectivity that are taken for granted in one regime as being an object of knowledge and understanding, and yet which are re-questioned and re-formatted in another, precisely because there are never any trans-historical truths, such as society and state, moulding practice; practice always moulded them.

[49] Rose, N., (1999), pp. 165-6
[50] Burchell, G., (1996), pp. 19-36; Cruikshank, B., (1996), pp. 231-9
[51] Dean, M., (1999), pp. 166-71
[52] Hindess, B., (1996), pp. 66-72.

This thesis clearly connects with much that has been covered in the governmentality literature say with regards to focusing on the consumer as a motif, the importance of choice, and the attempts by the British Government to foster an entrepreneurial spirit in the population at large. And certainly I have attempted to apply the method of governmentality and archaeology to entirely historicise those objects such as the consumer that have become now so taken for granted in discourse and practice. Nonetheless what I am offering here is something slightly different, a narrative that is very focused on detailed history, both on the discursive practice of neoliberalism and the practice of government itself, and which is entirely related to specific techniques of governing the economy. In a sense, by dint of my research question and the nature of the task, this thesis is less about the formation of an assemblage of advanced liberal governmental techniques and more about the styles of economic policy thinking and making that have practiced a particular figure of the human agent, the consumer, which necessarily problematised the human agent that was referenced by Keynesian techniques for governing the economy. To the extent therefore that this thesis is about economic theory and policy I will continue to utilise the term neoliberal rather than advanced liberal.

This thesis uses archival evidence to examine how the figure of the consumer has been referenced by a particular brand of economics, within key British neoliberal think tanks, the Institute of Economic Affairs (IEA) and the Centre for Policy Studies (CPS), and by the practitioners of economic and especially monetary policy. It is focused on the publications of specific authors, the speeches of specific politicians and the publications (speeches and research articles) of policy officials at the Bank of England. In using this material to construct a historical narrative there always of course remains a risk that I have given the impression that the authors I discuss invented the objects, such as the consumer-as-entrepreneur, that get taken for granted in policy. This is not my intention; rather, it is the objects as fundamental reference points that always practise the theory.

This is not to strip the individuals I discuss of their authorial 'genius', only to make the point that, for instance, Keynes' theory referenced a particular articulation of society, security and freedom which was not his invention, and had been referenced by New Liberals for at least forty years before he wrote *The General Theory* in 1936. Likewise what is found in Friedman's discussion of consumption (1957) and his restatement of the quantity theory of money (1956) is the referencing of a particular form of human agency. He did not invent the idea of the consumer as producer of his or her own human capital. What I hope to show is that Friedman's theories incorporated a notion of human agency that he, 'like many others', took for granted as representative of the natural and proper human economic agent. And this agent was entirely different to the agent referenced, although not invented, by Keynes. Indeed the neoliberal consumer entirely problematised the Keynesian category that I have labelled the 'worker-saver' (see chapter 2). These political rationalities referenced entirely different economic agents making up the economy and thus politics became in 1970s Britain, and still to some extent is, the interplay of these different reference points.[53] It is precisely in the contestation of the figure of the consumer that one can construct an archaeology of neoliberal political knowledge.

Moreover when I use the term 'like many others' as I have done in the above paragraph, I am entirely serious. Authors of IEA papers and political speeches drafted at the CPS did not look to Friedman or Hayek to have the human condition explained to them, they 'knew' and identified the human agent and practiced it. They were not convinced by a better mind than theirs, they needed no convincing, they were already affiliated to a particular historically unique understanding of the human agent. They might not have been so masterful in the way they spoke of this agent as the 'great minds' but they practiced a similar notion of the consumer all the same; that is precisely why they were part of this political rationality and not another. Thus while the solidification or 'locking down' of a political mentality inevitably involves the construction of a canon with its priority reading list, this list can only ever be said to be the best or clearest representation of the fundamental reference points that are shared by the collective of those practicing a particular mentality.

That said there is always the risk that a detailed history of political rationality, such as this thesis represents, somehow slips into sounding like a history of ideas that traces the invention and transfer of ideas between historical figures of importance. It is inevitable that if one is focused on the detail of economic thinking and policy, rather than on an assemblage of abstract human individual and collective objects and agencies that are practiced in the broader advanced liberal regime, then it can sound as if too much authorial weight is being given to individuals. To reiterate, then, this thesis is about how the figure of the consumer was practiced by theorists and government alike, problematising regimes of economic government in the 1950s to 1970s, interpreting and reacting to data as it was received in government after 1979. The writing of it and the relaying of the narrative necessarily involve the discussion of a select cast of characters critical to the formation and on-going practice of

[53] Op. cit.

neoliberal mentality of rule. However, I do not ever mean to intimate that these same historical characters invented a particular way of viewing human economic agency; their theories and ideas referenced a way of reading the human condition that was, so to speak, already out there.

In a sense I am taking my lead more from Foucault's own work on neoliberalism (found in a series of lectures given in 1978 and 1979 and published for the time in English as *The Birth of Biopolitics* in 2008) rather than from a focus on the assemblage of advanced liberal political rationality found in governmentality studies. It was in these lectures that Foucault discussed the economic and social ideas of specific theorists, from the Ordoliberal[54] movement in Germany pre and post 1945 to Gary Becker's theories of human capital emanating from the Chicago School of law and economics. And it was here that Foucault argued that neoliberalism should not be understood as a resurgence of classical liberalism but as something much more important, representing a new art of government. Moreover, and of great importance for the purposes of this thesis, he showed how in different times and different places 'neoliberal' theorists had practiced a similar and yet non-classical notion of *homo economicus*. For an Ordoliberal the ultimate political goal of policy was to enable access to private property; thus the basic unit of society would have the form of the enterprise: "what is private property if not enterprise? What is a house if not an enterprise?" In turn Ordoliberal "social interventionism... entails an institutional reform around the revaluation of the 'enterprise' unit as the basic economic agent."[55] Similarly in the Chicago variant of neoliberalism,

> "*Homo economicus* is the entrepreneur of himself. For Becker, the man of consumption, insofar as he consumes is a producer. What does he produce? Well, quite simply, his own satisfaction. Classical analysis which divides man between consumer and producer no longer holds up under neoliberalism because consumption is an activity of production."[56]

Foucault never argued that the reference points of the neoliberal mentality of rule, this notion of social fabric and human agency, were authored by the theorists and individuals he discussed in his lectures; rather, as I have been saying, they practiced reference points that were not their invention. Likewise, this thesis is a detailed explication of how this human agent has been written about and conceived in a

[54] Ordoliberalism is the original name adopted by a group of German liberals who, Foucault argued, can be thought of as practicing as far back as the 1930s a distinct neoliberal political rationality. The label 'Ordo' was taken from the name of the academic journal to which members of the group contributed, *ORDO – Yearbook for the Order of Economy and Society*. This group of intellectuals is also referred to as the Freiburg School.
[55] Foucault. M., (2008), pp. 117, 147-8, 176
[56] Ibid., pp. 225-6

British context, in formative think tanks and in government, and of course by those intellectuals, such as Hayek and Friedman, who while not British were of particular relevance to the history of this political rationality in Britain. The consumer-as-entrepreneur did not appear fully formed in British liberal think tanks in the late 1950s and 1960s; only over time did the imagined consumer come to resemble Foucault's characterisation of the entrepreneur-of-the-self. Indeed as the following chapters show there have been different conceptions of the consumer activated and identified by the New Right. Nonetheless as I shall demonstrate they all share a family resemblance and, at the very least, all these ways of thinking about the consumer problematise Keynesian and progressive liberal conceptions of the consumer and consumption habits in society at large.

There is a complex and detailed genealogy to be recounted of this figure of the consumer as it was conceptualised in the Britain after 1945. The consumer was always at the heart of attempts in Britain to problematise Keynesian policies and the way these latter policies imagined and referenced the non-entrepreneurial human economic agent. After all while Becker's major work on human capital was being done in the 1970s, as far back as the 1950s, Friedman in his work on consumption and money was already arguing that much that one thinks of as consumption, is really investment (see chapter 2). Thus I am using Foucault and Foucauldian scholarship as a key resource in this thesis; but by also providing a detailed historical account of the British economy, economics and economic policy, I want to demonstrate the fundamental role that a certain kind of neoliberal imagining of the human economic agent has played in contemporary British economic history.

1.3 The choice of archives and their historical relevance

Much of my research (see Appendix I for a list of primary sources used) has focused on the publications of two British think tanks, the Institute of Economic Affairs (IEA) and the Centre for Policy Studies (CPS), the former established in 1955 and independent of any political party, the latter established in 1974 by Keith Joseph and Margaret Thatcher, both prominent parliamentarians for the Conservative Party. (Thatcher became leader of the Conservatives the following year in 1975, then Prime Minister in 1979, her first general election as leader of the Party). There are numerable reasons why I have chosen the publications of these think tanks as repositories through which to explore the mentality of rule of British neoliberalism. For a start the IEA was essentially the only think tank in Britain that explicitly set itself the task of espousing what it certainly took to be liberal or free market ideals; always suggesting the application of the market as a way to resolve Britain's micro and macroeconomic problems. Rather than being known as neoliberal, the term 'New Right'[57], which I take to be entirely coterminous, was often used instead to denote these authors. The CPS, in turn, was explicitly formed to "articulate in political terms what the IEA had been thinking."[58] From 1974 to 1979 it was essentially the site in which the political programme of what later became known as Thatcherism was formulated. On the one hand it ran a series of policy-making committees, on the other hand it was a speechwriting unit for Joseph and Thatcher.

Yet one can also make the claim for the impeccable historical credentials of the IEA as 'the' neoliberal think tank in Britain. There is a well-documented history of connections (see in particular Richard Cockett's *Thinking the Unthinkable,* 1995) between German Ordoliberalism, the Chicago school, the economics department of the London School of Economics headed by Lionel Robbins, the IEA and ultimately Thatcherism. Indeed intellectuals from Germany, France, Britain and the United States explicitly designated as 'neoliberals' met together in 1938 at the *Colloque Walter Lippmann* in Paris to discuss the problems that they saw had beset the world of classical liberalism. This gathering in turn provided the blueprint for the structure and organisation of the Mont Pèlerin Society of which Hayek was very much the founder and early lynchpin. Its first meeting took place in 1947 and was attended by Ordoliberals such as Walter Eucken, Wilhelm Röpke, Alexander Rüstow, as well as economists from Britain (including Lionel Robbins, John Jewkes and Arnold Plant) and from the United States (including Milton Friedman, George Stigler and Frank Knight). Another member, British businessman Anthony Fisher, founded the IEA in 1955, and by 1958 had appointed its two central figures (both members of Mont Pèlerin) Arthur Seldon and Ralph Harris, the former as general editor the latter as general director. Arthur Seldon had studied under Hayek at the London School of Economics in the 1930s, and it was Hayek who recommended Seldon to Fisher when he was establishing the IEA.[59] Finally, Mont Pèlerin members such as Hayek, Friedman, James Buchanan and John Jewkes authored IEA pamphlets, and as if to come full circle, speaking in 2001, Friedman generously credited the IEA with changing the intellectual climate of opinion around the world and being the major stimulus for others to follow.[60]

Nonetheless this thesis is not concerned primarily with historical connections, written correspondence, the forging of alliances and the 'true' origins of ideas. It is

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[57] See footnote 8
[58] Interview with CPS co-founder Lord Vinson, May 1991, reported by Richard Cockett (1995), p. 237
[59] Cockett, R., (1995), pp. 11-2, 101-2, 336-8; Plehwe, D., (2009), pp. 10-7; Harris, R., and Seldon, A., and IEA, (2001), p. 34
[60] Friedman, M., *On the IEA's influence in our times,* in Harris, R., and Seldon, A., (2001), p. 71

concerned with a particular political rationality that emerged in the context of and in response to the performance of the British economy after 1945 and especially in the 1970s. Undoubtedly, as I shall discuss in chapters 3 and 4, there was a genuine sense of crisis in the 1970s, a feeling that Britain's economic misfortunes and the experience of stagflation was overflowing the bounds of the economy tearing at the very essence of British society. However this was not the same situation as post-war Germany, where Ordoliberals sought to establish, what Foucault called, the world's first "radically economic state" in order to re-establish the very legitimacy of the state. Ordoliberal style policy (largely inspired by Ordoliberal author, finance minister and later German Chancellor Ludwig Erhard) did not ask what freedoms should be left to the market by government, but instead how the economy could have a state-creating function. "The institution of economic freedom...will be able to function as a siphon...as a point of legitimacy for the formation of political sovereignty."[61]

Hayek's *Road to Serfdom* (1944) certainly foretold of disaster for Britain should it follow its current 'socialist' course, and of course it was a highly influential book; Harris reported in an interview in 2001 that he would always turn to Hayek for real inspiration.[62] All the same the publications of the IEA in the late 1950s and 1960s were not laced with the language of catastrophe. Harris and Seldon were not concerning themselves with the establishment of state legitimacy or the need to re-build capitalism. Their aims were in fact reasonably modest; their publications often guided by whom they could find to author their papers and inevitably sources of funding would play a small role in determining the kinds of subjects they would tackle. Their main concern was always with providing a policy stance for a specific industry that took account of increased freedom of consumer choice made possible, they believed, by rising incomes.

In other words, who was problematised and how it was problematised was entirely specific to British history and the British context, and discussions, at least at the IEA, were limited, at least in the early days, to matters related to economic policy. What this archive therefore offers is a rich, yet finite (in terms of publications), site through which to explore the thinking of a distinct group of intellectuals as they sought to problematise certain practices of economic policy in post-War Britain. Publications, from 1960 on, most often took the form of Hobart Papers (named after the location of their original office) that were pamphlets written for a general audience and invariably less then one hundred pages in length. Eighty-four Hobart Papers were

[61] Foucault, M., (2008), pp. 80-3, 95
[62] Harris, R., and Seldon, A., (2001), p. 34

published by the IEA up to the 1979 election, and along with other occasional papers have provided me with an exemplary site through which to explore the dimensions of neoliberal thinking. It is perhaps because these papers were never intended to be filled with the jargon of formal economics that I believe they give such good access to this political rationality, heavily laden as they are with references to the sovereign consumer, and always critical of policies constructed with explicitly 'social' ends in mind. Given the limited size of this archive of published material it has been possible for me to give a good depth of coverage to the topics and issues raised by IEA authors in this period.

The 1970s was not without its fair share of paranoia; there was a genuine feeling that the sovereignty of Parliament was being threatened by some trade unionists. It was thus a period in which the IEA connected their detailed microeconomic focus to the problematising of the British economy. Many of the pamphlets in this period start to make explicit references to monetarist versus Keynesian debates; thus the importance of Milton Friedman in the British context comes to the fore. Certainly this is reflected in the publications of the IEA but also to some extent in the choices I have made in my own selections from the archive. Indeed by focusing on the macro debates about the British economy, particularly in relation to IEA publications from 1974 to 1977, I have established that there was a significant modification of style and approach to Britain's problems in this period. The consumer is always a key reference for arguments but it is in this period that the New Right began to take very seriously the idea that they must regulate conduct in society, that a healthy society requires more people to conduct themselves with consumer as opposed to worker habits of thought.

My investigations of the CPS archives suggest that entirely the same thought processes and modifications of style and approach to policy that were taking place in the IEA were occurring in this enclave of the Conservative Party. The published material from 1974 to 1979 is in fact fairly limited; the efforts of the CPS were focused in writing speeches for Joseph and Thatcher that were subsequently published. To this extent it has been fairly easy to make a complete survey of the CPS's published materials in this period. At the same time there were of course also the policy working groups, the most important being the *Stepping Stones* project, but which also included groups such as the working group on consumer protection and the working group on Britain's enterprise culture (or perceived lack of). The Conservative Party gave me access to their archives (held at the Bodleian Library in Oxford) where many of the papers relating to the working groups are held. Finally I should add that I have found many important speeches and working papers on-line at the Margaret Thatcher foundation.

There are undoubted parallels to be found between the thinking of the New Right in Britain in the 1970s and Foucault's description in his lectures of Ordoliberal concerns. Of particular importance, as will be discussed, was Eucken's position that, as Foucault put it, competition is "an essence" that history (not inherent contradiction) had proved needed to be fostered and maintained by permanent government intervention and monitoring.[63] Competition was viewed as a state of mind that could be described phenomenologically: certainly natural but not necessarily naturally sustainable. Yet as I have said the vantage point of the IEA and CPS was not a Nazi regime and post-War devastation. This was a shift in politics that had to be enacted in a democracy, by appealing to an electorate. The market was to be no siphon for state legitimacy. Instead the New Right believed that it was their job to change conduct so as to foster in the population at large an enterprising spirit among many who were deemed trapped in antedated and outmoded ways of thinking.

Economic policy itself was to be designed to effect change, that is to regulate conduct so as to elicit different behaviour from many producers and workers in the population. The application of certain distinct monetary policies in Britain in the early 1980s and the rolling out of privatisation were two essentially unique policies that turned Britain into an economic testing ground; this was, as so many authors on the Left and Right have attested, the British economic experiment. The antecedents of British neoliberal thinking can be located in Ordoliberalism, but here economic policy was used not to establish a government's legitimacy but to do the job of government itself. Neoliberal economic policy was very much at the centre of a grid of advanced liberal governmentality seeking to conduct the conduct of economic subjects. Thus I would argue that the history of the British neoliberal experience is at least as relevant as the German post-war situation; after all the IEA and Thatcherism generally has provided the blueprint for an economic programme that has been emulated around the world.

On the one hand the history of neoliberal governmental practice in Britain provides an opportunity to write about the formation of a political rationality, about the objects that were problematised for economists and thank tanks alike. On the other hand this thesis also offers a history right up to the present in which it is possible to show how problematising the agents of Keynesian social liberalism, working out

[63] Foucault, M., (2008), pp. 120, 177

how to govern for consumers can be linked to the actual practice of governing for consumers; often with the aim of fostering consumer habits of thought. And while I am not arguing that the British Government was necessarily successful in producing the agents that it practiced in the think tanks, I am arguing in chapters 5 and 6 that because certain consumer behaviour was misidentified, government and monetary authorities were convinced that there were no grounds upon which they could intervene in order to slow the accumulation of consumer and household credit. This is the basis upon which, in addition to being an archaeology of political knowledge, this thesis is also intended to offer a genealogy of the indebted consumer.

Of course to construct this critical history of the present, by which I mean to write a history that uses the issue of consumer credit and indebtedness to problematise and historicise the consumer, I have had in the last two chapters of my thesis to move far beyond the IEA and CPS archives. Due to the lack of availability of government documents I have relied on certain key policy speeches made in the 1980s and 1990s. In particular I have made extensive use of the keynote speeches and articles of Nigel Lawson, Tony Blair, Gordon Brown and Ed Balls. Additionally I used the memoirs of Thatcher, Lawson, Howe and other key figures of the Thatcher era, such as Alan Walters, John Hoskyns, Gordon Pepper, and Ian Gilmour. In some cases I have used these as if they were primary sources. Walters' book for instance was written in 1986, as a review of economic policy after 1979 but also to reinforce the case for the policies that were still being utilised. Gilmour, Lawson, Howe and Thatcher's memoirs were all written in the early 1990s before the advent of Blair's New Labour. Lawson's 1992 memoirs in particular have provided a rich assessment of the 1980s as well as clearly pointing the way forward for how the consumer, credit and debt were problematised or not, as the case turned out, in the 1990s and beyond. That said, within the archive of the IEA and CPS I have continued to find important statements and criticisms of policy from within the neoliberal fold. These sources remain important in disputing the claims made by some that policy, especially from the mid-1980s on, veered significantly away from neoliberal practice.

Finally, much of my historical work has been significantly aided by the use of Bank of England material, essentially economic commentaries, research papers and speeches by important officials, all published either in the Bank of England quarterly bulletin or on-line. I have reviewed all the quarterlies from 1971 up to the present day and in the process discovered this to be an archive rich with material for a number of reasons. Reform of the banking sector, making it more competitive was, apart from anything else, a central part of how to govern for the consumer, and attempts to change the way banks operate in Britain go back to 1971. Indeed the monetary consequences of early liberal reform played an enormous role in the formulation of Thatcherism in the mid-1970s. The Bank of England provided all policy makers with key information and interpretation in those years. Moreover the Bank was also charged with implementing government policy and as an open and transparent organisation it provides a fairly transparent window into policy making. There was much soul-searching at the Bank in response to the economic downturn of the early 1990s, made entirely public in their publications. Officials at the Bank saw themselves as part of government, entirely responsible for monitoring monetary developments and the efficacy of monetary policy. Finally, after 1997 the Bank was given operational control of monetary policy in Britain, over interpreting data and monitoring and producing economic stability. Given the limited use of fiscal policy as a macroeconomic tool (the Government was supposed to balance its books over the economic cycle), the Bank of England was, within the guidelines set for inflation, very much governing the British economy.

In conclusion one might say therefore that in this thesis I have taken a narrow view of government. I would absolutely accept that governmentality studies often reference the assemblage of practices found in a variety of sites from schools, to hospitals, to scientific research sites, to prisons, to marketing technologies, even to business schools. Indeed government is also about the government of the self, enacting technologies of the self that conduct oneself to think and behave in certain ways. Nonetheless, my focus has remained entirely narrow; always asking what those who wanted to govern the economy and those that did govern the economy were thinking and, in the latter case, by way of thinking, enacting on the governed. Where there should be little doubt is that the central bank is part of government. In Britain at least, the monetary authority has been a key site in which neoliberalism has been practiced and the consumer with un-rationed access to credit has been referenced as a key foundational economic agent.

1.4 Chapter outline

There are five substantive chapters constituting this thesis, and in a sense they divide quite neatly into two parts. The next three chapters deal with neoliberalism in opposition to the government of the day, problematising both the objectives of policy and the human objects of the economy. The final two chapters deal with British economic history from 1979 to 2009, a period in which, I argue, a consistent neoliberal economic policy has been practiced in government. These two chapters present, I believe, a consistent narrative in which the consumer was referenced as a specific human agent and object of policy. Governing the economy most definitely meant governing for the consumer, both eliciting and fostering certain habits of thought and looking for signs in economic data that this mentality was extant.

The thesis runs very much as a historical narrative. In chapter 2, *Constructing the Consumer,* I discuss how neoliberals problematised the articulation of economic security, society and human agency in government policy in the 1950s and 1960s. Part of my focus is on the work of Hayek and Friedman, part of it on the publications and work of the IEA in this period. This is not meant as a narrative of how the ideas of Mont Pèlerin liberals were applied by the IEA but how in different ways all the authors considered referenced a similar economic agent, the consumer, and how in the context of 1950s and 1960s Britain they saw the consumer as the obvious agent to which government should look to solve certain economic problems. In discussing the way Keynes and Keynesianism was problematised in the IEA I have perhaps given the impression that the IEA was concerned with macro issues in the 1960s more than micro, which they were not. Nonetheless, I have given this chapter this focus precisely because I want to contrast the consumer as imagined by IEA authors with the human agent as implicitly referenced by Keynes in his *General Theory* written in 1936. One way to think of the consumer in neoliberalism is to view him or her as an artefact of the problematisation of the British male worker.

In chapter 3, *Diagnosing the British Economy* I discuss how between 1960 and 1977 IEA authors mounted a critique of the way in which the British economy was being governed, particularly with regard to indicative planning in the 1960s and micro-intervention in the early 1970s. I discuss how stagflation in the early 1970s led these authors to construct their own critical history of the British economy in which they explained the appearance of habits of thought (especially in trade unions) that were at odds with their view of what constituted a progressive society. The key important years were 1974 to 1976, years in which I suggest one can see the emergence of a neoliberal will to practice government in ways that are certainly distinguishable from classical liberalism or *laissez-faire.* Specifically, this is the period in which neoliberalism had to reconcile the notion that consumers were to them the natural and proper agents of the economy with their growing perception that a significant proportion of the population were failing to recognise themselves as such and behave appropriately. To this extent the New Right recognised that the consumer is a historical object while at the same time arguing that this being is the authentic and appropriate human agent of the age. The result was that neoliberalism came to believe that it was entirely appropriate for government to act to foster attitudes commensurate with the age.

But of course it is one thing to problematise government in theory; it is another to decide what to do about it and to articulate a set of policies that put right what it has been deemed is wrong. Thus in chapter 4, *How to Govern the Economy* my attention switches from the IEA to the CPS and the parallel and complementary project that was conducted there, this time concerned with the practical policies that it was believed would cure the 'British disease'. It is here that neoliberals first conceived that monetarism was 'not enough' to solve Britain's problems but at the same time was a tool that could be fashioned in a particular way to address issues that went far beyond the purely economic. Encapsulated in the speeches of Keith Joseph, Margaret Thatcher and in the *Stepping Stones* project, the CPS focused their attention on how a particular articulation of state and society had produced economic agents misaligned to the needs of the time. The New Right did not deny the existence of society: not at all. Instead they sought to foster a society of consumers, ethically attuned because they were now free to choose. Neoliberalism practiced a social mentality, but a social mentality very different from the social democratic/Keynesian political rationality.

In many respects the CPS in the 1970s were already doing the work of government, seeking to change attitudes and behaviour in certain parts of the population. The election of 1979 was to be interpreted as a sign that the population had embraced all that they were saying. Nonetheless as chapter 5 *Governing for the Consumer* argues, Thatcher's Government considered there was still much to do with regards governing the economy. At the heart of Thatcher's first term lay a paradox, the liberalisation of the banking system (giving the banking system the ability to grow their balance sheet so as to meet all consumer demands for credit) and the concurrent targeting of aggregate money supply, so as to limit monetary expansion and inflation. The explanation for this I argue lies in the attempt both to incentivise 'rational' behaviour and to do, somewhat paradoxically for liberals, the work of creative destruction in the economy. By 1985 the government believed that low inflation signified that attitudes and behaviour, that is conduct, had changed and that Britain had adopted an enterprise culture. Thus the boom of the late 1980s was not an abandonment of neoliberalism but based on the belief, falsified by the ensuing bust, that consumers had become rational agents using debt to grow their balance sheets and plan expenditure across their lifetime.

Finally in chapter 6, *Misidentification and Crisis,* I bring the narrative up to the present day. It certainly has to be recognised that the New Labour project referenced far more than just the economy. Indeed a fairly brief look at Tony Blair's speeches from the mid to late 1990s shows that New Labour were very much agents of the assemblage of advanced liberal practices that governmentality studies have discussed. Nonetheless the economic policies of New Labour continued to practice a neoliberal conception of economic agency; that is of the consumer-as-entrepreneur. And while the Bank of England's use of monetary policy utilised New Keynesian notions of stability and symmetry there was no significant problematising of rising levels of consumer indebtedness. Indeed in the closing part of this chapter I argue that the current economic crisis (2007 on) represents, just as with the 1980s, the confrontation of the neoliberal governing rationality, which viewed people's behaviour in a certain way, with a world in which people, whether consumers or bankers do not necessarily conform to those norms. Certainly it is a more complex crisis than at the end of the 1980s but it highlights more than anything else the potential for the projects of government to be dangerous and for strong political visions to ride roughshod over the way others might perceive their own freedoms.

Overall the aim of the thesis is to show how an imagined figure of the consumer became a key reference point for government, how this figure problematised a social governing rationality and yet did not imply that economic policy should somehow revert to a classical liberal regime. What distinguishes neoliberal economic policy is precisely the practice of a society composed of one class of entrepreneurs, whether in business or 'of-the-self'. And what essentially gives proof to that is an entirely novel way of perceiving debt. Rather than the shame of the nineteenth century, a moral scourge on the abstinence and work ethic of entrepreneurs, debt when used to finance the purchase of assets became a sign in the late twentieth century that consumers were building their personal balance sheets and making themselves more productive for society in the process. Government had not problematised the inexorable rise of household debt (as a percentage of household income) in any significant way precisely because it had never problematised the parallel swelling of the asset side of household balance sheets. That average household assets increased from 75% of household income to over 150% in thirty years of economic history was in the main taken as a sign of increasing rationality in the population at large.

Chapter 2: Constructing the consumer

From its very earliest publications in the late 1950s authors at the Institute of Economic Affairs (IEA) sought to problematise methods for governing the economy that did not, as far as they were concerned, maximise the potential for the free expression of consumers in the market place. In a sense its goal was to achieve for liberalism what it was believed the Fabian society had achieved for the welfarism; only now, these Fabian goals were to be the target of criticism. The IEA was thus founded in a world in which the practices of government were shaped by social concerns. Certain techniques for governing the economy, such as Keynesian demand management, planning and income controls, formed part of an assemblage of governmental practices that required the state to ensure economic security and with it a functioning social order. Yet there was no crisis; 1959 was in fact the year in which the British population were told by the Prime Minister, Harold Macmillan, perhaps over-enthusiastically, that they had never had it so good. One might thus say that the liberal critics of the supposed Keynesian orthodoxy were simply arguing that things could be even better, that the general level of consumer satisfaction was below that which it would be if certain industries were allowed to run along market principles. At the very least these British (neo-)liberals, along with other Mont Pèlerin liberals such as Hayek and Friedman were determined to argue against policies that sought to extend the role of government intervention in the economy.

The aim of this chapter is to show how these arguments were constructed, and how they all referenced a particular kind of human economic agent, the consumer. Whether in the context of political philosophy, economic theorising of consumption and the demand for holding money, or in more localised political arguments regarding controls over advertising, consumer credit and the provision of consumer goods and services, the figure of the consumer was activated to counteract and bring into question the conventional economic thinking of the time. A key part of these arguments was the recurring liberal criticism of government, that there are often negative unintended consequences of government intervention, however benign the intention. However, my focus is not on these well-rehearsed arguments but instead on the way the consumer was made up so as to immediately problematise the kinds of human agents that were taken for granted by more 'social' ways of thinking. Indeed while welfare based political rationalities certainly activated a particular organic notion of society monitored by the state this same governing mentality also imagined, I shall argue, a certain kind of consumer, one who was weak in the face of corporate power and prone to habitual as opposed to aspirational spending patterns.

This is a key point, for to understand how the neoliberal mentality tackles governing the economy in ways that are distinctive, say from classical liberalism, is to understand how it referenced human behaviour in contradistinction to the social democratic orthodoxy of the time. This counter-revolution in economic theory and policy, to use Friedman's term, was never about restoring the initial situation (classical liberalism) but was about articulating something new.[1] My argument here is that neoliberalism, both in theory and policy, referenced a human agent that was different from that practiced by social liberals/welfarism; and one that was not referenced at all by orthodox nineteenth century political economy, the thinkers that this grouping were claiming lineage from. To look to the consumer as a transformative agent of (economic) progress required a distinctive and different view of society and the types of human beings that constituted it, discontinuous with a classical or welfarist mentality of rule. In this regard neoliberal economic thinking was decidedly post-Keynesian.

This chapter asks the question: how did neoliberals conceive the figure of the consumer and how did this figure appear in their political thinking in the 1950s and 1960s? To answer this question I examine the early work of the IEA as well as some of the writing of Hayek and Friedman (the latter two largely because of their later importance in relation to macroeconomic policy debates in Britain). These authors all referenced a similar conception of human economic agency, albeit with different methodologies and audiences in mind. In doing this it is vitally important to understand the way this figure of the consumer problematised the conception of the human agent in the political rationality practiced, although certainly not created, by Keynes. As such this chapter also examines what Keynes took for granted when writing about the economy, and how his 'revolution' can be seen as an economic theory that incorporated the idea, already extant, that government could and should play a distinctive role in providing economic security. Post-1945 economic policy was made in the wake of the Keynesian Revolution, and it is only in this context that one begins to comprehend the formation and constitution of British neoliberalism; the way that a new kind of social realm was imagined, one composed of entrepreneurs and enterprising consumers. Just like Keynes these authors referenced in their publications taken for granted assumptions regarding human behaviour and the associated norms that they took to be symptomatic of human existence. Central to all this economic theorising were distinctive psychological renditions of human behaviour and what it meant to live a free and secure human life.

[1] Friedman, M., and the IEA (1970), p. 7

To be clear, while my thesis uses specific archival material to elucidate the figure of the consumer and the role it has played as a central reference in neoliberal thinking, it is also essential to demonstrate the discontinuity between this governing mentality and what I have broadly called a social mentality. Clearly one way of doing this would be to examine Fabian and progressive liberal archives in the same way as I have examined the neoliberal archives. However given the limitations of space in this thesis, I have chosen to focus specifically on the work of Keynes in this chapter and investigate the kinds of human agents that he imagined in his work. Sections 2.1 and 2.2 focus on his work, and especially *The General Theory of Employment, Interest and Money* (1936) and therefore to some extent depart from the archives that I am utilising in the rest of this thesis. However I believe these two sections are critical in providing a necessary background to the work of the IEA (as well as Friedman and Hayek). On the one hand this analysis brings out key distinctions in the way that Keynes and Keynesians as opposed to neoliberals thought about the consumer. On the other hand, it is important to understand his work given the extensive references to Keynes in the IEA archive.

2.1 Economics and social welfarism before the Great Depression

Having explained in chapter 1 that this thesis is not about the ideas of 'great' revolutionary thinkers; that theories and policies practice their own ways of seeing the world with their fundamental reference points, I would not want to give the impression that Keynes was any different in this respect from any other author considered. Keynes' theorising existed in a world where the British government had long since adopted a social perspective, and since at least 1906, had governed in accordance with 'new liberal' principles. Keynes' own ideas formed only one version of an attempt to bring a social perspective into economic theory. Prior to Keynes, John Hobson, who was a key theoretician of progressive new liberalism, tried in 1889 to elucidate an economic theory of under-consumption.[2] Additionally, and centred in the United States, institutional economics had criticised the classical framework with perspectives that were essentially social.[3] Finally, economists such as Ragnar Frisch and Michael Kalecki were also working in the 1930s on economic theories that could sanction a role for government to directly alleviate the extreme

[2] Freeden, M., (1978), p. 100-1; Winch, D., (1969), pp. 51-2.

[3] For instance see Veblen, T., (1925) *Economic Theory in the Calculable Future* and Veblen, T (1894), *The Army of the Commonweal* both published in *Essays in our changing order* (1994); also it is worth noting Keynes' reference to American institutional economist John Commons in his essay *Am I a Liberal?* (1925), when discussing the need to incorporate social concerns in economic theory (published in Keynes, J. *Essays in Persuasion*, 1963). See later discussion.

levels of unemployment caused by the Great Depression.[4] It would thus be entirely misleading to think of Keynes other than as one figure of a collective enterprise seeking to incorporate economic theory into a welfarist political rationality.

That is not to say that the neo-classical economics had offered no more practical advice for governing the economy than 'leave well alone'. Alfred Marshall for instance developed an early form of welfare economics which made use of his own style of demand and supply analysis. By incorporating the idea of the consumer surplus, Marshall was able to argue that there was a difference between what was actually spent on a good and what one would be willing to spend on it, and this represented a stock of utility for each individual buyer. So long as one made assumptions that the consumer's surplus varied in proportion to size of income (one pound was 'worth' less to the very rich man than to a poor man) then demand and supply analysis could be used to assess taxation and subsidies on the basis of whether the aggregate amount of satisfaction or utility in society in aggregate would rise or fall.[5]

Nonetheless this kind of analysis did not seek to address the social question that arose towards the end of the nineteenth century; that is to say how the government should address the problem of dire urban poverty in the midst of plenty. It is not that individual orthodox political economists dismissed the issue; the point was in the way in which they addressed it. Thus Marshall explicitly recognised in his *Principles of Economics* (first published in 1890 but frequently republished thereafter) that it was entirely legitimate to want to do something about inequality. Moreover he was happy to accept that in late Victorian Britain it could no longer be claimed that large inequalities of income were essential for the accumulation of savings for future increases in production. However in recognising these issues existed, Marshall was also explicit in stating that in his view many of these problems lay outside the remit of economic science.[6] These issues were moral in nature and had to be addressed that way by government. Marshall had no problem passing judgement on the ostentatious and "socially wasteful" consumption patterns of the rich, the plight of the urban poor and the moral standing of the competitive ethic.[7] But to reiterate, this social perspective remained outside neoclassical economic theory; the 1906 Liberal programme of welfare-based progressive liberalism did not look to economic theory for its justification.

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[4] Kalecki, M., (1990), pp. 188-94; Frisch, R., (1934), pp. 258-73, 322-9
[5] Marshall, A., (1920), pp. 462-75
[6] Marshall, A., (1920), pp. 41-2, 229-30
[7] Winch, D., (2006), pp. 31-2

To put this another way there was no macroeconomic policy to specifically address the problem of unemployment; there was no active Marshallian unemployment policy; indeed the very notion of unemployment only appeared in the statistical lexicon of government in the depression of the 1880s.[8] For Marshall unemployment remained a cyclical issue, its severity in any downswing a reflection of the extent of the upswing and the degree to which it had been fuelled by credit and unhealthy entrepreneurial speculation. On the way up Marshall thought it sensible to limit credit expansion; but once in a downturn, the best solution was for wages to fall in line with general price declines.[9] Marshall did not accept the notion that there could be a general glut of production and a concomitant problem of under-consumption. His position was the same as Stanley Jevons, the first recognisably marginalist economist in Britain: while economics might provide statistics of consumer demand to help ensure that any one industry did not expand too much, the idea of the general glut was "absurd and self-contradictory."[10]

On this point both of these 'great' Victorian economists, Marshall and Jevons, were in fundamental agreement with Mill, that political economy had "nothing to do with the consumption of wealth...[instead]... it was triumphantly established by political economists that consumption never needs encouragement. All of which is produced is already consumed...what is consumed for mere enjoyment, is gone."[11] Both men would have agreed that production would only be undertaken in order to consume more; as Adam Smith had argued, if someone wanted to consume more meat then he or she had to appeal to the self-interest of the butcher by producing something the butcher wanted, say bread, that could then be exchanged for meat.[12] There could be no such thing as under-consumption because production was always undertaken with a view to later consumption; this was the orthodox view, accepted even by the Fabians. Any dissenters, including Hobson who espoused an under-consumption theory in 1889 in *The Physiology of Industry,* were marginalised in the economic community. Orthodox economics, whether classical or neoclassical, remained estranged from a welfarist mentality, linked instead to a Victorian emphasis on the need to produce a social and economic system that would enable capitalists to be free.[13]

[8] Walters, W., (2000), pp. 13-37; Winch, D., (1969), p. 47
[9] Marshall, A., (1920), pp. 709-10
[10] Jevons, S., (1924), pp. 202-3
[11] Mill, J., (2006), p. 110, 33-4
[12] Smith, A., (1991), pp. 19-23
[13] This is not to say that there were not dissenting voices within the classical tradition. Keynes consistently pointed out that he believed that Malthus had come close to his position in the early nineteenth century with a theory of under-consumption. Keynes noted that Ricardo remained "stone

Keynes' *General Theory* (1936) represented one economist's attempt to practice progressive liberalism in economic theory. This is a critical point to note, for however one argues that Keynes' ideas were corrupted, corrupted others or were simply wrong (all three positions being taken at various times by IEA authors), one of the key IEA arguments of the 1960s and 70s about Keynes was that he had only ever been posing a politically expedient economic theory. This indeed was a major theme in IEA literature; the idea that the 'best' economists should never adjust their theories to make them politically palatable; that theory should be stated in the purest or most "honest" form so that politicians could at least get a clear theoretical view of the issue at hand.[14] Thus the theme of the first Hobart Paperback published by the IEA in 1971, authored by William Hutt (entitled *Politically Impossible*): Keynes was a man who invented theory to fit with what was politically possible. For Hutt, Keynes' "tactics were to destroy the whole authority of classical economics."[15]

The focus of Hutt's ire was centred on Keynes' dismissal of the classical and neoclassical position that unemployment could be solved by a general fall in wages. Keynes' position was that a fall in wages would lead to less demand for the products of other industries thus doing little to increase demand in the economy in aggregate. Additionally a fall in wages might well lead to more income being earned by wealthy *rentiers* who would be unlikely to spend this additional money. Finally, Keynes also made the point that it would be almost impossible in a free society to engineer a fall in the general wage level and that the inevitable industrial disputes that would follow would likely dampen entrepreneurial appetites for investment.[16] It was this third aspect of Keynes' argument that the IEA authors attacked, offering it as proof of an admission by Keynes that he was censuring himself politically; making up theory to fit political realities. This was the "*politically* easier economic solution."[17]

From this analysis came the argument that *The General Theory* was anything but general. Writing about his experiences of Keynes in 1966 (first published by the IEA in 1972 in the third Hobart Paperback, *A Tiger by the Tail*) Hayek recollected, "though he called it a 'general' theory, it was to me too obviously another tract for the times,

deaf" to this possibility (Keynes, J. 1973, p.362). And while Malthus remained committed to the doctrines of *laissez-faire*, Giovanni Proccaci (1991) has argued that in the writings of Malthus (and Sismondi) one can see the early formation of a mentality of rule that referenced the existence of a social realm entirely differently to political economists.

[14] Hutt, W., (1971), pp., 1-26

[15] Quotation from Hutt, W., (1971), p. 64; similar arguments made by Leijunhufvud, A., (1969), pp. 8-20; Hayek, F., and Shenoy, S., (1978), pp. 34, 61, 100

[16] Keynes, J., (1973), pp. 257-71

[17] Hutt, W., (1971), pp. 54-6

conditioned by what he thought were the momentary needs of policy."[18] And Hayek again offered proof for this argument in a 1975 IEA paper by pointing to Keynes' earlier views expressed in 1919 (*Economic Consequences of the Peace*) in which he had endorsed the idea that British workers were uncompetitive and wages would indeed need to fall. As with before, Hayek put the later view down to Keynes recognising the political impossibility of achieving a general wage cut in the 1930s,[19] rather than any genuine theoretical illumination.

My position is that howsoever Keynes' theory was disliked it was an economic theory all the same; and elements of the theory, particularly as they were based (as I shall argue in section 2.2) on psychological insights into human non-entrepreneurial economic agency, were critical to the neoliberal re-thinking of economic theory and policy. Thus the 'rigidity of money-wages' problem was in many ways a side issue, and notwithstanding the above complaints, Hayek, Friedman and the IEA authors practiced a governmental rationality that problematised Keynesian conceptions of human economic agency, not by rejecting out of hand Keynes' ideas because they were supposedly made to be politically palatable. The point that I want to make here, before moving on to discuss *The General Theory* in more detail, is that the respective discourses of Keynesianism and of neoliberalism were equally attuned to their respective conceptions of economic freedom and security, referencing distinctive conceptions of the human agent, and always addressing the problematic of how one should govern. This at least had little to do with political expediency. Moreover Keynes was quite explicit in arguing that when he used the term 'general' he was differentiating himself from the orthodox position, which he regarded as specific. However here, I am suggesting, a different interpretation could be given to this term: 'general' meaning 'social'. Keynes was practicing, as I shall argue below, a social theory of employment, interest and money.

2.2 Keynes, the macro problem and the social world

As I have said, the 'originality' of Keynes' theory is not my main focus.[20] Indeed what was certainly not original in his work was a political mentality that sought to govern for social ends, such as equality and state sponsored economic security. Keynes practiced this mentality within his theory but this mentality of rule had dominated much British governmental thinking since at least 1906. All the same in

[18] Hayek, F., and Shenoy, S., (1978), p. 100. The same language is used by Hutt, W., (1971), p. 59
[19] Hayek, F., (1975), p. 18
[20] David Laidler (1999, 2006) has championed the view that all of Keynes' theoretical ideas can be found in classical texts, and that *The General Theory* (1936) owed its rapid success to the intellectual support it provided for an already popular approach to policy. I would argue that this was precisely Keynes' achievement; that he was able to synthesise different economic ideas in a theory that was able to effectively practice an already extant political rationality.

this section of the chapter I am going to focus on the specifics of Keynes' *General Theory* in order to demonstrate that he took for granted a very particular kind of human economic agent when writing his theory; an imagined figure that was not necessarily made fully explicit but which, I believe, provides the fundamental reference point for the theory. It is what made it possible for Keynes solve, what he believed, was the key theoretical problem of the time.

> "The transition from economic anarchy to a regime which deliberately aims at controlling and directing economic forces in the interests of social justice and social stability, will present enormous difficulties both technical and political. I suggest, nevertheless, that the true destiny of New Liberalism is to seek their solution."[21]

As far as economic theory is concerned, *The General Theory* placed an emphasis, that had theretofore been lacking in economic theory, on everyone in the economy; everyone was now seen to be important; unlike the classical position it was not just to the entrepreneur that the nation looked for progress, the actions of all could affect the outcome of all. And while there was much that neoliberals took issue with in Keynes' theory, his inclusion of the whole social realm in a theory of the economy, of employment and growth generally, was not discarded by neoliberalism. These latter authors, just as with Keynes, recognised macroeconomics for what it was, a study of the social that referred to all human subjects in the economy. Thus consumption practices in and of themselves had consequences for the future wealth of the nation, and aggregate output was a function of everyone's economic choices; it was a function of everyone in society. This is what marked it out as different, as 'macro' in focus and differentiated it from neoclassical/marginalist theorists of economic growth, development and capital.

This doubtless requires some explanation of the state of economics in the early twentieth century, the context in which Keynes was developing his ideas. Writing in 1921 in *Risk, Uncertainty and Profit* Frank Knight argued that the major problem with orthodox economics was to be found in the artificial division in theory between consumption and production, and the resulting weak account this gave of the consumer.

> "The problem of consumption is considered independently, taking the form of expending value in exchange, which is worked out on its own account in accordance with the principle of rational choice or distribution of resources among competitive uses. This value in exchange on the expenditure side, becomes like the concept of exertion to Crusoe; it is an instrumental idea, with no ontological content, but extremely useful in solving the problem of

[21] Keynes, J.M., (1963)., p. 335

choice. The separation of the two halves of the economic problem [production and consumption] is much heightened in real life by the storing-up of value in exchange against unknown contingencies, with no thought of any particular use to be made of it. The separation is still further heightened by the tendency for the production of wealth to lose all connection with the notion of consuming utilities and take on the form of a competitive contest in which value in exchange becomes a mere measure of success, a counter in the game."[22]

The problem according to Knight was this; the marginal and neoclassical revolutions in economics practiced a new theory of value: the reason something had a value in the market place was no longer ascribed, as it had been by Smith, Ricardo, Mill and Marx, to the labour that had been expended in production, instead each individual person made a subjective or psychological assessment of how much any particular object was worth to them. Given that the consumer had a scarce amount of purchasing power to deploy, each individual subjective assessment of value came together to form, in aggregate, the price in the market place. And according to Walrasian general equilibrium theory the market auctioneering process for goods and services, composed of producers, distributors and consumers, cleared as prices were agreed by all simultaneously. Each moment in time, each clearing of the market, ended with consumption and the using up of resources that had previously been produced at the direction of entrepreneurs.

General equilibrium, as Knight argued, involved some pretty "heroic assumptions" which included perfect foresight and knowledge but it also, as he said, implied a consumer with "no ontology."[23] What did Knight mean by this phrase? On the one hand it was an exaggeration, within the neoclassical scheme a change in preferences by the consumer would change everything; the auctioneering process would have to start again. To the extent that consumers had the power to move equilibrium from one intersection of prices and outputs to another, it is difficult to say the consumer in neoclassical economics had 'no' ontology. On the other hand, however, the underlying human character of the consumer had become decidedly 'thin'. For Knight this figure had no intelligence, his reactions were mechanical, and he treated other human beings as if they were slot machines, that is pleasure machines that experience no pleasure, and no vices, virtues, desires or children, no propensities, talents or preferences.[24] One could say therefore that there was little sense of 'being' in this theory precisely because there was no notion that the figure of the consumer

[22] Knight, F., (1921), p. 89
[23] Knight, F., (1921), pp. 76-8, 89
[24] Morgan, M., (2006), p. 15, 18. Morgan argues that Knight's depiction of economic man marks a point in the history of modern economics when, rather than being a caricature of a actual human agent, economic man becomes disconnected from the real world and instead only lives inside the economists' maths lab.

existed between the discrete moments of time when markets cleared and the Walrasian auctioneering process started again. Indeed by suggesting that, in the real world, consumers store up value-in-exchange against unknown contingencies, that is to say they save money for no particular reason, Knight was alluding to a sense of being, an existential awareness of the future that consumers faced, that hitherto had played no role in economic theory with regards to the activity of consumption.

Conversely both classical and Austrian accounts of the economy recognised that the entrepreneur-as-producer operated with a distinct sense of the future and of his existence through time. By the mid-nineteenth century the capitalist was viewed as an individual who had come to realise that the only way to increase his consumption in the future was to abstain from present consumption, save, invest and ultimately produce more that could then be exchanged for more goods to consume in the future.[25] For Austrian school economists, like Eugen von Böhm-Bawerk and Joseph Schumpeter, the entrepreneur-producer was made into a figure endowed with very special capabilities and psychological propensities, someone who had overcome the human tendency to undervalue the future. This person was not "Mr. Public", as Böhm-Bawerk labelled the consumer, but an individual of will and action, earning profits because of an ability to consider the future desires of others. Where consumers undervalued the future, entrepreneurs gained a profit by exchanging current goods for future goods and waiting until consumers realised the full value of those goods, as the future became the present. For Schumpeter, the will and action of the entrepreneur was practically Nietzschean in proportion. The consumer on the other hand was weak and could easily have their desires created for them by the entrepreneur.[26]

In these accounts, the entrepreneur was afforded a sense of being, operating through time to make a profit. This figure had a purpose, a will and the ability to act on that will, and it was thanks to the entrepreneur that economies grew richer. It was only by not using up resources in the present, by building capital goods that would produce more in the future, that everyone could enjoy increased consumption and an increased standard of living. In this latter regard Knight was sceptical; suggesting instead that some entrepreneurs had become so rich that competition between them had turned into a personal battle rather than a competition to consume more. In turn it could not be definitively claimed that entrepreneurs always acted in society's best

[25] For example see Mill, J.,S., (1909), p. 462
[26] Böhm-Bawerk, E., (1959), pp. 268-71, 301; Schumpeter, J., (1959), pp. 66, 135-7

interest.[27] Nonetheless whatever position one took on that issue, Knight certainly believed that economics remained bipolar, on the one hand there was a neoclassical theory which gave consumers little sense of being and character, and on the other, an Austrian theory which both doubted the consumer's ability to contemplate the future and celebrated the entrepreneur as a being able to do precisely that. In the wake of the Keynesian revolution, neoliberalism I shall argue, (even if in the hands of Friedman it shared much of the mathematical formalism of neoclassical economics), provided a much 'thicker' rendition of the consumer. The figure of the consumer, in neoliberal thinking generally, came to resemble the Austrian account of the entrepreneur. Consumption was imagined as an entrepreneurial practice.

The problematic status of the consumer in orthodox theory was exactly what Keynes addressed in *The General Theory* in 1936. His consumption function and demand for money function gave his vision of the consumer, that is the non-entrepreneurial human agent of the economy, a status in the economy that mattered. Indeed, uncertainty and a concern with the future was not just an existential condition faced by entrepreneurs but faced by everyone in society. In this sense, one might say therefore that the idea of macroeconomics[28] carried a double meaning. Clearly it referred to a new body of economic theory that sought to explain how the behaviour of one individual impacted on another, why for instance an individual's decision to save might, by lowering the income of others, result in a withdrawal of entrepreneurial investment elsewhere in the economy. However, I am suggesting that it is also possible to think of macroeconomics as a body of knowledge that provided all human agents in the economy, not just entrepreneurs, with a sense of being, portraying key psychological propensities shared by all. It is in this second definitional sense that I would make the claim that neoliberalism was macroeconomic and necessarily post-Keynesian.

Keynes' analysis of consumer behaviour was far removed from the precepts of consumer price theory; it is an analysis in which time, existence and uncertainty play a critical role. The question he asked is why individuals consume and why they save? The answer he gave involved a consideration of both subjective and objective factors; it provided a psychological explanation of consumption behaviour in response both to personal characteristics and to outside factors (such as wage levels

[27] See Knight's essay *The Ethics of Competition* (1923) in which he questions the morality of the competitive ethic in economics. Thorstein Veblen (see *The Engineers of the Price System*, 1921) was particularly sceptical of the captains of industry who often, he believed, sought to sabotage productive equipment for their own personal gain.
[28] Note that Keynes himself did not actually use the term macroeconomics, although Frisch and Tinbergen were using the term in their work in the 1930s.

in the economy). On the personal side Keynes suggested, like Knight before him, that people save against the unknown future, for nothing in particular. In addition to this he also suggested that people might save for known future expenditures like education or old age, for inheritance purposes, or because of the independence it might give them in the future. Finally, Keynes acknowledged that some people clearly enjoyed receiving interest and seeing their capital appreciate, (alternatively they might simply be miserly). Nonetheless, Keynes' opinion was that overall while there were many different personality types there was ultimately a more or less permanent social structure that held sway over average consumption habits. In general there was likely to be a shared attitude to saving in society such that personal idiosyncrasies would balance out on average, having little affect on consumption and saving rates.[29]

So what did, according to Keynes, affect the general level of saving in society, the average rate of savings of consumers? The answer, as with above, was habit, but modified to some degree by the level of incomes in society as a whole. Note 'to some degree', because this was essentially Keynes' point: real incomes over time will rise, but spending, although it will also rise, will not rise in a one-to-one proportion with incomes, "for a man's habitual standard of life usually has the first claim on his income, and he is apt to save the difference which discovers itself between his actual income and the expense of his habitual standard". This was the "fundamental psychological law upon which one could depend with great confidence both from *a priori*...knowledge of human nature and from the detailed facts of experience."[30]

One could say therefore that human beings save because they exist through time and there are many motivations that determine saving: "precaution, foresight, calculation, improvement, independence, enterprise, pride and avarice."[31] However for Keynes, these factors invariably cancelled each other out; what matters is that through time people develop certain habitual consumption patterns; they tend to spend a similar proportion of their income and thus as they get richer the absolute level of savings rises. The result is that to maintain the same circulation of money in the economy, which maintains the same level of employment, investment in capital goods needs increasingly to make up for the shortfall in spending which arises as incomes increase. And it is precisely because savings are nothing more than the residual, the leftovers of income and a fairly constant proportion of income, that new investment will be multiplied through the economy, resulting in far more additional

[29] Keynes, J., (1973), pp. 107-10
[30] Ibid., pp. 96-8
[31] Op. cit.

resources being utilised than the original investment. All of which, it should be said, suggested that government expenditure should take up an increasing proportion of the slack created by rising amounts of aggregate savings, and that this spending would be non-inflationary precisely because spending and saving practices (which Keynes described as a decision either to hold money or bonds) was so habitual in nature.

