

**The London School of Economics and Political Science**

*Narrating boom and bust:*

*The life-cycle of ideas and narrative in New Labour's political economy, 1997-2010*

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## **Declaration**

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## **Abstract**

This research contributes to the growing subfield of ideational political economy, by developing a theory of narrative in economic policymaking.

Economic policymakers operate under conditions of perpetual uncertainty, but must achieve and project certitude in order to support confidence, and as a basis for policy. This dilemma is principally resolved through the construction of economic narratives: causal stories that mobilise a set of economic ideas in order to define the economy, its relationship to policy, and its expected future trajectory. Such narratives should be understood as social constructions, not as projections of, or diversions from, the material facts. However they are vulnerable to events that fall outside their account of the economy, a vulnerability which tends to increase with time.

Constructivist political economy has historically been oriented more to the explanation of change than continuity. The resilience of neoliberal policy frameworks through the crisis of 2008 has therefore posed challenges for a subfield that has tended to treat ideas and discourse as a source of creative political agency, and a counterweight to the conservatism of interests and institutions.

The thesis presents a case study of the New Labour government of the UK (1997-2010) in which ideas and narrative are shown to be largely change-resistant, generating political, and to some extent policy, continuity through crisis. The case study disaggregates two properties of economic policy narratives: internal validity, which is concerned with consistency and coherence, and external validity, which relates to the perceived external conditions. By tracing the evolution of the two validities across the lifetime of an economic narrative, we see that rhetorics which begin as the expression of political agency evolve, over time, into structural conditions that impose powerful cognitive and ideological constraints on their narrators. A theory of the life-cycle of economic policy narratives is proposed, comprised of four evolutionary phases: construction, reinforcement, crisis and fragmentation.

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## A note on referencing

The thesis makes reference to a large volume of primary sources in the form of political speeches. For clarity and greater ease of reference, it has been decided to index these materials separately from the main bibliography, with in-text citations using a set of reference codes rather than the (author, date) format otherwise used. A full index of speeches cited in the text is duly provided after the bibliography.

Reference codes are designed to indicate the nature of the speech, and the year in which it was delivered: for example, the 2008 Budget statement becomes (BUD08). The identity of the speaker is generally made clear in the surrounding text.

The two exceptions to this rule are: speeches that appear as secondary citations from other texts, and speeches by actors other than the New Labour government. These are cited (author, date) and appear in the bibliography in the usual way.

Parliamentary proceedings are referenced in accordance with the advice in Leston-Bandeira, C. & Thompson, L. 2013. *Referencing Parliamentary Material: A Guide for Lecturers and Students*', which is produced by the UK Parliament Outreach Service and recommended by the Political Studies Association. For example, House of Commons proceedings are listed by parliamentary session and Hansard column number: HC Deb. 2005-06: 441 col.1494.

## **Part I: Theorising Narrative in Political Economy**

## 1. Introduction

### **Materialist and constructivist approaches to economic policy narratives**

This project is about the politics of economic policy: specifically, about the business of translating economic ideas, and economic events, into a viable political narrative. It will propose that economic policy narratives are not only descriptive but constitutive of that politics, being designed to turn uncertainty into certainty and so provide a basis for policy action. Yet economic rhetoric is relatively under-analysed in political economy, being more often treated as a mask for underlying interests, or as secondary part of government activity compared with the serious (and measurable) business of making policy and winning elections. In particular, we currently lack a fully-realised theoretical framework for understanding how language acts to establish the validity of a particular narrative of the economy, and what happens to that validity when the narrative is confronted with events it cannot easily assimilate.

In the last several years, it has become impossible to ignore the fact there is often a disjunction between what politicians say, and what seems to be happening in the world. Political science has had no choice but to confront this problem: the rise of a new “post-truth” politics in which hard facts are apparently subordinate to partisan impact and the validation of common knowledge. This poses serious questions for a discipline founded on the idea of an at-least minimally rational voter and a mostly logical political process. Political science has always been, to some extent, a normative account of how democracies are supposed to work; the post-truth age raises the uneasy prospect of a world in which politics is irretrievably irrational and unmoored from reality. The gap between what politicians say, and what is apparently going on, has therefore become the focus of a great deal of attention, sharpening the problem of how best to theorise the role and operation of

language in politics.

This research approaches the question via a case study from a different era: the ostensibly depoliticised, technocratic, “great moderation” of the 1990s and early 2000s. During that time, the language of economic policy seemed to be doing no more than reflecting a global economy in which stability and prosperity reigned. The 2008 financial crisis not only disrupted that economy but undermined a generation of political and intellectual certainties, paving the way for