However in finishing this section I want to highlight that in this analysis the first step in thinking about aggregate expenditure and income, the macro-economy, was not the fact that one person's spending is another person's income, although of course this is an essential ingredient in Keynes' theory. What makes this statement possible in the first place is that the theory referenced the behaviour, or to be more exact the consumption and saving practices, of ordinary people not just entrepreneurs. Previously, as discussed, both neoclassical and Austrian economics had given little attention to the consumer. Now Keynes was acknowledging that ordinary individuals also faced uncertainty and that time made a difference. For Keynes it seemed obvious that habits formed and stuck, this aspect of human nature he was happy to take for granted. Once character was formed and spending habits crystallised, individual expenditure could be understood as a function of income received; non-habitual consumption practices were generally reduced to a minimum. Thus rather than calling this figure 'a consumer', one might rather suggest a different label, the 'worker-saver', to describe how Keynes envisaged the psychological propensities of these human agents. People work, habits invariably determine spending, what is left over is saved.

The consumer that Keynes referenced in *The General Theory* was, as I shall discuss in section 2.3, not the same figure of the consumer referenced by IEA authors, or by Friedman and Hayek in the 1950s and 1960s. Keynes' consumer or non-entrepreneurial human agent was essentially imagined as his co-Bloomsbury set writers and artists imagined him, in need of creative leadership and guidance; like E. M. Forster's Leonard Bast in *Howards End* (1910), the working classes were yearning to rise above their biological lives, yet all too often consumption was motivated by habits of emulation.[32] For Keynes in *The General Theory* the consumer was certainly far more than just the marginalist 'thin' subject that Knight had described. But at the same time the consumer as worker-saver was clearly a reflection of how Keynes and his cohorts perceived the nature of the British working class male of the early twentieth century. At any rate what matters for the purposes of this thesis is that

[32] Goodwin, C., (2006), pp 230-1

Keynes did indeed have in mind a specific typification of human agency that constituted a central reference point in his attempt to turn economics into social science and social policy.

To 'societise' economics, to make it a theory of the aggregate or macro economy, Keynes had described all the human agents in the economy as they moved through time. From the Austrian marginalists he took the entrepreneur. And in depicting everyone else as a 'worker-saver' Keynes was referencing what he took for granted as being the stereotypical idea of the psychology of the British working-class man. This figure no longer lived entirely 'hand-to-mouth', but instead earned enough to be able to save. Nonetheless as he appeared in theory, he was not deemed sophisticated enough to be able to plan with any great presence of mind how to save for investment or future contingencies. At the very least there was far too much uncertainty to plan with any great intent. In the theory therefore, it would be fair to say that savings were the 'leftovers' from income put away for unknown reasons. Perhaps Keynes' notion of the worker-saver was indeed a fair reflection of the kinds of persons that had come into being in the early twentieth century. But by describing this kind of agency in theory, by 'making up' this category of person, this new social theory, in guiding government economic policy, would also guide the way that people actually experienced their economic lives.[33] That is to say, if Keynesian style economic policy required government to plan British industry and set up large corporations, then this would inevitably imply that individuals would experience the economy in certain ways; and certainly less as the consumers that neoliberals imagined them to be.

2.3 Problematising worker-savers, 'making up' the consumer

Recollecting their own upbringing and formation of their own political compass in an interview published by the IEA in 2001, the IEA directors Ralph Harris and Arthur Seldon commented that they found the idea that the working class were incapable of running their own affairs and making their own decisions "offensive". They were "appalled by the insensitivity of governments to the efforts of the working classes to help themselves."[34] One might say that they took issue with the way the human agents of the economy had been made up in theory by the dominant 'social' thinking inherent in economic policy making. Freedom when defined as the social provision of economic security was experienced by these authors as patronising paternalism. Thus what I want to argue in the second half of this chapter

[33] As Hacking would say, it changed the space of possibilities for actually experienced personhood. (Hacking, I., (2002), 226-30).

[34] Harris, R., Seldon, A., et al., (2001), pp. 26-7

is that a political rationality inherent in the early IEA publications in the late 1950s and 1960s developed around a specific problematising of this image of the worker-saver. These publications practiced a much stronger figure of the consumer. Certainly Hayek and Friedman were important figures in problematising Keynesian thinking by referencing a different conception of consumption and the consumer. Nonetheless IEA authors and in particular Harris and Seldon also referenced the consumer, what they labelled the sovereign consumer, to make critical arguments addressed to the problem of how to govern. While I am not arguing that Friedman's 'wealth-owning unit', Hayek's 'agent of progress' or the IEA's 'sovereign consumer' were identical figures, there is clearly a very strong family resemblance in the way these and other authors were thinking and conceiving of the consumer at the time.

In this section therefore, I am going to consider some of the earliest IEA publications, as well as some of the key works of Hayek and Friedman, to demonstrate how the worker-saver was re-constituted and re-identified as the consumer, and how from the start this figure was central to the question of how to govern the economy. I want to focus on three themes running through the IEA publications of the era, as well as in the work of Hayek and Friedman. Firstly, a specific appeal was made to the idea that consumers are the foundational unit of economic progress and civilisation; the same sort of calculative mental processes that are used by entrepreneurs also determined consumer spending. Secondly a shift was effected away from a neoclassical model of perfect competition. No doubt reiterating some of the work done in Chicago, taken up by Friedman in *Capitalism and Freedom* (1962),[35] IEA authors consistently argued that monopoly was neither permanent, nor the size of any one individual business problematic, so long as consumers were allowed and encouraged to be sovereign agents in the economy. Finally monetary stability was deemed as significant for the consumer as for the entrepreneur, and because it was a necessary prerequisite of undistorted consumer behaviour it was also essential for progress. This inevitably meant that Keynes' demand for money function was problematised as an inadequate description of the balance sheet of the modern consumer, and critically this laid the groundwork for transforming the relationship in economic policy between the consumer and credit.

2.3.1 The consumer and progress

The IEA was set up in the context of Hayek's essay *The Intellectuals and Socialism* (1949); an essay which was essentially a call to arms to "offer a new liberal programme which appeal[ed] to the imagination" as much as Fabian and collectivist

[35] See Horn, R., (2009), pp. 204-37

ideas had previously succeeded in persuading intellectuals.[36] Hayek argued that a new political vision was required that would not just warn of the dangers of collectivism but offer an alternative. It would have to offer up images of a progressive society in which, as Harris and Seldon did indeed argue in 1958, everyone had a part to play as agents of a second industrial revolution, enacting a philosophy where all humans could assert their will[37] whether they were entrepreneurs (as with Böhm-Bawerk, Schumpeter and Keynes) or not. To this end, these authors would be doing precisely what Keynes had done, not just in terms of publicising and popularising theory; but critically, like him, making an argument that incorporated all the human agents of the economy.

The vision of the non-entrepreneurial class referenced by Hayek and the IEA authors was very different to Keynes' worker-saver, but theirs was a clear vision all the same, something very much lacking in their classical liberal forebears. Neoliberal theory, just like economic theorising in the name of the social, would reference a much 'thicker' figure of the consumer than previously provided by classical and neoclassical economists alike. That said there was clearly a difference in style between the IEA's pamphleteering and Hayek's famous, and more academic essay, *The Use of Knowledge in Society* (1945). Nonetheless all of these authors were asking questions about progress and economic growth and about the role of the consumer. The language of the IEA was that much more straightforward and to the point. Even so before discussing their conception of the sovereign consumer I want to briefly discuss Hayek's conception of progress as laid out in his 1945 essay.

Hayek's essay was in many ways a rejoinder to the 'socialist calculation debate' that had raged in the 1930s. It addressed arguments concerning the possibility of constructing an economic system in Walrasian general equilibrium without market prices. However, it also marked a point in Hayek's career in which he shifted his work on capital, production and cycles and into social theorising, beyond the Böhm-Bawerkian focus on production and capital (the problems with which Hayek had been battling with in *Prices and Production* (1935) and his *Pure Theory of Capital* (1941)) and into the realm of the social; that is to say into a context in which his arguments would address all the human economic agents that made up the economy. Thus if Hayek's 'discovery' was an early example of theory practicing a neoliberal political *savoir*, problematising Keynes' categorisation of the different human elements of the

[36] Hayek, F., (1998), pp. 25-6
[37] Harris, R., Seldon, A., et al. (1959), p. 55

social economy, then Harris and Seldon's style of language made this far more explicit.

On the face of it *The Use of Knowledge in Society* (which I am taking as Hayek's clearest statement of his 'social' arguments at the time) was a critique of the neoclassical assumption that the economic problem was to calculate prices and outputs. Hayek argued that the data which were needed to make these calculations were not 'given' and could never be so, because it existed solely in the minds of all the separate economic agents acting in their own specific circumstances of time and place. The notion of planning had thus been entirely misunderstood: planning rightly belonged not to a collective endeavour (such as government) but with every individual in society who constantly made decisions about how to allocate their scarce resources to a range of competing desires. Thus every individual economic act was an act of planning and no one body whether collective or individual could possibly know what was going on in the minds of every individual in an economy. For Hayek, only the price system, which had arisen without conscious planning, could coordinate the actions of different people without them having to know everyone else's plans. Using prices, civilisation was thus able "to extend the span of our utilisation of resources beyond the span of control of any one mind; and therefore...dispense with the need...[for]...conscious control."[38] Quoting philosopher Alfred Whitehead, Hayek was able to conclude that civilisation could only advance because it was able to increase the number of important operations that could be performed without being thought about.[39]

A faulty pricing system would not only lead to irrational outcomes for an economy and society but according to Hayek a fully functioning price system enabled people to take actions that led to progress and the furthering of civilisation. Thus working through Hayek's logic backwards: civilisation was defined as the satisfaction of an increasing stock of desires, which essentially meant enabling more people to realise their own personal plans. By definition, to realise an aim by taking an economic action demonstrated rationalism, an understanding of cause and effect; and because of the dispersal of information, the price system maximised the chance of this happening. As a result, Hayek could claim that the price system was rational and led to progress and the enhancement of civilisation.

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[38] Hayek, F., (1945), p. 527
[39] Ibid., p. 528.

Everyone was a planner and everyone would share the benefits of the price system. But what might be the appropriate term through which to capture this generalised agent of progress? It would certainly include business entrepreneurs, but there were far more individuals in society than the traditional entrepreneur-capitalists. And there was nothing explicitly written here to suggest that Hayek's vision would immediately appeal to a worker-saver, spending his income as he always had, saving what was left over. However for Harris and Seldon, Hayek's agent of progress was very clearly identifying the sovereign consumer as well as the entrepreneur. Thus in a modification of language, by directly labelling this agent the consumer, Harris and Seldon could appeal to everyone because everyone in their minds was a consumer. The consumer was thus now to be imagined as the foundational unit of progress; that is the simplest unit of planning and investment, albeit in a simpler form, engaged in essentially the same thought processes as the entrepreneur.

To enunciate and designate this figure the IEA authors used the term consumer sovereignty.[40] It was a term explicitly employed in Harris and Seldon's tracts *Hire Purchase in a Free Society* (1958) and *Advertising in a Free Society* (1959) to act as the foundational basis on which a free society operates. In theory it meant two things: firstly that no one could know an individual's wants more than they do themselves. This at any rate was no more than the assumption inherent in the marginalist theory of value. But additionally the point was made that no method of centralised decision-making could match the dynamic diversity of personal preferences and circumstances. Thus the consumer became the explicit human label for Hayek's decentralised sites of time and circumstance. For Harris and Seldon, the free society "governed by man as a consumer not by man as a producer" minimises "resistances to change" that inevitably lead to "impoverishment and restrictions on liberty."[41] Progress and civilisation[42] were the results of a mentality shared by consumers and entrepreneurs alike: being adaptable, having free play to act on one's desires, planning in each individual situation of time and circumstance. The agent of progress was the consumer and, as the next section demonstrates, this figure became the key motif in IEA arguments on a number of specific policy issues, including advertising and consumer credit.

[40] The first explicit reference to the term 'consumer sovereignty' was made by William Hutt (one the key IEA authors) in his book *Economics and the Public* (1936)
[41] Harris, R., and Seldon, A., et al., (1958), pp. 55-6; Harris, R., and Seldon, A., et al., (1959), pp. 79-80
[42] "Civilisation is progress and progress is civilisation", (Hayek, F., [1960](2006), p. 36)

2.3.2 Consumer sovereignty and the impossibility of monopoly

The sovereign consumer was the key reference for the IEA in the context of policy debates. Indeed in their earliest publications Harris and Seldon sought to debunk the notion, consistent with both classical and social liberalism, that the consumer was weak in the face of entrepreneurs and companies that could effectively create monopolies at will. Schumpeter (1943) for instance had argued that monopolistic practices were by definition inherent in all capitalistic behaviour; an entrepreneur would use all the means available to protect his business including patents, pricing policies, even location (the example is given of the local grocer who because of his location becomes at times a monopolist). Schumpeter however suggested that no monopolies are permanent because of the entrepreneurial spirit of innovation and change (creative destruction as he called it).[43] In a similar vein many on the Left (J.K. Galbraith is a prime example, see below) were making the argument that advertising is also a form of monopolistic activity because it seeks to create desires in consumers that they previously did not have. And of course, although certainly no socialist, Schumpeter had argued that creating desires in others was a mark of the highest calibre entrepreneur, the man of will and action. Conversely for the socially minded liberals it signified the very impossibility of constructing a regime of perfect competition.

Harris and Seldon attacked both positions. In particular they discussed the development of the latter perspective in economics in the first half of the twentieth century in the work of Chamberlain and Kaldor, the latter deriding advertising as wasteful and misleading. The apotheosis of this position, for them, was to be found in the works of Galbraith, where advertising was portrayed as creating false consumer desires, making people buy things they did not need. In turn these kinds of arguments had led to increasing calls for legislative restrictions to be placed on corporate advertising.[44] It was a position found to be totally problematic within the IEA. That is to say, they might have agreed with Schumpeter that the gales of creative destruction would always undermine monopolistic positions in due course. However that was not enough for them, for if the consumer was to be the agent of progress, the sovereign of freedom, one had to deny the very possibility that the consumer would always be weak in the face of business concerns. If entrepreneurs could create the desires of consumers through advertising techniques then how could they ever be the adaptable and free agents of change?

[43] Schumpeter, J., (1996), pp. 87-106

[44] Harris, R., and Seldon, A., et al., (1959), pp. 42-3, 62

Harris and Seldon's response was to argue that advertising did not "create the market...[it]...*found* the market." In other words advertising did not instil in consumers needs that they did not previously have, needs that might turn out to be false; instead advertising offered information on new products for which a desire was lying dormant, potentially waiting to be activated. "The appeal to spend is not merely an appeal to rush out, withdraw savings, and buy this or that product. It is an appeal to raise one's standard of living, set one's sights higher all round...whetting appetites, awakening ambition." In the consumer society, advertising was an essential part of consumer value creation. And if the claims being made of a product turned out to be false then the consumer as sovereign would not buy that product again and would inform others of his or her experience. Advertising could not be a monopoly practice because the consumer was sovereign. In turn socially inspired legislation that sought to protect the consumer was for them restrictive and patronising to the consumer: it assumed they did not know their own mind. Advertising performed a "beneficent function and...service to mankind...Caveat emptor is not a primitive condition from which we have to be moved, but an ideal to which we should aspire."[45]

This argument implied therefore that entrepreneurs and businesses were to be given their freedom to advertise, set prices and outputs and compete not just so that they could produce to exchange and thus consume more themselves (as in the classical account), but so that they were also free to be able to respond to the preferences of consumers, the foundational providers of progress. Thus Harris and Seldon set the tone for much of the work of the IEA in the 1960s. The perspective was always that consumers were not in need of protection from producers but instead consumer sovereignty would always imply progress in any one industry because of the innate adaptability of the consumer. In the meantime as long as consumers were allowed to be sovereign, with markets constructed to maintain their sovereignty, there could be no market failure brought about by the monopoly practices of businesses.

Harris and Seldon either wrote or commissioned (often heavily edited by Seldon) a series of monographs (in most cases they were published in the Hobart Papers series), which applied these principles to different areas of economic action. *Hire purchase in a free society* (1958) argued against restricting any form of arrangement, in this case consumer credit, that would not allow the assertion of the will of man as consumer[46] (see section 2.3.3). *To Let?* (1960) argued that rent control, born of a

[45] Ibid., pp. 43-7, 59-61, 68-70
[46] Harris, R., and Seldon, A., et al., (1958), p. 55

desire to do social good, had led to a deterioration of housing stock in Britain. No consumer with savings in his or her right mind, it was argued, would want to invest in a rent-controlled house; for this author a comparison of the London skyline with Erhard's modern Germany was a permanent reminder of the failure of planning in Britain.[47] *Health Through Choice* (1961), argued that it was wrong to mistrust consumer choice in the field of health. The author argued for wholesale denationalisation as, in his view, the provision of healthcare would always be sub par if one assumed that consumers were not able to make their own medical choices and instead assumed, wrongly, that health care was a natural monopoly best served by collective provision.[48] *A Market for Labour* (1961) began by reminding the reader that a labour market was the only means for enabling the community of consumers to express preferences between alternative ways of using their labour. The point was not to direct labour but to improve the operation of the labour market through providing better information and training to those seeking jobs.[49] *Farming for Consumers* (1963) argued that agricultural boards were set up on the basis that consumers were not capable of making accurate assessments of relative prices, quantities and qualities of food products. Policies enacted on social grounds had restricted the development of agriculture in Britain and kept prices high; instead consumers should be given their freedom and given the necessary information to make their choices.[50] Finally, *Telephones – public or private?* (1966) made the case for the denationalisation of the British telephone and postal service monopoly on the basis that consumer sovereignty was the only way to ensure adequate investment in a telephone service. Treating a consumer service as if it were a social obligation was problematic, so the author argued, because it was impossible to define and allocate appropriate costs on that basis.[51]

It is worth also noting that the IEA were not just a publishing house for the Hobart Papers. Harris and Seldon commissioned a series of surveys in which they sought to demonstrate that given the appropriately asked questions, the public was far less keen on social provision of welfare services than generally thought by intellectuals. Social provision would always ride roughshod over consumer sovereignty and, as they suggested, even the Fabian Society in recent publications had begun to argue that, without strong reasons to the contrary, people should be allowed to make their

[47] McRae, N., and the IEA, (1960), pp. 20-6, 33
[48] Lees, D., and the IEA, (1961), pp 16-8, 22
[49] Robertson, D., and the IEA (1961), pp. 10, 18-25
[50] Hallett, G., and James, P., and the IEA (1963), pp. 10-1, 22-5
[51] Canes, M., and the IEA (1966), pp. 14-7, 29-33

own choices.[52] Finally, it is important to remember that the IEA's remit to explain and convince others of their case always extended beyond intellectuals and politicians into schools and universities. This they set out to achieve with the publication of research monographs explicitly intended for use in the classroom. One such monograph, written by Christina Fulop, entitled *Consumers in the market* (1967) neatly summarised the position adopted in all the above publications, clarifying for students that it was the consumer not the producer that guaranteed progress. "The problem for consumers' (rather than producers') sovereignty is that, to safeguard his interest as producer, man would be tempted to stultify change by suppressing invention and innovation, which would eventually lead to stagnation." Fulop went on to explain how consumer protection agencies could be problematic, why advertising, contra Galbraith, served a positive purpose and why it was a necessity that the retail price mechanism, which allowed producers to dictate the price their products were sold at by retail businesses, had been abolished.[53]

I want to conclude this section by reiterating Harris and Seldon's point about Fabian Society research on the welfare state. Even while the IEA authors were writing about consumer sovereignty, the Left was not without those who were calling into question the received wisdom of the welfarist governing mentality. There were those who would of course to argue for more planning and economic control, and who considered the politics of appealing to the newly 'embourgeoised' working class as revisionist and wrong.[54] Nonetheless there were different voices within the Fabian and Labour movement who were giving recognition to this new figure, the active consumer. For instance Fabian Tract 155 (1953) thoroughly endorsed the idea that nationalised industries should cooperate with consumer councils to ensure that they were meeting consumer needs as best as possible.[55] Fabian Tract 188 (1957) addressed the issue of home ownership, suggesting that while housing did represent a stock of community wealth, it was not wrong for the government to offer help for those who wanted to own their own homes. Consumers were entitled to express this desire. Indeed, the author argued that Britain needed more equity capital and that it would be better if some of the savings going into paying off mortgages went instead into share ownership.[56] Finally and perhaps most importantly, the prominent

[52] Harris, R., and Seldon, A., and the IEA, (1965), pp. 1-2, 7-8, 58-66. The Fabian Tract they refer to is Richard Titmuss' *Choice in a welfare state* (1967). Titmuss specifically discussed the Hobart Papers and the IEA, and was not totally dismissive. However he still chose to draw the line between public services, say for example of health and giving blood, and private goods and services, like buying a car, where he was willing to agree that the consumer should be free to choose.

[53] Fulop, C., (1967), pp. 11, 14-79

[54] See Gyfor, J., and Haseler, S., (1971)

[55] Stewart, M., (1953), pp. 1-9. The foreword endorsing the research was written by prominent Labour politician Hugh Gaitskill.

[56] Munby, D., (1957), pp. 1-33

Labour politician Tony Crossland began a critique of the Labour movement in 1960 arguing that Labour policies no longer satisfied the aspirations of the new and richer working class. Social attitudes had changed and so must policy.[57] By 1971 Crossland was echoing much that had been said at the IEA; criticising those like Galbraith for assuming that consumers had been brainwashed into buying things they did not need. The Left, he believed, continued to fail to connect with the prevailing positive social attitude to consumer pleasures.[58] Indeed in the same year the influential journalist Samuel Brittan suggested in the IEA's second Hobart paperback that in future the Labour Party might even consider becoming the party of the consumer.[59]

That is not to say that this recognition of the consumer among some on the Left implied the same kind of dismantling of the welfare state that the IEA had in mind, but the point is that IEA authors were not alone in recognising changing attitudes and patterns of behaviour in society at large. It is thus worth remembering that the IEA were addressing themselves to changes in the real world. All the Hobart Papers mentioned above were prefaced with the same message (written by Seldon). Their 'general theme' was to address how rising incomes had given increasing scope for consumer choice and that policies needed to be designed to take account of this. In conceptualising this emerging figure of the consumer, the IEA were laying the groundwork for future government policies that would seek to act against those who were not deemed to be utilising a consumer mentality. Government would aim to guide the possibilities of personhood and subjectivity. All the same the figure of the consumer as understood by the IEA authors in the late 1950s and 1960s in some respects reflected and recognised that a new form of subjectivity was increasingly coming into existence in society. Commentators on both the Left and Right of the political spectrum recognised that the assumptions of the working class mentality that had guided policy makers were increasingly problematic, that there was increasingly a class, not of worker-savers, but of active consumers.

2.3.3 The consumer-entrepreneur and money

So a critique of the way that consumers had been thought about, as passive and weak, was coming from all quarters, and was directed at a range of different renditions all connected with a social governing mentality. Keynes' conception of consumer, which I have labelled the worker-saver, offered just one way in the assemblage of social liberal governmental practices for thinking about the non-entrepreneurial class. For many, however, it was not the attitudes to saving and

[57] Crossland, A., (1960), pp. 8-11
[58] Crossland, A., (1971), p. 6
[59] Brittan, S., (1971), p. 14

habitual spending patterns that, as with Keynes, took centre stage, but that in their guise as consumers these individuals were often deemed unable to make appropriate decisions regarding products in the market place, say in health or education. Alternatively consumers might find themselves, due to a lack of information, being unable to resist very insistent marketing techniques. But certainly in the context of economic theory Keynes' rendition of the welfarist political rationality took centre stage in the theoretical counter-revolution. And none of his ideas were more critical than those regarding money and the consumption of financial services, such as the provision of credit.

Thus I want to finish this chapter by looking at the relationship between money, credit and the consumer in the early formative period of the neoliberal governing mentality. The monetary system and the concomitant availability of credit, as this thesis aims to demonstrate, came to play an increasingly central role in the practices associated with governing for the consumer. And money, banking and credit played a significant role in IEA publications, as the discussion at the end of this section and the next chapter demonstrates. However I want to focus first on Milton Friedman's ideas, particularly in relation to his work in the 1950s, not only because it became critical in government policy making in the 1970s and 1980s but also because it provides an extremely clear image of the active consumer, of consumption as a form of enterprise. For Friedman, I shall argue, refashioning Keynes' social world was first and foremost a question of problematising and thus rethinking the worker-saver's psychological relationship to money.

Two pieces of Friedman's work stand out in the way they bring into question the ontology of the worker-saver: *The Quantity Theory of Money: A Restatement* (1956) and *A Theory of the Consumption Function* (1957). And just as with Keynes, I am not of course saying that this work somehow originated a new subjectivity in theory, Friedman's theories referenced a similar human agent that was being referenced by a set of authors that included Hayek, Harris and Seldon. Nonetheless they can be read as key statements of a specifically neoliberal mind set. Friedman's restatement of the quantity theory was an explicit demand-for-money equation, indeed for him being a quantity theorist meant "in the first instance" working on a theory of the demand for money.[60] One might indeed say that this was precisely what Friedman meant in his famous lecture *The Counter-revolution in Monetary Theory*, delivered in London in 1970 and published by the IEA, when he said that Keynes was a quantity theorist[61]; for

[60] Friedman, M., (1969), p. 52
[61] Friedman, M., and the IEA (1970), p. 7

Keynes had also constructed a demand for money equation, one in which people made a choice between holding their savings as money or bonds. Thus Friedman was not denouncing Keynes' work on the demand for money, he was seeking to extend it. The 'Keynesian Revolution' had incorporated the whole social world, entrepreneurs and non-entrepreneurs into a theory of the aggregate economy. Where Hayek's recognition of this had been somewhat philosophical in tone; Friedman's contribution was that much more involved with economic theory, suggesting that Keynes had over-simplified his discussion of the worker-saver's balance sheet.

It should be said that Keynes had already foreshadowed much of Friedman's argument, in recognising that changes in the value of money, windfall gains and an expectation of higher future income might all affect current consumption. Yet where Keynes concluded that these factors were of little importance both in aggregate and because the future was ultimately too uncertain to act upon in the present,[62] Friedman moved these factors centre stage in his description of the behaviour of all wealth-owning units. Human beings, whether individuals, entrepreneurs or working together in business concerns to maximise profit were portfolio managers, allocating resources to different assets, whether money (as a store of wealth), tradable securities, physical and intangible assets. This immediately meant that because wealth was measured as a unit of account (i.e. money, which is also an asset), changes in money's purchasing power would affect reallocations of wealth between assets. This in turn could lead to a misallocation of resources.

However the main point I want to draw out of this is that according to Friedman, wealth-owning units in their guise as individual humans were constantly repositioning their wealth between different assets that existed through time and which provided a flow (a series of income receipts), that were regularly received over the period of ownership or during the asset's useful economic life. One might say that Friedman was suggesting that the wealth-owning unit behaved in a fashion that recognised its own movement through time. This is not to deny that, as with any neoclassical theory, the wealth-owning unit was imbued with perfect knowledge and foresight, it was just that as an asset allocator, the wealth-owning unit was having to make a decision now about how to allocate resources to assets that would not cease to exist simply because the market had cleared. Consumers like businesses existed through time and the arrangement and constant re-balancing of their assets would have a huge impact on their wealth over the course of their lives.

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[62] Keynes, J., (1973), pp. 91-5

All of this, I am arguing, can be found in Friedman's *Restatement* of the quantity theory of money, where an expression was developed to include both the demand to hold money as well as the demand to hold all other assets as well. It demonstrates precisely what assets and the nature of these assets that Friedman had in mind. A wealth-owning unit could, just as had been suggested by Keynes' demand for money function, make a choice to hold wealth in the form of cash or bonds. Holding money yielded a utility merely from the convenience and security of having it on hand, and the yield on a bond was dependent on its interest payment (coupon) plus or minus the effect of changing interest rates on the value of the bond over its time to maturity. Both money and bonds provided nominal returns. Wealth could also be allocated to equities, where the yield took the form of claims on the profits of companies, received as dividends and capital returns. They were similar to bonds except that income would be received in perpetuity and would be linked to the future general price levels because company earnings immediately incorporated the effects of inflation.[63]

Up to this point, Friedman had said nothing controversial; Keynes had also included money and tradable securities in his demand for money function. Additionally though Friedman now extended the demand for money function to show that the same wealth that was allocated to holding money and tradable securities could also be allocated to the purchase of physical and non-physical goods. Measuring the yield or utility of these assets was of course problematic, but the very act of placing them on a continuum of assets including money presupposed that any purchase could provide an income flow that was reducible and comparable to the income received from any other asset. That said Friedman did suggest simple ways to include these flows on his demand for money function. Physical non-human goods were thought of as equivalent to equities, except that the annual stream of income they yielded would be in kind rather than in money (in his model it was nonetheless assumed that the flow could be measured in monetary terms). Finally, there were the investments in human capital, which Friedman added to the equation by assuming that the income derived from these investments would be a fixed proportion of the income received from investments in non-human capital. However, as he noted, the payment to another human being did not really represent the investment because the income was actually received by the payer rather than the service provider. In general terms Friedman remarked,

[63] Friedman, M., (1969), pp. 51-6

"Shifts between human capital and other forms must take place through direct investment and disinvestment in the human agent...the tastes and preferences of wealth-owning units for the service streams [yields] arising from different forms of wealth must in general simply be taken for granted as determining the form of the demand function."[64]

The wealth-owning unit could be a business or an individual, but if it was the latter, then as I have said, consumption no longer signified the end of the economic process in any one discrete time period. The allocation of scarce resources did not finish at the moment of market clearance, with the 'ontologically-light' consumer that Knight had pointed to. On the contrary the consumer was making asset allocation decisions that created asset holdings that would continue to exist through time. And it did not matter whether these assets were bonds, property, clothes or education; all were assets of different sorts. As such the consumer did not necessarily use up resources; consumption was now a term that signified the beginning of a whole new arrangement of investments in which each individual aimed to 'produce' themselves in their chosen way.

With regards to consumption practices, Friedman was explicit. Consumption should no longer be thought of as a habitual practice; Keynes was wrong to suggest that the marginal propensity to consume was consistent and always less than one. Instead Friedman's alternative hypothesis was that "men do not adapt their cash expenditure on consumption to their cash receipts." Put another way, spending, he believed, is not so much a function of income but a function of one's expectation as to what permanent standard of living is commensurate with the subjective assessment of the worth of one's own human capital. Changes in cash receipts (income) would only change spending patterns if these changes were thought to represent permanent changes in one's earning power. If a change in income were deemed temporary then the individual would aim to maintain spending by borrowing at an appropriate rate of interest.

To this extent next week's pay cheque might be totally irrelevant to next week's spending. And as Friedman admitted, implicit in this was a definition of consumption not in terms of purchases but in terms of the value of services, that is to say the income received over time from what was bought. Thus "much that one sees as consumption gets reclassified as savings," which of course means investment.[65] So consumption, in this sense, no longer necessarily used up resources as in the classical position. Likewise borrowing to consume was not necessarily, as Böhm-Bawerk had

[64] Ibid.
[65] Friedman, M., (1957), pp. 3, 7, 21-4, 28, 220

argued, profligate and wasteful, always increasing the depletion of a nation's subsistence fund.[66] Instead at the very least consumer credit was a way to manage cash flows over one's lifetime.

Friedman considered himself a scientist; his critique of Keynes involved an empirical investigation into spending practices. He believed that his results suggested that saving was not just the leftovers from income once habitual spending had taken place. Perhaps on a practical level he might not have declared that *all* consumption spending is an investment, perhaps he would have seen this as a *reductio ad absurdum* of his theory. Nonetheless where should one draw the line? In the formalism of his *Restatement* there is no guideline and no suggestion that the equation is not intended to capture all the decisions of the wealth-owning unit. Either it is or it is not; can one have it both ways? The following quote seems to suggest, to me at least, that there is no exclusion intended.

> "Dollars of money are not distinguished according as they are said to be held for one purpose. Rather, each dollar is, as it were, regarded as rendering a variety of services [yields], and the holder of money as altering his money holdings until the value to him of the addition to the total flow of services produced by adding a dollar to his money stock is equal to the reduction in the flow of services produced by subcontracting a dollar from each of the other forms in which he holds assets."[67]

The important point is that in this model spending involved the construction of a portfolio of assets that produced a yield over time. This was as applicable to the consumer as to businesses; they were all wealth-owning units. Perhaps, as I have intimated, the neoclassical methodology that Friedman employed forces too extreme a position. I am not so sure. At any rate there is nothing in the theory that enables anyone to claim that each item of expenditure does not involve the purchase of an asset, however short its useful economic life. Thus what matters in this description is not the positivism that Friedman employed, it is that consumption signifies the beginning of a process of self-investment in which flows are received through time. Keynes had made it clear that consumption was important to economic growth, that everyone's excess savings could disincentivise entrepreneurial investment. Friedman also believed that everyone was relevant to economic growth, because in his model everyone was referenced as an entrepreneur, adding to the nation's stock of yielding assets.

[66] Mill, J., (2006), p. 371; Böhm-Bawerk, E., (1959), p. 371
[67] Friedman, M., (1969), p. 61

The consumer theory and the demand for money theory could therefore be read as two sides of the same coin, put together they problematised the notion of the worker-saver, practicing instead an idea of human agency where individual decisions, consumption and saving, became decisions regarding how best to allocate wealth and invest in oneself. Consumers were in fact often making investment decisions regarding the future streams of incomes they wanted to receive: they were entrepreneurs-of-the-self, consumers-as-entrepreneurs rather than the worker-savers described by Keynes. Perhaps as I have said, this is to jump ahead of precisely what Friedman was thinking. Yet Friedman was not alone in making these kinds of arguments. IEA authors referenced a similar conception of the consumer in which the distinctions between consumption and production broke down. Enoch Powell's IEA pamphlet *Saving in a Free Society* (1960) for instance demonstrated no qualms about applying this perspective to ordinary consumer activities. The nation's stock of capital was constituted by both the fixed assets of manufacturing companies and by consumer purchases of cars, furniture, "food for the housewife's larder" and education. Consumption of all forms was an investment akin to business investment: the only difference being that the former was an investment in the self, in one's own balance sheet. To this extent the act of purchase and the use of a consumer good did not necessarily use up resources. In terms of public policy, there could thus be no justification for thinking that there should be more or less 'saving'; because this would assume that the government had the ability to evaluate all consumption spending in relation to the future yield it gave to each individual consumer.[68]

Harris and Seldon's 1958 monograph on consumer credit, while not worded in such definitive terms, was written in defence of the consumer and the consumer's right to borrow. Specifically on the issue of hire purchase they argued that the current debate had become mired in the restrictionist and prejudicial attitudes towards the working classes adopted they believed by those championing the social cause. Hire purchase in fact they argued often went hand in hand with saving, that is with investing in durable goods. To purchase a good did not categorically imply that a resource was being used up, quite the opposite it might imply an investment in the household. Moreover, who could say what was right for anyone to invest in? Harris and Seldon were vehement that it was not just for the purchase of tangible, durable goods that credit should be made readily available; consumers should be able to buy intangible services on credit too.

[68] Powell, E., (1960), pp. 19-20, 131

Hire purchase helped expand ownership, which in itself expressed fundamental instincts and as such there was "virtually no limit to potential demand for consumer durable goods obtainable through hire purchase." Consumer credit provided finance for consumer investment; to restrict it was entirely wrong.[69] Even at this early stage in the life of the IEA a link had been forged between how to govern for the consumer and the acceptance of rising household debt. At the very least controlling consumer borrowing was no way to control inflation.

> "One day...the notion that hire purchase control could be used as a substitute for control of the supply of money will be seen as the futile dream it always was. On that day, hire purchase and related forms of consumer credit will be able to look ahead to new horizons. There is enormous scope for extending the use of consumer credit for durables of all kinds, including labour-saving or pleasure-giving devices not yet invented...services as well...[for instance]...air transport, holidays, loans to finance home repairs...The commercial banks must extend the scope of their services in order to make sure that the second Industrial Revolution will not be held back by financial difficulties."[70]

2.4 Concluding remarks

Knowing how to govern requires an explicit vision of the human agents one is governing for. In turn different governing mentalities practice different conceptions of human economic agency, whatever the form of discourse: economic theory, political philosophy or policy pamphlet. Perhaps what led to claims by the IEA authors that Keynes was more a politician than an economist was that he was such a successful one-man show, that Keynes himself translated his theories of money and consumption into an actionable political programme. Alternatively perhaps it was that what Keynes offered fell on ears that were already entirely attuned to a social mentality of rule? 'Keynesian' thinking was already conventional wisdom; rather like the label 'Thatcherism' that appeared twenty years after the foundation of the IEA, it came to stand for a political rationality already well constituted. This latter interpretation has been mine.

The social practices inherent in Keynes' thinking were not in themselves revolutionary; but by providing a role for non-entrepreneurs in economic theory, giving these consumers meaning and existence through time in a way that both classical political economy and neoclassical economics had not, Keynes was already pointing to a new possibility for liberalism: one that would include all agents of the economy in one class. This post-classical liberalism, or neoliberalism, would still be a social theory of the economy, including everyone, but one in which, I have argued, it

[69] Harris, R., and Seldon, A., (1958), pp. 5-6, 43-4
[70] Ibid., 54-5

was possible to assume that the economic decisions of individual consumers as asset allocators would be aligned to the economic interests of society. There would be one class of people in the social order constituted by enterprising consumers and entrepreneurs, very distinct from the class based social order described by classical liberals composed of capitalists, landowners and workers. And as each private site of enterprise would seek to maximise self-fulfilment it was believed that there was little ground to argue that the government should act as an agent to maintain economic security.

This new figure of the active consumer was referenced in the theoretical work of Hayek and Friedman and, as I have attempted to demonstrate in this chapter, this new figure existed both in the minds of IEA authors in the late 1950s and 1960s as well as in the minds of some on the Left. No doubt it reflected the changing nature of society at the time and the way people constructed their lives. But my concern is with a mentality of rule and the kinds of governmental programmes that follow from different perspectives on human agency, from reference points that become ingrained and locked in the minds of the governors of economic policy that they become entirely taken for granted. To say that society was composed of active consumers, rather than weak consumers at the mercy of corporations or workers saving what was left over of their incomes, meant that a neoliberal governing mentality would be referencing the whole social order, constituted at its foundation by enterprising consumers, seeking wherever possible to govern for those self-same consumers.

Problematising Keynesianism and the social or welfarist governing mentality essentially meant identifying a human agent, the consumer, that, neoliberals believed, had been misidentified previously as a worker-saver at the mercy of large corporations. And from this perspective the assumption could be made that a whole range of enterprising units, consumers, household consuming units and business concerns constituted society. But as the next chapter discusses, during the late 1960s and 1970s IEA authors began increasingly to confront a world that did not appear to them as it had existed in their publications. British economic performance was deteriorating in relative and absolute terms and the New Right sought to explain and understand all facets of that performance. As the following chapter discusses, in addition to problematising Keynes and/or Keynesian policies, these authors turned their attention to an examination of the economy as they understood it to be, and the kinds of human economic agents that existed in it. This in turn laid the groundwork for a set of policies that would seek to change attitudes and behaviour: intervention, that is, for the sake of consumer sovereignty and therefore the market.

Chapter 3: Diagnosing the British economy

Much of the early work of the IEA formed a coherent programme in which the agreed answer to certain economic problems was to be found in consumer sovereignty. As the last chapter demonstrated this was practically the opposite of saying that government needed to concern itself with consumer protection and with minimising the power of large corporations either through specific legislation or nationalisation. The early publications of the IEA assumed that consumers were already equipped with the necessary faculties to make appropriate and discerning choices and, with their inherent adaptability, facilitate change and progress. Yet, for IEA authors in particular, the experience of the 1960s and 1970s demonstrated that there was something wrong with the British economy, a malaise had infected it that needed to be identified and diagnosed.[1] Britain's economic growth and productivity rates were consistently below the level of other developed countries and for the IEA this meant that the consumer was not facilitating change and progress. Instead they believed that government involvement in the economy, while being well intentioned, was decidedly problematic.

Of course the IEA were certainly not the only intellectual grouping to be concerned about the economy; politicians and think tanks representing all political viewpoints sought to understand the nature of Britain's relative decline. Even so, in this chapter I am specifically addressing the question of how, between 1960 and the late 1970s, the IEA problematised the current techniques for governing the British economy. I will argue that there were two aspects in the IEA's diagnosis, one a continuous critique of all governments' economic policies in the 1960s and 1970s, the other specifically related to a notion of crisis in the 1970s. The first aspect essentially stated the on-going neoliberal position that government intervention in the economy was stifling consumer sovereignty, whether through Keynesian demand management or brief flirtations with indicative planning in the 1960s, or through more micro-style intervention strategies in the 1970s. Many different discursive strategies were used by the IEA: some tried to argue that Keynesian policies were a corruption of Keynes' ideas, focusing primarily on methodological issues; some argued against the whole notion that growth was always a function of fixed capital formation. Others argued, particularly in relation to the Britain's financial system and the policies of Edward Heath's Conservative Government of 1970 to 1974, that the meaning of competition had been completely misunderstood.

[1] Harris' own description of what the IEA were doing in this period, see Harris, R., (2005), pp. 258-67

My argument is that Keynesian policies were neither a corruption of Keynes, nor methodologically unsound nor necessarily wrong in definitional terms. However in saying this I am not setting out with the specific intention of defending these policies. Instead my aim is simply to demonstrate that these heavily criticised policies were in fact manifestations of a social mentality of government where normative aspects of the human experience, such as freedom or self-fulfilment, were posited as conditional on social factors such as equality, justice and solidarity. In the social mentality of rule, the economy was composed of worker-savers not active consumers. As such, different kinds of economic policies were required, policies that took for granted a certain kind of conduct and which IEA authors came to argue actually produced that conduct.

Much of this chapter is essentially about government and its role in the economy, focused on the IEA's responses to the historical circumstances of the early 1970s. And it is in this latter period that the second aspect of the IEA's critique of Keynesian techniques for governing the economy took shape. I will argue that in the 1970s the IEA authors launched what might very well be described as their own critical history of the present. That is to say, quoting Foucauldian philosopher Colin Gordon, that criticism was practiced by all these writers as genealogy: as "a historical investigation into events that have led us to constitute ourselves and recognise ourselves as subjects of what we do, think and say."[2] For Gordon, genealogy had last been practiced in the 1930s and 1940s by figures on the Right, such as Hayek and Rüstow and on the Left, by Theodor Adorno, Walter Benjamin and Karl Polanyi. All these authors had written in various and very different ways about the collapse of classical liberalism into depression, fascism and war. This is not to claim that Britain in the 1970s was facing catastrophe on the same scale as Germany in the 1930s. But with the advent of economic crisis in Britain in the 1970s, many IEA authors came to adopt a narrative that explained the crisis historically, as a failure of so many to adapt their attitudes and conduct to the present times. Far too few people in Britain were, so the argument went, identifying and constituting themselves first and foremost as consumers.

As I shall show the experience of inflation in the early 1970s was critical in forcing British neoliberals to confront a social landscape in which the figure of the consumer so central to their political rationality often appeared to be absent. This at least is my analysis of what the IEA were doing, constructing a historical investigation into the reasons why so many people in Britain were not, as they came to believe, thinking as

[2] Gordon, C., (1986), pp. 75-8

sovereign consumers. In this narrative, habits of thought had become misaligned to social reality, methods of government had, they believed, produced conduct not commensurate with progress. However to adopt this history required that neoliberals recognise the need to confront a world that did not appear as they had assumed it to be. In resolving this tension IEA authors invoked a critical history with a remarkably social and evolutionary tone.

3.1 Problematising Keynesianism

It was not until the late 1970s and early 1980s that the impact of public choice economics began to be felt in the publications of the IEA, with their questioning of the very possibility of benign government. James Buchanan and others for instance argued in two IEA papers in 1978 and 1981 that analysis should assume that political practice involved time-inconsistent promises and policies designed in the first instance to win elections.[3] However in the publications of the 1960s and 1970s IEA authors did not bring this viewpoint to the fore. Generally speaking, their publications did not attempt to deny that politicians had good intentions; instead they believed that governments were doing incalculable damage to the economy precisely because they had assumed that there was no limit to the power of good intentions.[4] The IEA shared a desire to see the British economy growing and for standards of living to improve; what they questioned was how to govern with these outcomes in mind. Broadly speaking in the 1960s their concern, as I have discussed in the chapter 2, was with particular industries and the role that the consumer should be playing in the allocation of economic resources. Where attention was given in their publications to macroeconomic policy itself, authors poured scorn on the idea, whether practiced in Keynesian demand management or French-style indicative planning, that investment in capital goods was the only means through which to ensure continued economic growth. In the 1970s, as well as focusing on broader issues relating to how to govern the economy, IEA authors also problematised micro-interventions geared towards making industry more competitive. This section of the chapter deals with these two periods separately.

3.1.1 Growthmanship

The IEA position on Keynesian demand management and government-led planning was very negative. Their position on Keynes himself was more ambivalent. In some circumstances, as discussed in the previous chapter, Keynes was derided as being an economist only of the politically possible. However an alternative IEA discursive

[3] See Buchanan, J., Wagner, R., and Burton, J., (1978), *The Consequences of Mr Keynes*, and Brennan, H., and Buchanan, J., (1981), *Monopoly in Money and Inflation*
[4] Harris, R., (2005), p. 258

strategy focused on the way in which, so it was argued, Keynes' ideas had become corroded by his followers. Thus according to Colin Clark (1961), by 1939, Keynes had come to understand lessons that Keynesians did not, that the type of work given to the unemployed was just as important as the act of doing it. Any work was not necessarily better than no work.[5] In a similar vein Terence Hutchison argued that Keynes' papers written after *The General Theory* showed that he had always recognised a natural level of unemployment, below which the government should not be forcing the economy to operate. Hutchison's revelation was that Keynes had considered that in the late 1930s this could be as high as 12% of the workforce, rather than the 3% level that Keynesians at Cambridge University, like Richard Kahn and Nicholas Kaldor, were suggesting in the 1950s and 1960s. By propounding their own views Hutchison argued that the Keynesians were counterfeiting Keynes' intellectual heritage.[6]

IEA authors also had methodological problems with the Keynesians that they did not necessarily have with Keynes himself. Hayek and fellow Austrian school economist Ludwig Lachmann argued that Keynes' ideas had been corrupted by the scientism of econometrics. For them translating the notion that unemployment was due to insufficient demand for labour into a statistical policy model took for granted the explanation without leaving room for alternative hypotheses based on understanding how people made decisions. They questioned the possibility of constructing testable aggregates based on information that was held in particular circumstances of time and place. Lachmann in particular made the point that Keynes had a very developed sense of the subjective nature of the entrepreneur totally at odds with an economic policy in which differences in preferences and expectations were irrelevant to the need to produce more. There was some truth to this: Keynes' understanding of the entrepreneur was in keeping with Böhm-Bawerk and the Austrian tradition. Nonetheless, for these authors, Keynes had offered the germ of an idea whose danger lay in giving politicians something to do, a temptation too difficult to resist, to be seen to be doing something, whatever it was.[7]

All these arguments were in a sense part of an almost instinctive questioning of the notion that the production of capital goods was the predominant source of increasing national wealth. One means to do this was to argue that Keynes was not really a Keynesian and, as Hutchison later argued, that it was Erhard's Germany that really

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[5] Clark, C., and the IEA, (1961), pp. 11-3
[6] Hutchison, T., (1977), pp. 10-31
[7] Hayek, F., (1975), p. 20, and Lachmann, L., and IEA, (1973), p. 18. See also again Hayek's discussion in *The Use of Knowledge in Society* (1945)

represented enlightened Keynesian economic policy.[8] For Clark, in his Hobart paper *Growthmanship* (1961), the point about Keynes' 'specific' theory was precisely this, that however relevant it might have been for the depths of the 1930s depression, it had mistakenly given rise to the impression that investment in physical capital goods (rather than the production of consumer goods) was the way to grow an economy. "Here, I think, we see the germ of the idea that has done so much harm in economic thinking." Keynesian macroeconomists, Clark maintained, such as Alvin Hansen and Evsey Domar (based at Harvard and M.I.T. respectively) had translated this idea into econometric formulations, which had been condensed into the capital-output ratio, in which it was taken for granted that the way to raise economic growth was through capital investment. (This of course for Hayek would have been an error of 'scientistic' thinking.) Thus if an economy had a capital-output ratio of three then three additional units to the national stock of capital would lead to output being raised by one unit per annum. If a 6% increase in capital investment led to a 2% increase in output and the population was growing 3% then, according the theory, the country would be stuck in a vicious cycle of poverty.[9]

On its own, the capital-output ratio was a convenient working concept but it had, according to Clark, been "insidiously elevated" to the status of "a general economic law". In turn, he argued, a number of mistakes had been made. Human factors in economic growth had been ignored such as education and entrepreneurship; and the model also ignored, Clark argued, the impact that the production of consumer goods would have, simply because their presence on the high street would act as an important incentive for people to increase their effort and output. Rather like Harris and Seldon, Clark was arguing that the activity of consumption itself was key to developing a mentality suited to change and progress. In Britain, Clark complained, a channelling of government money through subsidies to industries such as coal, electricity and railways had led to a waste of hundreds of millions of pounds: conspicuous investment was ultimately as wasteful as conspicuous consumption.[10]

During the 1950s and 1960s the Government had in fact done much to move Britain towards more open market pricing, most wartime controls were gone by the mid-1950s and in 1964 producer controls over retail pricing were abolished. But no doubt there existed a broad consensus for the continued use of demand management, and that the emphasis of policy would be on maintaining industrial output growth. Indeed during both Conservative and Labour administrations in the 1960s a range of

[8] Hutchison, T., (1977), p. 34
[9] Clark, C., and the IEA (1961), pp. 11-22
[10] Ibid., pp. 11, 27-46

tools were used to limit consumer spending in order to lower inflationary pressure (and protect the pound) while doing relatively little damage to output (and therefore employment). These tools, which included incomes policies, import duties, hire-purchase controls and higher rates of income tax, invariably fell on consumers.[11] All the same IEA authors were particularly alarmed by successive Governments' flirtation with the idea, first under the Conservative's National Economic Development Council (1961-4) and subsequently under Labour's Department for Economic Affairs (1964-6), that there should be more attempts in Britain at co-ordinated national long term planning. Higher growth rates in France, in particular, were viewed as proof that indicative planning could make all the difference to British industrial performance.

Both attempts in the 1960s to coordinate a national effort to increase growth (with a focus on exports so as to counteract Britain's recurring balance of payments problems) were short-lived and failed to deliver the levels of growth that had been indicated in the plan. Indeed the Labour Party's plan was soon abandoned in favour of what appeared like a permanent battle to stop the pound devaluing; a battle, it should be added, that was lost in 1967. Even so, while in operation, critics on the Left and Right saw these attempts at planning as half-hearted.[12] Writing for the IEA, George Polanyi made an argument highly reminiscent of Hayek in *The Road to Serfdom*. Planning for Polanyi was devoid of intellectual and moral foundation because governments could never know the minds of the community made up as it was by millions of individual consumers and businesses. Moreover the Government were not forcing the different parties to adhere to the plan, but instead were relying on people's willingness to work towards the guidelines. Thus for Polanyi the whole thing was half-enforced and half-believed, the result being that virtually no difference was made to economic performance. Instead to make planning a reality (even if in Polanyi's mind it would no doubt fail anyway) would require ever-increasing Soviet style restrictions on freedom: the inevitable incomes policies that came at the end of periods of economic growth were for him just the sign of things to come.[13] British indicative planning was neither indicative nor real panning at all. Instead it was based, as Hobart paper 35 (1966) written by the anonymous Spartacus

[11] Cairncross, A., (1995), pp. 142-79
[12] See Hughes, J., (1967), Fabian Tract 372, *An Economic Strategy for Labour*, as one such example from the Left, where the argument was made that the planning authority needed to directly intervene in investment, wages, prices and manpower allocation. In other words, the argument was made that for planning to work much more control was needed.
[13] Polanyi, G., (1967), pp. 23-7, 38-8, 76-86, 92-9

had claimed, on "wish-dream projections" with no idea of how to make these projections a reality save by writing them into the plan.[14]

Methodological errors, a misunderstanding of Keynes (Polanyi cited Keynesian economist Roy Harrod as a particularly malign force in the development of economic policy[15]), and a desire, however benevolent, by politicians to be seen to be doing something: all these reasons were given by IEA authors in various forms when problematising the role that government was taking in the economy in the 1960s with regard to trying to encourage and facilitate increased production. All these various IEA pamphlets were attempts to demonstrate the futility of seeking growth through any means other than competition and consumer sovereignty. The IEA argued that all these interventions succeeded in doing was stopping prices working effectively as signals that would enable businesses to meet consumer demands and enable consumers to be able to design and enact their own personal plans. The solution to Britain's low relative levels of growth was thus necessarily related to consumer sovereignty. There was absolutely nothing wrong with the goal of economic growth; this was a perfectly desirable goal that entirely corresponded with the growing affluence of consumers. But for the IEA what this required was a social policy that sought to free consumers to be able to make more choices, forcing producers to compete for their custom. This, and only this, would ensure progress.

Where the IEA referenced the consumer, economic policies in the 1960s referenced the worker-saver, with habitual spending practices: theories of economic growth only made sense in the context of their respective political rationality. The capital-output ratio, for instance, did not capture the behaviour of individuals if one assumed that every individual was concerned with the development of his or her personal instrumental plans and human capital. By this I do not mean to say that it was 'false science', but it was science that practiced different precepts of human conduct. Thus if one's perspective was that consumption in and of itself used up resources (classical liberalism) or that consumption patterns were habitual (Keynesian progressive liberalism) then the logical conclusion from this viewpoint would be that growth was bound to be a function of production, that is investment in capital goods (plant and machinery) which would only later produce more consumer goods for future consumption. This of course was not the viewpoint of the IEA authors: consumption could be interpreted as an investment or, at the very least, as an activity that affected the consumer. Thus the greater the availability of different

14 Institute of Economic Affairs, (1966), pp. 24-6
15 Polanyi, G., (1967), pp. 74-5

consumer goods, the more the incentive for the consumer to better him or herself, thereby casting off the old habitual practices of the worker-saver. Keynes' theory shared the former perspective, not that of the IEA. He was no fan of econometrics, that is certainly true, and it is doubtful that he would have fully condoned attempts to plan the economy. Nonetheless governing the economy for the sake of producing more physical output represented a view of society and its constituent human agents that was entirely commensurate with Keynes' thinking. *The General Theory* was practising a particular social mentality of rule that was equally being practiced in the theories and policy implications of Harrod, Domar, Kahn and Kaldor; economic security for all of society could only be guaranteed by increasing production, whether paid for directly or facilitated by government investment. After all, talk of planning in 1960-1 aroused little controversy either between the political parties or between informed observers.[16]

Likewise this social mentality was practiced in policy. One question that Polanyi had posed in his Hobart paper was why the Conservative Government under Prime Minister Harold Macmillan (1957-1963) had been so eager to adopt the mantra of indicative planning. His answer was that it fitted with Macmillan's personal outlook, which had been stated in a book authored in 1938 in which he had argued for more social regulation of production.[17] It was almost as if Polanyi was saying that Macmillan had a personal vendetta to resolve, finally getting his way. In a sense Macmillan's 'personal perspective' was anything but, it was the expression of the same governing mentality dominant at the time and inherent in Keynes's theories. And it was equally part of future Labour Prime Minister Harold Wilson's impassioned plea in Fabian Tract 309 (1957) that the government needed to do more to increase production and output; if Britain faced recurrent inflationary problems and balance of payments crises because of excess demand surely the answer was not industrial stagnation but ensuring that the right things were being produced, that capital stock was increased in areas that generated wealth and export earnings. Production was the key to social and economic stability.[18]

This was of course the same perspective that dominated the Government's *Employment Policy White Paper*, published in 1944 two years before Keynes' death, which offered a direct link between *The General Theory* and the economic policies of the 1960s. The primary aim of policy after the War was to be the maintenance of high and stable levels of employment. The problem was precisely that any one fall in

[16] Cairncross, A., (1995), p. 31
[17] Ibid., p. 19
[18] Wilson, H., (1957), pp. 11-20

demand, say for example steel, would lead to unemployment and a fall in spending for other goods. A decline in demand in one part of the economy would multiply through the economy and because workers' spending was a function of their cash income (worker-savers did not borrow to maintain spending habits based on a permanent assessment of income over their life, see discussion of Leijonhufvud later), the end result would be a bigger fall in output and employment than the original cut in steel production implied. Thus the crucial moment for government intervention was at the first onset of the depression. Moreover low interest rates were in and of themselves seen to be a weak expedient when it came to encouraging entrepreneurial investment. Instead, the report stated, the government would help encourage private enterprise to plan capital expenditure to be in conformity with the national stabilisation policy. Planning would invariably require public and private bodies to submit programmes outlining the next five years' capital expenditure.[19]

This paper showed the link between indicative planning and demand management. Thus in finishing this section I would reiterate that Keynes was just one voice in a collective of thinking that did not see consumers as active agents of progress but as worker-savers with habitual spending and saving patterns that could weigh down on society's aggregate employment potential. Thus Keynes' ideas had not been misapplied and transformed into 'growthmanship' and indicative planning as the IEA authors had argued. The point in making this argument is simply to say that it is problematic to claim that Keynes was not a Keynesian, that he had been misunderstood by his followers because to do so ignores the discontinuity in the discursive and political practice between two governing mentalities, each with their fundamental reference points related to human agency and the act of consumption.

3.1.2 Competition

The IEA's alternative to planning and production was competition and the consumer. 'Spartacus's' *Growth Through Competition* (1966) was a clearly stated manifesto for consumer sovereignty that argued for three specific policies that would enable people to get on with the business of creating wealth. Firstly, the pound needed to be floated in the foreign exchange markets; a fixed exchange rate just caused bottlenecks, as industry was not able to respond quickly enough to changes in consumer demand. A psychological attachment to a certain exchange rate was deemed entirely irrational. Secondly private social security, much more than the public system, would be able to meet the needs of the consumers of unemployment insurance. They would be able to secure themselves insurance payouts in case they

[19] HMSO, Employment Policy, Cmnd. 5527, pp. 3, 16, 20-1

lost their job, and because this would be in the private sector and not paid by the state, the payout would be a much higher proportion of their salary. In turn this would remove the fear of unemployment and help to create an environment where people could be mobile and move from one occupation to another as consumer tastes and relative prices changed. Finally, excess demand in the economy created by policies which led to too high levels of employment, minimised flexibility, created yet more bottlenecks and led to the imposition of income policies; all forcing restraints on consumer sovereignty.[20]

But to those practicing a social governing mentality, competition meant something different and even those who believed that British producers should be more competitive were using the term entirely differently to the way the IEA used it. For a start, as I have discussed, growth was viewed by Keynesians (of the Right and Left) as a function of capital investment that enabled more to be produced for future consumption. This in turn meant that it was a function of technological capability, productivity and efficiency, essentially engineering qualities. Over the economic cycle, the government would need to be active in ensuring that appropriate investment was taking place so that enough people were being employed. The 1960s was a period in which demand management and, for a brief time, indicative planning was viewed as legitimate ways in which to ensure that growth was maintained and economic security ensured. However by the end of the 1960s it was recognised that these policies had not been successful, and with Edward Heath's election as Conservative Prime Minister in 1970 a change of tactics was instigated.[21] The period from 1970 to 1974 certainly introduced significant change: new trade union legislation, entry to the European Common Market and reform of the banking sector (see section 3.2.1). Nonetheless as Heath battled with the Labour Party in his pursuit of more a competitive industrial base, for the IEA, his policies remained problematic. The Heath Government represented a period in which a contested meaning of competition was brought into sharp relief.

Within eighteen months of Heath's election, the IEA were publishing indictments of his Government's policies. The second Hobart paperback, written by the influential journalist Samuel Brittan, *Government and the Market Economy* (1971) pointed out that for the all the talk of increasing competition in the economy the overall tenor of policy remained interventionist and corporatist. There was too little movement towards competition in the way that the IEA meant. Brittan was particularly

[20] The Institute of Economic Affairs, (1966), pp. 13, 28-46
[21] Cockett, R., (1995), pp. 200-1. The story of the IEA's expectations for Heath and subsequent disappointment is relayed in chapter six of Cockett's book *Thinking the Unthinkable.*

scornful of intervention aimed at specific industries, where the state was supporting and protecting producers such as car manufacturers because it was deemed to be in the national interest. He was equally scathing where the government was supporting new projects, such as Concorde, which were believed to be beneficial for Britain because of its advanced technological nature.[22] This, as far as the IEA were concerned, was not competition.

Yet Heath 'believed' in making British producers more competitive especially when compared to foreign competition. How can one explain the disparity? Heath, I would say, believed in 'being competitive', in having an attitude that was "dynamic, thrusting and go-getting"[23] and in a sense this notion of competition was entirely coincident with a social mentality of governing that Conservatives such as Macmillan had represented before in the Party, in which one made a distinction between the mentality of the entrepreneur and everyone else. Attempts to govern the economy from the top, looking down, had been unsuccessful, and this meant that economic policy in the 1970s would have to focus on the micro-level. It was not enough to encourage companies to work towards agreed targets. Although Heath did publish a 5% target for economic growth, the point was that the Government believed that it had to get its hands dirty if it wanted Britain's economic performance to improve and for industry to be more 'competitive'.

Subsidies, preferred supplier status, support for large capital projects, encouraging large-scale mergers in order to increase efficiency were all part of a programme to make Britain more competitive.[24] In some cases the government gave business steady cash flows to enable them to plan for the long term and be more efficient. In other cases, it was thought the only way to compete internationally was to be larger and benefit from economies of scale that again would increase efficiency.[25] These, one could say, were microeconomic policies targeted at Britain's productivity and efficiency problem. Demand management had clearly not provided Britain with economic security. Instead the Government, so Heath believed, needed to get down to the nitty-gritty and make Britain's economy more secure by making individual industries and companies that much better. Growth would come from planning for companies to be that much more competitive.

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[22] Brittan, S., (1971), pp. 17-38

[23] As Brian Sewill, a special economic advisor to the Heath Government said, Heath was trying to create a more dynamic, thrusting and go-getting economy. (Sewill, B., 1975, p. 30)

[24] All these measures represented, for John Burton (an IEA author), writing in a Centre for Policy Studies pamphlet entitled *The Job Support Machine* (1979), a morass and crescendo of subsidies rising since the mid-1960s that included, in addition to direct support, a "great fiscal unknown of soft loans, advice, and preferential treatment" all bringing down the cost of production. (Burton, J., and the CPS, (1979), pp. 1-2)

[25] Jewkes, J., and the IEA, (1977), pp. 41-3

Same term: 'competition', but of course encapsulating a completely different meaning from that used by the IEA authors. In the social lexicon it was still about one's status as a producer vis-à-vis other producers: being the most technologically advanced and the most efficient; which in practice often implied being the largest company in any one sector. To get that right was to ensure success, the rest, sales and profits, would follow. For the IEA, competition meant something entirely different, it was made by constructing an order in which consumers were sovereign. There was no such thing as 'being competitive' as if this was a permanent ontological condition for a company to establish by itself. Competition was a process, neoliberals believed, activated and existing only in the presence of the consumer: producers could not be competitive unless they were competing with each other for the attention of consumers.

For the IEA it was not just that consumers were resistant to monopoly, as I discussed in the last chapter, it was that consumers were the cause of competition. Their presence created competition; being competitive was not a state resulting from the imperative for innovation, which Schumpeter believed was personally inspired and others believed could be inspired by the state. Thus in definitional terms they believed that the microeconomic policies of the 1970s were misplaced. Brian Hindley for instance argued in *Industrial Merger and Public Policy* (1970) that policy should not be geared towards an ideal in which governments encouraged certain mergers that they had deemed would create efficiency gains and block mergers that they deemed would not.[26] Ivy Papps in *Government and Enterprise* (1975) argued that there were in fact no natural monopolies, it was an illusion invariably created by government in the belief that consumers needed protecting. In reality government subsidies only incentivised producers to declare the wrong costs and protecting nationalised industries in this way only produced higher prices. She maintained, "present subsidies insult the poor by refusing to accept the validity of the choices they would otherwise make if left to themselves."[27]

Finally, John Jewkes in *Delusions of Dominance* (1977) pointed to a general schizophrenia in the mind of government since 1945. On the one hand he argued there had been a pervasive feeling that the industrial and commercial landscape was increasingly being concentrated in the hands of fewer companies. Thus given a belief in corporate omnipotence and weak consumers, the latter needed protecting by

[26] Hindley, B., and the IEA, (1970), pp. 8-49
[27] Papps, I., (1975), pp. 10-25, 64

either nationalisation or by refusing to allow companies to merge. On the other hand there was an obsession with size, a belief that efficiency was needed to compete. For Jewkes, this was all misplaced. There was no evidence that the largest companies were dominating more of the nation's output. In any case, that missed the point: concentration ratios said nothing about the prevailing intensity of competition. "Consumer's choice generates competition...by price and quality." Consumer protection that assumed a model of a weak consumer only "weakens competition and can actually result in consumer exploitation, particularly with government controls on prices and profits."[28]

The active and enterprising consumer on the other hand was immune to monopoly and knew his or her own mind. This presence of this figure activated the essence of competition; without consumer sovereignty to say a company was competitive was, for the IEA, meaningless. Thus government policy in the 1970s that aimed to make some British companies better managed and more competitive might be different to demand management and planning, but still for the IEA, very much part of the problem.

> "Under the existing mountain of legislation, by which governments have so completely armed themselves to chide, jolt, threaten or lure private industry into what are supposed to be better ways of conducting its affairs, the marvel is that the patient has not collapsed beyond recovery."[29]

As in previous cases, all would be right with the British economy, so long as consumers were free to make choices between different and competing producers, so long as the British population were no longer constrained by government controls. Or so the argument went. However, as section 3.2 discusses, the argument relied on the need for the population to act as sovereign consumers, to be willing and able to be adaptable and not habitual in their spending practices, putting their interests as consumers over their interests as producers. Increasingly IEA authors began to recognise that the assumptions they had made about the British population were not necessarily entirely accurate.

3.2 Towards a genealogy of crisis

In the introduction to this chapter, I suggested that there were two aspects that I wanted to consider in regard to how the IEA problematised the British economy in the 1960s and 1970s. The first, as discussed above, was about how the IEA criticised Keynesian methodology and theory and attempted to draw out distinctions between

[28] Jewkes, J., and the IEA, (1977), pp. 29-30, 37-8, 41-3, 50
[29] Ibid., p. 59

Keynes and the Keynesian economists and policy makers. By covering the arguments presented in the 1960s and 1970s I have attempted to show that these discursive strategies were in a sense surface features of a clash between political reference points; that is between alternative visions of human agency and subjectivity existing and being practiced in political discourse. The second aspect of the IEA's problematisation of the British economy involved a discursive style that was genealogical in nature, in which a range of IEA authors sought to understand through a historical narrative why they did not recognise in society the agents in the economy for whom they wished to govern. Problematising government and economic policy was not enough, they sought to problematise the human constituents of British society.

In saying this however I do not mean to argue that the IEA's position on the 'natural and proper' status of consumer sovereignty was displaced by this genealogical project. Indeed the former argument was continually made throughout the 1970s. To view the genealogical project as a complete change of course would be to suggest that the IEA recognised that their depiction of consumers was inaccurate, that the 'worker-saver' was somehow a better way to characterise the human agents of the economy. This is not my argument at all. As I will discuss below IEA authors were certain, for instance in their analysis of money and banking, that enterprising consumers did exist and that these habits of thought were entirely dominant in society at large. However this genealogical work did bring to light and try and explain the presence in society of habits of thought that were different. Does this demonstrate a contradiction in IEA thinking; would it be impossible to reconcile the belief that active consumers were the natural agents of the economy yet many members of the population were not acting as enterprising consumers?

Perhaps the answer to the above question is yes. However if the answer is yes with regards to the IEA, then no doubt one could find similar parallel contradictions in all the different approaches that have been taken to the question of how to govern. In other words this problematic is inherent within all forms of governmentality. Regimes of government do not create subjectivities, but they do try to elicit, encourage and foster them.[30] Therefore rather than talk of contradiction, I would rather suggest that there are tensions in any programme where it is recognised that something is not quite right, that people are not necessarily behaving according to the norms that are taken to be generally extant in society. The point is how to overcome this tension. In this case the IEA utilised social and evolutionary

[30] Dean, M., (1999), p. 32

arguments that recognised both the problem, yet at the same time suggested that it was transitory and related to the distorting effect of governmental practices that, they believed, should now be made obsolete.

This section of the chapter is divided into the following parts. Section 3.2.1 considers how IEA authors' criticised monetary policy in the 1960s and how they came to argue that a liberalised banking system would be much better suited to the sovereign consumer. By the end of this decade one can begin to see glimpses of the genealogy to follow, in the sense that Keynesian policy was increasingly seen as an obstacle to certain ways of thinking. This provides the background to section 3.2.2. In 1971 the British banking sector was indeed liberalised in a spirit akin to the IEA viewpoint. The new system of control was known as *Competition and Credit Control*. However, by 1974 the experience of ballooning bank lending and inflation led to the re-imposition of direct controls over lending. This experience was critical for British neoliberalism in the formation of its diagnosis of the 'British disease'. Indeed this metaphor only appears in IEA literature after this period. Thus in section 3.2.3, I discuss the nature of this diagnosis, focused as it was on the use of organic metaphors to explain social change. A neoliberal mentality of rule would have to govern for this change not as an active agent in and of itself, but as mid-wife to a difficult birth. In this one can distinguish a very particular neoliberal mentality of economic government.

3.2.1 Banking against the consumer

In the wake of another stop-go cycle in the second half of the 1950s where inflation and a balance of payments crisis was checked by the imposition, among other things, of direct controls on lending and hire purchase, the Macmillan government set up a commission to inquire into whether monetary policy could play a more active role in economic policy. The Radcliffe Committee reported its findings in 1959, which in turn led to the publication in 1960 by the IEA of *Not Unanimous,* a short book containing a series of essays by authors all of the same viewpoint. Their position could broadly be put as follows. The committee's findings were said to be helpful in that it suggested that it was right to consider monetary policy in the context of a whole range of liquid assets, not just cash and bank deposits. However they believed the committee had ultimately adopted a "fatal attitude" to monetary policy, exhibiting a "fundamental distrust in the efficacy of short term interest rate changes." Monetary policy would remain, mistakenly they believed, subordinated to fiscal policy.[31]

[31] Seldon, A., and Thorneycroft, P., (eds.), (1960), pp. 20, 38, 64, 69-70, 95

It seemed to the authors that the Committee was endorsing the behaviour of the Bank of England, which they argued both acted to keep interest rates low to encourage business investment, but also acted with regard to the needs of government in respect of financing their fiscal deficit without recourse to bank borrowing (that is without recourse to monetary creation, or as it is euphemistically known 'printing money'[32]). There had been, so it was argued, a reluctance to raise interest rates before the sterling crisis of 1957 because the Bank of England had been concerned about the difficulties of finding private (non-bank) buyers for government debt in a falling bond market. In this regard R.F. Henderson argued that both the Bank of England and Radcliffe were totally wrong to think that high rates were damaging to the creditworthiness of the government and the confidence of investors in sterling. In fact he believed the opposite was much closer to the truth.[33]

For Victor Morgan the Radcliffe Committee was right both to be concerned with the build up of general liquidity in the economy outside of just pure cash holdings, and in its recognition of the link between changes in the rate of interest and capital values. But at the same time, the report had, according to Morgan, ignored the shift in expectations that had occurred in Britain since 1939; more and more people were acting to protect themselves by hedging against inflation, that is by spending their cash now on the basis that it was going to be worth less in the near future; and this in itself increased inflation.[34] As Wilfred King put it, also in *Not Unanimous*, the fatalistic attitude of Radcliffe had failed to see an increased scope for the use of monetary policy because behaviour itself had changed.[35]

For IEA authors, the Bank of England's distrust of the efficacy of short-term interest rates was based on the latter's outdated view of how individuals behaved. What these authors were pointing to was precisely the notion that individuals in the economy were no longer worker-savers but consumers with balance sheets and as such an active monetary policy could work because interest rates would affect the value of assets, which in turn would lead to the required change in behaviour. An

[32] In a modern financial system, the term 'printing money' is a way of saying that the government is borrowing directly from private banks. Where government spending is in excess of tax revenue, the government has to borrow. If it borrows from the non-bank private sector, i.e. individuals, the national debt is being financed from savings, i.e. pre-existing money. However, if it runs out of this source of funding, then the cheques that it writes to pay for goods and services will be presented to banks, and in accepting those cheques, the banks will both increase their deposits at the Bank of England (an asset) and also be receiving money into the deposit accounts of those that presented the cheques (a liability). As a result, the stock of money in the economy will have increased.

[33] Henderson, R. F., (1960), pp. 39, 50-2

[34] Morgan, E. V., (1960), pp. 19, 27-31

[35] King, W., (1960), pp. 68-78

interest rate policy could be that much more effective. And certainly if this argument was implicit in 1960, by the end of the 1960s IEA publications were arguing much more explicitly for a monetary policy that incorporated the notion of consumer as an entrepreneur-of-the-self, as referenced by Milton Friedman.

Alan Walters (later to be Margaret Thatcher's chief economic advisor) argued in *Money in Boom and Slump* (1969) that the Keynesian model was essentially a too complex reading of the impact of changes in the money supply. For the Keynesians an increase in the quantity of money would lead to a decline in the rate of interest, which would induce entrepreneurial demand for labour, leading to an increase in aggregate demand and prices. However in Walters' view, following the quantity theory of money (whether Friedman's or Irving Fisher's more simplistic version), even though the relationship between money supply and aggregate income did change over time, there was enough evidence to suggest that there was a fairly direct relationship between money supply and aggregate income. In other words a change in the rate of interest, rather than passing through the economy from Bank of England to entrepreneur and finally to worker-savers' incomes, passed directly from the Bank of England to all human agents in the economy, as consumers and businesses alike reassessed the value of their assets in relation to the unit of account, money. There might be a lag before policy makers could assume that everyone had adjusted their respective balance sheets, but in a world composed of entrepreneurs and enterprising consumers the effect was direct.[36]

In *Keynes and the Classics* (1969), Axel Leijonhufvud argued that the Keynesian model was problematic because it was macroeconomics without micro-foundations. The Keynesian model assumed that increased investment spending would lead to increased incomes, thus higher demand and additional investment spending. The 'multiplier' described how the total increase in aggregate output was a multiple of the initial additional investment. In response Leijonhufvud argued that if one had a notion of human capital as an individual assessment of worth and income over one's entire life then the multiplier effect was in fact a reflection of personal illiquidity problems. That is to say, a failure to be able to access credit at cheap prices meant that human agents could not adjust their spending to their expectations of earnings over their life but instead were being forced to spend only a percentage of their current cash income. They were "forced to let current income be the operative constraint on their consumption."[37] Thus, so the argument went, policy on credit

[36] Walters, A., and the IEA, (1969), pp. 12-8, 50
[37] Leijonhufvud, A., (1969), pp. 37-44

was essentially forcing individuals to act like worker-savers, which in turn enabled government autonomous expenditure to have some effect on actual consumer spending and thus be multiplied through the economy, as if Keynesian theory had in fact accurately assessed behaviour all along.

In Leijonhufvud's argument one could thus see the traces of the genealogy to come, that government policy itself was creating behaviour that made its policies look as if they were effective and based on accurate theory. Worker-savers might actually 'exist', but in this argument, only because they were being constrained from acting differently. The recommendations both for monetary policy and for the banking system as a whole were clear. With regard to the former, it was certainly too early to suggest that these authors were advocating a full monetarist programme. Nonetheless the IEA maintained the view, established since *Not Unanimous*, that there was a need for a far more active monetary policy to control inflation, because monetary policy would act directly on all the agents of the economy. As regards the banking sector, it needed to be freed from its cartel structure so that it could respond to the liquidity needs of consumers. This way banking in Britain would become more competitive. Indeed Walters concluded his paper by saying that financial institutions should be free to innovate and develop new instruments to meet consumer needs; fine-tuning macroeconomic polices, such as hire purchase restrictions, discriminated against low-income groups and caused havoc, inefficiencies, unemployment and uncertainties in the consumer durables industries.[38]

Neil Gibson's Hobart paper entitled *Financial Intermediaries and Monetary Policy*, first published in 1967, then republished (with update) in 1970, was much more specific in addressing the structure of the British banking industry. The 1967 edition began with a recognition that banking was changing. Financial intermediaries were increasingly able to provide liabilities or claims against themselves, whether deposits or shares in an investment or unit trusts. Additionally, there were markets in which these same institutions could acquire claims on borrowers (assets).[39] Put another way, if it so chose, a financial institution could create a deposit at the same time as it created a loan, it did not need to attract savings (pre-existing money) in advance of agreeing a loan. Once the deposit liability (i.e. money as a bank balance) was created, if the borrower used the loan to pay for a good or service and the receiver of that money ended up depositing it in another bank, then the original bank, in order

[38] Walters, A., and the IEA, (1969), pp. 52-3
[39] Gibson, N., and the IEA, (1970), p. 17

to balance its books, would have to borrow back the deposit. Instead of this new liability showing up as a deposit in the books of the original bank, it would show up as an inter-bank loan. And of course the person or business that received the money in consideration for a good or service would not need to consider whether the money originated in the form of a bank loan, as an inter-bank loan, as a deposit of Bank of England notes and coins, or for that matter, as an exchange of gold for on-demand convertible currency.[40]

Gibson's point was this. Four banks dominated commercial banking in Britain with a payments clearing system operating between them. On the one hand they were subject to a fixed cash ratio requiring them to hold 8% of their assets in cash as well as temporary direct controls over lending should the Bank of England wish to control the rate of loan growth. On the other hand, these four banks effectively operated a cartel on the pricing of loans (i.e. interest rates charged to customers); competition focused not on price but on the range of services, locality of branches, payroll services, credit and cheque guarantee cards and personal financial advice. Mortgage lending was generally the preserve of building societies that were entirely funded by the pre-existing savings of depositors (which had led to the infamous mortgage queues), and other forms of consumer credit was provided for by non-bank financial intermediaries (NFBIs). As a result, Gibson argued, there had been a significant lack of innovation and productivity gain in the banking industry. And although consumer demand for borrowing had been met by a shadow banking system that in size had grown from 75% of the clearing banks' deposits in 1920 to 240% in 1969, direct controls over one part of the financial system were not being completely offset by NBFIs; consumer demand for borrowing was not being met in full and this was detrimental to the development and efficiency of, among others, the motor industry.[41]

[40] This is a very important point to note especially with regard to the historical and genealogical narrative contained in this thesis. Another way of putting it, as Wicksell did in *Interest and Prices* (1899), would be to say that an entirely elastic monetary system meant that banks could meet all borrowers' (including the government's) demands for money. It was no longer sufficient simply to say (as Fisher had done in his statement of the quantity theory) that deposit money stood in a fixed ratio to notes and coins. Keynes (1973, pp. 81-5) discussed this as part of the *General Theory*, and its recognition was part of his analysis of the *ex ante ex post* equivalence of aggregate investment and saving. Friedman was making the same point when he argued that because deposits had become a more important part of the circulating medium, concern about them had led to an ever-widening degree of direct control over commercial banks (Friedman, M., 1965, pp. 36-8). Finally, in *The Constitution of Liberty* (1960), Hayek bemoaned that "perhaps...if men had not come extensively to use credit instruments as money...we might have been able to rely on some self-regulating mechanism. This choice, however, is closed to us. We know of no substantially different alternatives to the credit instruments on which the organisation of modern business has come largely to rely." (Hayek, F., 2006, p. 282). I return to Hayek's views on money and his discussion of potential policies to 'privatise' it in the concluding chapter.

[41] Gibson, N., (1970), pp. 18-26, 39-41, 55. See also Griffiths, B., and the IEA (1972), pp. 6, 22-3 for a description of the British banking system prior to 1971. Very similar arguments relating to the need to break the Building Society pricing cartel were made by Gough, T., and Taylor, T., *The Building Society Cartel*, Hobart Paper 83 (1979).

Post the Radcliffe Committee the financial system was still being run, according to Gibson, on the basis of keeping interest rates low and bond prices high so as to ease the sale of government debt. In turn there was a general lack of competition in the banking sector. There was he believed too much scepticism in the Bank of England about the direct relation between money, income and economic activity, and a failure to realise that the demand for a whole group of liabilities was sensitive to interest rates. Indeed the very fact that the community as a whole was accumulating financial assets at a rate faster than its growth in income was offered as proof that behaviour had changed. Monetary policy that targeted total money supply was possible because, as enterprising consumers with assets, ordinary people could be expected to adjust their balance sheets to changes in the Bank Rate. Competition in the banking sector would thus be activated by innovators and entrepreneurs in the banking industry, either by innovating products to meet consumers' borrowing needs or by 'finding' desires in consumers to consume financial products that had hitherto remained dormant. To this end Gibson recommended abolishing the fixed cash ratio, abandoning direct controls, subjecting all financial institutions to one regulatory regime and subjecting them all to the sovereign consumer.[42]

3.2.2 *Monetary mayhem*

I am not claiming that these IEA pamphlets were instrumental in changing policy in the early 1970s. They may have been one among many voicing alternative ways to govern the economy. Either way the implementation by the Bank of England of a new monetary regime, *Competition and Credit Control*, in 1971 provided precisely the kind of measures that the IEA were arguing for, aimed at increasing competition in the banking sector. It was not perfect; Brian Griffiths suggested there was potentially a muddle over controlling inflation. The Bank of England was unclear as to whether it intended to use the reserve requirement or open market operations to control money supply. Moreover Griffiths believed using the former would be problematic given a very open definition of what constituted reserve assets.[43] Nonetheless, the new regime abandoned all forms of direct control over bank lending, leaving banks free to respond to demands for borrowing. As the Governor of the Bank of England at the time put it in a speech in May 1971,

> "We are permitting the price mechanism to function efficiently in the allocation of credit, and to free the banks from rigidities and restraints which have for far too long inhibited them from efficiently fulfilling their

[42] Gibson, N., (1970), pp. 13, 15, 29-30, 41-6
[43] Griffiths, B., (1972), pp. 25-7

> intermediary role in the financial system...At the same time, it is hoped that these changes will favour innovation and competition, and in their way make some contribution to faster and sounder economic growth. These changes are consistent with the broad policy aims of the present Government of the United Kingdom."[44]

From the IEA perspective the banks were now free to be activated by the consumers of their services to compete with each other for the business of borrowers, whether pent-up or newly found demand. The consumer might of course literally be a consumer or it could be a business; the distinction was irrelevant.

It is worth remembering that for Heath and his finance minister, Chancellor of the Exchequer Anthony Barber, setting the banks free meant first and foremost enabling industrial corporations and businesses to have greater access to funding. This was part of the 'dash for growth' strategy that would change the nature of business practice in Britain by making it more 'competitive', that is larger and more efficient. As Brian Sewill (Barber's special advisor) wrote in 1975, all these policies were about creating a "dynamic, thrusting go-getting economy...with a pride in achievement, and new challenges for management," such as entry to the Common Market.[45] (Of course this was more managerial in nature than necessarily about consumer sovereignty.) Growth would come from active micro-interventions, increased output by the nationalised industries and of course increased private investment too.

And certainly between mid-1971 and mid-1973 economic growth accelerated; the economy was booming and inflating in all aspects: private sector investment, nationalised industry investment, government spending (including cuts in the rates of income tax), consumer spending, the stock market, and the property market. Accompanying this boom was a sharp increase in broad money supply (M3 which included notes and coins and sterling deposits in the banking sector). Figure 1 below provides an overview of the financial years from April 1971 to the end of March 1977. My interest in this period, and the point in demonstrating these numbers, is to show how the IEA's interpretation of what was happening in the economy changed. Up until 1974 the explanation for Britain's economic woes continued to reference the active consumer, as if the economy was composed predominantly of these agents. After that, the IEA narrative shifts towards a more genealogical tone and recognition that society was not entirely composed of sovereign consumers ready to activate competition. This period in Britain's economic history led, I am arguing, to the identification and diagnosis of the 'British disease'.

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[44] O'Brien, L., *Key Issues in Monetary and Credit Policy,* in Bank of England Quarterly Bulletin, Volume 11 (2), June 1971, p. 198

[45] Sewill, B., (1975), p. 30, in Harris, R., & Sewill, B., et al, (1975)

Figure 1: Public sector borrowing, GDP, inflation and sources of monetary expansion

Fiscal year ending 31st March	PSBR[a] £'m	Unfunded PSBR[b] £'m	Government Money printing[c] £'m	Private bank money creation[d] £'m	Increase in broad money[e] %	GDP growth %	Inflation %	House price increase[f] %
1971/2	1,024	(679)	1,199	2,703	15.5	3	7.6	11.9
1972/3	2,515	1,400	86	4,654	24.1	10	8.2	33.8
1973/4	4,450	1,739	424	5,328	22.6	-2.9	13.5	36.2
1974/5	7,957	3,780	552	1,916	8.5	1.9	21.2	8.3
1975/6	10,604	5,264	3,710	(1,607)	7	1.3	21.2	5.9
1976/7	8,501	1,323	51	2,512	7.6	2.4	16.7	8.9

Sources: Office of National Statistics, Bank of England

Notes:
[a] Public sector borrowing requirement: the excess of government spending over revenue
[b] Unfunded PSBR: the borrowing that is not paid for by the sale of government bonds to the non-bank private sector
[c] Before the abandonment of foreign currency capital controls, the Bank of England held the nation's reserves of foreign currency. If there was a net outflow of foreign currency and the Bank had sufficient funds, then sterling received as consideration for foreign currency could be used to pay for domestic government spending
[d] With all sources of sterling used up (issuance of bonds, foreign currency sales), the remainder of the deficit was financed by the banking sector. This is known as printing money and added directly to money supply.
[e] Private bank credit creation is essentially new lending, not financed from pre-existing savings.
[f] Increase in money supply (M3) caused by addition of public and private sectors monetary creation.
[g] House prices increases are for calendar years, not fiscal years.

In late 1972 three economists closely related to the IEA, Harry Johnson, Alan Walters, and Victor Morgan wrote an open letter to Edward Heath, *Memorial to the Prime Minister,* in which they argued that the economic boom that was reaching its peak at the time was unsustainable and based on a desire to keep unemployment at a level far below the natural rate. Their argument was that the prices and incomes policy that Heath had imposed in November 1972 meant that when wage claims were settled by management in nationalised industries above originally agreed levels, the difference was being paid for by government borrowing. People did not realise, they claimed, that a ballooning budget deficit necessarily involved adding to the amount of money in circulation. In other words, it was not wages themselves that were causing inflation, but money printing to meet those wage claims.[46]

[46] Johnson, H., et al, (1972), pp. 1-7

However this was not the full story. As Figure 1 shows although the budget deficit was expanding rapidly in the two fiscal years of the boom only a small proportion of the deficit was actually financed by printing money (that is by government borrowing from the private banking section rather than from the non-bank private sector). In fact bank lending to the private sector in the three years 1971/2, 1972/3 and 1973/4 was four times the amount of unfunded public borrowing (and a much higher multiple of the actual amount of new money that was created to fund the deficit). So the money supply expanded rapidly in these years, but it was not the case that this was a result of the government printing money. The authors of the *Memorial* in 1972 were no doubt aware of this. As such they proceeded to suggest that the new money that was being created (in the private sector) was the result of individuals and companies borrowing heavily from commercial banks (invariably either to build property or buy property) on the basis that this was a hedge against inflation. Or to be more exact a hedge against the inflation that would come after a suitable lag of twelve to eighteen months. Thus as inflation accelerated to over 20% in 1974/5 and 1975/6, the argument was that house prices had already factored in both this past and future monetary debasement by rising over 70% in the two previous years. As these authors said "in a word, this new money was going to meet the demand for hedges against inflation – in houses, property companies and land."[47] Consumers and businesses were acting in a rational and similar fashion.

Competition and Credit Control had only represented one half of the IEA policy programme, the other being the need to control money supply. This had been recognised in the papers of Gibson, Griffiths and Walters in the late 1960s, and the *Memorial* made it clear as well. And although the Bank of England were not charged with targeting money supply, the Governor, Gordon Richardson, stated in December 1973 his opinion that the Bank had been late to raise interest rates, but they had at least acted in July by raising them from 7.5% to 11.5%. Commentary, it should be said, from the Bank in the same quarter, while admitting mistakes, also made it clear that the addition to money stock had come from the private sector.[48]

Nonetheless by early 1975 it appeared at least as if Harris, now referring to himself as a 'self-confessed monetarist', was allowing the nuance of what had happened to be forgotten. Trade unions, he argued, could not cause inflation through wage

[47] Ibid., p. 5
[48] Richardson, G., *Speech by the Governor of the Bank of England*, in Bank of England Quarterly Bulletin, Volume 13 (4), December 1973, p. 477; *Commentary* in Bank of England Quarterly Bulletin, Volume 13 (4), December 1973, p. 416

bargaining alone, the government had to have been a colluding agent because only by creating more money to finance the pay rises could inflation occur. Inflation after all, in this view, could only ever be a monetary phenomenon. The inflation of 1970-4 was, according to Harris, to be explained by money supply growth, a result of the government creating money to pay for its deficit. Money supply, he said, "admittedly" had been boosted by the replacement of credit controls by competition in banking, but this key factor was now of less interest to Harris in his March 1975 account. Inflation was the result of the printing press at the Bank of England; it was not the result of wage claims *per se*.[49] Thus to fight inflation the Government would have to refuse union demands for pay rises.

Even so, there was an ambiguity here. While monetary policy was ultimately to blame, union demands for pay increases, although one step removed from the printing press, were part of the problem. Unions had long been singled out for attack by IEA authors and by neoliberals generally like Hayek and Friedman; but what if the problem was not just with union leaders but with its vast membership as well? Moreover, if large parts of society were sympathetic to the union cause, could they also be counted on to act as sovereign consumers, activating a mentality of adaptability, change and progress? Over the next two years a decidedly different narrative began to emerge among IEA authors matched, as I shall demonstrate in the next chapter, by work that was being done at the Centre for Policy Studies (CPS). This was the genealogy of Britain in crisis and the diagnosis that society was infected with a disease. Put another way, there was a new sense that while for all this time the IEA had been assuming that Britain was a nation where sovereign consumers were ready to ensure companies were competitive, there was a new found belief that to govern for the consumer would mean eliciting and encouraging particular ways of thinking, while at the same time discouraging habits of thought that represented a past era. Only enterprising consumers and entrepreneurs utilised habits of thought properly aligned to the material conditions of a wealthy capitalist economy and society. Conversely neoliberals came to argue that policies that accepted different non-consumer and non-enterprising habits of thought reinforced ways of thinking that were now bringing Britain to the edge of crisis, to a breakdown of society.

3.2.3 The genealogy of crisis

Before discussing this discursive shift in more detail it is worth saying something of the nature of its cause or at least something about the characterisation of British society at the time. Of course Britain was not alone in struggling with the aftermath

[49] Harris, R., (1975), pp. 3-11, in Harris, R., and Sewill, B., et al, (1975)

of the collapse of the Bretton Woods fixed exchange rate regime in 1971, competitive currency devaluations and the effects of oil price rises around the world in 1973; average inflation rates in the ten OECD nations rose from 4% in 1968 to 13.5% in 1974. But it was also clear that Britain was suffering more than other nations that seemed to have brought inflation under control. Victor Morgan reported that West German inflation between 1967 and 1974 was 48% versus Britain's 74%, representing, he argued, domestic inflation that had been superimposed upon imported inflation.[50] The IEA were forced to confront the issue: was it fair to say that everyone in Britain was a rational sovereign consumer?

Indeed it was generally accepted that Heath's government had failed to be re-elected in 1974 and had been replaced by a Labour government, led by Harold Wilson, on the understanding that only Labour was capable of negotiating a peace between unions, management (of both private and nationalised industries) and government itself. This was the 'Social Compact', a peace treaty and voluntary incomes policy, which it was hoped would bring inflation under control. Of course the IEA position, this time represented by Gordon Pepper (a bond market analyst, monetarist and a key advisor to Thatcher up until her election in 1979) and Geoffrey Wood was that inflation should never be concealed, that this only further distorted the ability of prices to signal information. The answer was not to conceal inflation but to control it in the open by targeting and controlling the money supply. Nonetheless, as Pepper and Wood argued, once money was scarce, this policy would lead to a "battle for funds" between government and private sector. If the government insisted in winning, that is fully funding its deficit by raising interest rates, this would crowd out the private sector, limiting their access to new funds with which to invest. The remedy, for these authors, was a shallow prolonged recession to bring money supply and inflation under control.[51]

Nonetheless, Pepper did not address the social problem, 'the battle' itself; there was nothing to suggest that the government could keep control over competing claims for scarce money. This became for the New Right the problem at the heart of the 'British disease', the main diagnosis that both the IEA and the CPS propounded. Unless Britain was pervaded by a classless consumer subjectivity, all attempts to control inflation via imposing monetary scarcity were likely to lead to serious social disorder. Hobart paper 67, *The British disease* (1976) was entirely dedicated to this topic. Nonetheless, before discussing this paper it is important to note that this

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[50] Morgan, E., and Morgan, A., (1976), pp. 37-8
[51] Pepper, G., and Wood, G., (1976), pp. 34-7, 40, 46-7

diagnosis of the problems with which Britain was beset was certainly not just the product of the New Right. Indeed during 1975 the IEA published two papers, one by the influential and leftwing *Times* journalised Peter Jay (son-in-law to Labour Prime Minister from 1976-9) and one by Brian Sewill (in a paperback with commentary also by Harris), who had been the special economic advisor to Barber from 1970-4. Both authors pointed to concerns that were explicitly taken up by the IEA in 1975.

Sewill began by stating that there was "literally no truth to the allegation that the Bank of England printing press worked overtime." Instead the acceleration of money supply (M3) was due in the main to the new liberal policies encapsulated in *Competition and Credit Control.* Indeed the secondary banking crisis that broke in December 1973 could, he believed, largely be seen to have resulted from the over stimulation that easy money brought. The real issue for Sewill was the power of the unions to push up pay and prices. Thus, he said, "the only way monetary policy alone could stop inflation is by creating so much unemployment that the unions were brought to their knees." None of the political parties in Britain were, he thought, capable of standing up to the unions, and as a result inflation could get out of hand. The Social Compact was nothing more than a temporary truce,[52]

> "There are signs that the structure of civilised society is beginning to crumble. Money depreciates, hoarding is endemic, shortages multiply, public services deteriorate, respect for law and order declines as more and more groups come to feel that a display of strength is the way to get what they want."[53]

Perhaps Sewill was being overly paranoid; all the same there was clearly a feeling shared by many, not just the neoliberals that Britain was veering towards crisis. For Peter Jay the crisis was so "deeply rooted" that Britain was "near to where tensions within the system could overthrow it." There was, he believed, a "contradiction" between a political system in which political entrepreneurs could make promises to the electorate, such as full employment, which were so grand that people were "almost forced" to vote for them, and an economic system in which the economic entrepreneur always had "to ask himself what people want most." The logic of the ballot box had created a structure in which the freedom of unions was endangering the freedom of all: according to Jay "democracy has itself by the tail and is eating itself up fast." What was needed was the removal of the general influence of collective bargaining. In specific terms Jay was suggesting a transformation of economic mechanisms and a new approach that emphasised consumer and employee sovereignty. On the one hand this meant the competitive market place

[52] Sewill, B., (1975), pp. 36-40, in Harris, R., and Sewill, B., et al, (1975)
[53] Ibid., p. 54

deciding the allocation of resources, on the other hand it meant bringing workers directly into the management decision-making process and thus democratising industry. This was, Jay believed, about changing minds and attitudes[54],

> "They [the workers] need somehow to be 'dis-alienated' enough to become infected with the entrepreneurial realities which confront their present employers, so that they will accept a non-inflationary market-determined environment as setting the level of rewards that can be afforded."[55]

Clearly this "true socialism", as Jay described it, was not what the IEA had in mind. However looking back at the transition of discursive style at the IEA between 1975 and 1976 one can see this open dialogue across the political spectrum as a link between the way consumer sovereignty had been taken for granted by the IEA since their foundation in 1955 and a modified, sociological perspective in the late 1970s; an acceptance that the problem was not just government and loose control over spending, but something inherent in the ways of thinking that had become dominant in British society. It was more than just government printing money, as the 1972 *Memorial* suggested.

This new perspective was evident in George Allen's Hobart paper, *The British Disease* (1976) and in Harris' contribution to Hobart paper in (1977) *Can Workers Manage?* itself a response from the IEA to the sorts of policies regarding worker participation in management that Jay had expounded on and which had been recommended by the Bullock Report, a government commission to examine these specific issues. Arthur Seldon's preface to *The British Disease* spelt out precisely what was at stake in this new critical history. Britain's relative decline was about,

> "A failure of attitudes and institutions to adapt themselves to a technological-industrial society...the government...[had]...failed to make the economy competitive so that people and institutions would have been impelled to adapt themselves to change."[56]

Being adaptable to change was at the very core of the IEA definition of a progressive mentality, a consumer mentality that was essential for competition, and which defined competition. So on the one hand, attitudes had failed to adjust to what was natural and proper for an advanced rich industrial country. On the other hand, Seldon was berating government for policies that had failed to make people think like sovereign consumers so that they could be and act as sovereign consumers. Consumer sovereignty was the appropriate mentality for the age, but, all the same, government needed to create competition such that there would be competition; a

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[54] Jay, P. (1976), pp. 12, 19-21, 25, 31
[55] Ibid., p. 27-8
[56] Seldon, A., (1976), *Preface*, pp. 5-6, in Allen, G., (1976)

habit of thought was a necessary causal condition for that same habit of thought. In a sense then, this enunciated the problematic tension inherent in any governing mentality of rule that comes to recognise a disparity between the norms of behaviour it had hitherto taken for granted and a reality that is different.

In the body of the paper itself, Allen set out to tackle what hitherto he believed economists had "tended to ignore", that is the intangible problems, the attitudes and practices of workers and managers: the very stuff of the British disease. He proceeded to problematise the British economy in five ways. Firstly, all people, he said, wanted to be better off but the contemporary British were not willing to submit to the necessary exertions and changes in their ways to get there. Secondly, energies needed to be concentrated on ways of thinking (that is enterprising ways of thinking), which produced economic growth; there were, according to Allen, far too many inconsistent ways of thinking prevalent in society. The next problem was by way of a question: if it was true that Britain's social and economic institutions and attitudes were out of tune with the requirements of modern industrialism, how had this come about? Next, partly in response to this question, Allen suggested that Britain was characterised by bad investment decision-making due to defects in the selection and training of civil servants and business executives, i.e. in the public and private sectors. Finally there was clearly a highly anachronistic system of industrial relations that also fostered un-progressive attitudes.[57]

In diagnosing the British disease, Allen was casting the net far beyond government itself; this was a problem about business training, investment decisions, public opinion, and worker attitudes. Britain had failed to create the "virtuous circle" that Japan had created in the 1960s, which "depended upon directing a large share of their investment into forms of capital that yielded their returns quickly in marketable goods and services."[58] Two aspects of this comment are worth highlighting. Firstly the comment about the quickness of return: Allen was reiterating the point made in the 1960s, that too much investment had gone into capital goods at the expense of consumer goods. In the IEA view only a high street full of goods for consumers to buy would incentivise people to raise their standards of living. Secondly the comment about the marketable goods: this referred directly to the importance of the market as a siphon through which to ensure that producers were competitive, that they responded to consumers activating the market as a process rather than as a state of being.

[57] Allen, G., (1976), pp. 19-20
[58] Ibid., p. 24

The word 'marketable' was a new word to the IEA lexicon, which was popularised in 1976 by an influential monograph, written by economists Robert Bacon and Walter Eltis. The title of the book, *Britain's Economic Problem: too few producers*, on the face of it suggested the need to build more factories, it sounded distinctly Keynesian. In fact the authors made the argument that those who worked in the public sector as civil servants, social workers, teachers and medical workers, whose output was thus un-marketed were in fact not producers. The real problem was that these workers straddled two zones of practice, on the one hand they still consumed in the marketed zone, but on the other hand they did not produce anything in the marketed zone. Thus they were being paid for out of the profits of producers which in turn lowered investment funds. This was destroying the British economy.[59]

Bacon and Eltis were not arguing about productivity and efficiency (Heath's version of being competitive), but about consumers and entrepreneurs sharing wealth in the marketed side of the economy versus non-producers in the other side of the economy adding no wealth yet still wanting to be consumers at the same time. To say that there were too few producers meant saying that there were too few people who were conducting the entirety of their lives in the marketable sector of the economy, producing and consuming there. Neoliberalism pointed to a division in society not between consumption and production but between consumer sovereignty and no consumer sovereignty. Where there was a market process in operation, the consumer and producer shared the same habit of thought, one the entrepreneur, the other the enterprising consumer. In other words the consumer was the foundational unit or way of thinking, a necessary condition for entrepreneurial habits of thought. There was no Schumpeterian distinction between the passive consumer and the active entrepreneur in the neoliberal mentality of rule.

The problem, returning to Allen's diagnosis, was that British economic policies had obstructed adaptation to change, not deliberately, but because the institutional structure of British society itself, created originally in an era of market liberalism, had become filled with "routineers" suspicious and dismissive of entrepreneurialism and incapable, so Allen believed, of comprehending the importance of the market process, that is of marketability. Using distinctly evolutionary metaphors, Allen suggested that there was a late adaptation to change in British business management, in attitudes to business and in the attitudes of the workforce, which like management, had become stuck in anachronistic ways of thinking. Industrial

[59] Bacon, R., and Eltis, W., (1976), pp. 8-10, 18, 24-6, 27-8, 112-3

unionism, he said, was failing in the face of a determined craft union mentality, which constructed a permanent opposition to management.[60]

> "Britain is a victim of its past, institutions and attitudes have persisted long after they have served their purpose...institutions and attitudes that are not well-fitted to the task remain entrenched...the process of recovery is likely to be long and perhaps painful...[and] is conditional upon a shift in values and the transformation of institutions."[61]

In consequence the government had to take steps to "encourage the desired changes and to foster the attitudes consonant with a progressive society." Success had to be rewarded and subsidies ended such that the market process could work. Rewards could no longer relate to status, an attitude from the past. Training and educational standards had to be raised from primary school, to civil services to managerial training and this training had to be geared towards intellect, character, science and technology, and of course the proper rules of business decision-making.[62]

Finally, there were the attitudes of the workers in their unions addressed by Harris and others in 1977 in *Can workers manage?* The idea for these authors, that workers should be represented on the board, was a serious misjudgement precisely because the worker "tunnel vision of output" had done so much harm to consumers and national wellbeing. Instead only owners and shareholders could be expected to properly monitor business activity. Erhard's Germany again provided the model for Britain to follow: in Germany closed shops were illegal, union membership was voluntary, and there were no special legal immunities from being sued for loss of business if a strike was later deemed illegal. And because they could be trusted, representatives of workers in Germany were allowed to sit on advisory (although not main company) boards, to help them understand the rationale behind some of the decisions that management were taking.[63]

Harris' essay in this volume took up Allen's language, and in it one can see a clear development from the 'self-confessed monetarist' of two year's previously. For Harris the lesson of history was now clear, "the chief source of economic progress is compounded of energy plus enterprise in adapting the arts of production and distribution to supply the changing goods and services demanded at home and abroad." This was the rational mind of progress, which could be found in both the consumer and the entrepreneur. However, these attributes were not necessarily

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[60] Allen, G., (1976), pp. 23-6, 63-5,
[61] Ibid., pp. 71-3
[62] Ibid., pp. 73-6
[63] Chilpin, B., and Coyne, J., et al (1977), pp. 24-8, 38, 44-8; Wood, J., (1977), pp. 89-90

there in nature; "to bring these qualities into effective operation they must be animated and harnessed." In the nineteenth century, so Harris argued, British statesmen had pioneered a framework of laws, which had made a market economy possible by giving entrepreneurs maximum freedom. Yet Harris now believed that "a competitive market does not emerge from *laissez-faire*."[64] Rather than just harnessing entrepreneurs through the granting of appropriate property rights, consumers too needed to be harnessed and animated by government in order that producers were not able to entrench themselves in monopoly positions.

The mistake that had been made, according to Harris, was to give special privileges to workers on the basis that one needed to redress the balance between master and servant. This had both increased and maintained attitudes that were opposed to the interests of a consumer society; that is "in choice, cheapness, change and other fruits of progress." There was, Harris believed, a "schizophrenic conflict" taking place in the minds of workers that would need to be resolved in order for Britain to progress again. The subjectivity of the producer, exhibited as "stability, comfort, continuity and security", was not necessarily about knowingly keeping others unemployed, likewise the unemployed who supported unions were not voluntarily unemployed: they all just held beliefs that were the result of a historical process that had led to a society stricken with disease. Harris believed that the Bullock report on workers in management was even worse than Jay's earlier proposals because the Bullock report had not even mentioned the consumer.[65]

What mattered in this was that the market was not a place of equality but a process in which the consumer could maintain an active competitive tension. One had to be adaptable. Consumer sovereignty would ensure that producers were adaptable; but more than that, the consumer mentality was meant to be the bedrock from which enterprising habits of thought developed. Some consumers would become entrepreneurs, locating the desires of others; most consumers would no doubt remain as just consumers. Either way it was this consumer mentality of energy and adaptation that remained the foundational, rational and progressive mental disposition. Government had to learn how to govern the economy always and only in the name of this mentality, harnessing energies that were suitable to a modern and wealthy capitalist society.

[64] Harris, R., (1977), pp. 97-100
[65] Ibid., pp. 102-6

3.3 Neoliberalism and social evolution

In this chapter I have outlined the development of neoliberal thinking from the mid-1960s to the late 1970s in Britain through the publications of the IEA. In this discourse there is both a continuous narrative and a significant shift. The IEA authors always maintained that competition was the appropriate policy response to Britain's economic woes and as such they consistently problematised Keynesian policies. In doing this, these authors were happy to accept that successive British governments were full of good intentions, in a sense, this they believed was half the problem. They argued that a focus in policy on production was based on methodologically unsound economic theory that had misunderstood Keynes and that 'growthmanship' by 'conspicuous investment' gave no significant thought to the consumer's position in the economy. At the very least there was more the high street could be doing to awaken dormant consumers and incentivise them to want to improve their living standards.

What I have tried to show is that this was a political *savoir* in practice, built upon a particular understanding of what was the 'natural and proper' mentality of the human agents of the economy. I have not aimed to take sides in this narrative save only to suggest that the Keynesians whether theorists (and very much including Keynes) or policy-makers were not false scientists as charged but were practicing a social governing mentality. Specifically this meant that the human agents they took for granted were 'worker-savers', consumers with habitual saving patterns only ever using up resources that were produced and created for them by entrepreneurs and businesses. When the latter became derelict in their duty, the government needed to step in as early as possible to ensure the fall out from unemployment did not multiply unduly through the economy.

Moreover this social governing mentality often took it for granted that businesses could dominate consumers, bending their wills where need be. There was no image of the sovereign consumer. For the IEA the notion that government should help businesses to be bigger and more efficient, so long as consumers were given due protection (say through nationalisation and/or regulation) missed the point about competition. Being competitive, still to some extent, captured the classical or Schumpeterian notion of entrepreneurs battling it out with each other in an eternal competitive struggle. However for the neoliberals competition was a process initiated only in the presence of the discerning consumer. There was no such thing as a permanent natural monopoly when consumers were allowed to be sovereign.

The IEA authors never dropped this argument, but in the context of the early 1970s they were confronted by a problem, a seemingly intractable situation in which they recognised that many of the human agents in Britain were not acting in accordance with behaviour that they had taken for granted. Entrepreneurs were making consistently bad decisions and consumers were responding more to their instincts as workers than as consumers. As I have shown this new language was developed in response to the historical circumstances of the early 1970s. In particular it was responding to the inflationary boom that followed the new competitive reorganisation of the banking sector, which had created a financial system that could do exactly what that the IEA believed it should be free to do, that is to meet the demand and needs of borrowers whether consumers or businesses.

In confronting this problem the IEA were confronting a problem with which governmental programmes are beset, that is recognising that norms of behaviour that have been taken for granted are in fact problematic. The response within the New Right was to construct a genealogy, a critical historical trail that explained for them the formation of problematic subjectivities with a view, hope or expectation that the future would be different. Specifically, the IEA's genealogy was constructed in social evolutionary terms, as a story in which habits of thought that belonged to previous eras had remained extant long past their due date; nurtured and protected as they were by government. In constructing this narrative they were able to maintain a notion of the consumer as a natural agent of competition and progress, as well as providing an explanation for why not all behaviour could be recognised as such. This tension was only resolved by suggesting that the government needed to act in such a way as to create an environment suitable to the conditions of a modern society. How the government should act and practice this political rationality was a matter for the CPS, a think tank existing within the Conservative Party. My aim in the next chapter is to demonstrate that a parallel genealogical narrative was being constructed there which shared the same rationality yet by necessity took a much more direct approach to the question of how to govern the economy.

For now though I want to finish by saying a little more about the evolutionary tone of language in IEA thought. Where did it come from and what kind of thinking did it represent that was now being fused with neoliberal thought? The following is a quote from Veblen's *Theory of the Leisure Class* (1899),

> "The evolution of social structure has been a process of natural selection of institutions. The progress which has been made and is being made in human institutions and in human character may be set down, broadly, to a natural

selection of the fittest habits of thought and to a process of enforced adaptation of individuals to an environment which has progressively changed with the growth of the community and with the changing institutions under which men have lived... The institutions are, in substance, prevalent habits of thought with respect to particular relations and particular functions of the individual and of the community...they may, on the psychological side, be broadly characterised as a prevalent spiritual attitude or a prevalent theory of life... The habits of thought... are...received from an earlier time; they have been elaborated in and received from the past...and are therefore never in full accord with the requirements of the present...this process of selective adaptation can never catch up with the progressively changing situation in which the community finds itself at any given time... A step in...development requires...a new adaptation; it becomes the point of departure for a new step in the adjustment, and so on... The institutions of today...do not entirely fit the situation of today... Mental attitudes and aptitudes...are therefore themselves a conservative factor. This is the factor of social inertia, psychological inertia, and conservatism... The evolution of society is substantially a process of mental adaptation on the part of individuals under the stress of circumstances, which will no longer tolerate habits of thought formed under and conforming to a different set of circumstances in the past... Social advance, especially as seen from the point of view of economic theory, consists in a continued progressive approach to an approximately exact 'adjustment of inner relations to outer relations'; but this adjustment is never definitively established... The degree of approximation may be greater or less, depending on the facility with which an adjustment is made. A readjustment of men's habits of thought to conform with the exigencies of an altered situation is in any case made only tardily and reluctantly, and only under the coercion exercised by a situation which has made the accredited views untenable... Freedom and facility of readjustment, that is to say capacity for growth in social structure, therefore depends in great measure on the degree of freedom with which the situation at any given time acts on the individual members of the community. If any portion or class of society is sheltered from the action of the environment...that class will adapt...more tardily; it will...tend to retard the process of social transformation."[66]

Reading Hobart Paper 67 again, one can see a great deal of similarity in language: Seldon believed there had been "a failure of attitudes and institutions to adapt themselves to a technological-industrial society." Allen referred to attitudes that were showing a "late adaptation to change...institutions and attitudes have persisted long after they have served their purpose." The solution for him was a "deep-seated adaptation to industrial society...a shift in values and the transformation of attitudes."[67] Of course Veblen was writing about habits of thought in a different era, he was referring to a more socialistic, interconnected and engineering way of thinking and behaving; he thought attitudes were adapting away from a pecuniary culture towards a taken for granted acceptance of society as organic, and that hitherto progress had been impeded by competition to make one's own wealth as conspicuous as possible. And in this new modern world Veblen argued that

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[66] Veblen, T., (1899), pp. 188-93
[67] Op. cit.

consumption habits had changed, consumption was less about emulation and being conspicuous and far more about instrumental behaviour. The new consumer bought things to use them, the consumer now primarily had a personal relationship with the things that he or she purchased and consumed.[68]

However the essence of Veblen's institutional argument is to be found in the IEA, not just with regards his description of consumption in the machine age, but critically in the resolution of the tension in neoliberal thinking in Britain in the mid-1970s, the tension between assuming that the population at large had the mental attitudes of the sovereign consumer and the recognition that many were not behaving that way. For the IEA the mentality of the sovereign consumer represented the proper way of thinking, it was entirely right to think that way, but there was no need to assume that had always been the case. Moreover it was perfectly reasonable for government to act in a way that helped elicit and smooth the process from one societal form to another. Invoking Veblenesque terminology, government would have to find a way to coerce people into giving up views that society had decided had become untenable. In providing the above quotations I wanted to demonstrate that the neoliberal governing mentality was sociologically minded, even if society itself was to be privatised into discreet entrepreneurial units consisting of consumers and their households. In this mentality one had to govern for all human agents in the economy (not just entrepreneurs), doing society's evolutionary and organic work.

My argument has been that the IEA came to accept this new role for government, this role as the agent of change, in the context of the specific economic conditions in Britain in the early 1970s. These years thus represented a tension in governmental thinking that in the end proved not insurmountable. Indeed the evolutionary perspective on society was not new for the New Right; it had already made an appearance in the opening section of *The Constitution of Liberty* (1960).

> "Man did not simply impose upon the world a pattern created by his mind... If we are to advance we must leave room for a continuous revision of our present conceptions and ideals, which will be necessitated by further experience. Some of our...habits and skills, our emotional skills...may be retained long after they have outlived their usefulness and even when they have become more an obstacle than a help... Thus every change...creates a 'problem' for society... solved by the establishment of a new over-all adjustment... Who will prove to possess the right combination of aptitudes...is...little predictable: it is the product of individuals imitating those who have been more successful and from their being guided by signs...such as prices. What is important is not what freedom I personally

[68] See Veblen's essays, *Army of the Commonweal* (1894) in *Essays in our changing order* (1934) and chapter 2, *The Machine Process* in the *Theory of the Business Enterprise* (1994)

> would like to exercise but what freedom some person may need in order to do things beneficial to society. This freedom we can assure to the unknown person only by giving it to all. All that we can know is that the ultimate decision about what is good or bad will be made not by individual human wisdom but by the decline of the groups that have adhered to the 'wrong' beliefs... The ineffective will be discarded and the effective retained...and the ends of the successful group will tend to become the ends of all members of the society... Our only way of confirming this is to ascertain whether it continues to prove itself in competition with other standards observed by other individuals or groups. The argument for liberty is not an argument against organisation...but an argument against all exclusive, privileged, monopolistic organisation."[69]

Hayek's argument was clearly not advocating government intervention *per se,* but by the mid-1970s this way of thinking, this mentality of rule, had identified and explained to itself the need to act. Knowing how to act is the subject of the next chapter.

[69] Hayek, (2006), pp. 22-33

Chapter 4: How to govern the economy

> "We all talk today about social morality, social justice, social responsibility. We'll only get those things when you have a high proportion of individuals of worth and responsibility."
>
> Margaret Thatcher, interview in The Observer, April 1979

In the previous chapter my focus was solely on the IEA; how individual authors writing under the banner of the IEA shared a definition of competition as a process and not an *a priori* state of being, and how they came to recognise the existence in society at large of attitudes and conduct that were not commensurate with the social market economy they wanted Britain to adopt. Certain ways of behaving seemed to these authors to represent attitudes consonant with an older version of the market society in which classes confronted each other and government's role was to arbitrate between conflicting interests in the marketplace. For neoliberals, exchange in the market place created value: all participants, by exchanging, could increase their capital or self-worth, whether businesses, entrepreneurs, or consumers; there was a continuity of 'proper' thinking between the entrepreneur and the consumer. What this perspective required then was a fundamental change in the practice of government; it would need to govern for all forms of entrepreneurialism and against a non-marketed, non value-adding side of the economy. From 1974 to 1979, the Centre for Political Studies (CPS), a think tank operating from within the Conservative Party, took on the task of putting together such a new political programme. This is the topic of the current chapter; specifically I am asking how the CPS thought the economy should be governed.

The CPS was an overtly 'political' think tank, given its connection with the Conservative Party, designed, according to one of its co-founders Nigel Vinson, to "articulate in political terms what the IEA had been thinking."[1] In one sense, one could say that its job was essentially to prepare for government; it literally was a think tank for the politicians who were to be at the centre of the Thatcherite political programme, Keith Joseph, Geoffrey Howe, Nigel Lawson and of course Margaret Thatcher herself. However, I will argue among other things that it was also doing the work of government itself, even though from its inception in 1974 up until 1979 it was the think tank of a political party in opposition, not actually in government. By this I mean its primary role was to support the speech-giving programme of Thatcher and Joseph, particularly the latter, as he went around Britain making speeches to audiences both hostile and receptive. These speeches had a double role,

[1] Interview with Lord Vinson, May 1991, reported by Richard Cockett (1995), p. 237

both aimed at winning support but also directly aimed at the key problematic; that is how to foster an environment in which people shared the attitudes that the New Right believed were consonant with civilisation and progress. To this extent, if one takes the Foucauldian position that government as always concerning itself with the conduct of the governed, these speeches represented the actual job of government, an attempt to change behaviour, not just an attempt to win support for the cause.

As I shall argue, this was the explicit strategy of the *Stepping Stones* project, written at the end of the 1977 by John Hoskyns and Norman Strauss at the CPS. For them winning the election in 1979 had to mean that attitudes had already changed; the election itself was to be a sign that the majority of the country was ready for something different. Nonetheless, the point of this chapter is to demonstrate that certain themes that had been constantly in play in IEA writings since the late 1950s were also present at the CPS. Of course one way to establish this would be to trace the personal interconnections between the staff of the IEA and CPS, showing how specific ideas circulated.[2] But my aim is different, it is to demonstrate that the CPS practiced a neoliberal governing mentality and that this was evidenced in the words that were written and spoken by members of the CPS in the 1970s. Certain themes are thus apparent: the consumer and entrepreneur were the rational agents in the economy, much trade union activity was not commensurate with the realities of modern society, and finally although the existence of the social world was not denied, it was argued it could never be embodied in the state.

The chapter itself is divided into three sections. Section 4.1 deals with the first two years of the CPS's existence up until 1976, a period in which its publications were dominated by the speeches of Keith Joseph. The language in these two years portrays, I will argue, a fairly classical liberal view of the economy, although in 1976 Joseph was becoming increasingly explicit about how active the government would have to be; as he put it, 'monetarism was not enough'. Section 4.2 deals primarily with the *Stepping Stones* project, itself a document that tackled head-on the CPS's views on trade unions. Finally, in the last part of this chapter, section 4.3, I want to discuss some of Thatcher's speeches and opinions. In that section I want to draw out an underlying theme, that society very much existed in the minds of the New Right but that it needed to be privatised in order to function and be re-moralised.

[2] It should be said that the memoirs of Thatcher (1993, 1995), Howe (1994) and Hoskyns (2000) all attest to the importance of the IEA in the development of their own political compass.

4.1 From Preston to Stockton: 'monetarism is not enough'

Having been a long-serving Conservative Party Member of Parliament, Keith Joseph underwent a self-proclaimed 'conversion to conservatism' in 1974 at the height of Britain's experience of stagflation.[3] What might Joseph have meant by this? The answer can be found in the speech that announced the birth of the CPS in June 1974, *This is not the time to be mealy-mouthed,* and his more well-known speech, *Inflation is caused by governments,* delivered at Preston Town Hall in September 1974. Essentially Joseph was announcing himself to be a classical liberal. His attention in these speeches was focused almost exclusively towards entrepreneurs and the role that government had taken in undermining them.

The analysis in June 1974 was straightforward enough; Britain was consuming its capital stock faster than it was being replaced or, in other words, not enough profit was being generated by free enterprise. The private sector, Joseph argued, created resources that were needed for general prosperity and these were being undermined by high taxes and by the unrealistic wage demands of unions, inflation and the inability of companies to operate in an environment of high uncertainty created by continuing government intervention. Profits he said should be welcomed and defended rather than criticised. Thus there was nothing particular 'neo' about this classical liberal statement. Indeed the speech ended by recalling Schumpeter's view in *Capitalism, Socialism and Democracy* (1943) that free enterprise would die only because it would lack defenders.[4] Profit, in this view, reflected two things, either that consumers wanted to buy the goods that entrepreneurs had produced for them, or that a business had successfully found a new way of producing a good that saved production costs and enabled freed up capital (represented by cash profits) to be used for alternative and new investments.

Joseph's new found classical liberalism was again on display in Preston in September 1974. As if to underline the point, the speech argued that economic policy had really gone wrong after the 1930s; "we fight the battles of the 70s with the weapons of the 30s". Thus the solution lay in a rediscovery of ideas that had predominated from before the Great Depression. British governments, he believed, by creating persistent inflation, had in recent years made it even more difficult for private firms to do their job. The goal of full employment through Keynesian demand management had now, so Joseph thought, been falsified by inflation that was "threatening to destroy society". As for a new policy, he argued, "We should not give up our efforts to

[3] Gilmour, I., (1992), p. 3; Thatcher, M., (1995), p. 14
[4] Joseph, K., (1974a), pp. 1-8

rescue people wherever possible and help them become productive members of the community. But creating excess demand for labour by printing money is certainly no way of doing it." All that this money printing had done was create "outrage and widespread resentment" at "soaring rises in property values", which was a "by-product of inflation", among those whose incomes were held down by incomes policies.[5]

To some extent, then, Joseph was repeating the argument that had been made in the *Memorial to the Prime Minister* in 1972 by Johnson, Walters and Morgan, all be it in more simplistic terms. As discussed in the previous chapter in the years 1972 to 1974 inclusive, the Bank of England had in fact engaged in very little 'money printing', they were able to successfully finance the fiscal deficit from the sale of bonds to the non-bank private sector. The rapid expansion of money supply had come from private banks lending to the private sector following the introduction of the new liberalised monetary regime in 1971, *Competition and Credit Control.* One might therefore restate Joseph's argument by suggesting that he was saying that the rise in property prices was a hedge against future inflation that was bound to come because everyone knew (or at least those buying property knew) that the government would have to finance the ballooning fiscal deficit by printing money. Clearly, Joseph had a lot of faith in the inherent economic rationality of the British people. However, whatever the cause of inflation, he believed that the government was creating too much employment where there was no natural demand for labour. The economy should be allowed to find its natural level, after which the government could help people in different ways to be more productive, say through retraining programmes or advice on how to start a business. These comments still very much suggested the exclusively classical focus on production as the source of growth and progress.

Joseph's speeches through 1975 and early 1976, many of which were published by the CPS, all suggest a similar focus. He argued in 1975, again in Preston, that the only cure for unemployment was restored profitability and that the many "scroungers...keeping useless jobs" were wasting government money. At the Oxford University Union Joseph suggested that the "real thrust of nationalisation was devoted to the interests of the producers." The Government he said needed to "hold the ring", rather than participate as a "pseudo-entrepreneur." Education, he said, was failing to teach young people "to be sufficiently well-informed and self-disciplined...to be motivated and enabled to earn their living by making the best use of their talents in existing opportunities for productive work." And in March 1976,

[5] Joseph, K., (1974b), pp. 1, 5-15

in Harrow in North West London, Joseph declared that "government over-spending ha[d] depressed the level of employment below what it would otherwise have been." Excess taxation and borrowing were "important components in the sluggishness of the private sector." Britain needed less "tax-based jobs" and more "self-sustaining jobs" in the private sector.[6]

To reiterate, I think it is fair to argue that there is nothing in these speeches that suggests more than a classical liberal approach, and this probably very much reflects the influence that Alfred Sherman had as the director of the Centre for Policy Studies and chief speechwriter. Too much interference from the government was holding business back, creating a poor business environment. Government was not doing all it could to make sure that teachers were preparing people for work, providing them with the right attitudes of self-discipline and motivation to join society as a productive member of the workforce. There was little talk here about the meaning of competition and the habits of thought persisting in society at large.

Joseph's lecture in Stockton in April 1976, *Monetarism is Not Enough*, can thus be seen as the culmination of his classical liberal arguments. Whereas both Thatcher and Joseph were later to openly distance themselves from the term *laissez-faire* in a way that was very reminiscent of the German Ordoliberal movement and Erhard's social market economy, in this lecture Joseph was still content to be seen to be advancing a *laissez-faire* programme. Indeed Britain's "fall from grace" could be accounted for by precisely the failure to return to a classical liberal regime after 1918. The inter-war governments, so Joseph argued, had not in fact operated a policy of *laissez-faire* but instead had intervened to return the British pound to its pre-war parity almost as an act of nationalistic defiance, "looking the dollar in the face". This had nothing to do with orthodox economic theory, but instead marked the beginning of a move towards the "virtual omnicompetence of state intervention."[7]

The "sinews of the economy" were now being eaten away, the economy "haemorrhaging" even while the government "stimulate[d] the blood supply." More than anything else there was a "declining birth rate of new enterprises" because the government had "driven out some of the wealth creators...[and] shrivelled the impulse to expand...[It had] throttled enterprise." Most importantly though, Joseph was now explicitly invoking the idea of a zero-sum economy in which the public sector detracted from the private sector's ability to create wealth. "For every job

[6] Joseph, K., and the CPS (1976b), pp. 15, 22, 28, 32, 38, 43
[7] Joseph, K., and CPS (1976a), pp. 7-8

preserved in British Leyland, Chrysler and other foci of highly-paid outdoor relief, several jobs are destroyed up and down the country." This comment of course begged the question as to why the private sector alone was capable of creating value. The answer was, as Joseph put it, that the "public sector is relatively insensitive to economic conditions; it does not spontaneously adapt; it exerts a huge force of...inertia."[8]

So Joseph was invoking the Hayekian notion of spontaneous adaptation; without the ability to adapt, to find new products and new markets there could be little or no wealth creation. And it was clear to him that the public sector was not adaptable; thus it formed a part of society whose activity, having not passed through the siphon of the market, acted as a drain on the rest of the economy. Joseph believed the public sector to be, as Bacon and Eltis would have said, unproductive. Additionally though, and of course making the same argument that Pepper and Wood had made in *Too Much Money* (1976), if money supply growth was limited then there would be a battle for funds which would hit disproportionately on the private sector, that is the private sector would lose this battle and find itself "strangled" and "constricted"[9] in a way that the public sector was not.

Monetarism is not enough was thus a direct response to the Labour Government's introduction of money supply targeting in 1976; which itself was presented by the then Prime Minister, James Callaghan, as an explicit acknowledgement of the failure of Keynesianism. Indeed in the fiscal year ending March 1976 the Government were being forced to 'print money' to finance their deficit, and even though private lending had slowed rapidly, (this was due to the recession rather than the ending of *Competition and Credit Control* and the re-imposition in 1974 of direct Bank of England controls, known as the 'supplementary deposit scheme' or 'corset'), money supply was still growing. Addressing the Labour Party conference in September 1976, Callaghan famously announced,

> "We used to think that you could just spend your way our of recession to increase employment by cutting taxes and boosting Government spending. I tell you in all candour that the option no longer exists and that insofar as it ever did it worked by injecting inflation into the economy."[10]

Joseph's speech at Stockton took place before the money supply targeting began, but after the policy was announced. As he said, "the Government's intention to contract the money supply is welcome and potentially beneficial to all. But it is not enough."

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[8] Ibid., pp.
[9] Ibid., p. 17
[10] James Callaghan, Conference speech, 28 September 1976, quoted in Howe, G., (1994), p. 96

The state sector, he argued, would remain protected, and thus would win the battle for funds, crowding out the private sector. The private sector would be "punished for the state sector's profligacy". Thus it was essential to reduce the state sector at the same time as encouraging enterprise with substantial tax cuts.[11] Britain's problem was to be understood through the lens of unproductive producers versus productive producers, as demonstrated aptly by the Conservative Party's paper on economic policy, published in 1976, *The Right Approach*,

> "The fundamental problem has been the erosion of the cornerstone of the whole edifice of industrial enterprise – profits and profitability. These provide both the incentive and the financial resources out of which expansion comes. If fewer people are embarking on new ventures to make profits, the reason is that fewer such possibilities exist."[12]

4.2 Stepping Stones to the 'Healthy Society'

No history or discussion of Thatcherism or neoliberalism in Britain is complete without a discussion of the *Stepping Stones* report, written between August and November 1977 in the CPS by John Hoskyns and Norman Strauss,[13] both of whom had been brought into the CPS by its director, Alfred Sherman, at the end of 1975 on the basis that the Conservative Party was lacking any form of strategy for actually turning the economy around. And it was on this basis that Joseph asked Hoskyns and Strauss to prepare a report in 1977, a single strategy, as Thatcher later called it, to reverse economic decline. Key to this new strategy was the idea that government involved changing public attitudes, especially with regard to unions, thus turning the union issue from "the Labour Party's secret weapon into its major liability."[14]

In discussing this document, the point is not to prove how critical it was in the formulation of Thatcherism, but to use it to demonstrate the nature of thinking in the CPS in 1977 and how specific solutions for government were being developed. These 'solutions' addressed issues raised in Joseph's 1974 to 1976 speeches yet, at the same time, set out a plan for tackling attitudes and conduct in the population at large that, it was argued, needed changing. My argument is that *Stepping Stones* represents a specifically neoliberal agenda, laying the groundwork for policies that sought to

[11] Joseph, K., (1976a), pp. 16-9
[12] Conservative Central Office (1976), p. 28
[13] There is no published version of this document; only a handful of key Conservative figures were sent copies of the full document for discussion. The copy that I read was located at the Conservative Party Archive, held at the Bodleian Library in Oxford. A much shorter summary version was distributed to a wider policy-making group and is published on-line by the Margaret Thatcher Foundation. I have cited the longer, rather than the abbreviated version of the report. As far as I am aware previous historical accounts have always cited the abbreviated version.
[14] Thatcher, M., (1993), p. 42; Thatcher, M., (1995), pp. 420-2; Howe, G., (1994), pp. 104-5. For historical accounts see Young, H., (1989), pp. 114-23 and Cockett, R., (1995), pp. 272-4. For Hoskyns' own account see Hoskyns, J., (2000), pp. 18-95

foster and elicit appropriate habits of thought from significant parts of the population who were, according to the authors, far too attached to their unions and worker instincts. That said *Stepping Stones* in no way represents the finished product of the New Right mentality of rule; sections 4.2 and 4.3, for instance, look at speeches by Joseph (1978, 1979), Lawson (1981, 1984) and Thatcher (1976, 1977) that represent reasonably complete statements of Thatherite political rationality on the eve of the 1979 election. All the same it provides a key primary resource through which to explore the genealogical work that was being done at the time, both at the CPS and, as discussed in the previous chapter, at the IEA. That is to say it offers a narrative in which the authors problematised certain habits of thinking, exploring those habits and explaining how to they came to be. Moreover the document is explicit in arguing that to reverse inexorable decline these attitudes needed to change, and that government had a role in doing this.

Stepping Stones is a document about government and how to govern the economy and what it is critical to understand about it is that Hoskyns and Strauss envisaged that the strategy, successfully enacted, would enable a future Conservative Government to govern a society that had already become such as it needed to be. The new government would only be formalising the transformation through judicial modifications. In other words, the population needed to have accepted the need for legislation limiting the power of the unions before it was passed into law. The point was to win the next general election, but winning it for the right reasons was more important to these authors than winning it for the wrong reasons. As the report stated, there was "no point in the Tories winning the next election unless the people are ready, at last, to move calmly and sensibly back to the sanity of other Western democracies."[15]

Explicit economic policies were thin on the ground in the report; *Stepping Stones* did no more than provide a list of policies from *The Right Approach*, published the year before. These policies included stabilising the currency through balanced budgets, monetary discipline and public sector wage restraint; shifting personal taxes from income to expenditure and allowing capital gains to be treated as income; de-regulating the private sector through scrapping price, profit and dividend controls; and finally using North Sea oil revenues to cut the public sector borrowing requirement so that interest rates could be kept low and investment encouraged.[16] But, as I have said, these authors believed that to do all of this required first and

[15] Hoskyns, J., and Strauss, N., (1977), p. S31
[16] Ibid., pp. S6-7

foremost a "sea-change" in Britain's political economy; a fundamental change in attitudes.

Stepping Stones' focus was on attitudes that were, the authors argued, anathema to a healthy and growing set of private enterprises. And this clearly included the idea, already present in Joseph's speeches and most succinctly stated by Bacon and Eltis, that the public sector was a user-up of the wealth and value created by private industry. Britain was infused with wrong attitudes. The right attitudes, commensurate with a "Healthy Society" involved a "desire for something better – for unity, effort, quality of work, fairness, trust, and straight dealing." On the face of it then the right attitudes related to attitudes towards work. However, focusing on that misses the point, because the thrust of *Stepping Stones* was towards the wrong attitudes; linked as they were to the perceived conduct of workers and unions alike. The very possibility of enacting the kind of legislative programme outlined in *The Right Approach* would already have meant, in the minds of Hoskyns and Strauss, ensuring that unions were not in a position to block change and that rank-and-file union members had already stopped supporting shop stewards and their more radical and explicitly socialist ideals.[17] So *Stepping Stones*, I am arguing, presented a strategy that insisted that the work of government must be done now, even though it was going to be done outside the actual executive functions of government itself. In short, it was an attempt to change people's conduct, operating in a zone of ambiguity between a belief in the need to change attitudes and a belief that attitudes were changing or were poised to shift, just given the right nudge.

> "The rising tide of public opinion is already transforming the trades unions from Labour's secret weapon into its biggest electoral liability...what we have to show is that the real conflict, which is already happening, is the direct result of the union status quo."[18]

In fact these authors were not alone in claiming that attitudes were changing. During the 1979 election, Callaghan is reported to have commented that he knew Labour were going to lose, that he could sense that there was a sea-change in politics, that the British public were going to vote for something different from government.[19] I would certainly not credit *Stepping Stones* with this change. Neither am I necessarily claiming that British attitudes had 'in reality' changed; only that the report reflected a belief that attitudes were changing and that the New Right believed that they reflected this new consensus and knew how to 'finish the job off',

[17] Ibid., pp. S17, S3, S36-7
[18] Ibid., p. S19
[19] Donoghue, B., *Prime Minister; The Conduct of Policy Under Harold Wilson and James Callaghan*, 1987, p. 190. Quoted in Cockett, R., (1995), p. 286

so to speak. Of course the 1979 election did mark a huge shift in voting from Labour to Conservative but the important point, as far as the question of how to govern is concerned, is that reports such as *Stepping Stones* demonstrate that the New Right were convinced that what they were saying and what they stood for represented attitudes that were commensurate with a healthy society; an electoral rejection of the Labour Party would mark a public rejection against old habits of thought. "A landslide is needed, but it must represent an explicit rejection of socialism and the Labour-trades unions axis; and the demand for something morally and economically better."[20]

So *Stepping Stones* laid out a strategy for dislodging the average voter and rank-and-file union member from supporting the so-called Labour-trade unions axis. This was to be no easy task, for, according to Hoskyns and Strauss,

> "...The individual worker and his union are closely linked. It would never occur to most workers that it could be otherwise, even though he may be inactive and attend no meetings. Exile from the union would be like banishment to Siberia. Between him and the terrors of being on his own in a society which, as yet, offers fairly unequal opportunities, stands his union – that is, his tribe, his clan, his own small society. Inside it he is warm, and to a large extent, safe. Outside, he is nothing. If he is to desert Labour – and thus by close connection, qualify his loyalty to his union – it must be for something better and equally reassuring to him. We have to create a situation where he can openly resolve the 'dissonance' between these feelings and his own opinion poll response to union power and socialist policies, by voting Tory."[21]

This is not to say that *Stepping Stones* blamed Britain's "gradual decline [to a]... low-wage second-world economy" solely on the unions. Much union behaviour, they argued, was a response to poor management and poor government; yet the unquestioning support for unionism in its current form was viewed as a permanent obstacle to recovery. In this account, recovery without an imposed period of austerity, in which consumers in Britain would be forced to adjust their expenditure so as to balance Britain's external account, was based on three preconditions: large-scale de-manning, an end to collective bargaining (and the linking of wages to productivity) and a natural shift from industry to services. This was all (only just) possible. Certainly it would have to involve the right kind of fiscal and monetary policies listed above, but above all else de-manning and ending collective bargaining was positioned as the first necessary obstacle to overcome. In turn given their legal powers and huge membership, the unions were deemed an obstacle to any change. By electing a Labour government in 1974, the country had, according to Hoskyns and

[20] Hoskyns, J., and Strauss, N., (1977), p. S1
[21] Ibid., p. 36

Strauss, turned to a Party that they believed could at least cope with unions, forming a satisfactory relationship with them, managing decline rather than precipitating crisis. Conversely, crisis was exactly what had been precipitated by Heath's Industrial Relations Act of 1971, which had led to large-scale strike action and a coal miners' strike that forced the country onto a three-day week at the start of 1974.[22]

The report classified those that "needed to see economic reality" and adjust attitudes and behaviour accordingly on the following basis. The rank-and-file union members were really just ordinary people who could be convinced by the right political marketing that their interests lay elsewhere than with "their tribe". These people were no different from large numbers of Labour voters in 1974. Within the Union hierarchy, however, there were potential allies, the economically confused and the political opponents. The latter, according to Hoskyns and Strauss, were the only true socialists, essentially Marxists who, they believed, by marshalling and controlling members on the factory floor were increasingly turning unions into a political force that would celebrate the demise of the private sector, suffering under high rates of interest required to finance a fiscal deficit that itself enabled the public sector to continue to function. These were the people that the report argued had to be isolated and discredited.[23]

However, it is important to point out that none of these groups necessarily constituted the kind of cartel behaviour invoked by classical liberals such Adam Smith, or by Hayek in *The Constitution of Liberty* (1960). That is to say, *Stepping Stones*, just as with George Allen's IEA paper on the British disease and Ralph Harris' essay in *Can Workers Manage*, did not start from the supposition that the legal privileges afforded British unions had created self-acknowledged job protection cartels. Of course they would have argued that unions could be coercive organisations that erected barriers of entry to a particular form of employment so as to protect remuneration and benefits. And they would have whole-heartedly endorsed Hayek's view that "a plant or industry cannot be conducted in the interest of some permanent distinct body of workers if it is able at the same time to serve the interests of the consumer."[24] But the motives behind union behaviour at all levels were problematised in a different fashion. The agents of Britain's "sick society" ("class war, dishonesty, tax fiddling, intimidation and shoddy work")[25] were

[22] Ibid., pp. S5, S11-3, S33
[23] Ibid., pp. S14, S21
[24] Hayek, F., (2006), pp. 233-43
[25] Hoskyns, J., and Strauss, N., (1977), p. S18

invariably not 'knowing' monopolists but simply people with the wrong habits of thought, habits that belonged to a different time and to a different society.

Changing the law in itself was clearly something that the New Right believed needed to be done. This would include banning the closed shop and secondary picketing, as well as ending the legal immunity granted to unions in 1906, from being sued for damages caused to a company's profits by union action that was not directly related to the dispute in question. However in the mid-1970s, in the context of stagflation, industrial disputes and a sense of crisis, these authors began to argue that new rules would only work if attitudes had changed first; or at the very least if those that refused to change attitudes could be marginalised so as to minimise the inflationary impact of their wage claims. And to change attitudes required first accepting that the opposition was not constituted by knowing destructive monopolists; that unionists did not wake up everyday and plan how best to protect their jobs. *Stepping Stones* was about accepting that for many unionists, their trade union was society, that supporting the union meant supporting a certain social structure and collective way of thinking. There was, one might say, a certain realisation that if the worker-saver was the image of ordinary human agent incorporated into the mind of the social (or Keynesian) mentality of rule, then the union was often the way individuals had articulated themselves with this practice of rule; unionism and a social governing mentality were two sides of the same coin. One could problematise these ways of thinking without necessarily claiming that they were deliberately malevolent.

So how was the *Stepping Stones* strategy supposed to work? How was a sea change in public opinion supposed to come about such that the Labour-trade unions axis was linked in people's minds to the sick society? The answer was through a communications strategy that took account of the "not...strictly rational process...of how we think." Like any product, a political product had to be marketed, advertised and differentiated, so Hoskyns and Strauss believed, "at the level of ideology" by "what sort of society is being proposed." Marketing would, however, have to appeal to the three different groups of people that made up society: the thinkers, the feelers and the doers. The authors were confident that the intellectual argument could be won with the 'thinkers' and they thought the 'doers' could be convinced by the results of change and reform; it was the vast majority, the 'feelers' who would need convincing through some kind of emotional appeal to switch sides. The appeal would have to be made as an "emotional bridge" to help the feelers resolve the dissonance that they felt between wanting to be part of the union ("the tribe") and a feeling that the same union might in some way be restricting their freedom of action and self-expression. Images of the healthy and sick society and appropriate slogans would effect a shift in values and disturb existing mental states, preparing the ground for election victory and the acceptance of the legislative programme to come.[26]

The key message was that "mental sets" had to change. Each person, Hoskyns and Strauss believed, had "a more or less stable set of opinions, values, interests and purposes," which meant that responses to all kinds of events would be predictable unless the mental set changed.[27] The argument, which had also been heard at the IEA, was that the government had a role in realigning the population's attitudes and conduct to the requirements of modern British economy and society. Hoskyns and Strauss were not saying that union members were involved in a deliberate job protection operation. They were literally saying that their perspective on the world, which in itself referenced a certain kind of image of society and required a corresponding economic role for government, needed to change.

In discussing *Stepping Stones* it is of course tempting to ask the question, did it work, or was it successful? On the one hand, one can point to the frustration that Hoskyns felt and talked about in his memoirs *Just In Time* (2000); his diary entries suggest a continued annoyance that the Conservatives had not understood the central point: that battles needed to be picked with unions in order to make them appear to the public as synonymous with the British disease, that the point was that attitudes had to change before legislation could be passed. And in government itself, at least in the first few years, legislation was much 'softer' on unionism than he had hoped, drafted as it was by one of the so-called "wets" Jim Prior; government also, much to Hoskyns' annoyance, chose to settle pay disputes rather than battling the unions.[28] But certainly for Geoffrey Howe (Chancellor of the Exchequer from 1979 to 1983) the report continued to offer guidance throughout the years in Government[29] and with the miners' strike of 1984-5 one can see its influence: the battle was prepared for and executed; opportunities for compromise were deliberately passed up.

Nonetheless, none of this addresses whether the strategy was successful in changing attitudes; whether attitudes were correctly characterised by the New Right before 1979 and whether, even if they did change, their political programme had anything to do with it. Of course finding reliable answers to these questions would be very

[26] Ibid., S21-3, S25, S30, S39-40
[27] Ibid., S24
[28] Hoskyns, J., (2000), pp. 140-209
[29] Howe, G., (1994), p. 108

difficult. However, this is not really the relevant point for my research. Instead what all this is intended to demonstrate is that the New Right understood their role to be one in which government had to change conduct for the betterment of society. This was the job that they had given themselves and for which ultimately they would be looking for signs of success. Having fewer working days lost to strike action was clearly one way in which government could convince itself that it had been successful and that things had changed. Clearly, however, a more important way of recognising success would be to see the supposed ill effect of unionism decline, that is inflation. Inflation was a seen as a monetary phenomenon; yet this was not contradicted by the belief that it was caused by weak governments giving into the wage demands of unionised workers.

That the demise of inflation would be the key signifier to the New Right that they had succeeded in their task of changing habits of thought was made clear in one of Joseph's speeches published by the CPS just before the 1979 election, *Solving the union problem is the key to Britain's recovery* (1979). I will return to this idea in the conclusion to this chapter for it is an essential point in understanding the following two chapters; but for now it is enough to say that, for Joseph, inflation in itself left "people frightened and angry"; it "upset...rational economic behaviour," causing "everyone to try to seek the largest possible share of next year's bank notes." In other words, everyone, Joseph believed, was "forced into destructive action", but none more so than unions who appeared, to him at least, to be "uniquely fortunate": collective action seemed to give them a strength that others did not possess. Crude monetarism was an insufficient response because with powerful unions refusing to moderate their wage claims, real damage due to high interest rates was being inflicted on the private sector.[30]

To abate inflation, the public sector, Joseph believed, would have to shrink. But in order to remove the fear that inflation would return soon the present power of the trade unions needed to be removed. This was no more than "a few stepping stones on the way to national recovery." Ultimately the Government under Thatcher would set in place a legislative framework that encouraged "mature behaviour". But, and in this he was of course reiterating Hoskyns' and Strauss' main point, "it is rarely - except *in extremis* - prudent to pass laws unless the majority of people understand the need for them." Laws could only be passed in the context of having already effected a change in habits of thought, only after and not before; and the demise of inflation would be the sign that everyone was ready for the new legislation. 'Debate' was

[30] Joseph, K., (1979), pp. 1-2

therefore "an essential prelude to practical action." And as part of this debate, there was a need to focus on attitudes. One had to know the mental set out there before one could elicit and foster a new one. Thus they came to accept that union members believed what they believed, not that these beliefs were cynically deployed covers for colluding monopolists. "We should never forget that many union members are prisoners of a set of wrong assumptions and of a system which has gone wrong. It is the system we criticise, not the people involved in it."[31]

4.3 How to govern the economy and reconstitute society

There are many reasons why by the late 1970s the New Right were publically distancing themselves from being linked with the term *laissez-faire*. One reason might simply have been that they were worried that the term gave an immediately bad impression in the minds of voters. I am arguing however, that specific denials were more than mere electioneering. During her first Conservative Party conference address as leader in 1975, Thatcher stated that she had never believed that the economy should run itself, governments were under an obligation to create a framework in which each individual could make the best of his of her talents.[32] In 1977 she argued in another speech that *laissez-faire* was a two hundred year old doctrine used by industry and commerce to fight monopoly and interference. In the current day and age, there were different battles, and there was no denying that the government had a role in economic life; "there is much that the state should do, and do much better than it is doing."[33] For a start, as discussed, changing attitudes and conduct in society would be a central task of her Government.

However, any discussion of a whole assemblage of New Right ideas and practices would have to include not just economic issues, but also positions on law and order, defence, international relations, national identity, community, housing, health, education, and the control of government itself, whether local or national. The Government was to be very active on all these issues after 1979, and before returning to the discussion of the formation of the policy programme in the 1970s, I want to briefly touch on some of the different aspects of the New Right economic and social programme as enacted in the early 1980s. And of course these policy areas were interconnected. For instance, a properly functioning housing market was vital to the labour market because without a large stock of private houses for rent it was thought that it would always be difficult for workers to move and find new jobs. Legislation in 1980 and 1988 aimed at establishing tenancy agreements that, by giving landlords

[31] Ibid., pp. 9-12
[32] Thatcher, M., *Let me give you my vision* (1977), p. 34
[33] Thatcher, M., *Dimensions and Conservatism* (1977), p. 106

more control of leased premises, would stimulate the growth of the private rented sector.

Much was done to break up local government housing estates that were seen as fostering attitudes that were not progressive. For Thatcher, living in local government housing caused "the worst source of immobility...[tenants]...not only have every incentive to stay where they are: they mutually reinforce each other's passivity and undermine each other's initiative."[34] Thus in the 1980s the Government instigated a massive programme of local government or 'council house' sales. This was linked to another target of New Right distaste, local government itself. Local governments were seen as an area of non-productive output that needed to be shrunk,[35] where a cosy relationship between council and tenants fostered habits of thought that were opposed to entrepreneurialism and wealth creation. Rather than allowing local governments to sell housing stock if they chose, (a right that dated back to Harold MacMillan's Conservative Government of 1957) the new 'right to buy' led by 1990 to one and a half million families buying their homes from local councils. These houses were invariably sold at a significant discount to the current market value in order to incentivise as many as possible to become homeowners. Moreover, funds received in consideration for the sale of council houses were not to be used by local government for the construction of new social housing estates. Finally, the perceived incestuous relationship between local government and its tenants was further undermined by the 1988 Housing Act which allowed whole estates to vote for a transfer of ownership from local government to non-government associations. Such was the determination to shrink local government balance sheets, the voting system was set up such that those that did not vote were assumed to have voted for transfer out of local government control.[36]

The Government also concerned itself with directly encouraging and incentivising entrepreneurial (as producers not consumers) activity. This was of course a key and on-going part of the New Right vision; fostering a better 'supply-side' of the economy in which people were more productive, responsive and adaptable to consumer demand. And the Thatcher Government believed that they could act directly to foster a more entrepreneurial spirit. Lower taxes for instance might have been part and parcel of shrinking the public sector, but fiscal policy was also to play a role in new behavioural incentive structures. The changing nature of taxation

[34] Thatcher, M., (1993), p. 671
[35] Ian Gilmour (1992, p. 265) recounts, quoting Norman Tebbitt, that the Greater London Council was abolished in 1986 because it was at odds with the Government's view of the world.
[36] Gilmour, I., (1992), pp. 175-8

policy, for instance, was signalled almost immediately by Geoffrey Howe's first budget in 1979 when he instituted a huge shift from direct taxes on income to indirect taxes on expenditure (value added tax or VAT). As he said, this was a hugely important and lasting change to the tax structure that was meant to enable high achievement to be rewarded and incentivised with commensurately high salaries.[37]

Nigel Lawson's first budget as Chancellor of the Exchequer in 1984 was equally important, extending the remit of VAT from 50% of consumer goods to almost all goods. He also abolished tax surcharges on investment income, part of the policy of ending the distinction between income earned in work and income earned on savings. In the same year Lawson also changed the tax system so that corporate capital purchases were no longer immediately tax deductible. Following on directly from the neoliberal critique of investment theories of growth, he explained that this change reflected the long held and incorrect prevailing belief that investment in physical plant and machinery was good *per se* and should be subsidised. Having abolished these tax allowances, he was able to bring down significantly the rate of corporation tax charged on profits.[38] Taken as a whole, changes to the tax system were aimed at incentivising enterprise whether at the corporate or individual level and removing a highly variable tax structure that, the New Right believed, distorted the allocation of capital in society.[39]

For Lawson, speaking at a lecture given in 1984 entitled *The British Experiment*, this all represented an appropriate switch in policy. On the one hand macroeconomic policy was all about creating conditions conducive to growth and employment; fiscal policy could only be part of that if it was operating in harmony with declining monetary growth. Microeconomic policy, on the other hand, was now all about removing controls and allowing markets to work better.

> "The abolition of pay controls, price controls, divided controls, foreign exchange controls, bank lending controls, hire purchase controls, industrial building controls – all these have been beneficial in themselves, but will bring even greater benefit to the nation as part of the process of rediscovering the enterprise culture...In the field of microeconomic policy...what we are seeking to do is to change a psychology, to change a business culture."[40]

At a push one might say that with regards to economic policy the substantive goal was the re-creation of a society in which *laissez-faire* was possible. However, even

[37] Howe, G., (1994), pp. 130-1
[38] Lawson, N., (1992), pp. 348-54
[39] Thatcher, M., (1993), p. 673
[40] Lawson, N., (1984), pp. 3-4, 13

this is problematic in that, as the last chapter discussed, competition was viewed as a process that the government had to maintain, that resulted in an active tension between consumer and producer. To drop one's attention from the economy for even a short time might mean that producers were no longer serving consumers. *Laissez-faire* for neoliberals was only possible if there was competition, but competition, as the above quote from Lawson suggests was an artefact of having the right psychology. Competition would have to be constantly monitored; as such the conditions of possibility for *laissez-faire* could never necessarily imply a *laissez-faire* governmental regime. Habits of thought in society at large and in business culture had to change. And there would have to be a permanent vigilance by government to ensure these attitudes persisted: that businesses were not adopting monopolistic practices and that the population at large was using its consumer instincts to subject businesses to competition.

This is a discussion that I return to in detail in the following chapter and is directly related to the role of monetary policy and the ongoing monitoring of monetary developments in the economy. However for now I want to pick up on another theme running through this chapter, the emergence within the CPS of first classical liberal, and then later neoliberal, ideas. The early speeches of Keith Joseph spoke heavily of his discovery of classical liberalism. By 1976 in the midst of crisis Joseph was making a sharp distinction between a right-minded and wealth creating zone of productive practice and a non-wealth creating public zone in which resources were used up. Unless this latter zone was deliberately shrunk by restricting access to funding (money from the government), then limiting total money supply growth in the economy would fall disproportionately on the private wealth creators.

This is where *Stepping Stones* was so important, everyone had to accept the need for pay restraint so that collective bargaining would not add to inflationary pressure. In time these new arrangements for collective bargaining would be enshrined in union legislation. Six Acts of Parliament were passed between 1980 and 1993 that successively removed union privileges and legal immunities. But the very fact that they were not passed all at once was part of the plan. Hoskyns, Strauss and Joseph had all made it clear that the public had to already have changed attitudes and be exhibiting new habits of thought in order for the new legislation to be accepted and be effective. Knowing when to govern for these new habits of thought was going to require some significant signals in order that government could be certain in their belief that attitudes had changed.

All the same, one question remains unanswered: what were the new attitudes to be? So far, one might say, that discussions and speeches had taken a certain negative character. The New Right was pretty sure what was wrong, that un-critical support for unionism created regressive thinking. Moreover they believed that the maintenance and build-up of these attitudes was a result of economic policies that had over-inflated demand for employment, always holding in mind what had happened during the 1920s and 1930s. In the neoliberal mind the sick society and the British disease did not have to be described in great detail because it was manifest for all to experience in Britain in the 1970s. Thus in the material so far considered in this chapter, there is a certain lack of detail in regard to what the healthy society would look like, and what, in human terms, it would consist of. It would certainly consist of good business managers and entrepreneurs. Indeed Joseph in part held business responsible for not standing up to unions and for not "convincing them of the facts of economic life...Management had been shell-shocked by the shift in power, without responsibility, to the shop floor."[41] The government, as I have discussed above, would do what they could to incentivise private business. They would also do much more, as the next chapter will demonstrate, to try and eradicate bad management.

However Joseph also recognised in a speech in 1978, *Conditions for full employment,* that entrepreneurship was a great skill and talent that not everyone had.[42] He wanted everyone to respect entrepreneurs as leaders rather than considering them, as he believed others did (especially the "well-intentioned social workers and misguided left-wing teachers"[43]), as morally dubious seekers of profit. But a healthy society was not simply constituted by two classes of people, workers (who respected all that entrepreneurs did) and entrepreneurs. This was the Schumpeterian perspective. There had to be something else to this vision of society, not just that it would appeal to everyone and win votes, but that everyone was included and played a vital role. Certain key habits of thought had to be part and parcel of everyone's economic behaviour. "For full employment to happen involves adaptability and co-operation by people." The worker (as unionist or as 'worker-saver') was, in the hands of Joseph, a label that applied to attitudes that damaged the interests of the whole of society. The worker needed to cease to exist as a central category of self-identification in people's minds, and instead needed be reconstituted in different forms; "the worker as consumer wants low prices; the worker as investor, as

[41] Joseph, K., (1978), p. 11-2
[42] Ibid., p. 6
[43] Joseph, K., (1974a), p. 8

beneficiary of occupational pension funds, wants high dividends; the worker as job-seeker wants high profits, yielding extra jobs."[44]

"Work is a creation of value by service to the consumer." This, according to Joseph was its social function, creating value by satisfying wants. "Full employment and rising standards are by-products of adaptability. Repress the adaptability and you diminish the degree to which demand calls forth supply, and supply generates demand." To think in a way that stressed adaptability was therefore the way to exercise habits of thought that were commensurate with progress, economic growth and the least possible unemployment. Desire was not appropriately satiated by inappropriately created jobs but instead by appropriate consumer behaviour, whether on the high street or whether in ownership of more long-term assets, such as houses or shares.

> "Every human being is a consumer. The consumers vary in number, tastes and effective demand. There are more consumers than producers. The population as consumers will keep occupied the population as producers provided, of course, that the financial system is so managed as to allow this to happen. The reverse is *not* true; producers will not satisfy consumers by producing the same pattern of goods and services."[45]

For the New Right there were still far too many people who thought of themselves as workers rather than as servers of the consumer,[46] that is as employees of the consumer. There was far too much governing that was done in terms of a model of the worker-saver and there was much that government could do to incentivise and facilitate entrepreneurs to create new products and foster new demands. But at the same time neoliberal governing had to proceed on the basis that society was composed of individuals who were at the very least thinking of themselves as consumers, not as workers, with the connected instincts of ownership and adaptability.

The neoliberal mentality of rule divided society in a fashion that was entirely distinct from the classical liberal division between classes: landowner, capitalist, worker. No longer should government aim at producing a population of people who would learn to properly exercise their respective class responsibilities; nor should government arbitrate so that these classes could meet in equality in the market place. As far as economic agency was concerned, on the one side of the society there was the private sector and consumers working together for progress, both exhibiting

[44] Joseph, K., (1978), pp. 13, 20
[45] Ibid., pp. 4-5, 15
[46] Ibid., p. 18

adaptability, willingly responding to change; on the other side there were workers and the public sector. Either one was doing all that one could for oneself, maximising one's own potential through work or through investing in oneself, or one was using up the wealth and resources being created by agents doing the former.

This was, as I have intimated, a social argument, an argument about what constituted a moral society. And no one expressed this idea more so than Thatcher in her speeches between 1975 and 1977. In *The New Renaissance* (1977) she argued that for forty years the progressive up-to-the-moment belief in Britain had been in the virtues of collectivism. But now there was a new form of progressiveness that began with "the individual, with his uniqueness, his responsibility and his capacity to choose." The moral side of the economy was thus composed of people who made choices for themselves, whether consumers or entrepreneurs. "Choice is the essence of ethics; good and evil have meaning only insofar as man is free to choose."[47]

> "People must be free to choose what they consume in goods and services. When they choose through the market, their choice is sovereign; they alone exercise their responsibility as consumers and producers...Choice in a free society implies responsibility. There is no hard-and-fast line between the economy and other forms of personal responsibility to self, family, firm, community, nation, and God. A moral being is one who exercises his own judgement in choice, on matters great and small, bearing in mind their moral dimension – right and wrong...A man must choose between spending and saving; between paying for his children's education and accepting whatever the state provides."[48]

Thatcher's vision of the healthy society was one that was founded on the idea of personal responsibility; that every citizen could "develop his full potential both for his own benefit and for the community as a whole."[49] Indeed every person had "an obligation to make the best of his talents", and in turn government had an "obligation to create the framework" within which each person could do that.[50] Only once people had taken responsibility for themselves, ensured that they had used the resources available to them to maximise their self-worth, only then would a healthy society come into existence. Being responsible for oneself and one's family first would lead to a feeling of being a responsible member of the community and wanting to ensure the well-being of that community. Ultimately "the voluntary spirit of the community [would] be mobilised."[51] To consume the services of the state was not taking responsibility for oneself, only consumption that was marketed

[47] Thatcher, M., *The new Renaissance* (1977), pp. 94-6
[48] Thatcher, M., *Dimensions of Conservatism* (1977), pp. 107-8
[49] Thatcher, M., *Let our children grow tall* (1977), p. 12
[50] Thatcher, M., *Let me give you a vision* (1977), p. 34
[51] Thatcher, M., *The healthy society* (1977), pp. 81-4

represented a signal of wishes and preferences,[52] and only this kind of consumption was commensurate with the moral society.

Neoliberalism did not deny society, quite the contrary; but it was an individualised form of society neither embodied in separate classes or the state but in one class of entrepreneurs, either in business or 'of-the-self'. That is not to say that the Conservative Party did not recognise income differentials although, as Thatcher argued, to act so as to iron out differentials would ignore how they arose, and to do this would be "to ignore the fact that society is a living organism resting on processes and changing relationships."[53] Simply put class division ought to be nothing more than income differentials. Or to be more exact, the persistence of allegiance to the working class was wrong, everyone should be allied to the progressive society of consumers and entrepreneurs. As the policy document *The Right Approach* (1976) put it,

> "It is not the existence of classes that threaten the unity of the nation, but the existence of class feeling. So long as success and ability are rewarded, there will be classes. But class is rapidly ceasing to be the main determinant of political behaviour."[54]

More than anything else the New Right took offence to the idea that the state was the embodiment of society. And this lies at the heart of a certain irony; that Thatcher was a great believer in a certain form of society, even though she is famous for her comment "there is no such thing as society". Understanding the neoliberal mentality of rule is, as I have said, to recognise that the social market economy was based on a set of economic ideas which were post-Keynesian, which referenced a vision of the economy in which all humans were active agents of economic prosperity, not just one class (of entrepreneurs). Thatcher's infamous statement was made twice in an interview in 1987. On the first occasion it was in the context of saying that people who cast their problems on society were ignoring the fact that they were casting their problems on other individuals because it was individuals and families that made up society. In the second instance, she followed the comment by stating that she believed there to be a living tapestry of men and women and people and the beauty of that tapestry depended on how much each person took responsibility for themselves and was prepared to help others through their own efforts.[55]

[52] Thatcher, M., *The path to profitability* (1977), p. 53
[53] Thatcher, M., *Let out children grow tall* (1977), p. 11
[54] Conservative Central Office (1976), p. 12
[55] Thatcher, M., (1987), p. 1-3

Her memoirs are more revealing in that she defended the statement by making the key differentiation between society and the state; the whole problem she believed was due to the evolution in people's minds of the confusion between society and the state, as helper of first resort. "Society was not an abstraction...I expected great things from society...because I believed that as economic wealth grew, individuals and voluntary groups should assume more responsibility for their neighbours' misfortunes."[56] Thatcherism was meant to be a project to improve society, to make it function better, and to govern for those who shared the appropriate habits of thought. But in this political rationality society was not embodied in the state, instead society was to be privatised and reformulated so that it was constituted by responsible consumers and entrepreneurs.

4.4 Conclusion: inflation first

At this stage it is worth recapping some of the major themes of the thesis. To start, I want to reiterate Foucault's position that liberal government "is a consumer of freedom...which means that it must produce...[freedom, and government says]...I am going to see to it that you are free to be free."[57] The question remains however, free to do what? In both classical liberal and 'new' social or Keynesian liberal regimes, the freedom that was invariably prescribed and produced was the freedom to produce more. For classical liberalism it was a freedom in which nothing should be allowed to get in the way of the entrepreneurs' right to funds (whether obtained from personal savings or the bank) so as to accumulate capital equipment that would increase output in the future. Discipline might be required for some of the non-entrepreneurial classes to ensure that they were fit for work; thus one could always discern a distinction between the deserving and undeserving poor. For social liberalism this right to produce changed nature and shape, now everyone in society had a right to work. And as nations got wealthier and average savings rates rose it was more likely that governments would have to take a role in providing work. After all was it not better to make people useful, getting them to build houses and roads rather than just hand out cash or dig holes in the ground, fill them with cash, and ask the unemployed to dig the cash out again?

For neoliberals, however, increasing general levels of wealth meant that there was a new freedom to be actively addressed by government, the freedom to consume. It was not that people had not been free to consume before, but that this freedom was one that did not need to be spoken of. Adam Smith's *Wealth of Nations* began with a

[56] Thatcher, M., (1993), p. 626
[57] Foucault, M., (2008), p. 63

recognition that the whole point of political economy was to understand how the nation was able to provide more for itself to consume, that the poorest in a rich nation still consumed more that the richest in a poor nation. But there was nothing to say about consumption itself, other than that for Smith, excluding eating, which was ultimately limited to the human stomach, he knew of no limit for "the desire of the conveniences and ornaments of building, dress, equipage, and household furniture."[58] Nothing more needed to be said on the matter, and Ricardo, Mill and Marx essentially followed suit. One cannot find in the practices of liberal government any sense of the need to produce sovereign and enterprising consumers. The idea of the consumer as an agent of progress, imbued with a mentality of adaptability and the sense of self as a site of human capital was anathema.

The IEA from its inception posed the right to consume, to use hire purchase, to be addressed by advertising as something that needed to be actively encouraged by government. For these authors being free to choose, being free to consume was an essential part of being free to maximise self-fulfilment, not just as immediate gratification but in the life time process of self-discovery, in which one maximised one's potential self-worth and one's intrinsic value. This was a foundational element of being. And, as Thatcher was to remark many years later, it was a duty on each individual to maximise self-fulfilment and in turn the community's worth would be maximised as well.

I have argued that this conception of the consumer was a fundamental reference point in the neoliberal mentality of rule. It was always present as an ultimate foundation to draw upon in problematising how the economy was governed. However, it was not until the 1970s that this reference point was fully activated in the minds of the New Right in Britain as a governmental concern for the conduct of those who were governed. Intellectuals and politicians came face to face with the problem that they might have to 'produce' active consumers in the population at large. A distinction in society had been drawn between the thinking of entrepreneurs and sovereign consumers on the one hand and workers and the public sector on the other; being part of this latter pairing meant that the authenticity of one's economic activity was questionable because it not had passed through the siphon of the market. However as the 1970s progressed, and this genealogy of crisis was constituted in the IEA and CPS, government policies came to be blamed for exacerbating habits of thought that should have passed into history. Moreover, and critically, these habits of thought were increasingly problematised as attitudes and

[58] Smith, A., (1991), p. 174

behaviour that acted as obstacles, blocking and detracting from the activity of the marketed side of the economy. How could one be thinking appropriately as a self-responsible consumer when one was part of a union, part of 'a tribe' supposedly opposed to the concerns of business? How could one be an entrepreneur, endowed with special talents, if one was constantly compromising with the factory floor on pay and conditions, rather than being focused on the bottom line, the creation of profit and funds for reinvestment?

In the minds of the New Right, in a world of rising affluence it was time for people to take responsibility for themselves, to become individualised consumers, free to choose all the goods and services that they might need. And by bringing this dissonance into the minds of workers, the 'rational' desires and habits of thought that were lying dormant would become active. There was much for government to do here with regards to trade union legislation. There was also, as the next chapter discusses, much that could be done within the financial system to foster and encourage consumer ways of thinking. For, as Joseph had said, "the population as consumers will keep occupied the population as producers provided, of course, that the financial system is so managed as to allow this to happen."[59]

However, as this chapter should have made clear, the New Right saw many different and interconnected roles for government; there was much for it to be doing with regards to the economy. Attitudes prevalent in the public sector, in nationalised industries, in unions had, they believed, also undermined businesses, often creating managers who were not 'doing their job' vis-à-vis wealth creation, and explaining 'economic reality' to the workforce. Incentivising and promoting entrepreneurial activity and increased productivity was very much part of the on-going neoliberal project and as I shall discuss in chapter 6, was taken up by the Labour Party in the late 1990s as a way to reform services that remained in the public sector. I would not argue therefore that the figure of the consumer was the be-all-and-end-all of governing the economy or society. The Thatcher Government betrayed a distinct awkwardness when addressing public services, but there was no reluctance to tackle the economy and to command business managers to be more creative. Thatcher, for instance, exhibited this very point when addressing the Institute of Directors in 1976, when she said "the politician's role is to set the circumstances in which the wealth creator can use all his talents to play his chosen role in society. We fail you if we do not provide them; you fail us if you are not then enterprising."[60]

[59] Joseph, K., (1978), p. 5
[60] Thatcher, M., *Short term expediency: long term ruin?* (1977), p. 68

My focus in this thesis is however on governing for the figure of the consumer. Governing the economy this way was always of course related to production; competition for instance was throughout the IEA literature explained as an active tension between consumers and producers. In the next chapter I shall show how, in the early 1980s, policies were enacted on the economy that were intended to a have the effect of unsettling workplaces, whether in the private or public sectors, where managers and workers had, rather like Thatcher's depiction of the local government housing estate, established a cosy relationship and reinforced, at least in her belief, passive attitudes that were contrary to the general economic interest of the nation. Monetarism, as I shall discuss, was both about bad management and certain types of worker habits of thought. Moreover monetarism did not mark both the beginning and end of policies for increasing productivity; that the following chapters do not focus more on the 'supply-side' legislation is a reflection of my interest in how governments have governed for the consumer. My focus is not meant to imply that the Government did not continue to concern itself with the productivity of producers or with the productivity of government itself.

However to finish this chapter I want to revisit the notion that the economy was seen as the starting point of the New Right governmental programme. The *Right Approach* (1976) opened by stating that the priority of any government should be the reduction in the debt burden and the mastering of inflation. This would mark the beginning of economic recovery because, so it was argued, economic failure lay at the heart of Britain's economic problems, sapping the self-confidence of the people.[61] Indeed, in a speech in 1975 Joseph stated his belief that it was the poor government of the economy that had led to the "declining rationality...in our society's workings" and the "deterioration in...defence provisions, law and order, levels of behaviour and freedom from fear."[62]

The consistent message was, get the economy right, and then everything else can follow, from finding the money to sustain a strong military force, to paying for social services that (at least for the time being) were to remain in government ownership and control. Inflation was the key priority; after all as Joseph had said it was inflation that was threatening to destroy society. But tackling inflation meant controlling the money supply, cutting government spending, and controlling the unions' collective bargaining practices; all of which would ultimately provide the

[61] Conservative Central Office (1976), pp. 5, 18
[62] Joseph, K., (1976), pp. 20, 24

framework in which companies could start offering consumers what they wanted and thus, in the process, be returned to profitability and therefore wealth creation.

But how would government recognise that their policies were working? Well of course, the Thatcherites could take pleasure in high corporate profits and less working days lost to strike action.[63] But all of these signs could just be temporary, manifestations of a cyclical pick-up in economic activity that would prove short lived, and not the result of rational wealth owning units maximising profits or self-potential. The only sure sign that things had changed, that conduct had changed, would be permanently low inflation. Only the on-going price level would fully betray what was going on in people's minds; was the government printing money, were companies giving in to wage claims that were not matched by productivity gains, were workers demanding inflationary pay increases? Nigel Lawson, whose own neoliberal credentials would come into question in the late 1980s, put the matter very clearly in two lectures in 1981 and in 1984 respectively. In discussing *Thatcherism in Practice* (1981) Lawson noted that the Thatcher Government had inherited a "legacy of psychology and attitudes bred by decades of economic miseducation." The "overriding objective" of policy now was to be "the conquest of inflation."[64] In 1984, when discussing *The British Experiment*, Lawson made it crystal clear that inflation was the central barometer of success; "to achieve stable prices...implies fighting and changing the psychology of two generations. That cannot be achieved overnight. But let there be no doubt that that is our goal."[65] The enterprising society of consumers and entrepreneurs was to be identified and governed by a persistent monitoring of consumer price inflation.

[63] Ian Gilmour, one the fiercest critics of Thatcherism, noted that the equivalent of two million working days were lost to strike action in 1990 compared to thirty million in the 'Winter of Discontent' of 1978/9. (Gilmour, I., 1992, p. 101)
[64] Lawson, N., (1981), pp. 4-5
[65] Lawson, N., (1984), p. 13

Chapter 5: Governing for the Consumer

Both in this chapter and the next, my focus will shift from examining how neoliberalism problematised the British economy and the human agents in it, to discussing how this same mentality practiced government. The aim of the past three chapters was to explain and describe how this new political rationality conceptualised and continually referenced the figure of the consumer in discourse that problematised Keynesian techniques for governing the economy. Additionally these chapters also pointed to a tension inherent in government between taking for granted a form of human behaviour as something essential that is shared by all and the recognition that some behaviour is different and, by virtue of this, possibly problematic. I argued that within the think tanks of the New Right this tension was in part resolved, at least theoretically, by a kind of historicism; that is by the recognition that habits of thought are historically contingent. Thus, in this view, the attitudes of the workers lined up against owner-managers might have been perfectly appropriate for the nineteenth century, yet incommensurate with the requirements of the late twentieth century market-based economy. Nonetheless it is one thing to resolve these kinds of tension in theory, it is another to govern through a period of transition; or to be more exact, through a period in which the government sees it as its task to ensure the shift from one set of attitudes and conduct to another.

In the previous chapter I argued that the programme to change conduct began in the mid to late 1970s as Thatcher and Joseph toured Britain, delivering speeches to the public imploring them to activate their consumer instincts. These chapters demonstrated that problematising governmental regimes involved imagining what it means to be a human and, in this case, imagining the healthy society as being composed of entrepreneurs and enterprising consumers. This discourse was entirely concerned with the conduct of those being governed. In the current chapter I want to explore the strategies and tactics of neoliberalism practiced as an art of government. As such, I use the idea of governmentality to investigate and explain certain key features of how the British economy was governed from 1979 to the turn of the 1990s.

The art of governing involves a highly complex assemblage of tactics and strategies, and while governing the economy may only be one part of government, it is also in itself problematic and complex. So, in the broadest sense, in this chapter I am asking the question, how did the Thatcher Government govern for the consumer? But in another sense I am saying: given that a particular image of society and the consumer was being referenced by the New Right, what light is shone on the task of explaining and understanding economic policy decisions in the 1980s? If neoliberals were to govern for certain ways of thinking, encouraging and fostering habits of thought that would enable consumer sovereignty to be reasserted, then the strategies and tactics to be employed had to be geared towards changing attitudes and behaviour, that is human conduct in the economy generally. Policies only ever mattered in pursuit of this goal, and when they were deemed to have done their work (i.e. it was believed that attitudes had changed in the population at large), they were no longer needed.

To this extent I am arguing that many of the economic policies in the 1980s, that might appear paradoxical, can in fact only be seen as forming a coherent assemblage when it is realised that they all practiced the same governing mentality. So in constructing this interpretation I am differentiating my account from other accounts of the era that have either focused on the theme of Thatcher's pragmatism, an interpretation to be found, for example, in the accounts of two journalists, Hugo Young and William Keegan.[1] Equally, I am arguing against economists of the New Right, such as Gordon Pepper and Tim Congdon,[2] who viewed the consumer boom of the late 1980s as an explicit abandonment of monetarism. Of course Milton Friedman's assessment, presented to the House of Commons Select Committee in 1980, that the Government was not practicing the kind of monetarism that he had outlined over the previous ten years was, at least theoretically, right.[3] All the same my argument downplays the notion that policy was muddled and confused. The substantive goal of policy was not the practice of monetarism but the realignment of attitudes and behaviour. Monetarism was just a tactic of government used at a particular time for a particular governmental purpose.

This period, I shall argue, demonstrated a fundamental continuity in policy in relation to the objects and objectives of neoliberal political rationality. In suggesting that Thatcherism practiced an imagined figure of the consumer, I am arguing that it is possible to explain a number of measures which at first glance appear paradoxical and problematic and yet which are not: for instance, why fully liberalise the banking

[1] See Hugo Young's political biography of Margaret Thatcher, *One of Us* (1991) and William Keegan's book on Nigel Lawson's tenure as Chancellor of the Exchequer from 1983, *Lawson's Gamble* (1989). Keegan's argument was that Lawson was doing no more than Heath and Barber; using the consumer and consumer credit to create enough demand growth in the economy while at the same time hoping the extra demand would incentivise industry to restructure and invest.

[2] See discussion in section 5.2. Pepper and Oliver's retrospective historical account, *Monetarism under Thatcher* (2001), argued that Lawson in fact was not a monetarist at all, but rather concerned only to lower the inflationary part of nominal GDP. (Pepper, G., Oliver, M., et. al., 2001, p. 27)

[3] In response to the Government Green Paper, *Monetary Control* (1980), Friedman wrote, "I could hardly believe my eyes when I read, in the first paragraph of the summary chapter, 'the principal means of controlling the growth of money supply must be fiscal policy...and interest rates.' Interpreted literally, this sentence is simply wrong." (Friedman, M., 1980, p. 57)

sector yet at the same time focus policy on the restriction of money supply growth; why 'squeeze' the private sector as much as the public sector; and why having worked so hard to bring money supply growth within target range abandon those targets? The answers to these questions, I shall argue, all revolve around the issue of how to govern for the consumer.

In keeping with these themes, the chapter is divided in the following way. Section 5.1 focuses on the monetary squeeze enacted in Thatcher's first term of government between 1979 and 1983. This period can broadly be divided into two halves, the first in which the private sector felt the brunt of monetarism, the second half, commencing with the spring 1981 Budget, when attention was turned towards limiting the flow of funds to the public sector. Section 5.2 focuses on how financial sector reform formed part of enabling and establishing the enterprise culture. In turn, liberalisation and its results precipitated the abandonment of money supply targets in 1985. I discuss whether this change in policy was a betrayal of neoliberalism or something else. Finally, in the conclusion to the chapter, I argue that the boom and bust of the late 1980s/early 1990s represented the first crisis of neoliberalism, a crisis of governmentality brought about by a confrontation between the behaviour of the consumer-as-entrepreneur that had been imagined by the New Right and the realities of excessive consumer and household borrowing.

5.1 "The Quiet Revolution"[4]

To recap, British industry, whether in the private or public sectors, was a matter of great concern for the politicians of the New Right in two distinct regards, both of which they believed acted against consumer sovereignty. Firstly there was the view, regularly espoused by IEA authors, that industry and management had failed to produce goods and services that British consumers wanted. Whether this was because industry had been subsidised by government or badly educated in business practices, the end result was that British consumers seemed to prefer to buy goods that were made elsewhere. For IEA authors, consumers were giving a consistent message about the poor quality of British industrial output, and this in part was held responsible for Britain's low economic growth rate and its regular balance of payments crises. Then, secondly, there was the view that had increasingly come to the fore in the 1970s, and had been put across on several occasions by Keith Joseph,[5] that bad British management was in part to blame for the continuation of habits of thought among the population at large that were not commensurate with progress

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[4] Lawson, N., (1982), p. 7
[5] Joseph, K., (1978), pp. 11-2; Joseph, K., and CPS (1976b), p. 11

and adaptation. How, so the view went, could one have consumer sovereignty without proper consumer attitudes?

In what follows I will argue that Thatcherism enacted a severe monetary squeeze on the economy between 1979 and 1982 that sought directly to counter these problems. Thus although the depth of the recession between 1979 and 1981 was accentuated by global economic problems and the problematic application of monetarism, the point that I want to make is that the core group of New Right economic policy makers, including Thatcher, Howe and Lawson, believed that a severe recession was a necessary part of changing the attitudes of workers and managers alike. The monetary squeeze (nominal interest rates peaked at 17% in November 1979 and stayed above 14% until March 1981) was for them "a blitz on over-manning"[6] in British industry. Between mid-1979 and the start of 1981 total output fell 5.5%, manufacturing output by 15% in 1980 alone, and the manufacturing workforce by 10%. Thus overall during the recession unemployment doubled, rising to 10%, and it stayed high for the next five years, during which time a total of two million manufacturing jobs disappeared (representing 14% of total employment).[7] But, as I shall argue, job losses were seen as a sign that the policies were right and that attitudes were changing, that the retrograde inflationary psychology was being eliminated. In its place, as I shall discuss in the following section, Government believed that a society of entrepreneurs and consumers, operating in a marketed zone of practice, could come into being.

Nonetheless, by saying that job losses were a sign that attitudes were changing, I am not necessarily implying that policy was deliberately aimed at producing unemployment. As discussed in the previous chapter, lowering inflation was the goal; rising unemployment signalled to Government both that their prognosis was correct and that change was occurring. Essentially, high interest rates, they believed, would only affect companies where management was poor in the first place. As the Governor of the Bank of England, Gordon Richardson, put it in December 1979,

> "The moral of what I have been saying is plain. How badly firms are hit will depend, in quite large part, on how well they can control their costs; it will depend on the ability of management and workers to back wage increases with comparable strides in efficiency. The situation no doubt varies widely. Many industrialists I have met remain confidant, especially those successful in new product areas. But in general the future will depend importantly on co-operation by all concerned to produce much better results."[8]

[6] Lawson, N., (1992), p. 55
[7] UK Office of National Statistics; Lawson, N., (1992), p. 55
[8] Richardson, G., (1979), *Speech by the Governor of the Bank of England*, in Bank of England Quarterly Bulletin, Volume 19 (4), December 1979, pp. 408

And the following year, at the end of 1980, Richardson was talking in more optimistic terms; things were indeed beginning to change. Rising unemployment proved that the quality of management had been poor, leading to over-manning; at the same time increased unemployment now proved that things were improving.

> "We can discern some benefits beginning to emerge from the policies which have been pursued...Over decades our productivity performance has been poor...we had been...resistant to change...It is encouraging to hear reports that attitudes may be changing. The Bank's wide contacts with industry suggest that managers are more alert to the need to manage, and that workpeople are more concerned with success of firms in which they work...When...[the recession]...ends many companies will be in a better condition to grasp the opportunities that an upturn presents."[9]

The goal of policy was the eradication of an inflationary psychology based upon the belief that inflation was the result of management (in both the private and public sectors) not standing up to wage demands that were in excess of productivity gains. Bad managers, so the argument went, had all too often given into demands for wage increases and had not sufficiently rationed their workforce. This, it was believed, was the ultimate cause of inflation. Any policy which both decreased inflation while at the same time increasing unemployment was taken as evidence that the theory was right, i.e. it proved the policy presuppositions were right in the first place. Writing in a pamphlet in May 1982, *Financial Discipline Restored,* Lawson argued that unemployment was the inescapable casualty in the war against inflation. Job losses, he said, "are neither intended nor are they unexpected. They are a sign of neither wickedness nor incompetence. The object is quite simply to win the war...against inflation." Unemployment was not targeted but it was entirely to be expected that if inflation fell, then "a change in attitudes on both sides of industry" representing "a new realism" would emerge. Management suddenly awakening to the need to cut over-manning and return companies to higher profitability would also represent the 'return to rationality'. This was the "quiet revolution" that was perceived to be taking place in British industry.[10]

5.1.1 Good managers and bad managers

What might be taken to be problematic about the above account is that it presents the early Thatcher policies as if they went entirely according to plan. This is not the case; the application of monetarism was fraught with difficulties. But to focus on Britain's

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[9] Richardson, G., (1980), *Speech by the Governor of the Bank of England,* in Bank of England Quarterly Bulletin, Volume 20 (4), December 1980, pp. 457

[10] Lawson, N., (1982), pp. 5-7

supposed failed experiment with monetarism, as many commentators have done,[11] is to miss the point that a certain political rationality was being practiced in Government. My argument differs from the standard account in which, having induced an excessive monetary squeeze in the early 1980s due to a misreading of monetary data, monetarism was replaced in the mid 1980s by a pragmatic and essentially Keynesian policy, whereby Government reverted to 'stoking up' demand in the economy; only this time promoting household consumer expenditure, in part financed by credit.[12] As I said, this is not my interpretation, but it is one that follows from ignoring that the purpose of monetary policy in the early 1980s was to change habits of thought in society at large; in many instances to conduct human conduct itself into being something different.

Nonetheless, to start, I am going to examine some of the problems that were encountered in money supply targeting, for to do so explains why other accounts of this period have so heavily focused on the 'failure' of the mechanism of monetarism or the belief that somehow the government got it wrong or did not mean to do what they did. Primarily, it should be said that the Thatcher Government inherited from Labour in June 1979 a money supply target for Sterling M3 (essentially notes and coins and all sterling deposits in the banking system) of 8 to 12%, which Howe immediately reduced to 7 to 11% for the twelve months ending March 1980. Then in the Budget of March 1980 monetary targets were incorporated into what became the centrepiece of Thatcher's economic policy, the *Medium Term Financial Strategy* (MTFS). This document incorporated targets both for the public sector borrowing requirement (expressed as a percentage of GDP) and for monetary growth (using Sterling M3). The point of the MTFS was to demonstrate the resolve of Government; to show that it was not going to waver from its belief that bringing down inflation was the primary goal, and that the way to achieve that goal was by slowing money supply growth. Including a target for public borrowing that was consistently shrinking as a percentage of GDP was meant to ensure both that the government would never have to 'print money' to cover the deficit and that funding the deficit would not put additional upward pressure on interest rates, thus crowding out the private sector. Any shrinkage in the private sector was intended to be entirely the result of bringing down inflation (via slowing monetary growth), rather than because the 'non-productive' government sector was taking up too much of the 'economic pie'.

[11] See for instance Keegan, W., (1984) and Cairncross, A., (1995).

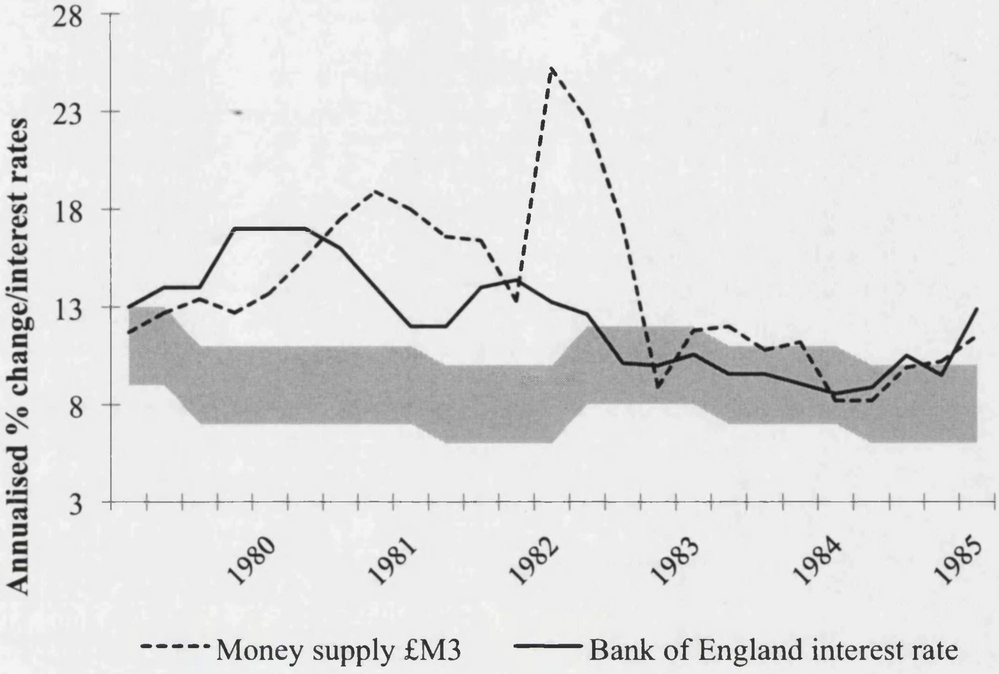
[12] See Keegan, W., (1989) and Gilmour, I., (1992) for critical views from the Left. The same argument is essentially made by monetarists including even Tim Congdon and Jock Bruce-Gardyne.

But as Figure 2 below demonstrates, the Government's record between 1979 and the end of 1983 in meeting its targets for money supply was poor. Foremost it should be said that monetarism, as propounded by Friedman, entailed the use of open market operations to ensure that money supply actually fell within the target range. Essentially, if money supply grew too fast then money would be taken out of the system directly by the central bank. In the British version, however, money supply growth was targeted by the use of interest rates, on the basis that there was a consistent relationship (that had supposedly been previously established) between the rate of interest and the demand for money, and in turn that there was a consistent relationship between money supply growth and the rate of inflation. Goodhart's Law, coined by the monetary economist Charles Goodhart, summed up the problem: every time a new monetary supply measure was adopted on the basis that correlations had been statistically established, the relationship between that measure and interest rates broke down. For the sake of clarity Figure 2 only demonstrates the failure to target Sterling M3; nonetheless other measures were also used in addition to Sterling M3. Thus M1 and M4 (both narrower and broader measures of money respectively) were also targeted between 1982 and 1984, as was M0 (the narrowest measure, essentially notes and coins) after 1984. All measures used were found to be equally problematic, supporting Goodhart's Law.

But Goodhart's Law is not an explanation for what happened, just a description. The problem was simply that interest rates targeted the counterpart to money in the balance sheet of the financial system (that is private bank credit) rather than money supply itself (which only open market operations could affect directly[13]). Given this it is easy to understand the two key problems faced by the Bank of England in their attempts to target money supply. Firstly higher interest rates put pressure on the cash flows of private companies forcing them to borrow even more from the banking system. Thus the Bank of England was able to report that bank lending, as they put it, was fuelling "unruly" money supply growth, but was itself a response to the cash flow pressures caused by a high interest rate policy aimed at lowering money supply growth.[14]

[13] This is not to say that open market operations would have necessarily worked perfectly. The experience of 'overfunding', considered later in the chapter, highlights the inherent difficulties of operating any regime that seeks to control broad money supply.
[14] *Commentary*, in Bank of England Quarterly Bulletin, Volume 19 (4), December 1979, pp. 372-7

Figure 2: Money supply growth targets, actual money supply growth and interest rates 1979-85



Shaded area represents the upper and lower targets for money supply growth per annum.

Sources: Bank of England Quarterly Bulletins and Financial Statement and Budget Report 1980-81

Secondly, the deregulation of the banking system, specifically the removal of exchange controls in October 1979 and the ending of the supplementary deposit scheme (or 'corset') in June 1980, meant that banks were now free to lend. Both measures were intended to remove any distortions in the money control mechanisms and to ensure that there could be no direct control over lending.[15] The Government could no longer ration credit; the banking system would be free to create deposit money (the other side of the double entry in their books that created the loan) on the basis of its own assessments of the risk worthiness of the borrower and need to keep reserves. These measures, as I shall discuss in the following section, formed part of a long-term programme aimed at fostering entrepreneurialism and an enterprise culture. However in the short term they played havoc on attempts to target money supply. Not only did the removal of the corset mean that it was easier for companies in distress to raise funds, but reintermediation of bank lending (bringing off-balance sheet lending back onto balance sheets and ending the 'bill leak') following its

[15] Bank of England and Treasury, *Monetary Control* (1980), p. 5;

removal added 7.75% to Sterling M3 between July and September 1980 alone.[16] And while this latter increase might only have been an accounting issue, it seemed to almost immediately draw into question the powers of the Government and the Bank of England to bring money supply into target range.

By liberalising the financial system at exactly the same time as trying to target money supply growth through interest rates, monetary policy was essentially chasing its own tail. Interest rates needed to be raised so as to meet targets that were being missed partly because interest rates were being raised. Does this mean that the Government was enacting a monetary squeeze far harsher than they had intended? Both comments at the time and after (see later in the section) from New Right politicians and advisors and the Bank of England all seems to suggest not. However, in saying this I do not mean to suggest that policy was running smoothly, and that there were no disagreements; but it is important to be clear on the nature of these disagreements. Indeed both John Hoskyns (the co-author of *Stepping Stones*, who had moved to the No. 10 Policy Unit after the 1979 election) and Alan Walters (monetarist and IEA author, who became Thatcher's chief economic advisor at the start of 1981) did become increasingly convinced that by the end of 1980 monetary policy was too tight. The latter in particular was concerned that high interest rates had caused a dramatic appreciation of sterling (for instance from 3.8 to 5 deutschmarks to the pound from November 1979 to February 1981) making the operating environment ever tougher for manufacturers.[17]

Hoskyns' and Walters' main bone of contention was that up until the end of 1980 the brunt of the monetary squeeze was being felt by the private sector, and thus the public sector was 'getting off lightly'. The original forecast contained in the MTFS for public sector borrowing was 4.75% for 1979-80, 3.75% for 1980-81 and 3% for 1981-2. However the depth of the recession had led to smaller tax revenues than expected and, much to Hoskyns' annoyance, the Government had chosen to settle on pay awards of 16% and 17.7% with British Rail and British Steel workers respectively.[18] The result was that even with cuts in public spending, the deficit for 1979-80 and 1980-81 was 4.9% and 5.4% of GDP respectively. Moreover and of course contrary to everything that had been planned and entirely conflicting with the

[16] *The supplementary deposits scheme* in Bank of England Quarterly Bulletin, Volume 22 (1), March 1982, pp. 83-5; Lawson, N., (1992), p. 38; Howe, G., (1994) p. 141. In his memoirs, Geoffrey Howe refers to the removal of exchange controls as an "ambition...long cherished...[but which had been]...kept off the agenda for too many years by the forces of ignorance, timidity and inertia." He went on to say that while controls shackled the spirit of enterprise, there were so few voices to be heard calling for their removal. He cited IEA pamphlet, *Exchange Control for Ever?* (Miller, R and Wood, J., 1979), as one of the few advocates that helped break the "intellectual ice pack."
[17] Walters, A., (1986), p. 139
[18] Hoskyns, J., (2000), pp. 173-85

goal of tight monetary conditions, the overshooting of government expenditure in 1980-81 meant that about 20% of the deficit had to be funded through 'money printing'. To some extent the Government was repeating the experience of the 1970s, and it was this that really crystallised the view, held by the Thatcherites, that the public sector was not being squeezed enough, that they were being given far too much access to funding.

These internal criticisms were to culminate in the Budget of March 1981, which according to Lawson was the political equivalent of the Battle of Britain.[19] Indeed all the major figures within the Thatcherite camp believe that this Budget marked a major watershed for them.[20] Essentially, the decision was taken to raise the tax burden at a very low point of the economic cycle, cut spending, and force the Treasury to adopt a system of cash planning, rather than volume budgeting with some cash ceilings. Walters describes it as "one of the most severe fiscal squeezes in recent history,"[21] and it enabled the Government to bring down the public sector borrowing requirement from £12.5 billion or 5.4% of GDP in 1980-81 to under £8.6 billion or 3.2% of GDP the following year.[22] To paraphrase Lawson, it no longer appeared as if the public sector was "getting off lightly."[23]

The Budget itself initiated a torrent of criticism, famously summed up by a letter published in *The Times*, three days after the Budget speech, and signed by '364 economists', in which it was stated that there was no basis for believing that deflating the economy would permanently bring inflation under control, and that the present policies would simply deepen the recession and further erode Britain's industrial base.[24]

But of course the Budget was not itself about deflating demand, it was about ensuring that the un-marketed sector of the economy was forced to rationalise at least as much as the private sector. Indeed Howe's Budget speech made it clear that there was to be no fiscal aid for the private sector, that is no return to subsidies that might help struggling companies through the recession.

Nonetheless the important point is that this tactical switch (interest rates were lowered by 2% in the Budget) reflected a belief that attitudes in the private sector were changing, that there was a new air of realism among workers and managers

[19] Lawson, N., (1992), p. 98
[20] Howe, G., (1994), pp. 197-210; Thatcher, M., (1993), pp. 132-9; Walters, A., (1986), pp. 86-90
[21] Walters, A., (1986), p. 86
[22] Congdon, T., (1985), p. 38; Lawson, N., (1992), p. 81
[23] Lawson, N., (1992), p. 89
[24] *Statement on Economic Policy*, in Booth, P. (ed.), and IEA (2006), pp. 122-3

alike. Only because of this could a tactical switch be countenanced. Indeed Patrick Minford's response to the '364 Economists', also published in *The Times*, reiterated the position of the New Right. While manufacturing output had fallen 15% and employment in the sector was down 10% in 1980 alone, there was, for Minford, "no evidence that those with sound long-term prospects were going to the wall." Instead he was pleased to see that there had been rationalisation, a reduction of over-manning and a sharp reduction in wage settlements. The point for him had always been that there needed to be "political courage and determination" to reverse the inflationary process, that is "to break the inflationary psychology."[25]

Those that shared the governing mentality, the belief that government could and should effect a change in habits of thought were all of the opinion that attitudes were changing. The tactical switch in 1981 was just that, it did not in any sense imply that there were misgivings about what had happened before. Indeed the Bank of England reported in March 1981 that their observations suggested, "in many cases the attitude to wage claims, to improved efficiency and to more rational manning levels has moved towards greater realism;"[26] and in the same month the Bank of England Governor, Gordon Richardson, resolutely denied that the Bank was intervening to help save companies from bankruptcy. "Unviable companies" were not being kept alive, the Bank could not be criticised for allowing monetary control to be "eroded".[27] Indeed there was for Richardson, in the build-up to the March 1981 Budget, much to take heart from: "redundancies, though painful, have been resolutely declared and in many areas new manning levels give promise of much improved efficiency. Wage settlements are taking place at a lower level."[28]

Likewise, within the Conservative Party Research Department, ministers and policy makers were making it very clear in individual submissions to the Budget writing team that there were clear signs their policies were producing the desired results. One submission, by analyst Chris Mockler, written in February 1981, read

> "Things have changed, quite dramatically, since last year. Largely as a result of the rise in the sterling exchange rate and the speed of severity with which the recession has developed, the rate of price increases has fallen faster than we could have hoped a year ago. On this, the central objective, progress is ahead of target. Wage increases, too are now very clearly moderating...The

[25] Minford, P., (2006), pp. 85-7
[26] *Commentary*, in Bank of England Quarterly Bulletin, Volume 21 (1), March 1981, pp. 8-9, 20
[27] Richardson, G., *The banks' role in financing industry*, in Bank of England Quarterly Bulletin, Volume 21 (1), March 1981, p. 78
[28] Ibid., p. 77

> shakeout of labour may mean that industry is able to compete with higher productivity."[29]

Another submission by researcher Barry Baldwin suggested that any attempts to help industry by lowering the exchange rate would be a "retrograde step, and would remove the edge which exists at present to make British industry become more competitive."[30] That said, Baldwin recommended that "steps should be taken to ensure that managers of our independent enterprises, which survive 1981, are left in no doubt as to the role which they can play in our recovery and that recognition of that role be at the heart of government policy."[31] For the Thatcherites, things had gone well, but just because there was a new acceptance that the public sector needed to be disciplined and that most of the changes had taken place in the private sector, this did not mean that the Government should let up on the private sector; the job was not fully done. Peter Lilley's policy paper, written in April 1981 made it clear that there was

> "More scope for anticipation of the medium-term targets by unions, lenders etc...The potential benefit from moulding expectations and thereby reducing unnecessary unemployment...depends on how rapidly wage bargainers learn to abandon habits acquired in a period when monetary policy invariably accommodated the going rate of pay increases."[32]

5.1.2 Creating destruction and the new economy

There was a muddle over the application of monetarism; Lawson was entirely right in his memoirs when he says that it is a myth that there was ever a golden era of monetarism in Britain.[33] But it is also clear that throughout the process the Government was generally happy with what it was doing, it recognised rising unemployment and higher productivity among the remaining workforce as a sign that attitudes and behaviour were changing and progressing. As Lawson put it in a speech in January 1981, *Thatcherism in Practice,*

> "The British people, and British industry, now know that they have a Government that means what it says...It is this that has led to a new climate of realism, the breath of fresh air that is blowing through British industry today. The water may be choppy, but we are on course, and intend to remain so."[34]

[29] Budget Submission by Chris Mockler, 3.2.81, Conservative Research Department, Conservative Party Archive, Bodleian Library, Oxford.
[30] Budget Submission by Barry Baldwin, 12.1.81, Conservative Research Department, Conservative Party Archive, Bodleian Library, Oxford.
[31] Ibid.
[32] Budget Submission by Peter Lilley, *Ten Policy Questions about the medium term financial strategy,* Conservative Research Department, Conservative Party Archive, Bodleian Library, Oxford.
[33] Lawson, N., (1992), pp. 447-8
[34] Lawson, N., (1981), pp. 20-1

What was of supreme importance to the Government was that inflation, which was over 10% at the time of the June 1979 election and which had risen to over 20% in 1980 was, by the beginning of 1983, down to around 5%. And as Figure 2 shows, Sterling M3 was also finally growing just within target range, albeit with the Bank of England having to use a form of open market operations, 'overfunding' the fiscal deficit, so as to offset private sector monetary creation (see section 5.1.2). Of course the '364 economists' were arguing that inflation was falling because demand was depressed by high interest rates. But the Thatcherites believed something different: there had been a 'quiet revolution' in the country, and a change in psychological attitudes, evidenced by a lower inflation rate. There was a belief that policy had successfully attacked conduct that was deemed to be destroying British society.

Even if the MTFS targets were missed, what really mattered was that in raising interest rates so as to try and hit those targets, everyone had to be made aware that this was a strong Government insistent that it achieve its goals and that no one, whether in the public or private sector, should escape from being confronted by the Government's requirement for attitudes and conduct to change. Indeed, no one in the New Right fold had ever shied away from stating the collective belief in the need for strong government. At the inception of the CPS in 1974, Keith Joseph had called for a government with strong nerves.[35] And speaking to *The Observer* newspaper in April 1979, Thatcher made the same point, "limitation of government doesn't make for a weak government – don't make that mistake. If you've got the role of government set out, then it means very strong government *in that role.* Very strong indeed."[36] The size of the Government's balance sheet was irrelevant to its need to act and the need to exhibit to all that it had the will to act in its new role.

That Thatcherism combined a strong state with a free market is a consistent theme of historical and political analysis.[37] Certainly there was never any doubt in the minds of the New Right that if they were going to change attitudes this was going to take much resolve on their part. And critics on the Left have been only too happy to point out that neoliberals who advocate market freedom have on occasion found themselves allied with military dictatorships that have seized power by force.[38] But rather than suggest that this somehow proves that neoliberals are 'really' authoritarians, a more interesting question for me and one with which I want to finish this section, is to ask how one can interpret economic policy between 1979 and

[35] Joseph, K., (1974b), p. 22
[36] Thatcher, M., (1979), original italics
[37] See particularly Andrew Gamble (1994) *The Free Economy and the Strong State: the politics of Thatcherism.*
[38] See Naomi Kline (2007), *The Shock Doctrine.* In making this comment I am of course thinking of Milton Friedman's controversial involvement with Chile's General Pinochet in the 1970s.

1983, given that however muddled the application of monetarism, the general outcome appears to have been the one that was broadly intended. Indeed, perhaps one can justifiably claim that Lawson was speaking for all when in 1982, writing in a pamphlet entitled *Financial Discipline Restored,* he said

> "We have to go back to basics. We have to restore and maintain financial discipline...We have to restore and strengthen market forces throughout the economy...My own judgement is that we have got it roughly right...if you leave on one side those who believe that there should be no discipline at all, roughly a third of our critics complain that our policy is too tight, a third complain that it is too lax, and the other third complain on both counts at the same time."[39]

Restoring financial discipline had always meant the same thing to the New Right, requiring managers and workers to be more 'rational', to give up habits of thought that they believed were unsuited to the modern economy. It was, one might say, time for a revolution in the allocation of resources; why, Geoffrey Wood wrote in the IEA's journal *Economic Affairs* in July 1981 in response to the '364 economists', should the government respond to the pleas of industry? "Will the industrial base of the economy be eroded? What if it is? Do economies have to be industrialised to be prosperous?"[40] Lawson's response to this question was a resounding 'no'. His view, propounded in a speech given to the International Monetary Fund in September 1984, was that governments "should not be seduced by the wonders of high-tech." "Many of the jobs of the future", he said, would be in "labour intensive service industries – not so much low-tech as no-tech."[41] Along with his 1984 Budget changes, which ended all fiscal distinctions between business investments whether in machinery or in a new restaurant opening, Thatcherism was demonstrating its absolute commitment to the long held IEA position that growth did not have to come about through investment in fixed assets; that the high street was at least, if not more, important for economic growth as the factory floor; that appealing to consumers through the direct sale of goods and services was critical to the future of Britain. Job losses in manufacturing would be compensated for by job gains in the consumer services sector.

The British economy was changing; in the minds of the New Right, it had to be helped to change, as too many of the human agents of the economy were 'stuck' in industries that perhaps could not be returned to profitability, or that encouraged conduct in workers and managers alike that were not adaptable or progressive. For these neoliberals it had been left to them to be the agents of change, to embody the

[39] Lawson, N., (1982), p. 4
[40] Wood, G., (2006), p. 69
[41] Lawson, N., (1992), p. 426

will and action required to break the British out of their mental sets: the psychology of the worker, the compromising manager, all encapsulated in a psychology of inflation. In this view the entrepreneurial spirit had been so undone that the Government had to step in where the market could no longer act; where consumer and entrepreneurial attitudes should be, but where instead the New Right could only see attitudes which were attuned to a social governing mentality.

The Government would have to be the market, to do the job of the market; there were not enough entrepreneurs or consumers to roll the wheels of time and usher in the creative destruction that was the normal process of capitalism. On this Alan Walters was clear, writing in 1986 he said "we are engaged, like the process of capitalism itself, in what Schumpeter called creative destruction."[42] This is in many ways the summation of the arguments of this section of the chapter, and a statement of the openness found in the neoliberal mentality to the need to create the conditions of the market, to monitor those conditions and to maintain them. It was, they believed, left to the Government to activate competition and this activation was, for them, about ensuring that the consumer and entrepreneurial habits of thought were evident and dominant in society at large. This meant that attitudes that were not appropriate had to be acted against, whether bad managers, factory workers, unionised workers, or public sector workers. The Thatcherites had accused the Heath Government of trying to do the impossible, of trying to pick winners. Of course neoliberals believed that governments could never pick winners, instead winners emerged only through competition for consumers in the market place using prices as signalling devices. The New Right had no intention of picking winners, just making conditions difficult enough such that only the winners would emerge.

5.2 Freedom for the consumer

Governing for the consumer invariably meant acting against those agencies that inhibited the consumer's adaptability. Those agents might have been bad managers unable to understand that the consumer was sovereign. In most cases the human obstacle to consumer thinking was the same person suffering, so Ralph Harris had put it, from a schizophrenic conflict between producer and consumer instincts. The battles against unions and the application of monetarism were tactics employed to 'cure' people of this condition. And as I discussed at the end of the last chapter, there were other fiscal measures that were also taken to encourage entrepreneurialism. However, governing for the consumer also meant providing

[42] Walters, A., (1986), p. 16

positive freedoms for the consumer as if he or she were an entrepreneur, but with their own balance sheet or self as the product.

For neoliberals, the consumer needed to be free to actively 'do' things that were previously not so easy; and these new opportunities would serve a purpose. On the one hand consumers were being made sovereign, by being able to be as adaptable as possible in as many markets as possible, the conditions were set for as much progress as possible. No longer should politicians be attuned to 2.5% annual GDP growth, 4.5% was "a realistic vision", so Herbert Giersch (the then Mont Pèlerin Society President) argued in the annual Wincott lecture in 1986, published by the IEA. All one needed to do was free "activities and resources on the supply-side." And so long as expansion was led by the supply-side it would never be inflationary.[43] On the other hand, these freedoms would foster, incentivise, encourage and maintain the 'right' consumer attitudes. More of the economy geared towards the high street would incentivise people to work harder and be more successful so as to be able to benefit from new innovations and fashions. More importantly though, consumers as entrepreneurs-of-the-self, whether individually embodied or coalesced in the 'household', now had to be free to construct their own balance sheets, their portfolio of assets from which they could derive an income over time.

Privatisation of housing and of government-owned industries could do much to provide appropriate assets for the balance sheet. Banking reform was essential also, both so that consumers could fund their asset purchases and at the same time become consumers of financial services, provided with a range of other more liquid investments, such as deposit accounts. This was, as I shall discuss below, the very stuff of governing for the consumer. However, before moving on to this discussion I want to flag up that there were significant problems that arose in relation to these policies, specifically with regard to the emergence of the asset-heavy yet debt financed consumer. My discussion will bring into play questions over the nature of neoliberal government and the difficulties of governing for what is essentially an imagined notion of being human. It is the Utopian nature of governmental programmes and their confrontation with something different that acts as a catalyst for crises of governmentality. Section 5.2.1 on the enterprise culture, on building the balance sheet, thus needs to be understood precisely as pointing to an imagined and Utopian notion of human agency.

5.2.1 Building the balance sheet

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[43] Giersch, H., (1986), p. 26-7

One can interpret the notion that Thatcherism wanted to create a 'property-owning democracy' or a 'people's capitalism' in a variety of ways. One obvious interpretation is that the politician selling a government owned house to the occupier at a discounted rate is buying support at the next election. A more sophisticated version of this might be to say that the vote has not been 'bought', but that the buyer might vote for the Party that they believe has given them the opportunity to own a house. Alternatively they might not vote for the other Party for fear that the house will somehow be taken back into public ownership. And even if we accept all these explanations this does not necessarily deny that the politician is selling off public houses because he or she feels it is the right thing to do. The politician might feel they have deserved electoral support on the basis that their policies were popular and responded to some perceived innate human instinct to own the property in which one lives. All of these above no doubt have some basis in truth. However, the argument I am pursuing here is that neoliberals were trying to produce an enterprising and entrepreneurial population of consumers, producing a certain kind of free action that in turn would lead to a certain kind of progress. All of this implied that consumers were being enterprising, investing and arranging their individual portfolios of physical and non-physical assets and liabilities in such a way as to maximise self-fulfilment.

The Government believed that they could change conduct, that the population could become sophisticated consumer-investors. To understand what this consumer know-how would entail I shall use as an example the government bond market and how the yield curve describes to investors the expectations implied in prices for future interest rates and inflation. The yield curve plots interest rates against durations for different bonds. However, to be of use as a signalling device there needs to be a 'deep market', that is to say a broad range of readings that can be taken. One wants to be able to plot a curve that shows the interest rates for as many durations as possible, from one day to thirty years, to give the interpreter of the yield curve the maximum information. If there are more assets to invest in and more choices to make, there is much more that can be known about current investors' expectations of future interest rates and inflation, and it is easier to match one's own schedule of liability durations against a corresponding set of assets. A bond market with only a limited amount of traded bonds offers few of the advantages of a deep market.

So this is how one might think of an imagined figure of the consumer in its most 'developed' form, not just sovereign and moral but as a producer of human wealth capitalised in the individual. This human agent is essentially the embodiment of an internalised yield curve, whose very functioning improves the deeper the market: more information available, more financial discipline, and an enhanced ability to match the duration of assets and liabilities. The potential to portfolio manage oneself might always be present but it can only be activated by first creating the assets that form the yield curve. Thus the discipline of the market and the ability of the individual to arrange his or her assets entrepreneurially needs to be monitored by government so that asset markets remain liquid. Likewise sudden drops in value would distort the on-going asset allocation process. There is much for government to do, for instance enabling the private sector to have a ready supply of assets and credit, so as to ensure the effective operation of the internalised market, for if the market dries up and becomes non-functioning there is nothing to say that habits will not revert to previous forms. For neoliberals the entrepreneur-of-the-self is rational and natural but his or her on-going existence depends on the on-going availability and liquidity of available assets all with different durations and income flows.

This at any rate is my emphasis for interpreting aspects of economic policy in the 1980s such as financial liberalisation, privatisation, selling public housing and reform of the rental market. Assets of different durations were now freely available to invest in. Selling off government assets at a discount is of course an incentive to get individuals to participate but the point is, what in? I am suggesting that people were being asked to participate in investing in themselves as sites of enterprise, to build their own portfolio of assets. In Government, the collapsed distinction between entrepreneur and entrepreneur-of-the-self (the fact that both types of agents existed as operators in a marketed zone) was practiced within the notion of the 'Enterprise Culture'. The term itself, used in policy making groups and by politicians alike, referred to assets that were related to the one class of consumers and entrepreneurs.

The Conservative Government was also much concerned with small businesses, start-ups, and wealth creation through new business ventures, this was very much how they imagined Britain's economic renaissance. But the attitudes that accorded with business were, they believed, to be found in the household and the individual, and this opinion is evident by looking at the minutes of a series of meetings hosted by the CPS and the Conservative Research Department in 1981 and 1982 to discuss the enterprise culture. For a start, the chairman of the first meeting in February 1981, the economist Terry Price, defined the enterprise culture in terms far exceeding the activity of business: it was an attitude that pervaded the whole of society, and was of direct political concern: "the social and political context which determines a nation's ability to exploit its physical and human resources."[44] And the topics under discussion varied seamlessly and without reflection between the household consumer unit and business. Three meetings took place at the end of 1982 to cover different approaches to promoting enterprise. The first discussed possible fiscal incentives such as spreading enterprise allowances, reforming social security; even encouraging academics to go into business. The following meeting moved onto home ownership, arguing that only 56% of the nation was homeowners, whereas as much as 80% of the nation probably wanted to be. As such, more land should be made available, and that hopefully with banks competing more in the mortgage market, mortgages would also become more easily available. The following two meetings were back to business: more could be done in the accounting profession to help, self-employment could be encouraged, and employees could be increasingly incentivised with profit related pay and share options.[45]

Discussions of physical property or home ownership could reference both consumer and entrepreneur; these assets signified that both agencies shared attitudes commensurate with adaptability and progress. The 1976 policy document, *The Right Approach,* had announced that, "private ownership of property is essential if we are to encourage personal responsibility and the freedom that goes with it...Property diffuses power, increases choice and is an important source of independence...Enterprise comes first from independence."[46] Nonetheless houses were illiquid long-term assets and any portfolio of assets should also include liquid holdings, such as money and equity, as well as a range of investments in non-physical and physical assets.

A wave of privatisations and the introduction of portable defined contribution pension schemes rapidly increased the extent to which shares formed part of the personal balance sheet. Both measures of course had other purposes. In particular selling off large nationalised industries was one way for the Government to raise finance and ease the fiscal burden. The temptation to interpret it this way is helped by the fact that only aerospace, shipbuilding and the National Freight Corporation were specifically mentioned in the 1979 election manifesto as targeted for privatisation. Nonetheless it should also be noted that receipts from privatisation represented only 0.4% of government expenditure in the first four years of the Thatcher Government, and it was during these years that the government was in

[44] Conservative Research Department, (1981), *Minutes of meeting of Enterprise Culture,* 10-2-81
[45] Conservative Research Department, *Minutes of Policy group on the promotion of enterprise, October to December 1982,* CRD 4/4/41, 4/4/42
[46] Conservative Central Office, (1976), p. 16-7

significant deficit. Receipts from privatisation increased rapidly after (representing 0.8%, 1.4%, 1.7% and 2.6% of annual government expenditure in the following four years respectively), but in none of these years could it be said that the Government was looking for emergency financing.[47]

How did the politicians themselves explain privatisation? In presenting privatisation as *The Way Forward* in July 1981 Howe argued that it was only since being in Government that the Conservatives had begun to be convinced that competition was best served through the financial discipline of the private sector.[48] Privatisation was a way of ensuring the certain industries did not escape the monetary squeeze, if there should be a need for one. But privatisation increasingly also came to be seen as a way of filling out household balance sheets: the investor and consumer were natural comrades, sharing certain habits of thought, forcing businesses to compete either for sales or for capital, managing their own stock of investments. Thus speaking at the time of the British Telecom privatisation in November 1984 Lawson remarked,

> "Investment in shares has begun to take its place, with ownership of a home and either a bank or building society deposit, as a way for ordinary people to participate in enterprise and wealth creation. We are seeing the birth of people's capitalism."[49]

This perspective was very much shared among other intellectuals of Thatcherism. For John Redwood, in the CPS pamphlet *Equity for Everyman* (1986), a lack of ownership produced Marxist thinking, and just like property ownership, share ownership needed to be encouraged. For Redwood, one way of doing this was to increase the use of portable pension funds with defined contributions as opposed to defined benefit pension plans; this way overnight, up to eleven million people could be turned into owners of stakes in British business and commerce.[50] This also raised the question of universal share ownership; the idea that shares in nationalised industries should be given to everyone rather than sold in huge share offerings. This was something worth considering as it would "introduce the habit of owning shares and spread the responsibility of ownership."[51] In fact Redwood concluded that the scheme was impractical. Nonetheless, in *Every Adult a Share Owner* (1986), another CPS pamphlet, Shirley and William Letwin argued that the case for universal share ownership was becoming urgent, in that it was the ideal form of property owning,

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[47] Parker, D., (2009), p. 404
[48] Howe, G., (1981), pp. 3-5
[49] Quoted in Lawson, N., (1992), p. 224. I should add here that this was of course the way that Lawson and his colleagues viewed privatisation. Many people subscribed to these large initial public offerings simply because in previous offerings share prices had risen very quickly enabling small subscribers to sell the shares and make a quick profit.
[50] Redwood, J., (1986), pp. 5-6, 8
[51] Ibid., p. 23

the very foundation of a property owning democracy which could act to demolish once and for all the myth of wages versus profits. Ownership of shares was for them a way to counteract the divisive and destructive attitudes 'encouraged by the enemies of capitalism'. "Owning anything gives one a rational interest in understanding it."[52]

Making more assets available for ownership, and incentivising the purchase of those assets by selling them at a discount to generally accepted fair value had a double purpose. On the one hand it was believed that by increasing ownership government was creating an increased stock of enterprising and appropriate attitudes in the economy. This was the cultural change in Britain that Thatcherism wanted to foster and encourage. Speaking at the Party Conference in October 1987 Lawson talked about the property owning democracy as the essential means for entrenching the political, economic and cultural changes that Thatcherism had sought to bring about. This was, as he later remarked, the objective that increasingly came to preoccupy him at that time.[53] On the other hand, however, these attitudes were always thought of as somehow natural and proper. Making more assets available to own would match the inclinations of a population rejecting their own identification with a more 'social' creed of government. To provide the possibility for an expanded balance sheet was seen as providing the conditions necessary for people to be entrepreneurs-of-the-self.

The enterprise culture that incorporated consumers and household consuming units did not however just stop at dwellings, equities and pension plans. The yield curve also included high liquidity items, such as deposit accounts as well as longer term more durable assets or even assets held in perpetuity, purely reducible to human capital. Investing, as Lawson had said, in a deposit account was just another form of property investment, just like shares or a home.[54] And removing controls over lending and hire purchase (i.e. consumer credit) were every bit as much part of creating the enterprise culture as removing pay controls, price controls, dividend controls, foreign exchange controls, and industrial building controls.[55] Consuming financial services, using credit to augment consumption in the present, helped consumers to maximise their self-worth over the course of their lives. Again the increased availability of credit that came with financial reform was about enabling consumers to construct balance sheets of assets. Credit was a tool that could be used to enable consumers to better maximise their income streams in the future. As the

[52] Letwin, S., and Letwin, W., (1986), pp. 5-9
[53] Lawson, N., (1992), p. 745
[54] Op. cit.
[55] Lawson, N., (1984), p. 13

Bank of England Governor from 1983-93, Robin Leigh-Pemberton, put it in a speech given in January 1988,

> "There is nothing fundamentally reprehensible about personal credit: in fact the reverse...It must be an advantage for the individual to have more choice between different types of borrowing facility, and greater flexibility over the timing of his expenditure and in the arrangement of his portfolio of assets and liabilities."[56]

Rising debt was seen as being integral to the management of one's personal portfolio and, as a corollary of this, neoliberal government could not identify falling savings rates and rising consumer debt as problematic. I will discuss this in more detail below, but for now I want to close this section by highlighting the point that as the average personal savings rate fell below zero in 1988, Lawson was approving of this, identifying it (as did Alun Budd's commentary in the IEA pamphlet in which Lawson's speech was published) as a matter of financial planning, a decision being made by private individuals and businesses (note again no distinction) about their own financial affairs.[57] There was no iron law, Lawson believed, to suggest that the private sector's finances must be in balance. What really mattered was that investment was rising rapidly and a as part of this individuals were seeing their wealth rise rapidly. At the start of the 1980s, average personal net financial wealth was only 25% higher than annual disposable income; at the end of 1987 it was over double.[58] This was all taken as a sign of a successful transformation to the enterprise culture. The building of the consumer balance sheet had provided, so it was believed, precisely the right and secure footing in which consumers-as-entrepreneurs could re-coordinate and reconstitute their portfolio of assets and take on expenditure, financed in some cases by debt, that could maximise their on-going self-worth.

> "It is thus not surprising that individuals now feel they can safely spend more – in many cases by adding to their borrowing rather than by spending their capital. This, too, is in essence a reflection of increased confidence. So as a result net saving is low and consumer spending is running at a high deficit."[59]

5.2.2 Neoliberal versus Neoliberal

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[56] Leigh-Pemberton, R., *Personal Credit in Perspective,* in Bank of England quarterly bulletin, volume 28 (1), February 1988, p. 48

[57] During the same period the Bank of England shifted their understanding of savings, from one in which savings were viewed as the difference between consumption and income, to one in which savings meant the change in wealth. If the latter definition was used, then there was no need to worry about the 'savings rate' (income less consumption) falling to almost zero so long as asset prices were rising. This is an important point not just relevant for the 1980s, but critical to the 2000s as well (see next chapter).

[58] Lawson, N., and IEA (1988), pp. 17-8

[59] Ibid.

From the very beginning the Thatcher Government put itself in an awkward position. It wanted to put a squeeze on bad companies and the public sector, with the aim that management and workers (often unionised) would change their attitudes and give up conduct that it was believed was backward and symptomatic of the British disease. Government was heavy-handed in its approach, not just because it was believed that government should be strong and demonstrate that it meant to do what it said, but because at the same time there was a parallel endeavour to foster enterprising attitudes in society at large. That is, enterprise was not just about productivity and entrepreneurs competing with each other; enterprise was a culture shared by entrepreneurs and consumers in the marketed zone of economic practice. And central to this endeavour was a series of monetary reforms that deliberately set banks free to be able to respond to the needs of supposedly legitimate borrowers, both consumers and entrepreneurs seeking to build or change the composition of their balance sheets. Embedded in the financial reforms was the unstated presupposition that the borrowing needs of consumers were every bit as essential and entrepreneurial in nature as the borrowing needs of business. Maximising self-fulfilment was the same as maximising profit: both wealth-owning units were under the same duty.

Banking reform took place swiftly in Thatcher's first term in government (1979-83); amounting to a series of almost irreversible reforms that would give monetary force to a new consumer service led economy. Foreign exchange controls and direct controls over lending ('the corset') had gone by mid-1980. Following that, between 1982 and 1985 there was a continuing relaxation of banking controls, all of which gave consumers more access to borrowing. Hire purchase controls were abolished in 1982 and clearing banks re-entered the mortgage market after the abolition of the corset in 1980. But now the major high street banks were offering specialised mortgage schemes that were vigorously marketed. As such, all demand for mortgage finance could now be met; there was no more rationing.[60]

The transformation in the banking market was both dramatic and swift. The entry of clearing banks into the mortgage market led to a swift increase in lending, total mortgage lending grew from £3.75 billion in 1978 to £6 billion in 1982.[61] By the middle of the following year this was having a direct impact on property values, which in June 1983 were rising at a 10% annual rate.[62] Banks were taking a

[60] *Mortgage Lending and the Housing Market,* in Bank of England quarterly bulletin, volume 22 (3), September 1982, pp. 390-2
[61] *Commentary,* in Bank of England quarterly bulletin, volume 23 (1), March 1983, p. 16
[62] *Commentary,* in Bank of England quarterly bulletin, volume 23 (2), June 1983, p. 156

significant market share away from the building societies, who were still operating a cartel pricing system for their products, and still reliant on savings to fund their loans. Whereas the banks had previously had a 5% market share, by the end of 1982 they were providing 40% of all new loans. Furthermore, they were also beginning to compete for personal savings by offering interest bearing current accounts. In response the Bank of England hoped to see a break-up of the building society pricing cartel, and more competition for consumers. Speaking in May 1983, the Governor applauded some of the building societies for offering more services, like cheque guarantee cards, or high interest accounts. However, he believed the 1983 Finance Act would help the building societies compete more effectively for consumers as they were to be granted more access to wholesale markets, so that they could borrow from other banks rather than rely on private savers for funding.[63] In the September bulletin, a research article on British banking suggested that the 1983 Finance Act and technological innovation in money transmission mechanisms (for instance cash machines and electronic transfers) would mean yet more competitive innovation and a blurring of the roles of banks and building societies. This was very much to be welcomed.[64]

Even in the early stages of economic expansion, it was very clear that this upturn was being led not by investment from industry but by the consumer. In September 1983, the Bank of England reported that GDP had increased in the second quarter of the year at an annual rate of 2.9%, yet consumer spending in the previous twelve months had increased by 4.25%. "To a large extent, the recovery has been credit-financed. Consumers have been able to reduce their rate of saving without, apparently reducing their accumulation of financial assets."[65] Indeed, by March 1983, it had already been noted that there had been a steep decline in savings rates, which had peaked at 16% of income in 1980, and had since fallen to 9% by the end of 1982. The Bank's own commentary on this suggested that perhaps 2% of this could be explained by the fall in real disposable income over the intervening period; 2% because inflation was lower (as it was taken as read that higher inflation increased savings rates as people attempted to offset the value of assets that were being eroded by inflation). It was speculated that the remaining fall was due to the availability of loans, and the ending of hire purchase restrictions.[66]

[63] Richardson, G., *The future of building societies: a central banker's view*, in Bank of England quarterly bulletin, volume 23 (2), June 1983, p. 216-7
[64] *Competition, innovation and regulation in British Banking*, in Bank of England quarterly bulletin, volume 23 (3), September 1983, pp. 371-4
[65] *Commentary*, in Bank of England quarterly bulletin, volume 23 (3), September 1983, pp. 322-3
[66] *Commentary*, in Bank of England quarterly bulletin, volume 23 (1), March 1983, pp. 5, 14

Such buoyant consumer demand for borrowing was causing immense problems for monetary targeting. As Figure 2 showed money supply growth was far in excess of the target range in 1982. Lending particularly in the private housing market was making the targets very difficult to achieve. Actual sterling M3 growth for 1982/3 and 1983/4 was 14.6% and 13.5% respectively, but would have been much higher (19.7% and 15.7%) without the Bank of England significantly overfunding the government deficit. This meant that they were issuing bonds to the non-bank private sector far in excess of what was required to fund the budget deficit. It was as the monetarist Tim Congdon argued (in a retrospective CPS pamphlet written in 1989) one of the four mechanisms of a functioning monetarist regime: the other three being a broad money target (that included both government and deposit monetary creation), no targeting of the exchange rate, and keeping the fiscal deficit in control.[67] And as Figure 2 demonstrated, putting aside the experience of 1982, a combination of these monetarist techniques enabled money supply to stay within target range in the calendar years of 1983 and 1984.

As far as monetarists such as Congdon and Pepper were concerned the decisive change in policy came in November 1985 when Lawson announced at the annual Mansion House speech that he would no longer be targeting specific measures of money supply. In its place there would be a discretionary approach to monetary policy in which money supply, market interest rates, inflation forecasts, labour market conditions and the exchange rate would all be used as guides for setting interest rates.[68] The speech was published by the CPS in a volume in 1985 entitled *Whither Monetarism?* which also included three essays by monetarists, two of which were very critical of Lawson. The Conservative backbench MP, Jock Bruce-Gardyne, labelled Lawson 'Chancellor Reagan', and likened his actions to Heath and Barber. "Monetarism was dead"; this for him was nothing to do with policy sophistication, but just a sign of the boom to come that would end in inflation, just as all previous monetary booms had ended.[69] Congdon saw these actions as the "start of a somersault", the past lessons of booms had been forgotten, monetary growth would accelerate from here and by getting rid of the targets he believed Lawson was admitting his own mismanagement.[70] Finally, Patrick Minford, while being more generous to Lawson on his supply-side improvements and acknowledging that Sterling M3 was clearly a defunct indicator also warned that there had to be a renewed commitment to a different money supply target, such as M0 (which as notes

[67] Congdon, T., (1989), p. 17
[68] Lawson, N., (1985), pp. 13-7
[69] Bruce-Gardyne, J., (1985), pp. 24-32
[70] Congdon, T., (1985), pp. 33-41

Figure 3: Money Supply, inflation and interest rates 1985-92

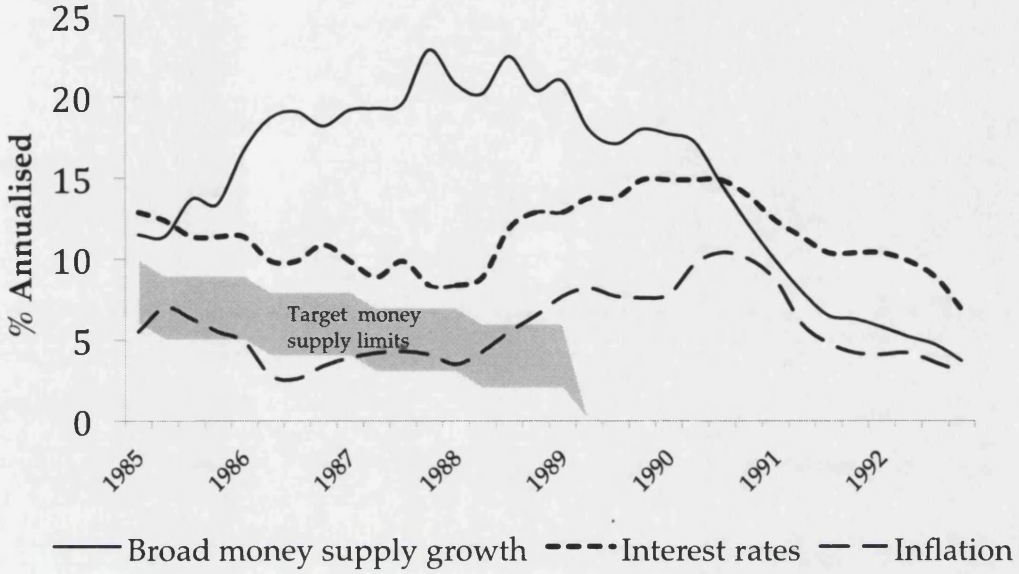
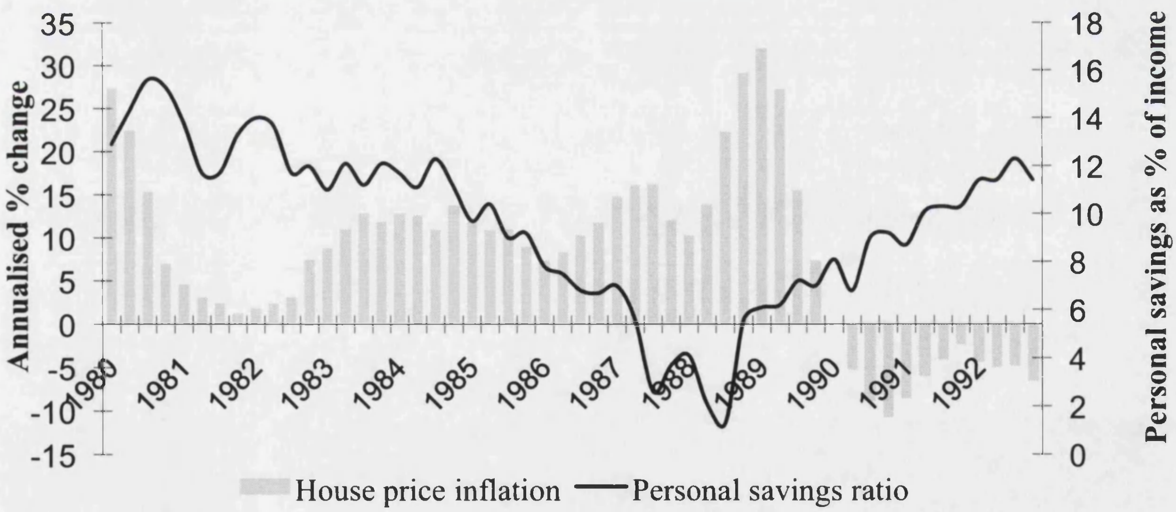


Figure 4: Personal savings and house prices 1980-1992



Sources: Bank of England Quarterly Bulletin, Office of National Statistics

Notes: Although money supply targets were officially abandoned, I have included in Figure 3 the final targets set in March 1985. In 1987 Sterling M3 was replaced by M4 as the key target, because the distinction between banks and building societies was no longer relevant. Measurements of M3 were discontinued at the end of 1988. During the period of overlap I have taken an average.

and coins could at least be controlled), otherwise inflation was a real future risk.[71]

From these perspectives, the remainder of the 1980s played out exactly as expected: a boom in the housing market, rising debt and ultimately higher inflation on the high street. Both Congdon (1989) and Pepper (1990) argued that there had essentially been a betrayal of neoliberal values. For Congdon this was just a reversion to a Keynesian model in which the direction of causation between the economy and money was thought of the wrong way round: that is the Government were acting as if they believed the economy determined the level of money. In fact the right view for Congdon was that the limit to what can be spent is set by productivity; therefore a rise in aggregate expenditure above this level, caused by monetary expansion, would always be inflationary. The Treasury/Government view was, he believed, a Keynesian view with a monetary aspect bolted on. It was one thing to recognise that the relationship between broad money and the rate of inflation had changed; it was another thing entirely to say, as Lawson seemed to be saying, that there was no stable and exploitable relationship at all.[72] For Pepper as inflation rose to 10% at the turn of the 1990s, it was clear that monetary policy was entirely to blame, because the cause of monetary expansion was entirely to be found in private sector bank lending. The boom of the 1980s was very similar to the early 1970s except for inflation: instead of showing up in producer prices, it had shown up first in asset prices. Thus he concluded there had been bad monetary management that had been politically motivated. As he said

> "The government interpreted this [house price increases] as a measure of people's increased confidence in the government, and this of course the politicians enjoyed. The argument that it, i.e. house price rises was a form of inflation was dismissed"[73]

The Thatcher Government was being accused of vote buying by those who had been key figures in policy formulation in the 1970s; it was essentially being accused of betraying the neoliberal cause. But is this right; had neoliberalism been abandoned along with money supply targets? My answer is that it was precisely because neoliberalism was a mentality of rule concerned with the conduct of conduct that one should view this moment as a parting of the ways between neoliberal government and a stricter more Utopian version still being offered up by the think tanks of the New Right (see chapter 7). That is to say the Government were looking for evidence that household consumers were building up portfolios of assets, that a new set of attitudes had been embraced and that conduct had been aligned to an adaptable and

[71] Minford, P., (1985), pp. 42-9
[72] Congdon, T., (1989), pp. 43, 48-52
[73] Pepper, G., Wood, G., et. at. (1990), pp. 13, 36-7, 49-50

progressive society. On the one hand inflation was the result of additional money being created to meet the needs of bad managers, government and workers unwilling to match their wage demands with increases in productivity. On the other hand, monetary creation for entrepreneurs and entrepreneurs-of-the-self borrowed for the purposes of balance sheet expansion and better portfolio management was not and could not be inflationary.

Broadly speaking, from 1986 to 1988, through the eyes of this political rationality, the data would have been interpreted as conforming precisely to expectations, as clearly identifying signs of the enterprise culture. As Figure 3 shows, in these two years there was no extra inflationary pressure on the high street, which meant, at least from this perspective, that all the money that was being created was being used to expand personal balance sheets. Thus while new money balances had been created, say for the purchase of houses, once used this money was ending up on deposit and not being spent on the high street; nor for that matter was cash being held on the balance sheets of corporations being used to finance higher wage claims. Monetary targets could no longer work because, as Lawson said, "the boundaries of the banking system have become blurred... The problem is gauging what is excessive...[there] might be a genuine desire in the private sector to build up liquidity."[74]

Monetary targets had been used to monitor the conduct of human agents in the economy, and ensure that those who continued to choose to identify their agency with the un-marketed zones of practice faced restrictive funding. However contradictory it might appear to liberalise banks while at the same time control money supply, the latter was a necessary part of encouraging and enabling a different kind of behaviour that matched the components of the healthy or enterprise society. And if governors assumed that they had done their job and succeeded in changing attitudes and behaviour then there was nothing to fear from the expansion of money supply. Monetarism was a disciplining regime that was unsuited to an era when the expansion of personal credit went hand-in-hand with the expansion of personal balance sheets.[75] Enterprise and a healthy economy meant low inflation on the high street. Asset prices represented something entirely different: a sign that

[74] Lawson, N., (1985), p. 13-4

[75] Of course to this extent there are similarities with the gold standard. The difference was that the gold standard regime incorporated a much more profound distinction between the consumer and the entrepreneur. Only the latter had access to the credit creation facilities of banks and discount houses. Monetarism referred to a one-class nation of entrepreneurs, the gold standard to a class based nation of landlords, capitalists and workers.

more people were becoming buyers of assets, expressing their choice from a broader portfolio of assets for a more self-fulfilling and adaptable experience of life.

The neoliberals believed that whereas past incomes policies had transmitted no information to government, now "the inflation rate would be judge and jury."[76] All the while inflation remained low then the build up of liquidity, that is deposits, in the banking sector could be taken as a sign of the enterprise culture; that entrepreneurial thinking was prevalent in both the personal and corporate sectors of the economy. Indeed this was precisely the conclusion that the Bank of England came to; in a society which they now believed was constituted by enterprising conduct, the rules devised by the monetarists were simply no longer appropriate. In a speech in December 1985, Leigh-Pemberton (the Governor of the Bank of England) asked the question, "does sterling M3 represent a behavioural change without necessarily adverse implications for the future course of inflation?"[77] His answer was that it did. Inflation was currently falling and expectations about the future pace of business activity did not portend undue pressure.[78] And this was the message to be repeated over the next couple of years. Speaking at Loughborough University the following year Leigh-Pemberton had no problem stating that he would be recommending to Lawson the complete abandonment of targets. The build up of debt through monetary expansion was entirely rational. The ratio of household debt to income had peaked at 45% in the early 1970s, falling back to 40% at the end of the 1970s. By 1986, it had indeed risen to 70% but with the availability of credit, homeowners might well choose to hold less of their assets in the form of equity built up in their homes. Gearing was seen as perfectly rational, and the adjustment to higher gearing ratios in an environment of easier credit did not appear to have come to an end.[79]

The following August (1987), Leigh-Pemberton spoke broadly about Thatcherism in the 1980s,

> "Since 1981, after a severe recession – which was instrumental in breaking the inflationary psychology of the 1970s...output has grown at an annual rate of almost 3%...but by 1985 it had become clear that much of the faster growth in broad money relative to the growth of nominal income was due to changes in financial behaviour and the increasingly competitive and innovative financial system, with less disturbing implications for future inflation and nominal

[76] Ibid., (1985), p. 21
[77] Leigh-Pemberton, R., *Problems of monetary policy and change in the City*, in Bank of England quarterly bulletin, volume 25 (4), December 1985, p. 535
[78] Ibid., p. 535
[79] Leigh-Pemberton, R., *Financial change and broad money*, in Bank of England quarterly bulletin, volume 26 (4), December 1986, p. 503-7. According to Nigel Lawson, (Lawson, N., 1992, p. 635) most of this speech was in fact written by Eddie George, who succeeded Leigh-Pemberton as Governor in 1993.

income growth. In these circumstances it would have been inappropriate to continue to pursue – whether through funding policy or interest rates – the original path for broad money which had been set on the basis of different assumptions about the relationship between money and income...My own view in that instance is that the combined financial pressure from interest rates and the exchange rate was necessary to break the inflationary psychology and I doubt whether we would have reached our present relatively favourable position without it."[80]

Thus for the Bank of England, like the Government, there was nothing to worry about; the economic statistics and facts around them were precisely what they wanted to see, they were to be identified as the demonstration of enterprise in society at large. Monetarism for them had just been a tactic to rescue the British economy and society from the clutches of irrational forces. That period was now over, and the huge build-up of monetary balances via credit creation was in the hands of the 'right' people.

That said, the policy practitioners were not oblivious to economic signs that were interpreted differently by others. They had, for instance, closely monitored savings rates and the accumulation of household debt; commentary was required on the rapid rise in household debt to income levels. The pattern of these responses was set in September 1986 by the Bank of England. Yes, the proportion of income spent on servicing debt had risen from roughly 4% to 9% in the past decade, and this was linked to overall gearing: liabilities as a percentage of annual income had risen from the low 30s in the late 1960s, to 40% in the mid 1970s, and to almost 70% by the end of 1985. But the value of assets in personal portfolios had more than compensated for this.[81] As the *Quarterly Bulletin* from December 1986 reported, between 1980 and the end of 1985, the stock of assets had increased 16.5% per annum, liabilities (i.e. debt) 17.5%, yet the absolute rise in assets was far greater because at the start of the period, the value of assets was three times that of liabilities.[82] Therefore there was nothing alarming about the increases in consumer debt.

In February 1987, even as outstanding consumer debt was increasing at a rate of 20% a year, helping to finance private consumption growth of 5%, the same story was reported. The growth of liabilities, and the fact that average mortgage advances to incomes had exceeded a ratio of two to one for the first time since the Heath-Barber boom, was just a reflection of increased ownership. Debt to income might have risen to 70%, but thanks in part to the stock market, and house price inflation which had

[80] Leigh-Pemberton, R., *The instruments of monetary policy*, in Bank of England quarterly bulletin, volume 27 (3), August 1987, pp. 365, 367-8
[81] *Commentary*, in Bank of England quarterly bulletin, volume 26 (3), September 1986, pp. 323-5
[82] *Commentary*, in Bank of England quarterly bulletin, volume 26 (4), December 1986, p. 464

risen to 17% per annum the previous summer, assets were now on average 160% of annual disposable income. It was certainly the case that the owners of assets were not necessarily the same people as those accumulating debt, but, as the Bank reported, there was very little detailed information on this.[83] All in all there was much on which to be congratulated, habits of thought had changed, inflation had gone from the high street even while the stock of money and assets had grown rapidly. What more evidence could there be that throughout Britain entrepreneurialism could be identified everywhere, that Government could affect a change in conduct, and that Britain was now free from the 'dead weight' of attitudes of the past.

5.3 The first crisis of neoliberal governmentality

There is no doubt that monetarism formed a major part of the neoliberal technique for governing the economy but in 1985, as private sector lending started to expand rapidly, rather than raising interest rates to excessively high levels or imposing direct restrictions on bank sector lending, the decision was taken simply to abandon money supply targets. The charges of political expediency and of betrayal of neoliberalism do not seem far-fetched by any means. However I have argued that Thatcherism, like other rationalistic governmental programmes, was a project that required government to produce a certain type of conduct in the population at large. Monetarism was a tool for limiting the flow of money to the 'bad' managers and workers in both the public and private sectors. It was heavy-handed and its application flawed from the start. Nonetheless for the Thatcherites it did what it was meant to do. Increased productivity, a reduction in 'over-manning' (unemployment), lower wage claims, and lower inflation were all taken as signs that the project had succeeded and that attitudes had changed.

No doubt mobilising the consumer was not something that was solely taken on by Government; marketing, advertising, and education for instance all incorporate techniques that work to foster a particular way of perceiving oneself in relation to economic forms and practices.[84] However, Government was heavily involved in this project as well, practicing a particular imagined figure of the consumer as it had been conceived in academia, think tanks, opposition and Government itself. Moreover this figure was defined with the tools of modern economics, tools that gave a psychological rendition of a human being existing through time, building a balance sheet, remaining adaptable and progressive. The entrepreneur-of-the-self, the

[83] *Commentary,* in Bank of England quarterly bulletin, volume 27 (1), February 1987, pp. 17-9
[84] See Miller, P., and Rose, N. (1997), *Mobilising the Consumer*

consumer-as-entrepreneur, belonged to the same category of individuals as the entrepreneur and together they belonged to the healthy society, which daily practiced an enterprise culture.

Enterprise, however, requires finance. Capitalism, Schumpeter argued, was dependent on certain habits of thought, but it also required a system in which money could be created if need be to aid the entrepreneurial process. Capitalism is, so he said, a special case of commercial society defined by the additional phenomenon of credit creation, "of financing enterprise by bank credit, i.e. by money (notes or deposits) manufactured for that purpose.[85] During the era of the gold standard in the nineteenth century, this credit creation took the form of reasonably short term circulating bills of exchange. It was fundamentally unstable and required the Bank of England to regularly step in and act as lender of last resort to the discount houses, small weakly capitalised finance houses that arranged and accepted bills from businesses needing finance. In the twentieth century finance was raised either by direct listings of commercial debt and equity securities or by clearing banks which increasingly offered overdraft and other lending facilities, creating deposit money in the process which was only partially backed by government currency. Enterprise required this banking function.

Neoliberalism referenced consumers as entrepreneurs, as such they too would need access to finance, access not rationed by the availability of savings, but finance that could be granted by the creation of deposits against loans, priced on an assessment of risk. Credit could be used to expand one's balance sheet or to rearrange it in relation to the different durations of alternative assets. This was enterprise; signified by an expanding broad money supply that was not inflationary on the high street. To cut off finance just at the moment when one was recognising the fruits of government would be to betray entrepreneurial habits of thought. It was not a betrayal of the British experiment in monetarism because the goal was never the experiment itself but conduct in society at large, in the imagined one-class-only society of 'right-minded' thinking.

All neoliberals viewed inflation as an evil that could threaten society and the economic prospects of a nation. At the very least, for them, it effected an unjust redistribution between debtors and creditors. Economists such as Congdon and Pepper chose to recognise house price rises as inflation, as caused by the increase in money supply. The Government on the other hand chose to identify rising debt,

[85] Schumpeter, J., (1992), p. 167

lower savings and rising house prices as the natural correlate of increased ownership. Households had taken up the opportunity to use gearing to restructure personal balance sheets, and this in part reflected increased confidence in the state of the British economy and in their personal outlook for future income and standard of living. And it was not as if the Government stood alone, somehow opposed to neoliberal academics: the new classical economist Patrick Minford suggested that any attempt to control deposit money creation made use of "concepts appropriate to a financial environment that had now passed away into history."[86]

As he said, in the enterprise economy, deposits are just one form of asset to invest in:

> "The demand for any one of these interest-bearing assets is not given or easy to determine. There is literally an infinite number of asset-liability combinations in which the private sector can hold its savings... The banks become just like unit trusts, distinguishable only by the bundle of deposits that they invest in (loans rather than shares). Just like the unit trusts in our earlier example, should banks expand credit and deposits, nothing other than the balance sheet structure will have been affected. Credit and wide money measure will be driven by the supply-side technology of the financial system and be of no significance for consumers' savings and firms' investment plans. High street banks are being compelled by competition to make themselves more efficient; it is hardly surprising that they seek to expand their operations sharply."[87]

Credit was there for consumers and businesses, to help balance sheet restructuring: nothing more, nothing less. Thus the excesses of the boom in 1988 and 1989 and the recession that followed were problematic for government, not because house prices rose by 34% in 1988 alone, or because broad money supply was growing by of over 20% per year, or because negative savings rates were seen as a threat to economic growth. Instead what really concerned policy makers was that excessive borrowing was now precipitating inflation on the high street (6.8% in December 1988). As Governor Leigh-Pemberton said, interest rates had to rise rapidly for fear that Britain would suffer from a relapse in which there would be a resurgence of double-digit pay claims, un-tethered to productivity gains.[88]

By April 1990, interest rates had been raised to 15%, necessary, according to the Governor, to keep inflationary pressure under control. Added to this, and rather like the early 1980s, high interest rates had led to a high exchange rate that was seen as helping keep inflation under control, enabling employers to resist wage pressures.

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[86] Minford, P, (1991), p. 71
[87] Minford, P., (1991), pp. 70-1
[88] *Commentary*, in Bank of England quarterly bulletin, volume 29 (1), February 1989, pp. 15-17, 27; Leigh-Pemberton, R., *Monetary policy, equity markets and the City's infrastructure*, in Bank of England quarterly bulletin, volume 29 (4), November 1989, p. 529

Nonetheless, policy makers were not oblivious to the boom and bust, to quote Leigh-Pemberton from a speech given in early 1990, "it is clear that something has gone quite badly wrong."[89] But what exactly? This had been no investment-led boom, with producers bidding up the prices of factors of production; the root cause was a consumer boom, fuelled by debt that had grown so much faster than disposable income. Increased optimism about long-term growth prospects had led to lower savings and rapid credit growth, a large proportion of which had involved mortgage equity withdrawal. Consumer optimism had turned to over-confidence and excess personal gearing. But at least for Leigh-Pemberton, real gains persisted: better management and a workforce now operating more realistically.[90]

One might almost say that in the mind of Leigh-Pemberton, government had been let down by the population who had not delivered on their side of the bargain; they had not abided by a moral code that was expected of them. The policy was still deemed right even if those in society were not behaving appropriately.

> "I have few regrets about this policy in so far as it has spurred innovation and competition, increased consumer choice, and ended what amounted to *de facto* rationing of personal credit. But it has had some quite startling effects...net savings of the personal sector in this country – that is gross savings less borrowings – have fallen from 13% to 5% as a proportion of disposable income...This is, I would suggest, both a symptom and a cause of wider cultural change in our society. Thrift has gone out of fashion. Indeed, the all too prevalent outlook on life has become 'I want it, and I want it *now*'".[91]

I would thus argue that the boom and bust of the late 1980s and early 1990s in Britain can be understood as a crisis of the governmentality, a moment in which the taken for granted is confronted by a reality which is different. That is to say that policies which practiced a particular imagined figure of the consumer, where debt could be used for 'rational' purposes, had led to outcomes that were surprising and taken to be problematic by the Government. The question then becomes, what next, what to do with this new knowledge, how should one interpret the crisis? In the 1970s invoking an evolutionary narrative for society provided for a theoretical solution to the problem. Politically this was matched by the idea that government could encourage habits of thought that were natural correlates of a progressive and modern society. However, at the end of the 1980s, neoliberalism was confronted by the negative side effects of its own policies. But as the next chapter will discuss,

[89] Leigh-Pemberton, R., *Monetary policy in the second half of the 1980s*, in Bank of England quarterly bulletin, volume 30 (2), May 1990, p. 215-6
[90] Ibid., p, 215-220
[91] Leigh-Pemberton, R., *Personal saving and borrowing*, in Bank of England quarterly bulletin, volume 30 (3), August 1990, p. 362

there was to be no disillusionment or questioning of the premise of governing for the consumer. Indeed Lawson had already foreshadowed the problem in 1980 when he said, "those liberated from the dungeons of state control are often at first blinded and bewildered by the bright sunlight of freedom."[92]

And in 1992, in his memoirs, he again acknowledged the problem, and the crisis that neoliberalism had encountered. Credit liberalisation remained a key tenet of freedom but "it admittedly brought problems as well as benefits. Freedom always does, until people learn how to use it properly."[93] This crisis, the first crisis of neoliberal governmentality, had in this view come about because the population's habits of thought were not entirely attuned with the enterprise culture. However, this was not insurmountable. It was perhaps, so Lawson believed, a necessary crisis on the road to freedom and away from serfdom; a crisis that would act as a reference point for the population at large, supposedly providing invaluable lessons for the enterprising mind.

[92] Lawson, N., (1980), p. 14
[93] Lawson, N., (1992), p. 983

Chapter 6: Misidentification and Crisis

The task of this final substantive chapter is essentially to complete my historical narrative of how the figure of the consumer has been practiced by government in Britain since 1979. A central aim of this chapter is to bring this history up to the present, showing how the British Government has continued to preside over a regime that was laid down in the early 1980s and allowed to operate, effectively unfettered, ever since. There has been neither an attempt to cap the sovereignty of the consumer nor an attempt to recognise debt as anything other than the correlate of appropriately modern attitudes. Household debt as a percentage of household disposable income has risen steadily from 100% in the mid-1990s to 160% in 2007 (see Figure 7).

This is not to say that New Labour, led by Tony Blair and returned to Government in May 1997 after eighteen years of Conservative rule, was nothing more than the same. As I shall discuss, New Labour took on the role of governing the public sector and regulating the conduct of those who provided social services with a gusto lacking among Conservatives. Public services were the traditional heartland of the Left and New Labour clearly felt qualified to address the perceived shortfall in standards, productivity and funding. That their 'reforms' practiced particular notions of the consumer and the responsible citizen does not necessarily mean that these policies would have been enacted to the same extent and in the same way by the Conservatives had they stayed in government after the 1997 general election. However in terms of my focus, that is how the economy continued to be governed, New Labour did not unwind or step back from the fundamental reference points of neoliberal government: that is they continued to promote and identify in entrepreneurs and consumers a mentality of progressiveness and adaptability. An exploration of the key policy texts of Tony Blair, Gordon Brown and Ed Balls (the latter two central architects of economic policy formulation and practice in the New Labour project), as well as the speeches and research of the Bank of England in the 1990s and 2000s, demonstrates this point, I believe, quite clearly.

To some extent then the question being posed in this chapter might appear slightly facetious: 'how has Government problematised governing for the consumer?' for I am essentially declaring my hand up front by suggesting that those in power have not brought into question the consumer as it has been imagined and made up in neoliberal thought. Indeed, as I shall argue, the genealogy of the 2007-on financial crisis and economic downturn can be traced, at least in part, to the continuation of a regime that failed to recognise in actual policy prescriptions that increasing debt and perpetually rising asset prices (including and of key importance, housing) was problematic. An analysis and discussion of the views of the Bank of England is particularly enlightening in this regard.

The current chapter is divided in the following way. In section 6.1, I will briefly discuss the New Labour project and the way in which it attempted, to use Blair's words, to reassert the social in the practice of government.[1] In doing this I will make some limited comparisons between the vision encapsulated in 'Third Way' politics and the political programme, as it was being assembled by the Conservative Party, for a revitalisation of Thatcherism in the mid to late 1990s. I will argue that New Labour borrowed much from neoliberal economic thinking in assembling a governmental regime that Nikolas Rose has referred to as 'advanced liberalism'[2] precisely in order to make the point that governing involves so much more than just economic policy.

Nonetheless my major concern is with governing the economy. So in section 6.2 I will deal specifically with how New Labour addressed the question of governing the economy in major speeches both prior to forming a government and once in Government. Did New Labour's leaders seek, and if so how, to problematise how economic policy and specifically monetary policy had operated in the 1980s? Both inside New Labour and within the Bank of England I argue that one can discern a deliberate and self-acknowledged shift to the language of New Keynesianism. Thus in section 6.3 I will explore what this shift in language meant in policy terms. My point will be to show that in practice this change of tone implied little difference between the monetary policy of the 1980s and 2000s. I argue that the on-going accumulation of debt and associated rising asset prices that ultimately led to crisis after 2007, in being so reminiscent of the 1980s, evidences that since 1979 Government has continued to operate with the consumer-as-entrepreneur as a key reference in the practice of economic policy. In turn in the conclusion to the chapter I argue that the on-going economic crisis, a crisis of the neoliberal political rationality, provides an apt example of the dangers of liberal government and of visionary government in particular.

[1] Blair, T., and Fabian Society (1994), pp. 3-4
[2] Rose, N., (1996), pp. 50-60

6.1 Reasserting the social?

What is a political vision if not the enunciation of a political mentality? Thatcher's first speech as the Conservative Party leader in 1975 was appropriately entitled *Let me give you a vision,* and Blair's 1994 speech, *Socialism,* published by the Fabian Society was equally clear in expressing the need to "present a clear vision of the country's future."[3] Perhaps then the economist Patrick Minford was right to suggest that Thatcher and her companion in the CPS, Keith Joseph, were political entrepreneurs of great ability;[4] perhaps Blair was one of equal standing? However, one has to be careful in thinking of political vision in entrepreneurial terms because, as this thesis has consistently aimed to show, political visions do not necessarily express something profoundly 'new'. Instead they often reiterate a political rationality, that is to say, they practice already existing ways of seeing the world and presuppositions about what is natural and proper conduct. Yes tensions arise when there is no complete overlap between vision and reality; then Government attempts to make reality that which it thinks it already is, or 'nearly' is. Nonetheless to some extent in a democratic society there is invariably always some overlap between vision and reality. As Blair said in a speech in 1995 (*Let us face the future*), "the genius" of the 1945 Labour Government, which among other things implemented the 1944 White Paper on employment policy and set up the National Health Service, "was to capture the national mood and at the same time lead the national mood."[5]

The 'national mood' of 1945 can, as I argued in chapter 3, be thought of as one in which the social as an objective realm was seen as a space in which human agency could find security, fulfilment and thus freedom; the counterpart to this version of society in economic theory was the imagined figure of the worker-saver. Conversely, for Keith Joseph, there was a different national mood in the mid-1970s; the New Right were seeking to "articulate" a new set of "values and aspirations."[6] In turn Blair perceived that there was a new popular mood in the mid-1990s that he could articulate in Third Way politics: "notions of the Left", he believed, were back in the national mood including social justice, cohesion, equality of opportunity and community. His new vision thus reasserted the existence of the social, the notion that people are socially interdependent human beings and therefore owe a duty to one another and to a broader society. That said, he also paid homage to a neoliberal interpretation of twentieth century British history, that as the majority of people had become more prosperous a reaction had occurred against the manner in which

[3] Blair, T., and Fabian Society (1994), p. 2
[4] Minford, P., (1991), pp. 241-2
[5] Blair, T., and Fabian Society, (1995), p. 3
[6] Joseph, K., and CPS, (1976b), p. 27

power was exercised, and that this attack had come in the name of the individual.[7] This statement, I would argue, encapsulated precisely what Arthur Seldon was intimating in his prefaces to the early IEA Hobart papers.

In *Let us face the future* (1995), Blair explicitly connected his political project with the New Liberalism of Hobhouse, T.H. Marshall, Beveridge and Keynes, none of whom were Labour Party members or supporters, but all of whom had progressed liberalism, as Blair argued, into something that recognised that "theoretical liberty was of little use unless people...[had] the ability to exercise it." The state could act to achieve this "positive freedom even if it infringed traditional *laissez-faire* liberal orthodoxy."[8] New Labour, or the Third Way, was thus intended to be like New Liberalism; that is to take seriously government's role in producing and providing for the governed what they 'need' in order to function in a prosperous and globalised world. This would mean equipping citizens with the right kind of skills and education; but government was also going to be "vital" in "helping to equip citizens with the... aspirations they need to succeed in the modern economy."[9]

Liberal government, for Foucault, involved needing to produce a population that was free to be free.[10] The key question and what I have argued distinguishes classical and neo varieties of liberalism are the latter's concern with producing a certain kind of consumer mentality in society at large. To be an entrepreneur-of-the-self purchases have to be made with a view to investing in physical and non-physical assets that exist through time, providing a yield to the owner. Consumption is not the final moment of fulfilment but the arrangement of being oriented to the future. And there is no better way of expressing this than in terms of aspirations; a word that signifies habits of thought that are immediately future oriented and at the same time of course incorporating a sense that one wants to better oneself, to be as good as one can. Government, to use Blair's words, has to involve giving "each citizen the chance to develop their potential to the full."[11] It is, for Blair, the duty of Government to equip citizens in this way; it is the duty of citizens to be aspirational.

There is, I would argue, little difference between the reference points invoked here in these statements and those invoked in the early 'visionary' speeches of Thatcher. For her it was the duty of every citizen to "develop his full potential both for his own benefit and for the community as well." Each citizen had an "obligation to make the

[7] Blair, T., and Fabian Society (1994), pp. 1-4
[8] Blair, T., and Fabian Society (1995), pp. 4, 8, 10-1
[9] Blair, T., and Fabian Society (1998), p. 10
[10] Foucault, M., (2008), p. 63
[11] Blair, T., and Fabian Society (1994), p. 7

best of his talents." In turn government had an "obligation to create the framework" within which each person could do that.[12] Similarly the state, for Blair, was the "enabling force" in a world in which success was about individual "knowledge and creativity," and where value and competitive advantage resulted from the development by individuals of "human and intellectual capital."[13] So on the one hand New Labour explicitly acknowledged the role of consumer interests ("producer interests have over the century become increasingly varied and diffuse... and in any event they need to be balanced by the needs of consumers"[14]). On the other hand, these speeches practiced a specific kind of imagined human agent very much in keeping with the New Right; and just as with Thatcherism, government was required to act so as to elicit and foster certain conduct.

That said it would be churlish not to recognise that the imagined figure of the consumer in Third Way politics was addressed to issues outside of the purely economic domain. The consumer of social services was a cousin of the consumer-entrepreneur, whose sovereignty was to be applied to the social sphere, areas such as education and health. Thus individuals would need to be empowered in order to maximise the opportunities that would become available in a society and economy dynamically created by already-empowered sovereign citizens. Communities and schools for instance could then be de-nationalised, "free to run their own affairs" and the National Health Service could be "rebuilt as the people's service" with citizens enabled and empowered to share in decision-making that affected them.[15] Thatcherism had always practiced a firm belief in the distinction between the marketed and non-marketed zones of practice, never really knowing what to do with the latter, assuming that there was not going to be a full-scale privatisation of health and education. Here New Labour was much more comfortable with re-engineering social services, granting them more money yet at the same time acting to improve them as supply-side services. The Government, by activating the consumers of these services and by directly setting performance targets believed that it could ensure their increased productivity without full-scale recourse to the private sector.

Within governmentality literature there have been some who have chosen to distinguish between neoliberalism and advanced liberalism.[16] There are perhaps two reasons for making this distinction. Firstly, by doing this there can be no confusion between the on-going problematic towards which governments are oriented, the

[12] Thatcher, M., (1977), pp. 12, 34
[13] Blair, T., and Fabian Society (1995), pp. 4, 8, 10
[14] Ibid., p. 4
[15] Ibid., p. 15; Blair, T., and Fabian Society (1998), pp. 7, 15
[16] Of particular note is Nikolas Rose, see Rose, N., (1996), pp. 50-60

question of how to govern, and the more Utopian imaginings of neoliberalism. It is worth remembering that there, after all, are some who would choose to privatise all provision of health and education: why, for instance, should the state be in charge of issuing medical licences,[17] why cannot consumers chose for themselves? Why should there be any state schools at all? This, at any rate, is the Liberal Utopia still being written about within the bounds of the IEA.[18] Secondly, however, the advanced liberal/neoliberal distinction works well in the context of New Labour precisely because they were able to roll out certain neoliberal concerns beyond the specifically economic with such ease. Target setting, supply-side reforms in the public sector, audit, empowerment, community, 'responsibilisation', all features of an advanced liberal governing mentality that showed that New Labour did not have to stick rigidly to the neoliberal economic division between marketed and non-marketed.

Even so, advanced liberalism, practicing government beyond the pure economic domain, still references the same kinds of human agent and attempts to foster attitudes that are similarly appropriate to the hospital or on the high street. Indeed, many of the reforms of the Blair era that took place in the public sector were imagined and in some cases activated by the Conservatives in the 1980s and 1990s. *The Unfinished Task*, so Ronald Butt argued in a pamphlet published by the CPS in 1986, was precisely about extending choice to the public sphere, giving parents, for instance, the choice over their children's school because "people get fulfilment through endeavours to exercise control over their own lives and families."[19] For Peter Lilley, in *Thatcherism – the Next Generation* (1989), again published by the CPS, the point was that the market was only ever "shorthand for the combined efforts of individual choices.... Why should not patients, parents and pupils have a measure of choice between schools, hospitals and other medical services?"[20] Neither of these authors was actually suggesting a wholesale dismantling of the welfare state just a reorganisation around active consumers, rather than passive recipients of social services.

One cannot therefore say that New Labour represented advanced liberalism and Thatcherism only neoliberalism. The assemblage of practices that constituted the former was not alien or anathema to the latter. But it would seem that it was easier for representatives on the Left to act with regard to public services, whereas those on the Right found it difficult to act in an area that they remained permanently

[17] See Freidman, M., (2002), pp. 149-160
[18] Booth, P., and IEA, (2005), *Towards a Liberal Utopia*. See in particular chapters by Evans and Evans on health (pp. 45-51) and by Tooley on education (pp. 56-66).
[19] Butt, R., and CPS (1986), pp. 22-6
[20] Lilley, P., and CPS (1989), pp. 14-6

untrusting of. Instead many of the intellectuals on the Right in the 1990s retreated into questioning the morality of the welfare state without exactly knowing what to do about it. For Michael Portillo (*The Blue Horizon,* 1993) the welfare state encouraged "entitlement" and government needed instead to act preventatively to "re-establish and nurture the relationships that can help people before they find themselves in real difficulty." The state, for Portillo, just "crowded out [moral] responsibility".[21] For Malcolm Rifkin (*Conservative Britain the 21st Century,* 1996) there was a definite sense in which Government needed to be "re-inculcating a sense of personal responsibility and returning to the individual control over their own destiny and that of their families". Conservatism was thus a moral crusade that could be extended to health and education. For Rifkin the biggest risk was that the project would be undermined by the supposedly undemocratic statist practices of the European Union.[22] That the welfare state was a moral issue was most clearly stated by the American neo-conservative Michael Novak in the CPS paper *The Crisis of the Welfare State* (1993),

> "The subjective sense of personal responsibility has atrophied...Yes – we need a necessary sense of security and stability, but insurance mechanisms should not be anchored in grand state apparatuses... The project of self-government depends on the capacity of citizens to govern their own passions, urges, habits and expectations. The project of self-government is moral."[23]

In fact Thatcher and Blair shared a very similar vision of society as a moral institution comprising strong families and civic institutions. For Thatcher this was the strong and rich tapestry that she envisioned arising from the voluntary spirit of the community; she had, as I have discussed in chapter 4, great hopes for society. Blair essentially had the same moral vision of community, except that Third Way politics identified a need for Government to act in order to create the necessary framework of attitudes for this vision to be activated. Thatcher envisaged that the tapestry would emerge voluntarily; and in 1993 Portillo was still arguing that government could not make society; that morals essentially arose from a variety of institutions including churches, business, media and government.[24] Blair's vision was that government could foster a strong society[25] in precisely the same way as it fostered a strong economy, extending consumer sovereignty into citizen-sovereignty, not through State apparatuses, but by encouraging the right kinds of attitudes.

[21] Portillo, M., and CPS (1993), p. 12
[22] Rifkind, M., and CPS (1996), pp. 16, 23. According to Portillo (1998, pp. 22-3), Europe in the 1990s showed many of the characteristics of Britain in the 1970s with over-manned and protected nationalised industries.
[23] Novak, M., and CPS (1993), pp. 6, 9-11
[24] Portillo, M., and CPS (1993), p. 9
[25] Blair, T., and Fabian Society (1998), p. 3. In fact for most individuals to succeed Blair believed society must be strong. Society was strong in turn because individuals could take responsibility for themselves and succeed.

In a sense it was rather strange that on the one hand the New Right were willing in Government to try to foster what they believed were the right attitudes for a progressive economy (even if it took a heavy hand) and yet were more reluctant to apply these same ideas to trying to build their vision of a moral society equally based on an imagined congruence of individual responsibility and compassion. Where Conservatives stumbled or were slow on the uptake, New Labour had no qualms about rolling out the image of the active consumer across the social domain. In fact, Novak, writing for the IEA in 1998, argued that Blair had indeed recognised the moral crisis of the state and had therefore made the project of self-government his own. Novak proceeded to congratulate Blair on a set of policies that he found entirely coincident with the values of the New Right: reducing passivity, nourishing families as sites of independence, nourishing personal habits of creativity, initiative and enterprise, and helping families establish a capital fund that could be transferred across generations.[26] And over time, after a long period of reticence, the Conservative Party has of course come to embrace a brand of 'libertarian paternalism' in which they are happy for government to take a role in activating an image of society correlated to the image of the economy that they believe had already come into existence.[27] Thus Thatcherism transformed British social democracy.[28] In turn the Third Way has lead advanced liberalism on a course from economy to society.

6.2 Revamping monetary policy

If New Labour were comfortable with making the morality of society a political project in Britain in the 1990s, believing that it needed to foster the attitudes of active consumers of social services then it should come as little surprise that New Labour did not see the need to problematise the neoliberal figure of the consumer within economic policy itself. While it was Brown and Balls who were the main architects of Third Way economic policy, it is worth pointing out that the Governor of the Bank of England, Mervyn King, suggested in a speech in May 2005 that there were two key speeches from within Government that, he believed, encapsulated current approaches to economic policy. The first was Lawson's 1984 Mais Lecture *The British Experiment*, the second Blair's 1995 Mais Lecture in which he discussed New

[26] Novak, M., et. al., (1998), pp. 13-7

[27] See in particular Thaler, R., and Sunstein, C., (2008), *Nudge*. The British edition of this book specifically singles out the current Conservative Party leader, David Cameron, for the interest he has shown in 'libertarian paternalism'. Cameron's vision of a 'Big Society' is another iteration of an advanced liberal concern for activating citizen-consumers; applying government pressure to the governed in order to elicit 'voluntary' society-building associations.

[28] Novak, M., and IEA (1998), p. 2

Labour's proposed framework for curing economic ills.[29] In making this statement, was King suggesting that these two speeches provided the two key parts to current policy, or was he simply saying that the two speeches were the best two summaries available of a single approach to policy?

A reading of Blair's speech would suggest the latter interpretation; there was little that was 'new' in it. It endorsed the idea that monetary policy should target low and stable inflation, and that this should not be by way of intermediate money supply targets. And certainly almost immediately in Government in 1997, the Chancellor, Gordon Brown, announced that the Bank of England was being given operational independence to set interest rates so as to meet the target of 2.5% retail price inflation. However, this was not a new regime; inflation targeting began at the start of 1993 with the publication of the first inflation report that introduced an on-going target range for retail price inflation (excluding mortgage interest payments) of 1 to 4% per year. In tying his flag to this regime Blair was only stating his belief that the policies of the 1980s (not 1990s) had failed to appreciate the extent to which macroeconomic policy measures could "swamp improvements in" both the supply-side and government attempts to reform the supply-side in microeconomic policies.[30] This comment was in many ways specifically referenced to Lawson's 1984 speech in which the latter began by arguing that policy in the post-War era had put micro and macro policy the wrong way round. For Lawson macroeconomic policy would no longer be about producing growth and employment but about producing the conditions conductive to growth and employment.[31]

In many ways, Blair's speech was designed to calm nerves in the City of London, to confirm to the financial world that there would be fiscal prudence; that the Government would not re-nationalise, but in fact would seek to make the public sector more productive. Priority would still be given to the control of inflation because even "temporary failures over inflation have permanent adverse effects on the real economy."[32] At a push then, one might say that the speech emphasised a commitment to stability that might previously have been lacking. The reality of monetary policy since 1979 was certainly not stable: recession, boom and then another recession in which interest rates had risen as high as 15% in September 1992 in order to keep the British Pound tied to a basket of European currencies, (before currency speculation precipitated the pound's exit from the European Monetary

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[29] King, M., (2005), *Monetary policy: practice ahead of theory*, in Bank of England quarterly bulletin, volume 45 (2), p. 2, http://www.bankofengland.co.uk/publications/speeches/2005/speech245.pdf
[30] Blair, T., (1995), pp. 1-3
[31] Lawson, N., (1984)., pp. 3-4
[32] Blair, T., (1995), p. 1

System). Everything possible would be done to maintain stability; the real failure of monetarism, so the architects of New Labour believed, was that it had failed to provide precisely that.

Nonetheless both within the New Labour camp and within the Bank of England there was no dissension from the idea that inflation was still the enemy that needed to be battled, and that there was indeed a moral aspect in fighting it: "inflation is a country where nobody speaks the truth. That is why there is a moral element to controlling inflation."[33] For Balls, writing in 1992, it was Britain's "inflationary psychology" that had "encouraged consumers to borrow excessively in the mid-1980s."[34] It had nothing to do with a financial system competing to advance credit, nor with the vision of consumers and households as active balance sheet builders. There was no question, therefore, of letting up in the neoliberal battle against the old inflationary psychology. So, the question naturally follows, how did New Labour problematise economic policy in the 1980s? Certainly as the discussion in section 6.1 suggests, they made supply-side improvements a key New Labour policy, applied as much to the public as private sector. In the public sector it meant acting directly on productivity, making those that were deemed unproductive productive not, as the Thatcherites had done, by limiting the supply of funding but by setting a series of specific performance targets. In the language of Brown there was to be "necessary modernisation, wholesale modernisation and nothing but modernisation."[35]

Conversely in the private sector this meant continuing to foster conduct in order that markets could function; that is to say, that consumers could always and everywhere assert their sovereignty and not have decisions distorted by inflation. Yes, there were certainly difficulties measuring inflation, which suggested that consumer prices recorded a higher level of inflation than actually experienced on the high street, but fundamentally, according to the Bank of England, 2.5% retail price inflation was essentially no inflation because, as the Chairman of the United States Federal Reserve Alan Greenspan had said, price stability meant that general changes in the price level "do not materially enter business and household decisions."[36] And to reiterate, Brown believed that the first priority in "equipping Britain for the 21st century" was

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[33] Leigh-Pemberton, R., (1992), *The Case for Price Stability* in Bank of England quarterly bulletin, volume 32(4), p. 447
[34] Balls, E., and Fabian Society (1992), p. 7
[35] Brown, G., (1998), p. 5
[36] Leigh-Pemberton, R., (1992), *The case for price stability* in Bank of England quarterly bulletin, volume 32(4), p. 446

establishing "monetary stability that allows businesses and families to make their plans for the long term."[37]

Inflation was still, as the first inflation report stated, very much a "monetary phenomenon."[38] Nonetheless something had clearly gone wrong in the 1980s, which needed to be addressed by policy makers. Balls, in two papers in 1992 and 1997 respectively, set out the New Labour position. Combining the medium term financial strategy with the easing of credit controls had made policy making highly unpredictable, permitting another upsurge in inflation. Indeed deregulation, technological advances and widening consumer choice all ultimately made intermediate money supply targets unworkable. The Thatcher Government had tied their credibility to these targets, only to have their credibility undermined. In the process Lawson had taken his "eye off the ball to such an extent that the information that double-digit growth of M4 did transmit from the mid-1980s on was not given the attention it was due." Credibility had to be re-established in a way that signalled it was not just going to be another false dawn. This time credibility would stick and stability would follow as the "very essence" of policy.[39] Moreover a pre-commitment to stability implied that no government could "cheat in a pre-election dash for growth."[40]

The notion that Lawson took his eyes of the ball is critical because in Balls' view his inattention allowed an inflationary psychology to creep back into people's minds. One has to be very clear, therefore, about what was being put into question. Rising asset markets, the rapid rise in ownership (that net financial wealth was twice annual disposable income in 1987 versus only being one quarter more in 1980) was not being positioned as problematic in and of itself. Only when inflation had started rising on the high street had it become apparent that rapidly rising house prices were a problem; they had been revealed to be the result of an inflationary psychology by the rise of inflation in consumer prices. Without the return of inflation in the late 1980s to signify the problem, there was nothing to suggest that house price rises were at all problematic. Increasing the size of one's balance sheet with the use of debt was the result of a perfectly rational psychology. That many households had chosen to reorganise their portfolios at exactly the same time, thus putting upward pressure on prices because there was more demand, was not a symptom of anything malign. It

[37] Brown, G., (1998), p. 2
[38] Inflation report, (1993), Bank of England quarterly bulletin, volume 33(1), pp. 34
[39] Brown, G., (1998), p. 3
[40] Balls, E., and Fabian Society (1992), pp. 4, 16; Balls, E., (1997), 119-21, 127-8

was only the appearance of inflation that led authorities, retrospectively, to see that there had been a problem, where previously none had been perceived.

The criticisms brought to bear on the operation of monetary policy in the 1980s by the New Labour establishment never suggested an underlying critique of consumer sovereignty or the possibility of disabling in any way the ability of entrepreneurs-of-the-self to bring into being a balance sheet that would exist through time providing a range of different income flows. It was really about the technicalities of establishing stability; that is to say, that stability would only come from a credible policy that ensured that people understood that an inflationary psychology would not be tolerated by the monetary authorities. The measure of inflation was high street prices, RPIX, the measure established in 1993 and retained by New Labour in 1997 that did not include house prices or asset prices generally.[41] Changes in asset prices were not problematic so long as consumer prices on the high street signified that there was no inflationary psychology in the population at large.

The Bank of England and New Labour were absolutely united in their position on this and, in a sense, both implicitly accepted Lawson's view from 1992, that the boom in the late 1980s had spiralled out of control (that is inflation had returned to the high street) because people needed time to learn how to use their new found freedom in the credit markets. As King, now Deputy Governor of the Bank, put it in August 1994, the problem with financial liberalisation was that it was essentially a supply-side reform that had potential effects on the demand side as well; which if not properly managed, that is with a view to on-going monitoring of retail price inflation, might give rise to associated inflationary pressure. The Bank would not make the same mistake again, allowing excess inflationary demand to impinge on a supply-side of constant consumer prices. However the lack of credit rationing was not seen as a problem and would not be reintroduced. After all, "credit denied to potentially good borrowers is capable of doing more harm to an economy than credit advanced to bad ones."[42] The message from the Governor, Eddie George that "we must never let things get out of hand again"[43] was not targeted at debt or house prices *per se*, but at consumer price inflation. Using intermediate targets, such as money supply, was so problematic that one could end up distracted. Instead

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[41] In September 2003, the Government instructed the Bank of England to move to a different inflation index, the harmonised index of consumer prices, the 'cpi', with a central target (and 1% symmetrical range) of 2%. This new index removed all possible links to house prices, as the previous index, RPIX, had included housing stock depreciation, local government tax and home insurance.
[42] King, M., (1994), *Credit and economic policy* in Bank of England quarterly bulletin, Volume 34 (2), p. 170
[43] George, E., (1994), *The prospects for monetary stability* in Bank of England quarterly bulletin, Volume 34(3), p. 260

monetary policy would remain solely focused on the inflation rate as the beginning and end of the targeting process.

Of course the rule, that inflation should not deviate by over one percent either side from the target of 2.5%, also gave a place for reasoned discretion: it did not necessarily tie the hands of policy setters, because to set interest rates meant using discretion to assess the wealth of information available.[44] If the target was 2.5% over the medium to long term, then one had to use one's judgement now as to what economic statistics were indicating about the future. Whereas a fixed rule might say, for every 2% that M4 rises above 10%, interest rates will rise by 1%, there was now no fixed rule about how much interest rates should move by, only that the Monetary Policy Committee (MPC) should assess the likelihood of inflation moving outside the target range and adjust interest rates accordingly.[45]

So clearly this was no strictly monetarist regime; stability of output and inflation were of equal importance to the target. For King (speaking in November 1997) the new regime had two variables, inflation and stability. The latter was captured in the belief that there was a permanent trade-off between the volatility of inflation and the volatility of output. One should use "constrained discretion", a term used by both King and Balls, to respond to exogenous shocks that might cause a temporary rise in inflation. That is to say, if oil prices were to rise it is not necessarily correct to respond in "the first round" with interest rate rises, but instead to "accommodate" the price level effect in the short term, knowing that once the effect of higher prices has worked through the system, and assuming that these prices are not leading through into higher wage demands (above productivity gains), the inflationary effect will disappear. The idea that to raise rates in response to the initial rise in prices might unnecessarily cause volatility in inflation is detrimental to the long-term path of sustainable economic growth (delivered by a flexible and adaptable supply side).[46]

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[44] Additionally it should be added that interest rate targeting was not just a UK fetish, but became the standard feature of developed world monetary policy.

[45] To be precise the Bank of England could have followed to the letter the 'Taylor rule' in setting interest rates. While the Bank did accept the notion that, "in response to inflation pressures, a central bank that wishes to maintain control over inflation needs to raise the nominal rate of interest enough to generate a positive real return" (Besley, T., (2008), *Inflation and the Global Economy*, in Bank of England quarterly bulletin, Volume 48 (2), p. 210), it, and any other central bank for that matter, did not follow Taylor's specific guidelines on how much interest rates should be changed by, or how to monitor inflation on an on-going basis. Even so the Bank and the Taylor rule were both New Keynesian and entirely endorsing of the view that inflation policy should remain focused on high street prices and not asset prices of any sort.

[46] King, M., (1997), *The inflation target five years on*, in Bank of England quarterly bulletin, Volume 37(4), pp 434-7; Balls, E., (1998), pp. 117-120

Complementing the idea of constrained discretion, is the idea of symmetry, the notion that it is as important that inflation be kept from falling below 1.5% as it is to ensure that it does not rise above 3.5%. On the one hand, and as discussed above, this policy was acceptable given that 2.5% inflation was essentially no inflation, as Greenspan had said; it did not impact the decision making process of businesses or households. On the other hand, symmetry ensured more stability and meant that interest rates were never set prohibitively high to achieve a goal of 0% inflation, which was thought unnecessary in the first place.[47] Thus symmetry and constrained discretion together, one might say, suggested a 'New Keynesian' re-moulding of the anti-inflationary policies of the 1980s. This was not the hard and fast regime of money supply targets; there was a new leeway, an acceptance that some inflation, as long as it was stable and (very) low, was fine, possibly even desirable; and that a certain amount of discretion was required because volatility in inflation was almost as disturbing as volatility in output to the attempts by Government and monetary authorities to guide the economy on a path of 'non-inflationary consistent expansion', or as King called it, a "nice" trajectory.[48]

To what extent, therefore, can one talk about a disjuncture in policy between the New Right and New Labour with regards to theorising the role of monetary policy and banking and its connection to the consuming household? Certainly, by removing the strictures of money supply targets, or exchange rate targets, a 'softer' regime could be practiced in which short term cycles could be accommodated. Rules now referred to the ends not the means, thus introducing expertise and discretion in the interpretation of data, rather than requiring a fixed response to data presented as fact. Nonetheless, there was, and has been, no questioning of the figure of the enterprising consumer. Consumers were still to have their borrowing demands met un-rationed as if they were businesses in their own right. There was to be no modification to the liberalised banking system. Inflation on the high street was still the indicator and sign of an inflationary psychology. All the while consumer prices were stable; movements in other assets, however much affected by new 'innovations' in the funding market were ultimately seen as benign. This is not to say that questions were not asked; for as section 6.3 discusses, the Bank of England in the decade from 1997 to 2007 became increasingly obsessed with the increase in house prices and consumer debt. It was only that they knew no way to provide a judgement on the matter all the while consumer prices remained within target.

[47] Brown, G., (1999), p. 7; Brown, G., (2001), p. C34. Additionally, the on-going deflationary problems with which Japan was (and continues to be) beset gave another impetus towards a symmetrical target around 2.5%.

[48] King, M., (2003), *Governor Speech*, in Bank of England quarterly bulletin, Volume 43(4), p. 477

6.3 Practicing New Keynesianism

In terms of policy formulation one can see therefore the emergence of a regime formed by those at the Bank of England who had been part of policy-making under Lawson and Thatcher, and those at New Labour seeking to impose their stamp on the process. Monetary policy was to be more 'sophisticated' but broadly the same; that is to say, macroeconomic policy continued to be focused on interest rates and the fight against an inflationary psychology, microeconomic policy about the supply-side. Financial liberalisation (the end of credit rationing) and the belief that inflation was always and everywhere a monetary phenomenon would continue to live side-by-side without reflection upon their potential paradoxical statuses. The consumer was still central to governing the economy. This mentality was as much embedded in inflation targeting as it had previously been in money supply targeting.

It was equally embedded in the regulatory reform introduced by New Labour in June 1998 which transferred the responsibility for banking supervision and surveillance from the Bank of England to the newly formed Financial Services Authority (FSA). Perhaps the best way to understand this new arrangement is in reflecting that there was seen to be no contradiction between free monetary creation and a monetary view of inflation. The extent to which private banks chose to grow their balance sheet, the nature of the funding they used and the models of risk management that were practiced were of little relevance to the Bank of England in so much as the latter was concerned predominantly with consumer prices. Low inflation on the high street was all the evidence the Bank needed to be convinced that there was no excess monetary creation or systemic risk issues. The events of 2008 (involving the near collapse of the British banking system) show that the FSA had failed in its task of monitoring the behaviour of the banking sector and in protecting consumers. But it also demonstrates that monetary policy and banking supervision were disconnected; policy had practiced the belief that the supply side, i.e. the availability of funding in the banking sector, would have no effect on the demand side. That is to say, demand for credit was perceived as being entirely related to individual decisions of portfolio management undertaken by consumers and entrepreneurs.

On the face of it, the FSA's concern was in fact primarily with consumer protection,[49] and this appears problematic: was not the consumer now behaving as an

[49] George, E., (1998), *The New Lady of Threadneedle Street*, in Bank of England quarterly bulletin, Volume 38(2), p. 176

entrepreneur, why would they need protecting if there was sufficiently intense competition? Indeed this was precisely the criticisms of regulation made by IEA and CPS authors, both as the new regulatory regime was being set up and afterwards. For George Benston (*Regulating Financial Markets,* Hobart Paper 135, 1998), much of the reasoning for any form of regulation was that it paid government revenues, whether from the requirement for banks to hold non-interest bearing deposits at the Bank of England or by forcing banks to make discounted loans to favoured sectors. Additionally, protecting consumers where there was unfair treatment or to ensure that there was sufficient information so that a reasoned decision could be made by the consumer was one thing, but this could too often raise the issue of moral hazard, whereby deposit insurance, for instance, removed the incentive for depositors to monitor the activities of deposit providers.[50] Finally for theses authors there was the matter of cost, a key statement on which had been made in 1988 by Charles Goodhart in another IEA publication (*Financial Regulation – or Over-regulation*). The direct cost of having regulatory bodies Goodhart estimated was over one hundred million pounds per year. This he suggested was much higher than the cost of identified scandals. This alone suggested regulation was not worth the cost, and this did not even include other unseen costs such as how the burden of regulation might stifle business activity generally.[51]

Whether these criticisms from the IEA were justified is not my point. What they show is that as far as these authors were concerned any kind of paternalistic protection for the consumer required too much regulation. Competition was all that was required to protect the consumer: as long as the consumer was sovereign then best practice would be enforced because consumers would walk away from poor suppliers. Bentson's point was simple enough: "why should financial services be regulated more so than other services?" Only very limited regulation on capital requirements was needed.[52] The focus, as Oliver Lodge argued for the CPS in 2002, "should always be on encouraging innovation and competition so that banking can respond with increasing speed and effectiveness to customer needs and technological change." Instead legislative measures were, Lodge believed, obstructing competition. All government needed to do was leave well alone, the information revolution and the internet had addressed the concern with information asymmetry, the market should be allowed to operate unfettered, for "the consumer has become generally better educated and more discerning."[53] Simply put, for these

[50] Bentson, G., (1998), pp. 32-3, 53-63, 99
[51] Goodhart, C., et. al., (1988), pp. 18-25
[52] Bentson, G., (1998), pp. 13-5
[53] Lodge, O., and CPS, (2002), pp. 1-5

authors, there was already too much in the way of regulation; any interference raised the spectre of disempowering the sovereign consumer. To try and make suppliers of financial products follow best practice was to miss the point: only the consumer could do that.

For some then the FSA represented too much consumer protection. In fact regulation never problematised the consumer and the consumer's right and need to be able to access finance so as to build a portfolio of investments in human and non-human capital. On the contrary the question of the excess debt, systemic risk in the financial sector, inflated and unsustainable asset prices was subordinated to the information found in a basket of consumer prices that the Bank of England was required to monitor. I am therefore arguing that in effect consumer protection, which for some was already assuming too little competence on the part of individual borrowers, practiced the notion that in society there existed a firm division, as King had said in 1994,[54] between good and bad borrowers. Regulation would ensure that financial products were not misrepresented to borrowers and that enough information would be available to good borrowers to make their portfolio decisions. Bad borrowers, perhaps lacking moral fortitude, perhaps infused with an inflationary psychology, were not to be allowed to derail the system for the good borrowers; there was to be no credit rationing. Given that consumer price inflation remained benign, Government could conclude that the majority of the population were good borrowers, identifying themselves to the monetary authority as entrepreneurs-of-the-self, embracing the enterprise culture. To default on a loan was to reveal that a good borrower was in fact all along a bad borrower. That circumstances outside the control of a 'good' borrower might lead to default was not something that FSA consumer protection took account of. As long as the consumer was provided with information, as long as the advisor had passed a regulatory exam, an enterprising culture could never cause systemic problems to the financial sector.

The role of the FSA as a regulatory body was clear; to protect consumers from deliberate misrepresentation. Banking supervision needed only to be a systems audit because it was assumed that consumers were doing the real supervision of banking practices. Banks in turn were supposed to be making risk assessments of individual borrowers, thus the audit of the aggregate of enterprising consumers was carried out by the Bank of England in the form of an ongoing monitoring of inflationary psychology: no high street inflation, no cause for concern, such has been the governing mentality of British neoliberalism. Except of course the Bank of

[54] King, M., (1994), *Credit and economic policy* in Bank of England quarterly bulletin, Volume 34 (2), p. 170

England always retained a nagging doubt, a certain degree of reflexive self-questioning. This never took the form of an out and out rejection of the thesis, but occasionally doubt crept in, variously in the form of questioning what had gone wrong at the end of the 1980s, persistent worries over the rise of house prices and consumer debt in the 2000s, or in monetary action throughout the period in response to the ever-present concern that debt deflation might set in.

One might say that whereas low inflation proved to policy makers that everything was operating without the dangerous and damaging effects of an inflationary psychology, there was also a realisation in practice that the enterprise economy, evidenced by the expansion of personal balance sheets and wealth, was so heavily reliant on bank financing that monetary authorities were forced to ensure that the value of that newly found wealth was not allowed to collapse unduly in times of crisis. Put another way monetary policy was asymmetrical: take little or no action on debt and asset prices as they rise, always act against the slightest suspicion of debt deflation. This did not go unnoticed by Goodhart who, in discussing the extent to which it was always highly problematic to include asset prices in interest rate setting, pointed to the fact, in a lecture in 2003 published by the IEA, that although some account was taken of asset markets it was "probably more often in response to asset price declines than to increases, for rather obvious reasons."[55] Presumably Goodhart was referring to the fact that if asset prices fall, and the purchase of these assets is financed by debt, there is always a risk of debt deflation, which in turn can threaten the banking system. And any potential failing of the banking system always raised the spectre of a repeat of the 1930s Great Depression, generally accepted, following Friedman and Schwartz' account, to have been accentuated by a collapse of the banking system in the United States, as each bank called in lending in a hope of shoring up their own capital and reserves.[56]

For some of course this asymmetry in monetary policy could be read as yet another example of economic policy protecting the wealth of vested interests and the *rentier* class; and I am certainly not ruling out that explanation here. But my intention is to provide an alternative explanation. The asymmetry alluded to by Goodhart has not only been related to the fear and paranoia associated with debt deflation, it has

[55] Goodhart, C., (2003), The constitutional position of the Central Bank in Friedman, M., Goodhart, C et. al., pp. 104-6

[56] See Friedman, M., and Schwartz, A., (1963), pp. 300-411 for their famous analysis of the 'Great Contraction' in money supply between 1929-33. Their argument is that the downturn from a 'normal' business investment cycle was massively accentuated by the Federal Reserve's insistence of raising interest rates and requiring banks to immediately build capital reserves. The tumultuous collapse in the economy that followed (36% decline in real income, 25% unemployment) reflected, they argued, not the investment cycle *per se* but a fall in the stock of money (33%) over the same period that was entirely unnecessary.

entailed deploying monetary policy to protect wealth in order to protect the culture of enterprise writ large in society, as it was perceived to exist. Building a portfolio of assets took place concurrently with falling savings rates; any dramatic fall in the value of assets could always risk a return to higher savings and an unwinding of the perceived successes of the neoliberal revolution. Invariably monetary authorities have been happier with suggesting that markets have overreacted to negative news, thus justifying a policy response, rather than intervening in the sure knowledge that assets are over-valued.

This mentality was most clearly on display in the wake of the mini-crash of the stock market in October 1987 in which central banks around the world responded with coordinated rate cuts. The November 1987 Bank of England quarterly bulletin opened with the following statement,

> "The level of equity...and real estate prices...had been a cause of concern for some time...But the pattern, speed and magnitude of the collapse was out of all proportion to the quantity of new information relating to any relevant fundamentals...The deflationary implications of the loss of wealth for a global economy already growing quite modestly, together with the damage done to the confidence and liquidity of markets, made it appropriate for the world's monetary authorities to adopt a supportive stance, and in some cases short-term interest rates have been allowed to fall by an much as 1.5%."[57]

In fact these kinds of concerns have remained permanently fixed in the minds of policy makers ever since. They were in operation after the Asian economic crisis, the Russian sovereign default and the collapse of the 'dot-com' stock market bubble in 2000. The Bank of England for instance cut interest rates in 1999 on the back of fears of a "general credit crunch"[58] and because they believed that they needed "to stimulate domestic demand to offset export weakness.[59]

So on the one hand stability was the key, and this was captured most succinctly by the persistent stress on the symmetrical nature of the inflation target. But this symmetry (2.5% inflation target, with 1% movements either side permitted) was underscored by a fundamental asymmetry in regard to asset prices. When consumer prices were within range and stable, monetary authorities often cut interest rates to support large falls in asset markets; but they never increased rates when asset markets rose, however dramatically. Rising asset prices, particularly in the housing market, were never taken to be problematic so long as high street inflation did not

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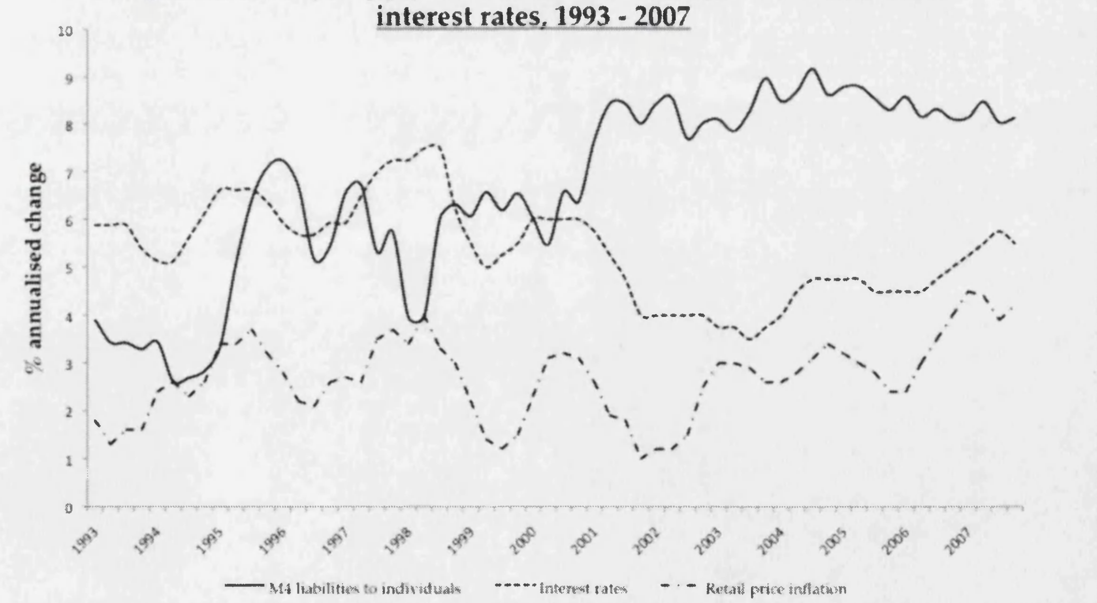
[57] *Commentary*, in Bank of England quarterly bulletin, volume 27 (4), November 1987, p. 473
[58] George, E., (1999b), *Speech* in Bank of England quarterly bulletin, volume 39 (3), p. 1, http://www.bankofengland.co.uk/publications/speeches/1999/speech45.htm
[59] George, E., (1999a), *Speech* in Bank of England quarterly bulletin, volume 39 (1), p. 5, http://www.bankofengland.co.uk/publications/speeches/1999/speech32.htm

rise above the target range. In this way, and as following figures show, interest rates remained rooted to targeting inflation (not money supply growth) and debt and house prices continued to rise unabated. Indeed, as I have said, in some years, most notably in 2001 and 2002 the Bank actively encouraged such behaviour in the belief that this was a necessary antidote to debt inflation.

By 2004 household debt to disposable income had risen to over 140%, from just over 100% ten years earlier, and consumer debt (composed of mortgage equity withdrawal and unsecured credit) from 2% of post-tax household income in 1998 to about 10%. Savings rates had also fallen below 5%, dropping to the levels of the late 1980s boom. How were these data points interpreted by the monetary authorities? Were they problematised in any significant way; were they recognised as requiring policy redress? The simple answer is that, rather like in the late 1980s, the data was always explained away; the Bank of England could not say in definitive terms that there was anything wrong. That is not to say that monetary authorities were not monitoring the situation, one might even say that their research, reports and speeches showed little concern for anything else. But the conclusion was always that

Figure 5: Money supply to individuals, retail price inflation, and interest rates, 1993 - 2007



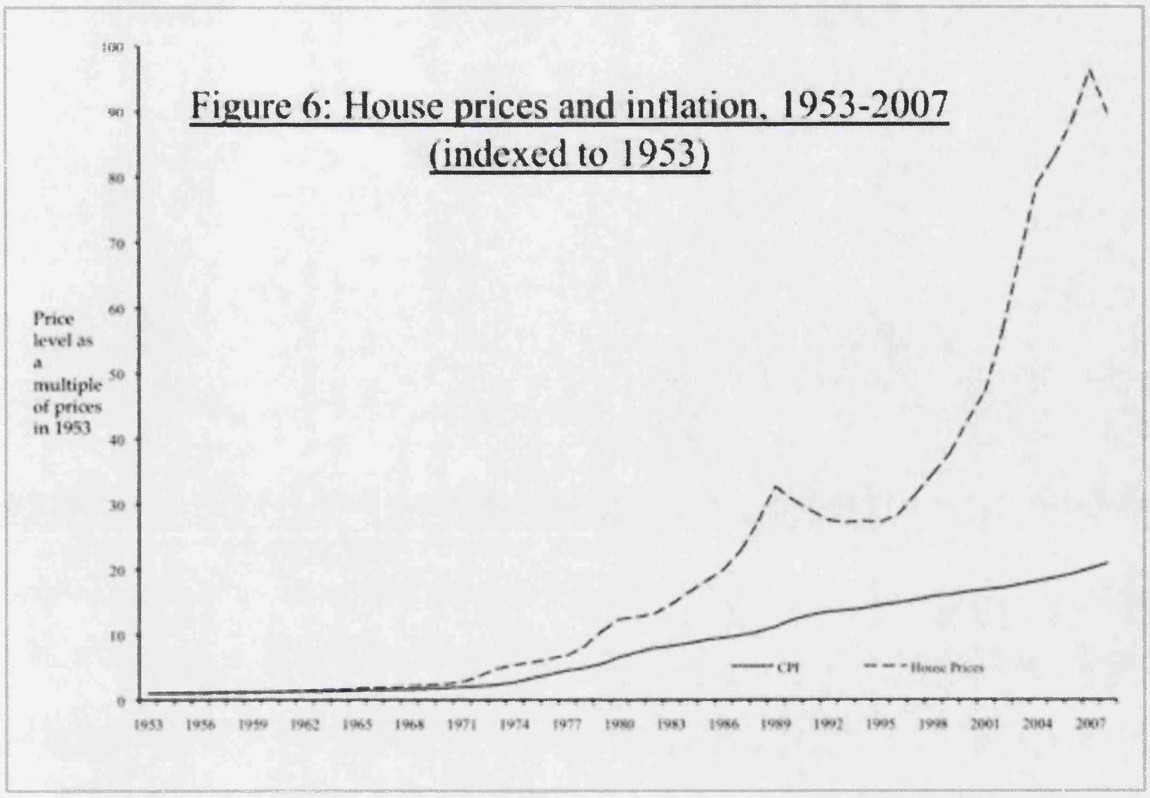


Figure 6: House prices and inflation, 1953-2007 (indexed to 1953)

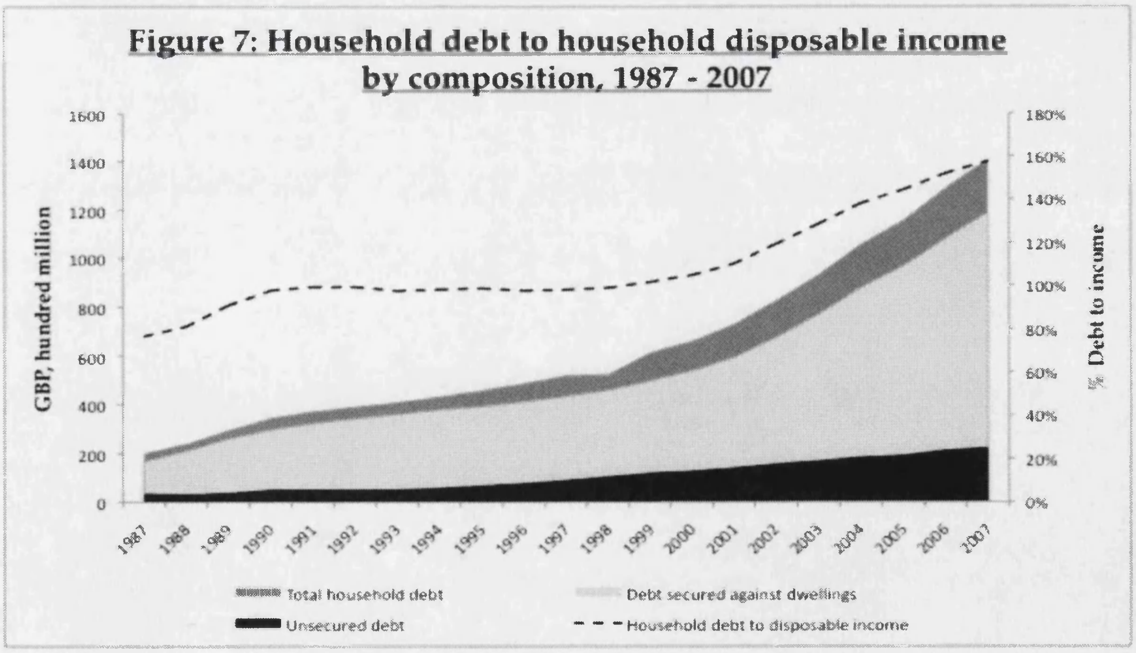


Figure 7: Household debt to household disposable income by composition, 1987 - 2007

Sources: Bank of England and Office of National Statistics the outlook was most likely benign and, at any rate, it was not for the Bank to intervene all the while high street inflation remained subdued.

According to the Deputy Governor, Andrew Large, the rise in debt was a logical response to lower nominal interest rates and the wish to spread consumption over one's lifetime. It was entirely consistent with monetary stability and was in any case "the logical accompaniment to monetary stability at a time of [global] imbalances." The balance of probability was with the optimists; at any rate, the strength of the financial system was guaranteed by new techniques of risk management. There might be a long-term problem with regards to retirement savings, but this was not a problem requiring an immediate policy response. If there was a build up in financial assets this was related to supply-side factors in the banking industry, more competition, new entrants and new credit instruments.[60] Likewise, in September 2004 the monetary policy committee (MPC) member Stephen Nickell opened a speech on household debt, house prices and consumption with the words, "It is said we are in the middle of a long-lived consumption boom in the UK funded by a tidal wave of debt...this statement is more or less completely wrong." Nickell's point was that while savings rates as a proportion of income were low, they had only decreased by 1 to 2% over the past few years. Rather than having a consumption boom showing up as rising consumer prices, instead the rate of financial asset accumulation had been rapid, nearly doubling between 1998 and 2003. A "good part" of this was to be "associated with the accumulation of housing assets by individual households." There was no consumption boom and there was no need for concern as, for Nickell, "the increasing rate of accumulation by debt has been closely matched by the increasing rate of accumulation of financial assets."[61]

So while the housing boom of the early 1970s was explained by the New Right as a deliberate effort on the part of the few to hedge against the effects of inflation, the housing boom of the late 1990s/2000s was explained as a rational response of consumer-entrepreneurs to lower rates of interest and a belief that rates would remain low as long as inflation remained low. In other words an upward revaluation of assets was to be expected from the permanent establishment of stability. This is not to say that the upsurge in debt went unnoticed, quite the

[60] Large, A., (2004), *Puzzles in today's economy – the build up of household debt* in Bank of England quarterly bulletin, volume 44 (2), pp. 4, 9-14, http://www.bankofengland.co.uk/publications/speeches/2004/speech217.pdf

[61] Nickel, S., (2004), *Household debt, house prices and consumption growth* in Bank of England quarterly bulletin, volume 44 (3), pp. 3-6, http://www.bankofengland.co.uk/publications/speeches/2004/speech227.pdf

contrary in actual fact, but it was seen as the congruence of a number of factors on both the demand and supply side. As MPC member Paul Tucker put it,

> "The more or less structural changes in the supply of credit have been occurring during a period in which borrowers and lenders have also been adjusting to a low inflation low nominal interest rate environment, and during which official interest rates have been cyclically low. The upshot has been lots of borrowing."[62]

Lots of borrowing: yes, but was this problematic? No. As such, the question might fairly be asked, what was the difference between what has happening in the 2000s and what happened in the 1980s? Was New Labour/New Keynesianism any different from the monetary policy practiced by Lawson in the 1980s? Well in one obvious sense the language being used to analyse data and make interest rate decisions was very different. Indeed, as both Governor and Deputy Governor remarked on separate occasions, the language utilised in the decision-making process was remarkably reminiscent of the language used in the early 1970s.[63] There was no reference to money supply growth, which was growing at a rate not seen since the late 1980s. Thus whereas the monetary authorities focused on explaining money supply in the early 1980s; as a reflection of a new kind of rationalism to be found in society at large in the 2000s house prices rises were now explained as a rational response to the success of establishing low inflationary expectations. In the 1980s the fact that money supply was growing so strongly and yet was not following through (at least until 1989) into high street inflation was taken as proof that habits had changed. Under the New Keynesian regime, the population no longer had to prove their rationality, this was taken for granted, instead the focus came on explaining why asset markets were producing right and rational signals. So long as one assumed that the participants were practicing the right habits of thought (i.e. non-inflationary ones) then how could the prices be anything other than a signal of information for a rational market? The job, practiced so successfully by the Bank of England, was to explain to everyone why asset prices were moving upwards and why no one should be unduly concerned by it.

Macroeconomic policy had never really veered away from that which had been established by Lawson: high street inflation was still the judge and jury of an economic policy that took for granted that society was composed of entrepreneurs and entrepreneurs-of-the-self, building portfolios, balancing income and expenditure

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[62] Tucker, P., (2003), *Credit conditions and monetary policy* in Bank of England quarterly bulletin, volume 43 (3), p. 11, http://www.bankofengland.co.uk/publications/speeches/2003/speech201.pdf

[63] King, M., (2002), *No money, no inflation – the role of money in the economy* in Bank of England quarterly bulletin, volume 42 (2), p. 174; Gieve, J., (2007), *Speech* in Bank of England quarterly bulletin, volume 47 (3), p. 434

through time and over their lifetime, constantly making adjustments, with the use of debt, to their balance sheets. One could not arbitrarily intervene. Again this is not to say there were not risks, for as King argued in 2006, one could interpret prices as being signposts of potential problems in the future. In his opinion though, current prices reflected underlying (real or non-inflationary) preferences for saving and investment and not the under-pricing of risk.[64] The Bank's base case, discussed in research in the first quarter of 2007, was that even though the stock of household debt had doubled since 2000, this debt had been used to finance assets, thus the net position of households was little changed. It was not inflationary nor was there any evidence to suggest that higher debt raised the sensitivity of consumer spending to any future economic shocks. "Overall it would appear that there are enough buffers on both the household and lender balance sheets for the build-up of household debt not to complicate the operation of monetary policy in the current conjuncture."[65]

New Keynesianism certainly took its eye off the monetary ball; that is to say off the money supply. But as the 1980s had proved to those who believed that they had enacted the quiet revolution in the conduct of the British population, it was not possible to incorporate money supply into monetary policy when it could be assumed that those whose borrowing practices had initiated its growth were using this new money to make portfolio adjustments rather than push up high street prices. Indeed at a very simplistic level so long as government believed that those in the market were operating with the right attitudes, then it would be impossible ever to say that prices were wrong. Even if the monetary authorities suspected there might be a bubble, then trying to "prick it" might cause more damage than just letting it run on. If value ultimately stemmed from the subjective assessment of desire then unless one could prove that those making the assessment were somehow infected with irrationalism (say an inflationary psychology), who could say that anything was not the right value? Instead all government could ever do was protect consumer-entrepreneurs, that is wealth owners, from another potential irrationalism: debt deflation. This fundamental asymmetry in policy was the outcome of governing for the consumer and with the consumer in mind.

The Bank of England were not unaware of more unorthodox work in which macroeconomists were claiming to demonstrate that there was a link between the availability of credit, the accumulation of debt and the concurrent rise of asset prices;

[64] King, M., (2006), *Governor speech* in Bank of England quarterly bulletin, volume 46 (1), pp. 2-7, http://www.bankofengland.co.uk/publications/speeches/2006/speech263.pdf
[65] Benito, A., et. al., (2007), *The Role of Household Debt and Balance Sheets in the Monetary Transmission Mechanism* in Bank of England quarterly bulletin, volume 47 (1), pp. 70-6

that is to say that there were causal explanations for the data that brought into question the behaviour of the household consuming unit.[66] Nonetheless their position was always that there was no causality here: people borrowed in order to rearrange their balance sheet, consumption patterns and house prices were concurrent variables, likely to be coincident and caused by a common factor, say confidence in the future as opposed to uncertainty. Indeed in this neoliberal mentality this had to be the case because all consumption, of whatever kind, whether short term or long term, was expressed in the same functional relationship (as per Friedman's restatement of the quantity theory) based on the rate of interest and in units of account defined as money. To suggest that changes to the value of one of these variables affected another variable would be to entirely bring into question the human agents as they were imagined in the theory. Policy simply could not practice anything other than the assumption that house prices and consumption patterns were complementary not causal variables.

Finally there is the question of the shift in language; did referring to 'real' expenditure variables in the economy signify a departure from neoliberalism back to Keynesianism? As I have said discussions at the MPC tended to sound pre-Thatcherite. The notion that it was the job of economic policy makers to stimulate and encourage expenditure certainly had a decidedly Keynesian demand management tone to it. However the focus remained inflation: stable and low high street inflation simply meant that money could be omitted from the conversation. But this was only for the time being: no one was suggesting that a concern with the money supply was essentially wrong. As Deputy Governor, John Gieve, put it in June 2007, "if anyone was in any doubt, monetarism was not dead but only resting."[67] And as far back as 2002, King was warning everyone that, "it would be unfortunate if the change in the way we talk led to the erroneous belief that we could turn Milton Friedman on his head." He fully expected at some point for money to regain its "important place in the conversation of economists."[68]

As the British and global financial system became increasingly under strain in 2007 and 2008 many commentators blamed easy monetary policy at the start of the decade and central banks around the world, especially the Federal Reserve of the United

[66] See Goodhart, C., and Hofmann, B., (2007), *House Prices and the Macroeconomy*, chapters 7 and 8, which demonstrate statistically the connection between the economic cycle, asset prices, and the scale of bank lending against property. See also Fernandez-Corugedo, E., and Muellbauer, J., (2006), Bank of England Working Paper no. 314, *Consumer credit conditions in the United Kingdom*, which purports to show a causal relation between the availability of credit and increases in consumer debt.
[67] Gieve, J., (2007), *Speech* in Bank of England quarterly bulletin, volume 47 (3), p. 434
[68] King, M., (2002), *No money, no inflation – the role of money in the economy* in Bank of England quarterly bulletin, volume 42 (2), p. 174

States, for being too slow to raise interest rates. But in terms of inflation, there was no reason to raise rates: the key signifier of the population's economic psychology, high street prices, exhibited no untoward signs. That said, interest rates were used to increase demand in the economy in the early 2000s: it was hoped that strong consumer demand would offset weak external demand and associated low manufacturing investment expenditure in Britain. Nonetheless, this policy was not about growth *per se* but about the belief that without this extra demand, inflation would fall below the target range, jeopardising the new economy with deflation.

I want to finish this section by suggesting that what in many ways is so striking about the way that macroeconomic policy has been conducted in the New Labour years is that demand management, in being focused on inflation targeting, has made anathema the suggestion that there is anything to distinguish consumption expenditure and household investment from business investment. This is not to say that it was not recognised that the British economy was unbalanced, i.e. coincident weak manufacturing output and strong consumer expenditure. But this was never problematised in itself. If growth needed to be maintained (so as to minimise the risk of deflation) then growth that came from consumer expenditure was every bit 'as good as' growth that came from anywhere else. This of course would make sense to any mentality of rule that did not distinguish between an entrepreneur and an entrepreneur-of-the-self.

Finally while it might be said that practicing a policy of equivalence of consumption and investment was both an artefact of Keynes' work on aggregate demand as well as a result of the development of national income accounting ('national income = consumption + investment + government expenditure + exports – imports'), from the 1930s on the actual practice of Keynesian demand management always gave a special emphasis to the idea that sustainable growth resulted from investment in production equipment rather than consumption itself. This was the legacy of production so important to classical liberalism and retained, as I argued in chapter 3, in the minds of social or new liberalism. Thatcherism practiced this distinction as a mirage: both consumer and entrepreneur belonged to the same of class of thinking. I have attempted to demonstrate that the New Keynesians were practising exactly this same mentality in their monetary policy. It is thus perfectly reasonable to say that interest rates should have been raised in the early 2000s: it is entirely wrong to think that a neoliberal mentality of rule could have found any way to justify that decision.

6.4 The crisis of neoliberal governmentality

The point of this chapter has essentially been to answer the question as to whether the New Labour economic regime problematised in any significant way the neoliberal political mentality and its taken for granted rendition of human agency. My position all along has been to suggest that it did not. In doing this I have shown how in many ways it was the New Labour Government that expanded the neoliberal focus on the economic into an assemblage of policies that 'cared about' other domains of the social. 'Caring about' however is not to be taken as being synonymous with a practice of rule that took the social world to be a domain in and of itself, with the state as arbiter for human interaction mediated by the social whole. Instead social or public policy sought both to empower individuals and at the same time make them responsible for themselves. Concurrently the voluntary and spontaneous assemblage of community would provide moral guidance. Likewise the use of certain Keynesian language does not necessarily mean that the practice of economic policy was Keynesian in the original sense of the word. Economic policy, as I have attempted to show, never gave a special place to manufacturing concerns (practically, if anything, the opposite). Consumer and entrepreneur were equally valid domains of aggregate expenditure. There were no unemployed worker-savers here in need of new government investment projects. The consumer as imagined by neoliberalism was not problematised, the imagined figure of the entrepreneur-of-the-self, with raised levels of indebtedness was consistently practiced as a positive reference point for economic policy.

Nonetheless somewhere along the line Government misidentified what people were doing. The deposit-run on the British bank Northern Rock and the near collapse of the British banking system in 2008, followed by its partial nationalisation, suggests that the build-up of liquidity (essentially money held in deposit accounts) and the rise in asset prices reflected, at the very least, a spill-over of supply side effects on the demand side. Put another way, it seems entirely reasonable to argue that whatever roles economic agents were performing in the British economy they were not necessarily conforming to the models of action held in the minds of policy makers. This era in Britain's economic history was not entirely performed by a class of entrepreneurs-of-the-self; policy makers had misidentified the population to be something that it was not. Thus Lawson was wrong to think the late 1980s boom was a one-off psychological adjustment to freedom; and I think it would be very difficult to argue that the policy practitioners of the New Labour regime were doing anything other than practicing an imagined figure of the consumer first practiced by the Thatcherites in the 1980s.

That said I am not suggesting that the neoliberal government and monetary authorities caused the recent global financial crisis or that governing for the consumer is the sole reason for one the worst financial crises in history. Quite rightly the IEA publication *Verdict on the Crash* (2009), provides a long list of various 'economic' causes of the crash, all of which played a role. There were, according to these authors, many factors that came together to create the conditions for systemic collapse such as flawed risk-modelling techniques associated with 'untested financial innovations', the remuneration structure of bankers that incentivised short term revenue growth, international banking regulations that allowed banks to set their own risk weighting, the regulation of capital rather than reserves, the 'capture' by investment banks of credit rating agencies and regulators, and mark-to-market (and 'to model') accounting principles, to name just some of these factors. In this IEA volume there is, however, as one would expect, an emphasis on the problems of moral hazard created by 'excess regulation'. There is also very little criticism of bankers themselves which has been found in some of the more left wing commentary.

Perhaps the most interesting essay in this volume is by Anna Schwartz (co-author with Friedman of *A Monetary History of the United States, 1867-1960*). In *Origins of the Financial Market Crisis of 2008* Schwartz blames the crisis on two key problems. Firstly, she argues that by waiting until 2004 to raise interest rates the Federal Reserve left monetary policy far too accommodating. As she says, "Greenspan claimed there was nothing he could do about it [the housing market bubble]...But there was no explanation as to why they could not have run a less expansive policy." Secondly Schwartz blamed the long-term proselytising of home ownership and finally, the way this proselytising was matched by changes made in 1992 to the way in which the United States Government guaranteed the debt of mortgage funding bodies such as Fannie Mae and Freddie Mac. Essentially, in a parallel fashion to financial liberalisation in Britain, these changes enabled a huge increase in the amount of wholesale funding that could be made available for home purchases in the United States; money could be created for consuming households in ways that previously it could not. Thus new customers (the so-called sub-prime borrowers) were able to enter the American housing market with funding provided by the use of new financial 'innovations' that had not been tested for their flaws.[69]

[69] Schwartz, A., (2009), *Origins of the Financial Market Crisis of 2008*, in Booth, P. et. al., (2009), pp. 45-9

Certainly I am not disputing Schwartz' account. Indeed in pointing to Greenspan's unwillingness to raise interest rates she is alluding to the same asymmetry (acting to limit the fall in asset prices, doing nothing to limit increasing asset prices) in monetary policy that I have discussed. Nonetheless in my account I have offered an explanation as to why there has been this asymmetry, why monetary authorities around the world were unable to recognise a bubble for what it was, a giant and unstable pyramid scheme fuelled by credit. Policies, such as the sale of local government housing into private ownership, suggest that the British Government actively marketed the notion of home ownership. Critically, house price rises and the availability of credit has clearly incentivised people to opt-in to ownership for fear of missing out on the gains. The financial system was changed so as to allow all demands for borrowing to be met, the fact that there was huge demand for finance was taken by the Government as a sign that the population had chosen to identify themselves as consumers, aspirational, adaptable and aligned to the mental habits of the enterprise culture. These signs were misidentified. The explanation for this is not necessarily that an ideology was 'thrust' upon the population at large, as Schwartz is suggesting (and as many others have argued), but that the Government practiced a form of human agency that it took, without question, to be representative of human behaviour in society at large.

However to reiterate, that the financial crisis far surpassed in severity any of the systemic issues raised by the boom and bust of the 1980s gives proof to the fact that there must have been far more at play than just a simple credit boom. At the very least this credit boom was writ large across society and societies everywhere; credit was being used to open new asset positions, from Asian exporters using dollar revenues to buy United States government debt (Ben Bernanke's 'savings glut') to a search for yield that led investment in trillions of dollars in geared bets on corporate solvency. New credit relations were infused into almost any gap available, leaving the financial system as a whole and its human agents vulnerable to sudden reverses brought about by an absence of new credit-money to support the already existing positions and assets prices that the previously created credit-money opened up in the first place. Governments were not capable of recognising behaviour as problematic, whatever the form of the wealth-owning unit, whether consumer, entrepreneur, business or investment bank.

All credit bubbles share common features: new ways to create credit-money that boost market prices allied to a belief that this time 'things are different', that valuations really do reflect reality. Likewise when the bubble bursts sections of society are invariably singled out for supposedly being inherently greedier than everyone else. However what gives recent history a certain rarefaction is the extent to which the vast majority of the population owned assets that were incorporated into the boom. The excesses of leverage, the expansion of balance sheets was not limited to City of London coffee houses or to isolated developments in local markets, or even to those who chose to invest their savings in stock markets. The point is that so much was financed by credit for so many. However, debt having become a central experience and component of economic life does not of course mean all human agents have become entrepreneurs (of whatever sort) or that a new classless society of portfolio managers has come into existence. Indeed, what has proved so dangerous is the unexpected side effects of neoliberal government policies, and an inability to recognise the need to act. Neoliberal Government thought that it had been successful in changing habits of thought: the danger lay in thinking that it had been the agent of change; that the political programme had succeeded; that the vision had been realised.

This is why in governmentality literature, government is considered dangerous and congenitally failing.[70] So often government fails to realise its vision of how people should conduct themselves; conduct invariably fails to be aligned to the human reference points taken for granted as really existing in the political rationality that it practices. Yet along the way, political practitioners can misidentify behaviour and come to believe that their project has been successful; that, as in this case, conduct has changed, that human agency has been aligned to conduct that is deemed both appropriate to the times and fundamentally 'rational'. In saying this I do not mean to suggest that Government is inherently wicked or bad; that it should 'give up'. I am not adding yet another voice to the list of those that Foucault believed suffered from "state phobia".[71] But Government must be careful and critically aware of its presuppositions, it must permanently unpack the reference points upon which it has come to rely.

Such is the task of genealogy itself, the task, that Foucault believed, updated the Enlightenment, reformatting Kant's challenge 'dare to know' for the current times. Foucault's challenge, one might say, is not to find out what it is possible to know, the conditions of possibility of knowing anything so as to launch a challenge on received wisdom and authority. Instead one must launch a permanent critique of man's relation to the present, man's historical being and constitution of the self as an

[70] Miller, P., and Rose, N., (2008), p. 35; Dean, M., (1999), pp. 198-207
[71] Foucault, M., (2008), p. 187

autonomous subject.[72] Perhaps it is too much to ask government to do this, especially given that government itself is a key player in the constitution and practice of historicised being. Yet this is in a sense what political rationalities do, at least in part, as they problematise other mentalities of rule, before they become too rigid themselves; ideology of a sort. Indeed to some degree this is exactly what Hayek was doing when he argued that a political rationality (progressive liberalism) was undoing much that had come into existence without rational reflection.

However mentalities of rule cannot help themselves but problematise from a vantage point, from their own reference points and, as I have argued, writers such as Hayek and Friedman, neoliberals at the IEA and CPS, and neoliberals in governments after 1979 persistently practiced their vantage point, that of the human agent as an enterprising consumer. When Foucault problematised, revolutionising the writing of history,[73] he required that there be no vantage point, no vision, no reference point, perhaps even no human agent, for to have a human agent is to define a human agent. But just like other forms of knowledge claiming to know the human subject, political rationalities do the opposite; government moves from one congealed assemblage of rule to another in no pre-determined order, bringing new conceptions of state, society, human being and freedom with them.

Liberal regimes in particular rate 'freedom' very highly, but we have to be careful when deploying the term. If we decide what it is to be free and ally that notion of freedom to outputs and results that acting freely will produce, then there is always the possibility of having to ensure that people practice their freedom in a certain way. Indeed one might attain 'freedom' by the state acting as a guarantor of economic security (say providing employment) but as Keynes realised only too clearly in his preface to the German edition of *The General Theory*, a positive freedom somewhere is a negative freedom somewhere else. For, as he says "the theory of output as a whole, which is what...[*The General Theory*]...purports to provide is much more easily adapted to the conditions of a totalitarian state."[74] Indeed perhaps it is a myth of liberalism generally to suggest that there is a distinction, as Isaiah Berlin drew it, between positive and negative freedom: classical liberalism sought to produce workers fit for duty, neoliberalism seeks to produce entrepreneurs of everyone, even consumers; no longer users-up of resources but individual human agents aspiring to enhance their human capital through their consumption purchases and the permanent reorganisation of their portfolios of assets.

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[72] Foucault, M., (1986), *What is Enlightenment?* In Foucault, M., and Rabinow, P., p. 42
[73] Veyne, P., (1997), pp. 147-81
[74] Keynes, J.M., (1973), p. xxvi

That is why liberal government is an art, the best practitioners of which are aware that there is always a balancing act, that there are non-freedoms embedded in the politics of freedom. In fact one has to wonder how compatible is freedom, as always undefined, with strong visionary politics? Electorates appear to want visionary politicians as if drawn to those that display a strong sense of intent with regards to the future; as if a sense of becoming is, as Heidegger claimed, the most vital sense of being, that which makes us feel most alive. Yet the allure of a strong vision for what it is that we should become is not necessarily the same as saying that we are able to be and want to be the willing accomplices of that vision. This is where the loss of freedom can begin.

Foucault referred in his lectures in 1979 to crises of governmentality, where an art of government becomes the victim of itself, of its own political rationality. This may be due to "an increase in the economic cost of the exercise of freedoms," for instance the cost of the welfare state or the costs associated with wealth lost due to collapsing asset markets and the defaulting of a multitude of borrowers. Alternatively a crisis might arise "due to the inflation of the compensatory mechanisms of freedom,"[75] for instance anti-monopoly legislation and the expansion of property rights can create a litigious straightjacket for all. Finally and most importantly for Foucault,

> "There are processes of clogging such that the mechanisms for producing freedom, precisely those that are called upon to manufacture this freedom, actually produce destructive effects which prevail over the freedom they are supposed to produce."[76]

For some the image of the consumer is liberating, the availability of credit provides the means through which possibilities are opened up and human capital is happily enhanced. Perhaps for others debt becomes burdensome, even ownership is not liberating but stressful and anxiety inducing; the requirement to borrow, invest and aspire felt more as pressure from without than as freedom from within; the inequality that society produces felt as a coercion to act, say to buy a house, where one would otherwise not. There are two perspectives, both of which can be compelling. Problematising the imagined figure of the consumer must take account of both.

[75] Foucault, M., (2008), pp. 68-9
[76] Ibid

Chapter 7: Conclusion, Problematising the Consumer

To begin this concluding chapter I want to run through some of the major themes of this thesis, outlining some my key arguments and the evidence that I have presented. The five substantive chapters essentially provide a history of neoliberalism in Britain since the late 1950s. But my history has not sought to identify how a group of like-minded liberals came to power or how the ideas of 'great men' filtered through a series of connections formed with the express purpose of changing Britain's political economy. Instead I have presented the discourse of all these authors whether found in the form of economic theory, policy pamphlets, or policy speeches as expressing content that is not original to any one of the individuals that I have cited. That is to say, their arguments and ideas have referenced a similar notion of the human agent, the consumer, who has remained the active agent in neoliberal discourse, practiced by each of the respective authors I have discussed.

The different permutations of the consumer that neoliberals have practiced, such as the sovereign consumer, the active consumer galvanised by choice on the high street, the agent of progress, or the entrepreneur-of-the-self are not necessarily identical. But even as there are differences, each concept represents references to the consumer that have been used in similar ways. Moreover these concepts have always represented so much more than the neoclassical notion that human beings are rational, have perfect foresight and have stable preferences. There is no doubt that the assumptions made in neoclassical economics are, as Frank Knight said back in 1921, entirely 'heroic' precisely because they are overly ambitious, and at the very least problematic in a world full of uncertainty about the future. No human being can be completely rational as if they know what they want now and in the future and can always seek it intelligently. Nor clearly is every member of society entirely independent. Changes on the supply-side of the economy, say in the provision of credit, can have an on-going effect on behaviour and desires on the demand side. But there is much more depth to the ways in which the consumer has been imagined in neoliberal political rationality.

The very activity of consumption, rather than just being seen as the end-point of the economic process, the moment that ascribes a price to a resource prior to that resource being used up, is recast as 'value-creating' and potentially transformative for the consumer. Transformative, that is, in a way that has economic consequences for the individual and the wealth of the nation. As Harris, Seldon and other early IEA authors in the late 1950s and early 1960s said, it is man as a consumer who would usher in the future, who would enable the second industrial revolution. In this view, focusing government policy on increasing the production of capital goods rather than consumer goods, would continue to inhibit consumers from judging the output of British business, and would perpetuate an environment which failed to galvanise consumers to want to be more productive so as to be able to consume and own more. Finally from increased ownership would come increased responsibility, the desire to better oneself and to be able to use more resources so as to better plan and direct one's own life. As far as IEA authors were concerned, consumers should be free to be advertised to, free to consume financial services, and free to invest in goods that would have a useful economic life extending into the future.

Consumption has been viewed as a process that can change the consumer. It is in the market place that prices are attached to goods; but critically, at the same time, the active consumer, by consuming, is assumed to develop habits of thought that have been deemed to be commensurate with progress and development. Perhaps it was not until the 1980s that neoliberals fully practiced the figure of the consumer as an entrepreneur-of-the-self, using debt (consuming financial services) to reorganise his or her balance sheet with physical and non-physical assets, always gearing consumption to the production of self-worth and human capital. Nevertheless, whether sovereign consumer or entrepreneur-of-the-self, it was assumed that consumption was far more than a habit, it was enterprising and, in the right circumstances, properly freed from government control, it could create an enterprising mind.

Whatever its guise, the consumer could always be used as a means through which to bring into question Keynesianism or progressive liberalism. As I have shown, the figure of the consumer could be used to problematise both economic theories of consumption and money and specific British industries in the 1950s and 1960s: from the provision of milk to the provision of financial services. Additionally of course macroeconomic issues were at stake. Demand management, indicative planning, the assumption that government investment would be multiplied through the economy to create jobs and the notion that government could make companies more efficient and competitive vis-à-vis foreign competitors were all policies that were viewed as anti-consumer and therefore entirely problematic. These were policies that for the IEA authors were doomed to failure because they assumed that consumers had habitual spending and saving patterns, were not willing to borrow to smooth their cash flows over time and would not hedge against government inflationism. Moreover, for these authors, only the consumer could ensure competition for producers. Competition was a process that meant nothing without the consumer. However large, however seemingly dominant the business corporation, IEA authors saw the sovereign consumer as more powerful, always able to turn against a producer if they were not satisfied with the product on offer. Consumers would be in charge so long as the government did not act in such a way as to deny them a choice.

So to reiterate a point made earlier, one aim of this thesis has been to show that there is in fact more to be said about neoliberalism than that it champions the free market. Certain strands of positive economics may appear naïve to other social scientists who concentrate on providing 'thick' descriptions of human motivations, meaning-making and institution building (within which it is argued that markets are embedded)[1], but to criticise the 'simplicity' of economic models is to some extent missing the point. Neoliberalism and the very possibility of a governing mentality informed by economics relied upon a style of economic thinking in which the consumer was thought of in ontological terms. It was only in this post-Keynesian economic discourse that the consumer was given a sense of being, existing through time rather than just operating at disconnected points in time, using up resources as markets cleared. Thus ridiculing the neoclassical assumptions of perfect competition, I would suggest, provides little basis through which to problematise the neoliberal figure of the consumer. This figure of the consumer, imagined as he or she may be, exhibited certain habits of thought through time that were specific, governable for and, moreover, have successfully appealed to significant proportions of the electorate, not just in Britain, but across the world.

However, the above only relates part of the narrative I have provided in this thesis. In particular throughout I have aimed to stress the emergence of a problem for neoliberals; a tension, one might say, between identifying the consumer as a natural and proper agent in the economy and the recognition that not enough people in British society were prioritising their consumer instincts. The failed monetary experiments and the experience of inflation in the 1970s pointed the New Right towards identifying habits of thought in society at large, particularly prominent in trade unions, that needed changing, or for those that refused to change, marginalising. This realisation provided the backdrop not only in which the CPS, in the late 1970s, put together a programme for governing, but also for actual government of the economy after 1979. This political rationality made a distinction

[1] See for example the critiques of economics often made by economic sociologists such as Granovetter (1985) and Zukin and DiMaggio (1990), pp. 1-23.

between psychological propensities that were progressive and regressive, and between economic action that passed through the siphon of the market and action that did not, remaining forever unmarketed and thus unproductive.

Nonetheless, even as workers and unionists were being identified as having an inflationary and anti-consumer psychology, the New Right were no longer seeing this behaviour simply as the 'knowing' job protection strategies of monopoly suppliers of labour but as conduct created in past circumstances, perhaps suitable for the working conditions of the nineteenth century. These workers, so the New Right believed, needed to be 'set free' from the belief that their freedom was experienced through the solidarity of the union and society as actualised through the state. On the one hand being set free would involve allowing the population to consume financial services in order to build balance sheets that would better enable them to maximise the value of their human capital, whether contained in physical or non-physical assets. On the other hand and at the same time the Government of the early 1980s would need to become the agent of creative destruction in the economy: limiting money supply to those in the private sector who had lost sight of their entrepreneurialism and to those in the public sector who, they believed, were misguided about their role in the economy and had failed to understand that value is created by consumers and entrepreneurs.

The New Right came to embrace the notion that there was a 'British disease' and their genealogy of crisis attempted to explain it through two distinct discursive strategies. Firstly specific Keynesian policies were blamed for holding back the development of a consumer mentality and for maintaining worker-saver habits of thought. Deemed particularly problematic were policies that controlled prices, incomes and levels of output and policies that maintained tight control over the operation of the financial system, prioritising the government's need to raise finance over consumer demand for credit. Secondly, there was the argument that these attitudes were anachronistic, out of keeping with a new world of affluence, in which many now had more money and were able and willing to consume more durable goods and services, that would previously have been too expensive. Both these narratives, but particularly the latter, came to recognise that habits of thought, that is the ways in which human beings interpret the world about them and conduct a meaningful existence, are historically contingent. This went somewhat against the prevailing liberal tradition that tended to naturalise the human agents of economic and political theory.

I do not mean to say by this that neoliberals necessarily thought that people had somehow become more rational (although human beings might get more adept at following trails of cause and effect in certain domains of action if following such trails become a more dominant part of everyday experience[2]); rather that what people take to be part and parcel of constructing a meaningful and free life changes through time. What appears obvious in one time might appear strange in another. Thus the belief that freedom comes from economic security, that security is to found in a certain kind of human interdependency called 'society' and that society can be activated by the state might appear obvious at one time only to be questioned in another. In problematising social liberalism or welfarism, a political rationality was practiced that did not only govern for consumer sovereignty but also accepted the tenet that government had a role to play in producing the human objects of a progressive economy, i.e. that the government had to elicit and foster the modern consumer. So during a critical ten-year period, roughly from 1975 to 1985, the New Right spoke about and enacted policies that both referenced the consumer as the natural and proper agent of the modern economy while also explicitly identifying that government ahad to create conduct that matched this imagined figure of the consumer.

All this, I would suggest, has much in common with the argument of Ian Hacking in his paper *Making up People* (1986). Referring to the constitution of subjects in knowledge (the example he gives is homosexuals and heterosexuals), he states that

> "The claim…is not that there was a kind of person who came increasingly to be recognised by bureaucrats or by students of human nature but rather that a kind of person came into being at the same time as the kind itself was being invented. In some cases, that is, our classification and our classes conspire to emerge hand in hand, each egging the other on…Who we are is not only what we did do, and will do but also what we might have done and may do. Making up people changes the space of possibilities of personhood…By and large what I am deliberately doing depends on the possibilities of description."[3]

By always being focused on the consumer, the New Right were, from their inception, identifying in their discourse a new subjectivity that was emerging in society at large, no longer limited to the rich few: the consumer, not someone who consumes merely to exist or someone who follows habits formed over a lifetime, but a new active agent, the sovereign force in the economy, acting on instincts of adaptability and change. This does not necessarily imply that the agent in discourse precisely

[2] Max Weber, for instance, certainly took this to be true as far back as 1908 when he wrote, "under today's conditions of existence the approximation of reality to the theoretical propositions of economics has been a constantly increasing one." (Weber, M., (1975), p. 33)
[3] Hacking, I., (1999), pp. 165-6

mirrored the consumer that had come to exist. In assuming that the consumer 'out there' was identical to the agent in the minds of neoliberals, and by enacting policies that governed for this figure, government was also changing and altering possibilities for people's activities and how they might think about themselves. In particular I have focused on the role that credit played in economic policy, the way that credit data was interpreted in government and the increase in debt that has been experienced by many. This, as I argued at the end of the last chapter, raises significant questions about the extent to which a liberal politics of freedom can, through the rolling out of its own rationality, bring into question its own functioning and its status as a project that promotes freedom.

Government is clearly a key institutional site whose activities can have a great impact on those that are governed. And this raises dangers if its way of typifying the norms of conduct of those that it governs becomes all too distant from the thoughts and actions of those human agents. It is likely that a political vision, if it is to gain electoral acceptance, must offer something that connects and articulates it with conduct that exists in society at large. But this does not imply that the reading and interpreting of human conduct is accurate or remains accurate as government transforms and responds to the vagaries of the situations it encounters. I think it right to argue that a political vision in liberal society must at some point be grounded in the realities of life as experienced by those who are governed. However, the same political vision often misinterprets and misidentifies aspects of that experience, getting ahead of itself so to speak; thinking that it has successfully transformed the world when it has not.

Highlighting the failure to make the world appear as it has been represented in thought does not however mean that the government should work harder to achieve its goals, to make the world conform to the way it is being thought of. Instead in problematising the consumer, by constructing a genealogy of the indebted consumer, I have attempted both to demonstrate the historical contingency of political thought and to suggest that the figure of the consumer as imagined in neoliberalism always exceeded reality and, as such, had the potential to limit the freedom of some whilst freeing others. The past thirty years of British economic history suggests it is problematic to think that a society can be established in which each and every consumer or household consuming unit can establish a portfolio of assets with the use of credit that maximises human capital over a life time, in isolation and without affecting the behaviour of others.

In making this statement I am not simply reasserting an older role of government, as if freedom should again be understood as arising out of the state's provision of economic security, as if the guarantee of employment is the mainstay of freedom whatever the costs elsewhere of operating such a policy. This older style of governing was relevant to the world of Keynes and the Great Depression, and its emergence was perhaps best described by Karl Polanyi in *The Great Transformation* (1944). Society for Polanyi "came to protect itself against the perils inherent in a self-regulating market system"[4] which sought to subordinate all social organisation, with its traditional bonds and inter-personal responsibilities and duties to the 'fictitious' capitals of labour, land and money. Opposing Hayek's argument in *The Road to Serfdom*, that liberalism collapsed into depression, war and fascism because it was never allowed to operate unfettered from social concerns (and concomitant interference), Polanyi argued that it was simply impossible to think that human beings would ever allow their humanity to be permanently redefined and re-moulded as no more than labour. Classical liberalism was so focused on production and the role of the entrepreneur, so involved with producing labour in order that capitalists could be free to produce, that the experience for labourers became untenable. Instead, and as Veblen had already recognised in 1894, new habits of thought had arisen in which there was a general conviction that society owed every honest man a living: "so instead of life, liberty and the pursuit of happiness, we have life, liberty and the means of happiness;"[5] the security that came with the "means" being guaranteed by government.

Polanyi's historical narrative sought to confirm the inherent impossibility of establishing a pure *laissez-faire* regime not because of the inherent contradictions in the capitalist process *per se* (as the later 'scientific' Marx had tried to do) but by arguing that there were many in society as a whole (no doubt including Marx) who had correctly recognised the intolerable position that the classical liberal regime had created for labour. And it would be wholly wrong to think that the liberal tradition would not respond to this, setting out to refashion capitalism in a way that would make it sustainable. This new capitalism, neoliberalism, would be post-Keynesian, in that it would give much more prominence to consumption practices; but most importantly it would re-cast the human agents, no longer just 'labour', but as entrepreneurs in their own right. No dehumanising of the worker in production based capitalism, but an exaltation of the consumer in a classless consumption based capitalism. Clearly the market system still relied on each individual selling his or her

[4] Polanyi, K., (2001), p. 80

[5] Veblen, T., (1994), pp. 97-100. Veblen was of course paraphrasing from the American Declaration of Independence.

labour; but each provider of labour was actually a site of human capital. The project of the self was to maximise that human capital. Society was not subordinated to fictitious circulating capitals but instead composed of individuals maximising their human capital with money, freed from its link to gold, made available for all enterprising endeavours. Government's new role would be to facilitate and enable human agents to behave this way and to foster conduct, that is attitudes and aspirations, associated with this way of thinking. This neither meant a return to nineteenth century *laissez-faire* nor can it be denied that, however problematic, there was a distinct democratic intent in this new capitalism: entrepreneurialism for the many not the few. Nonetheless this new form of liberal government concerned itself with conducting the conduct of those that were governed, with all the positive and negative consequences that followed.

7.1 Relying on others: setting the limits of possibility for neoliberalism

In a sense the narrative of this thesis forms part of a larger question that government and economists alike have asked since the time of Adam Smith: 'what counts as productive?' The question asks what kind of human activity reproduces itself, that is creates the possibilities for fulfilling human desire; and as Foucault told us in *The Order of Things* (1966) it presupposes that we first recognise a living human being as a point of reference for knowledge and value instead of trying to explain that which comes into the purview of man as the representations and signs of God.[6] Thus for the late pre-moderns, such as the Physiocrats of 1770s France, the only human activity that was productive was farming the land because only the land, provided by God, afforded a natural surplus that could then be exchanged through the population providing food for his landlord and manufacturers in the towns. The latter class were however 'sterile': what they produced could be exchanged but did not afford a natural surplus that provided sustenance for the population at large. Man on his own was not productive; only God or nature produced a surplus for all to reproduce themselves.

Writers such as Smith, Malthus and Ricardo incorporated into political economy the knowledge that human production in and of itself was the source of value, not God. Labour created the surplus, not nature, and labour created value could equally be embodied in manufactured goods as it could be in agricultural products. Labour was the real measure of the exchangeable value of all commodities, but only so long as labour could be congealed into something physical was it productive; the labour

[6] "Before the end of the eighteenth century, man did not exist – any more than the potency of life, the fecundity of labour...He is quite a recent creature, which the demiurge of knowledge fabricated with its own hands less than two hundred years ago." (Foucault, M., (2002), p. 336)

of "churchmen, lawyers, physicians, men of letter of all kinds" was unproductive precisely because the work of all of them perished the very instant of its production.[7] For Marx, every bit the nineteenth century political economist, productive labour that created value was variable capital to be contrasted with the constant capital of machines: it was because the proportion of variable capital decreased in the production process that value in exchange declined threatening the very existence of capitalism. Finally for Mill consumption always used up resources, depleting the value created by entrepreneurs. Value only originated in the production.

Marginalism was an early stage in a transformation in which consumption practices would come to be thought of by economists as productive. The point of exchange was no longer a moment representing the equivalence of commodities (into which labour had been congealed) but one of difference in which, by exchanging, the two parties to the exchange could each increase their stock of utility. And in time, once the consumer was imagined as having a sense of existence and being, neoliberal economics came to see consumption practices as productive: both of the consumer and of an asset (physical or otherwise) that would provide some kind of future revenue stream. The march of what counts as productive passed from the objective to the subjective, from production to consumption, from physical to ethereal, never putting into question, never problematising the central actor, the central epistemological figure, the living human being as value-creator. On the contrary, the point if anything was to marvel at how clever we had become, recognising the inherent productivity of everything we do, enhancing human capital all the time.

Is it time to call a retreat? Might not the recent past, as outlined in this thesis, have falsified the idea that all that is consumed is productive, that consumers maybe do things for reasons that are not connected to their supposed aspirations, the maximisation of revenue over the lifetime, and the construction of an appropriate portfolio? Perhaps people borrow because the money is there to be borrowed, because banks have suddenly made more money available through an overdraft or by offering a customer a credit card? Perhaps, rather like the way Frank Knight characterised savers, people also spend for no particular reason; consuming, as Keynes said, is a habit, and we can get into the habit of consuming with all the monetary resources available to us. If so, can this consumption always be called productive? Is it ever wasteful?

[7] Smith, A., (1991), pp. 36, 271

How might a neoliberal answer this charge? What would Hayek and Friedman say about the crisis of debt while continuing to practice their political rationality? Thus in the remainder of this section I want to suggest how Hayek and Friedman would have answered this question and at the same time give my response to them. In so doing I am going to argue that the imagined figure of the consumer-as-entrepreneur will always remain problematic and that this object of political knowledge cannot be produced by government. To begin with therefore I want to offer the suggestion of the possibility that the real governmental problem is that we have never been neoliberal enough; that government never finished the task, so to speak, of ensuring that the population practiced conduct required for consumption to always be productive. That is to say, that government never ensured that money was only ever a "part of the self-steering mechanism by which individuals are constantly induced to adjust their activities to circumstances on which they have information only through abstract signals of prices."[8] Thus there was only ever a society of part-entrepreneurs because consumers were never forced to take responsibility, as nineteenth century entrepreneurs supposedly had, for the security of their money holdings.

The argument would go that in a free society human agents make choices over all their spending decisions and there is no guarantee from vendors (from health providers to fashion designers) that the goods and services bought actually deliver the (human) capital enhancement that the buyer had in mind. Why should it be different for the consumption of money, that is with decisions over where to deposit it, how to invest it and when to borrow it? Moreover, in this line of argument, by making money different from all the other items in the personal balance sheet, other spending decisions are skewed. Excess debt, excess spending, inflation (both of assets and on the high street) is the result, so this argument goes, of a lax attitude towards money, a lack of due regard for its security that enables some to borrow too much because others are happy to accept the money that was created by the banks for the borrower, with no questions asked, often just leaving it on deposit, sure in the knowledge that it is insured by government.

This is of course an argument about moral hazard, the idea that if a government bails out the depositors, returning their savings to them when a bank goes bust, there will be no incentive for people to change their behaviour in the future. And banishing the very possibility of moral hazard is essentially how neoliberals have dreamed of completing the political project, making full, not part, entrepreneurs of those that are

[8] Hayek, F., and IEA, (1976) p. 80

governed. It is the dream of reason (that is, consumer's reason) implicit in the Utopian monetary schemes of Friedman and Hayek, as laid out in *A Program for Monetary Stability* (1965) and *The Denationalisation of Money* (1976) respectively. Both schemes for the reorganisation of money, though very different operationally, aimed to de-socialise money and ensure, to quote Friedman, that "individual choices...should have no influence on the stock of money."[9] Both aimed to establish the conditions of 100% reserve money. This was enabled in Friedman's scheme by forcing all banks to buy reserves from the government first before being able to lend, and in Hayek's scheme by removing the government's monopoly over notes and coins, making banks compete for consumers to use their currency, thus incentivising consumers to insist that there are always reserves from which they can redeem their money. In very different ways the point was simply to ensure that society "would apply the same policy to deposits that we have applied to currency."[10]

Why would 100% reserve money mean that money had finally been de-socialised? Because in the present system holders of deposits share a right to convert their deposits into a much smaller amounts of notes and coins, as notes and coins (and private banks' deposits held at the central bank) account for less than 5% of broad money supply in Britain. It is because private banks can create deposits endogenously that can be spent as money, that far more deposits are owned than exist in notes and coins (exogenous money) and thus, effectively, owners of deposits duplicate their potential claims on notes and coins in circulation. This is where moral hazard supposedly arises in the monetary system which Hayek and Friedman were each trying to bring to an end: 100% reserve money would mean no duplicate ownership of notes and coins, each deposit would be represented by its own reserve. In this arrangement a bad loan in the system could not have a knock-on effect elsewhere, undermining confidence in a bank and causing it to collapse in a run, leading to losses for 'good' depositors. No longer would the government have to step in to rescue good depositors and in the process also rescue 'bad' ones. De-socialising money would force each and every member of the population, as an entrepreneur and consumer of money, to take personal responsibility for his or her own, ensuring either that savings were warehoused securely (for an appropriate fee) or allocated to a financial intermediary offering consumers a choice of investments, none of which would have government insurance. There would be no recourse to government if a bank made bad lending decisions with a consumer's deposits.

[9] Friedman, M., (1965), p. 68
[10] Ibid., p. 66

So the neoliberal retort to my allegation that neoliberals misidentified the consumer is that monetary arrangements were responsible for letting moral hazard out of the proverbial bag. By guaranteeing money, consumers were only ever partially entrepreneurial because it was never ensured by government that all decisions (including those regarding money) had to be thought of as investments made by the self, with regards to the self, and with responsibility residing with the self. The way forward for neoliberalism in this view would therefore be to intensify, to close off the possibility of moral hazard and foster a society where everyone's habits of thought no longer needed government to provide security. Everyone would know how to properly exercise their freedom.

Of course one might certainly argue that de-socialising money would create precisely the kind of uncertainty that led to the excess savings that Keynes was so worried about, especially given the difficulty of trying to get everyone to understand the system in the first place. However I want to argue something different, that if, as these monetary schemes suggest, being fully neoliberal means that everyone is a complete entrepreneur responsible for all their economic decisions (and all their decisions have an economic investment aspect to them), then even these monetary schemes do not go far enough. The hazard will always remain that we fail to adopt the morality of a person who is knowingly fully responsible for his or her economic agency. Indeed how can most individuals be fully responsible for activity in a modern economy, where the division of labour also requires a division of responsibility? Can individual employees truly claim that they are completely responsible for their income? Of course every employee is responsible for ensuring that they fulfil the requirements of their particular employment contract, but ultimately the security of income is dependent on decisions and events that go far beyond each individual person's function in any one organisation. If one followed the logic of responsibilisation to its ultimate conclusion then surely the ultimate moral hazard is that individuals take on debt, for which they have responsibility to repay, and yet at the same time rely on income streams to pay off that debt, for which they have less responsibility and control. One can only speculate over the levels of anxiety and concomitant sense of lost freedom that would be created by a society that somehow succeeded in stripping away a generalised economic reliance on others.

So to recap, my argument is that the economic concept of 'productive' output of human practice has changed over the past two hundred years, marked by an increasing identification of consumption practices as productive in their own right.

And the practice of governing the economy has involved the same translation of the term productive, most recently evidenced by a neoliberal mentality that has taken for granted that all consumption practices can be productive. While this latest turn has run up against crises, there remains a challenge that the 'real' cause of crisis was the moral hazard that came from governmental provision of security for money created in the banking system, thus releasing depositors from the need to view the holding of money as every bit a vital investment decision as any other consumption decision. I am not saying that the Utopian monetary schemes of Hayek and Friedman have necessarily been taken seriously, but that these schemes illuminate the entrepreneur-of-the-self, the imagined figure that represents the single class of human agents in society, as a being who is not reliant on others for economic security, especially not on the government. It is hoped instead that an economic agent can be forged that makes decisions on price signals alone which have not been skewed by the mispricing that necessarily results from relying on others without first fully pricing that reliance.

In response I am arguing that the very structure of the modern economy disbars the possibility of non-reliance. Industrial integration has advanced far beyond the point at which most people can truly claim to have complete responsibility for income. What limits uncertainty, enabling people to take on debt without the dread of the unknown future, is precisely a reliance on unknown others which has become the mainstay of modern habits of thought. There is a contradiction between the personal responsibility for debt and the un-personal responsibility for the income to repay that debt: it is not that by becoming a bad debtor, borrowers suddenly reveal themselves as having been immoral, it is that the necessary reliance on others means that one can never make the kind of assessments of risk suggested by those who allege crimes against moral hazard.

De-socialising money cannot undo the basic social fact that society depends on interconnectedness and reliance. It is a pipe-dream and wishful thought that once dispelled, I would argue sets limits on the possibilities of neoliberalism. That, as Veblen argued in 1894, "advancing industrial organisation has gone far enough to obtrude itself as a vital fact upon the consciousness of an appreciable fraction of the country"[11] suggests, at least in the way I have argued it, that the dream of making everyone an entrepreneur-of-the-self, the dream that is of making everyone see that their consumption decisions belong to a single function called wealth made up of human and non-human capital, has reached its limits. Instead economics, wherever

[11] Veblen, T., (1994), p. 103

practiced, in government, think tanks or universities needs to step back from the brink and fundamentally reconsider and problematise the precepts of the consumer.

7.2 Problematising consumption

An argument that problematises the consumer is certainly not an argument relevant to the nineteenth century. Arguing against classical liberalism Karl Polanyi (1944) made the case that workers suffered a brutal experience due to being reduced to nothing more than labour; produced wherever possible so those endowed with special entrepreneurial talents could always be free to increase the nation's stock of fixed capital. Against this world, Polanyi argued, there was an inevitable backlash from society; liberalism was undone by its own de-humanising effects. I am not suggesting that neoliberalism will suffer a similar fate. All the same I am arguing that the notion of the human agent as a site of human capital is similarly fictitious because the realities of economic existence and the diffusion of responsibility forever limit the possibilities of Utopian neoliberalism; one cannot hope to remove a generalised reliance on the unknown other.

In a sense then Utopian neoliberalism may never have governed the British economy but it was governed by 'real existing neoliberalism' all the same. To say that the very existence of a central bank is 'socialism', as some of the more libertarian persuasion do, is tantamount to saying that any reliance on an unknown other is also socialism, that almost everyone who works in a large organisation is operating in a socialist world. Instead, rather than suggesting that the governors of the British economy since 1979 have actually been socialists I would argue that all that is possible has been done to govern for an imagined figure of the consumer as entrepreneur-of-the-self. Thus I stand by the evidence presented in this thesis that government sought to act so as to foster conduct of an economic agent that was deemed to be the natural correlate of the modern economy, and that in government, it took the persistence of low high street inflation as the sign that it had been successful.

Nor, as I have said, am I arguing that there has not been a genuine democratic intent in the practice of neoliberal government. The experience of the contemporary British economy is clearly far less brutal than for many in the nineteenth century. However for some the experience of debt is ensnaring and for some debt has no doubt been foisted upon them by the heavy-handed marketing techniques of salesman, remunerated only by 'top-line' revenue growth. However, that asset inflation has created an even starker division between the 'asset-heavy' and 'asset-light' is not in dispute, at least not here, but I believe it would be wrong to suggest that such an outcome was intentional. Clearly I am not arguing that the fundamental reference point of this mentality of rule is just another layer that needs to be peeled back to find that the real cause of everything is class warfare. Neoliberalism took up the challenge laid down by Max Weber and later Joseph Schumpeter (perhaps with a lineage to Nietzsche's disparaging of the masses) to fight the tide of bureaucracy and routinisation and to attempt to activate an entrepreneurial spirit which it was believed lay dormant in everyone.[12] Modernity stripped people of the ability to know everything, to be, as Weber put it, satiated with life.[13] Instead the division of labour dispersed knowledge, forcing interdependence and reliance on everyone. Neoliberalism's hope is that this interdependence and reliance can be overcome through the perfect operation of a price mechanism, attempting to give everyone the opportunity to be an entrepreneur.

I have argued that this dream is set against some very tough obstacles. However, in the final part of this conclusion I want to make a further point, to argue that the neoliberal model of creativity brings with it a degree of one-dimensionality that always raises the danger of crowding out other sources of creativity. I do not mean in any way to suggest that incentives are not important to entrepreneurs or that government is better at planning innovations and creativity. All the same one needs to be very clear in suggesting what entrepreneurial creativity is and what it is not. One should not forget the Schumpeterian distinction between innovation and invention: innovation is part of what entrepreneurs do, taking inventions and making them appeal to consumers. As such inventions made in one particular context become circulated into an entirely different context. Innovation is just as important as invention in improving standards of living, and clearly holding the consumer in mind is an essential ingredient of the discovery process of the entrepreneur. But do scientists and inventors always hold the consumer in mind? Or to put this a different way, is the creative process always best served by asking how quickly it can be brought to market?

This is certainly not the place to go into the realities of scientific practice but one cannot help but have the suspicion that the kind of phenomenology of the discovery process that is described in the Austrian tradition of economics, while successfully alerting us to the impossibility of formalising the process of creativity in neoclassical equilibrium analysis just substitutes one closed mindedness for another. Hayek was certainly right to say that we cannot mathematically calculate all the economic inputs

[12] Foucault, M., (2008), pp. 177-8
[13] A phrase taken from Max Weber's essay *Science as a Vocation* (Weber, M., 1948, pp. 140-1)

and outputs required to produce a consistent amount of economic growth because this calculation relies on us knowing the future, which we do not. He would of course say that these variables get produced through the economic process of discovery itself. But however, I would rather argue that the inputs and outputs of the economic system get produced during the passage of time. To circulate a reference from Bruno Latour's work on science[14] into the realm of economics, a phenomenology of economic discovery (the reasoned account of how entrepreneurial discovery becomes manifest to the human mind) makes us think that the subject-object epistemological divide has been overcome by reducing everything to an analysis of human intent, i.e. consciousness directed to something, say the consumer. But there is a risk here of simply moving the neoclassical 'black box' from a set of equations into the mind. There is a risk that in making everything mediated by price signals, all creativity gets subsumed within the category of entrepreneurial creativity.

Economic growth is served admirably by entrepreneurial innovation; but innovation is, as I have said, only one half the story, the application of science and technology. That other process of discovery, technical creativity, cannot be subsumed into the Austrian description of discovery, to do so closes off avenues of possibility; in particular the on-going complicated and messy process of tinkering in which engineers of all sorts engage, that only later makes possible entrepreneurial activity in the innovative world of the market; yet which did not necessarily originate from holding the consumer in mind, that is with intention immediately directed towards retail outlets on the high street. Indeed it is only once this category error in Austrian thinking is realised that one can make sense of Hayek's comments, published by the IEA in 1972 in *Tiger by the Tail* where he suggested that post-1945 inflationism and wage rigidity could have led to a decline in incomes were it not for the "rapid advance of technology and the relatively high level of capital formation to which we have become accustomed."[15] But to say that Keynesianism or inflationism was 'bailed out' by technology which made 'real' capital accumulation possible is to ignore the possibility that 'inflationism' was in fact funding provided for scientists to do their work, to be creative in ways that turned out positively. One certainly takes an inflationary risk by funding 'pure' research done not necessarily with the generalised consumer in mind; nonetheless to get lucky, to be 'bailed out', is not to say that entrepreneurs provided growth despite price signals being distorted by relative price movements caused by Keynesian inflationism; but to say that the

[14] See Latour, B., (1999), *Pandora's Hope*
[15] Hayek, F., and Shenoy, S., (1972), p. 110

craftsmanship of certain kinds of producers, conducted as an end in itself, was able to provide something that only later entrepreneurs could utilise for another end in itself, the consumer.

Neoliberalism is forever suspicious about government motives for creating new money and it invariably points to the harmful effects of inflation such as the distortion of decisions made by consumers and entrepreneurs. The only way to guard against this, so the theory goes, is to ensure as best as possible that the motivations for monetary creation are as entrepreneurial as possible, geared towards satisfying the consumer, whether that be someone else, or oneself as a site of investment. Government, it is thought, is somewhat incapable of working with the consumer in mind, because it is supposedly constituted by individuals whose ultimate goal is re-election. The result of this, as this thesis has attempted to demonstrate, is that government has restricted itself, never allowing itself to problematise consumption or the consumer. So long as it was assumed that society was composed of economic agents practicing habits of thought that brought the consumer to the forefront then policy makers could never definitively deny that new money was part of the process of adding to the nation's stock of capital, human or otherwise.

Conversely state ownership and state use of money became categorised as unproductive and therefore often inflationary. Moreover it was argued that to appropriate funds from the productive zone of the economy would necessarily be coercive. But of course this mentality practices a phenomenology of freedom in which freedom is always defined as an experience that becomes manifest in the expression of choice in the marketplace. The idea that freedom can come from government provision of security was thoroughly problematised. And certainly one might say that in principle Keynes offered a less democratic and free account of society, one in which he appeared to downplay the potentiality for humans to construct long term plans for themselves beyond habitual and customary practices. Perhaps the social mentality of rule overly discounted the potential for higher incomes to enhance the consumption experience. But what was important for Keynesianism was not maximizing the possibilities for free consumption in the market place but instead "deliberately controlling and directing economic forces in the interests of social justice and social stability."[16]

[16] Keynes, J., (1963), p. 335

However, the historical experience of neoliberal government, the fact that behaviour has not overlapped with the human agent of the political *savoir* (and one cannot assume that it ever will) opens the possibility for letting other considerations enter into the decisions regarding how to govern the economy. If governing for the consumer does not allow for the possibility of recognising the emergence of boom and bust or the problematic status of debt then policy makers should look beyond economics itself. Might not some of the perspectives of social democracy be worth reactivating? Neoliberalism often fails, for instance, to view relative inequality as a cause of social pathology, but instead views it as an information-exchange between consumers. It functions, as Hayek suggested, to allow rich consumers to test goods for everyone else, providing information to entrepreneurs as to whether it is worth further investment in order to bring down production costs.[17] Yet at what point do rising prices incentivise a will to accumulate that which would otherwise not have been present and, when combined with the necessary banking innovations to meet the new demand for credit, limits the ability of others to participate, consigning them to being onlookers: forever the 'asset-light'? Neoliberalism often appears to miss the point of this question and fails to take stock of the relatively dispossessed. Instead one could look to a reactivated government, respectful of individual plans and desires of consumers but also concerned with issues of social justice. Not always-already incapacitated because theory can never definitively call an asset over-priced, but able to intervene because the social consequences of inequality have become all too apparent. Rather than assuming that government is best analysed as if it were a self-interested actor, might it not be better to assume that it can be benign, that it can act as a forum for governing all aspects of the economy as a social space of interaction in which reliance and inter-subjectivity is accepted as a reality not always thought of as a wellspring of socialism?

Indeed the art of liberal government is not necessarily best practiced as paranoia, as a permanent "state phobia"[18] to use Foucault's words, as if government intervention automatically destroys the possibilities for improved economic wellbeing. To make this case invariably implies that all creativity that gives rise to more consumption is only ever entrepreneurial creativity, as if there is no role for anything else. But there is no iron-cast law that links money supply and the rate of interest; nor a law that links money supply to inflation, nor one that links interest rates, money supply and economic growth. Likewise, there is no law that describes the ratio of capital investment to economic growth. On the one hand history probably suggests that

[17] Hayek, F., (2006), pp. 41-8
[18] Foucault, M., (2008), p. 191

where there is an advanced division of labour and of responsibility, entrepreneurial discovery does a good job of circulating ideas and references from outside the purely economic zone into places in which consumers can appreciate new desires that they may not have previously experienced. On the other hand entrepreneurial activity, especially in its more foundational embodiment in the consumer, is not the only form of creativity or sign of progress.

One can have respect for production for production's sake, without assuming that unless it is intended to immediately satiate a consumer desire it is always going to create money and thus inflation because there is no value or resource for it to be matched against. There is nothing to assume that the interests of production should always be subordinated to consumption; perhaps there are periods (however short) when it makes some kind of sense to reverse this hierarchy, not just in the Keynesian sense of combating deflation and putting more money into the economy, but in the sense that there is genuine value to be found in labour as research and production, funded not by consumers on the high street and thus not necessarily and immediately focused on commercial ends. There is nothing to suggest that such endeavours will necessarily lead down a road to coercion and less freedom; although it might well imply that consumers have less to choose from, here in the present. What the future might bring from these endeavours is of course impossible to predict.

Appendix: Primary sources

Institute of Economic Affairs Publications

Harris, R & Seldon, A	1958	Hire purchase in a free society
Harris, R & Seldon, A	1959	Advertising in a free society
Powell, J	1960	Saving in a free society
McRae, N	1960	To Let?
Seldon, A (ed)	1960	Not unanimous
Morgan, E	*1960*	*Money in theory*
Henderson, R	*1960*	*Money in practice*
Paish, F	*1960*	*Government Policy and Investment*
King, W	*1960*	*The banking mechanism*
Hobson, O	*1960*	*The conduct of monetary policy*
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Clark, C	1961	Growthmanship
Lees, D	1961	Health through choice
Harris, R & Seldon, A	1962	Advertising and the public
Hallett, G & James, G	1963	Farming for consumers
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Fulop, C	1967	Consumers in the market
Polanyi, G	1967	Planning in Britain: the experience of the 1960s
Walters, A	1969	Money in boom and slump
Leijonhufvud, A	1969	Keynes and the classics
Friedman, M	1970	The counter-revolution in monetary theory
Gibson, N	1970	Financial intermediaries and monetary policy
Hindley, B	1970	Industrial merger and public policy
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Pepper, G & Wood, G	1976	Too much money?
Chiplin, Coyne & Sirc	1977	Can Workers Manage
Chiplin, B & Coyne, J	*1977*	*Property rights, industrial democracy and the Bullock report*
Wood, J	*1977*	*The real lesson of Germany*
Harris, R	*1977*	*Bullock's basic blunder*
Friedman, M	1977	Inflation and unemployment
Hutchison, T	1977	Keynes vs the Keynesians
Jewkes, J	1977	Delusions of dominance
Littlechild, S	1978	The fallacy of the mixed economy
Buchanan, Wagner, Burton	1978	The Consequences of Mr Keynes
Buchanan, J & Wagner, R	*1978*	*Political biases and economic consequences*
Burton, J	*1978*	*Keynes' legacy to Great Britain*
Buchanan, J & Burton, J	*1978*	*Constitutional options for fiscal control*
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Seldon, A	*1978*	*Prologue: change by degree or compulsion*
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Pearce, I	*1978*	*Confrontation with Keynes*
Fletcher, R	*1978*	*The worker and the social wage*
Lawson, N	*1978*	*The moral dimension*
Harris, R	*1978*	*Can confrontation be avoided?*
Miller, R & Wood, J	1979	Exchange control for ever?
Gough, T & Taylor, T	1979	The Building Society cartel
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Portillo, M	1998	Democratic values and the currency
Dowd, K	1998	Private money
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Issing, O	2000	Hayek, currency competition and EMU
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Congdon, T	2005	Money and asset prices in boom and bust
Booth, P (ed)	2005	Towards a Liberal Utopia
Evans, T & Evans H	*2005*	*Health 2055*
Omerod, P	*2005*	*The Hayekian future of economic methodology*
Harris, R	*2005*	*Times Past*
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Schwartz, A	*2009*	*Origins of the financial market crisis of 2008*
Butler, E	*2009*	*The financial crisis: Blame governments, not bankers*
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Morrison, A	*2009*	*Ratings agencies, regulation and financial market stability*
Llewellyn, D	*2009*	*The global financial crisis: the role of financial innovation*
Gregg, S	*2009*	*Moral failure: borrowing, lending and the financial crisis*
Booth, P	*2009*	*More regulation, less regulation or better regulation*
Wood, G	*2009*	*Thoughtful regulation*
Kay, J	*2009*	*The future of financial services regulation*
Llewellyn, D	*2009*	*The global financial crisis: incentive structures*

Centre for Policy Studies

Joseph, K	1974	This is not a time to be mealy-mouthed
Joseph, K	1974	Inflation is caused by governments
Joseph, K & CPS	1975	Why Britain needs a social market economy
Joseph, K	1975	Inflation: the climate of opinion is changing
Joseph, K	1975	The quest for common ground
Thatcher, M	1975	Let our children grow tall
Thatcher, M	1975	Progress through interdependence
Thatcher, M	1975	Let me give you my vision
Bruce-Gardyne, J	1976	Myths and magic in economic management
Joseph, K	1976	Monetarism is not enough
Joseph, K	1976	Government spending generates unemployment
Joseph, K	1976	Economic consequences of the social contract
Joseph, K	1976	Recovery without inflation
Joseph, K	1976	Moral and material benefits of the market order
Joseph, K	1976	The humanity of capitalism
Joseph, K	1976	Equality: an argument against
Thatcher, M	1976	The path to profitability
Thatcher, M	1976	Let us bequeath a free Europe
Thatcher, M	1976	Short term expediency: long term ruin?
Thatcher, M	1976	The mixed economy
Thatcher, M	1976	The healthy society
Zweig, F	1976	The new acquisitive society
McFadzean, F	1977	The economics of John Kenneth Galbraith
Thatcher, M	1977	The wealth of the nation
Thatcher, M	1977	The new renaissance
Thatcher, M	1977	Dimensions and conservatism
Congdon, T	1978	Monetarism, a essay in definition
Bauer, P	1978	Class on the brain
Joseph, K	1978	Conditions for full employment
Burton, J	1979	The job support machine
Joseph, K	1979	Solving the union problem is key to Britain's recovery
Thomas, H	1979	Capitalism and freedom
Congdon, T et al	1985	Whither monetarism?
Lawson, N	*1985*	*The Chancellor's speech, 17th November 1985*
Bruce-Gardyne, J	*1985*	*Chancellor Reagan*
Congdon, T	*1985*	*Start of a somersault*
Minford, P	*1985*	*Consulting the oracle*
Butt, R	1986	The unfinished task
Letwin, S & Letwin, W	1986	Every adult a share-owner
Redwood, J	1986	Equity for everyman, new ways to widen ownership
Harris, R	1986	Morality and markets
Congdon, T	1989	Monetarism lost
Lilley, P	1989	Thatcherism – the next generation
Novak, M	1993	The crisis of the welfare state
Portillo, M	1993	The Blue Horizon
Rifkind, M	1996	Conservative Britain in the 21st Century
O'Sullivan, J	1999	Conservatism, Democracy and National Identity
Lodge, O	2002	A review of the UK banking industry
McElwee, M	2006	Mr Blair's legacy
Qvortrup, M	2007	Supply-side Politics
Elphicke, C	2008	Why do we feel so broke?

Conservative Party research and publications

Conservative Party	1973	The Selsdon manifesto
Conservative Party	1976	The right approach
Hoskyns, J & Strauss, N	1977	Stepping Stones

Conservative Research	1977	The property owning democracy
Hoskyns, J	1978	Stepping stones progress report
Hoskyns, J	1978	Discussion paper
Hoskyns, J	1978	Demolishing the trade union mythology
Conservative Research	1979	Working party report on competition policy
Conservative Research	1979	Competition policy paper by Mrs Oppenheim
Conservative Party	1980	Minutes on meeting on enterprise culture
Howe, G	1981	Privatisation: the way ahead
Lilley, P	1981	Ten policy questions about the MTFS
Mockler, C	1981	Budget submissions
Baldwin, B	1981	Budget recommendations
Conservative Party	1981	Minutes on meeting on enterprise culture
Conservative Party	1981	Towards an economic consensus
Lawson, N	1982	Financial discipline restored
Conservative Party	1982	Policy group on the promotion of enterprise, plan of action
Conservative Party	1982	Promotion of enterprise meeting policy meeting, 15.11.82
Conservative Party	1982	Promotion of enterprise meeting policy meeting, 22.11.82
Conservative Party	1982	Promotion of enterprise meeting policy meeting, 13.12.82
Conservative Party	1982	Promotion of enterprise meeting policy meeting, 21.12.82
Conservative Party	1983	Promotion of enterprise meeting policy meeting, 4.1.83

Memoirs and important contemporary interpretations

Keegan, W	1984	Mrs Thatcher's economic experiment
Walters, A	1986	Britain's economic renaissance
Young, H	1989	One of Us
Keegan, W	1989	Lawson's gamble
Lawson, N	1992	The view from No. 11
Gilmour, I	1992	Dancing with dogma
Thatcher, M	1993	The Downing Street years
Howe, G	1994	Conflict of loyalty
Thatcher, M	1995	The path to power
Freeden, M	1999	The Ideology of New Labour
Hoskyns, J	2000	Just in time: inside the Thatcherite revolution
Pepper, G & Oliver, M	2001	Monetarism under Thatcher

Miscellaneous speeches and pamphlets

Stewart, M	1953	Consumers' Councils (Fabian Society)
Cole, G	1957	Capitalism in the modern world (Fabian Society)
Maynard, G	1957	The control of inflation (Fabian Society)
Wilson, H	1957	Post-war economic policies in Britain (Fabian Society)
Munby, D	1957	Home ownership (Fabian Society)
Crosland, A	1960	Can Labour Win? (Fabian Society)
Titmuss, R	1967	Choice and the welfare state (Fabian Society)
Hughes, J	1967	An economic strategy for Labour (Fabian Society)
Collard, D	1967	The New Right: a critique (Fabian Society)
Crossman, R	1967	Socialism and planning (Fabian Society)
Gyford J & Haseler, S	1971	Social democracy: beyond revisionism (Fabian Society)
Crosland, A	1971	A social democratic Britain (Fabian Society)
Thatcher, M	1979	Margaret Thatcher talks to the Observer
Lawson, N	1981	Thatcherism in practice
Lawson, N	1980	The new conservatism
Lawson, N	1984	The British experiment
Johnson, H, & Walters, A	1972	Memorial to the Prime Minister
Bacon R, and Eltis, W	1976	Britain's economic problem
Balls, E	1992	Euro-monetarism (Fabian Society)
Blair, T	1994	Socialism (Fabian Society)
Blair, T	1995	Mais Lecture
Blair, T	1995	Let Us Face the Future (Fabian Society)

Balls, E	1997	Open macroeconomics in an open society (speech)
Blair, T	1998	The Third Way (Fabian Society)
Brown, G	1998	Speech at Lord Mayor's banquet
Brown, G	1999	The conditions for full employment (speech)
Greive-Smith, J	2000	Closing the casino (Fabian Society)
Brown, G	2001	The conditions for high and stable growth and employment

Bank of England Quarterly Bulletin (published speeches and papers) published and H.M. Treasury publications.

HMSO	1944	Employment Policy White Paper
Goodhart, C	1970	The importance of money
Bank of England	1971	Competition and credit control
O'Brien, L (Governor)	1971	Governor speech, 28.5.71
O'Brien, L	1971	Governor speech, 27.4.71
Chief cashier of the Bank	1971	Lecture on competition and credit control
O'Brien, L	1972	Extracts from Governor speeches, Jan-March 1972
O'Brien, L	1972	Governor speech, 25.4.72
Bank of England	1972	Letter to banks on lending guidance, 3.9.72
O'Brien, L	1972	Lord Mayor's dinner speech, 19.10.72
Goodhart, C	1972	Analysis of the determination of the money stock
O'Brien, L	1973	Governor speech, 22.1.73
Deputy Governor	1973	Does money supply really matter?
Richardson, G (Governor)	1973	Lord Mayor's dinner speech, 18.10.73
Bank of England	1974	Credit control: a supplementary scheme
Goodhart, C	1974	Bank of England studies of the demand for money function
Bank of England	1975	Notice to banks: suspension of supplementary scheme
Richardson, G	1975	Governor speech, 3.2.75
Richardson, G	1975	Governor speech, 16.10.75
Goodhart, C	1975	Problems of monetary management: the UK experience
Bank of England	1976	Trends in company profitability
Bank of England	1976	Personal savings ratio
Bank of England	1977	The personal sector 1966-1975
Bank of England	1977	A statistical note
Richardson, G	1977	Extracts from Governor speeches, Jan-March 1977
Bank of England	1977	Savings and investments
Richardson, G	1977	Lord Mayor's dinner speech, 20.10.77
Richardson, G	1977	Governor speech, 25.10.77
Richardson, G	1978	Mais Lecture, 9.2.78
Bank of England	1978	The secondary banking crisis
Richardson, G	1978	Lord Mayor's dinner speech, 19.10.78
Richardson, G	1979	Governor speech, 14.2.79
Bank of England	1979	Report on profitability
Richardson, G	1979	Lord Mayor's dinner speech, 18.10.78
Goodhart, C et. al.	1979	Monetary base control
Goodhart, C	1979	Bank lending and monetary control
Richardson, G	1980	Governor speech, 4.2.80
Bank of England	1980	Credit control notice, 26.3.80
Richardson, G	1980	Lord Mayor's dinner speech, 16.10.78
H.M. Treasury	1980	Response to Treasury questionnaire by Friedman, M
H.M. Treasury	1980	Memoranda on monetary policy
H.M. Treasury	1980	Response to Treasury questionnaire by CBI
H.M. Treasury	1980	Medium-term financial strategy
H.M. Treasury	1980	Monetary control consultation paper
Richardson, G	1981	The banks' role in financing industry (speech)
Bank of England	1981	Monetary control provisions
Richardson, G	1981	World economic problems (speech)
Richardson, G	1981	Interest rates today and the economy (speech)
Bank of England	1982	The supplementary special deposits scheme

Richardson, G	1982	The tasks of the banks in a time of recession (speech)
Richardson, G	1982	Recent changes in monetary regulation (speech)
Richardson, G	1982	British industry in a competitive world (speech)
Bank of England	1982	Mortgage lending and the housing market
Goodhart, C	1982	Structural changes in the banking system
Richardson, G	1983	British economic policy over the last decade
Richardson, G	1983	The future of building societies (speech)
Bank of England	1983	On the nature and implications of financial innovation
Fforde, J	1983	Competition, innovation & regulation in British banking
Bank of England	1984	Changes to monetary aggregates
Leigh-Pemberton, R (Governor)	1984	Domestic financial markets: progress and problems (speech)
Bank of England	1984	Funding the public sector borrowing requirement
Cooke, W	1985	Some current concerns of a banking supervisor
Bank of England	1985	Company profitability and finance
Leigh-Pemberton, R	1985	Developments in consumer credit
Bank of England	1985	Services in the UK economy
George, E	1985	The City Revolution
Leigh-Pemberton, R	1985	Problems of change & monetary policy in the city (speech)
Bank of England	1986	Note on cash deposits ratio
Bank of England	1986	Employment creation in the US and the UK
Leigh-Pemberton, R	1986	Financial change and broad money (speech)
Leigh-Pemberton, R	1986	Developments in monetary policy (speech)
Bank of England	1987	Convergence of capital adequacy in the UK and the US
Bank of England	1987	Measures of broad money
Bank of England	1987	The financial behaviour of the UK personal sector
Leigh-Pemberton, R	1987	Mais Lecture: the instruments of monetary policy
Leigh-Pemberton, R	1987	Building societies, a changing role (speech)
Leigh-Pemberton, R	1988	Personal credit in perspective (speech)
Bank of England	1988	The equity market crash
Leigh-Pemberton, R	1988	The markets, the City and the economy (speech)
Bank of England	1989	The housing market
Leigh-Pemberton, R	1989	Building societies: the changing environment (speech)
Leigh-Pemberton, R	1989	Personal credit problems (speech)
Leigh-Pemberton, R	1989	Monetary policy, equity markets & the City's infrastructure (speech)
Leigh-Pemberton, R	1990	Monetary policy in the second half of the 1980s (speech)
Leigh-Pemberton, R	1990	Personal saving and borrowing (speech)
Bank of England	1991	What is a credit crunch?
Bank of England	1991	Patterns of default in the non-financial private sectors
Leigh-Pemberton, R	1992	The case for price stability (speech)
Leigh-Pemberton, R	1993	Recent banking difficulties (speech)
Leigh-Pemberton, R	1993	The role of property in our economic life (speech)
Quinn, B	1993	The Bank of England's role in prudential supervision (speech)
Leigh-Pemberton, R	1993	Ten Years on (speech)
George, E (Governor)	1993	Open for business (speech)
Deputy Governor	1993	Inflation (speech)
Breeden F & Fisher, P	1994	The determination of M0 and M4
Devereux, M et al	1994	Personal and corporate sector debt
MacFarlane, H et al	1994	Inflation over 300 years
Deputy Governor	1994	Credit and economic policy (speech)
George, E	1994	The prospects for monetary stability (speech)
King, M	1994	The transmission mechanism of monetary policy (speech)
Salmon, C	1995	Influences of broad money growth
Cutler, J	1995	The housing market and the economy
George, E	1996	The Bank of England: how the pieces fit together (speech)
Thomas, R	1996	Understanding broad money
George, E	1996	Some thoughts on financial regulation (speech)
George, E	1996	Economic policy approaches (speech)

Deputy Governor	1996	Financial regulation: why, how and by whom (speech)
George, E	1997	Are banks still special (speech)
Astley, M	1997	The information in money
George, E	1997	Reforms to the UK monetary policy framework (speech)
King, M (deputy governor)	1997	The inflation target five years on (speech)
Rodgers, P	1998	The Bank of England Act
George, E	1998	The new Lady of Threadneedle Street (speech)
Hoggarth & Chrystal	1998	The UK person and corporate sectors during the 1980s/1990s
King, M (MPC)	1998	The UK economy and monetary policy (speech)
George, E	1998	Recent economic developments & the MPC (speech)
George, E	1999	Speech (February)
George, E	1999	Speech (August)
King, M	1999	The MPC two years on (speech)
Vickers, J (MPC)	1999	Monetary policy and asset prices (speech)
George, E	1999	Speech (December)
Brigden, A et al	2000	Money, lending and spending
George, E	2000	Speech (June)
Wahhwani, S (MPC)	2000	Monetary challenges in the New Economy (speech)
Jackson, P	2001	Bank capital standards: the new Basel Accord
Davey, M	2001	Saving, wealth and consumption
Davey, M	2001	Mortgage equity withdrawal
Clementi, D (MPC)	2001	Speech (January)
Power, J & Andrews, P	2001	Explaining the difference between growth in M4 deposits and M4 lending
Chrytal, K & Mizen, P	2001	Consumption, money and lending
Plenderleith, I (MPC)	2001	Speech (March)
George, E	2001	Speech (June)
Clementi, D	2001	Speech (October)
George, E	2001	Speech (October)
Allsop, C (MPC)	2001	Economic imbalances and UK monetary policy (speech)
King, M	2002	Speech (November)
George, E	2002	Monetary policy, the global economy and the prospects for the UK (speech)
George, E	2002	Monetary challenges (speech)
Clews, R	2002	Asset prices and inflation
King, M	2002	No money, no inflation – the role of money in the economy (speech)
Wadhwani, S	2002	Household indebtedness, the exchange rate and risks to the economy (speech)
George, E	2002	The monetary policy dilemma in the context of the international environment (speech)
Nickell, S (MPC)	2002	Monetary policy issues: past, present and future (speech)
Cox, O et al	2002	Financial pressures in the UK household sector
George, E	2002	Speech (October)
Bean, C (MPC)	2002	The MPC and the UK economy: should we fear the worst? (speech)
Aoki, K et al	2003	House prices, consumption and monetary policy
George, E	2003	Speech (January)
Nickell, S	2003	House prices, household debt and monetary policy (speech)
Tucker, P (MPC)	2003	Credit conditions and monetary policy (speech)
King, M (Governor)	2003	Speech (October)
Nickell, S	2003	Two current monetary policy issues (speech)
Large, A (MPC)	2004	Puzzles in today's economy (speech)
Benito, A & Power, J	2004	Housing equity and consumption
Nickell, S	2004	Household debt, house prices and consumption growth (speech)
May, O et al	2004	British household indebtedness and financial stress
Lambert, R (MPC)	2004	Why is inflation so low?
King, M	2005	Speech (January)

King, M	2005	Speech (May)
Janssen, N & Andrews, P	2005	Publication of narrow money data
King, M	2005	Speech (June)
Fisher, C & Gai, P	2005	Financial stability, monetary stability and public policy
King, M	2005	Speech (October)
Lambert, R	2005	Challenging times for monetary policy (speech)
King, M	2006	Speech (Jaunary)
Lomax, R (MPC)	2006	Global financial imbalances (speech)
Nickell, S	2006	The UK current account deficit and all that (speech)
King, M	2006	Speech (June)
Waldron, M & Young G	2006	The state of British household finances
King, M	2006	Speech (October)
Gieve, J (MPC)	2006	Hedge funds and stability (speech)
Bean, C (MPC)	2006	Globalisation and inflation (speech)
Benito, A et al	2007	The role of household debt and balance sheets in the monetary transmission mechanism (speech)
King, M	2007	Speech (January)
Tucker, P (MPC)	2007	Macro, asset price, and financial system uncertainties (speech)
Besley, T (MPC)	2007	Inflation and the service sector (speech)
Sentence, A (MPC)	2007	The changing pattern of savings (speech)
Berry, S et al	2007	Interpreting movements in broad money
King, M	2007	Speech (June)
Gieve, J	2007	Speech (June)
King, M	2007	Speech (October)
Sentence, A	2007	A tale of two shocks (speech)
King, M	2008	Speech (January)
Gieve, J	2008	The impact of the financial market disruption (speech)
Gieve, J	2008	The return of the credit cycle (speech)
Besley, T	2008	Financial markets and household consumption (speech)
Besley, T	2008	Inflation and the global economy (speech)
Blanchflower, D (MPC)	2008	Inflation, expectations and monetary policy (speech)
King, M	2008	Banking and the Bank of England (speech)
King, M	2008	Speech (June)
Gieve, J	2008	A tale of two cycles (speech)
Gieve, J	2008	The financial cycle and the UK economy (speech)
Tucker, P (MPC)	2008	The credit crisis: lessons from a protracted peacetime (speech)
King, M	2008	Speech (October)
Blanchflower, D	2008	Where next for the UK economy (speech)
Geive, J	2008	Learning from the financial crisis (speech)
Bean, C	2008	Some lessons for monetary policy (speech)
Sentence, A	2008	The current downturn – a boom without a bust? (speech)
Blanchflower, D	2009	The future of monetary policy (speech)
King, M	2009	Speech (June)

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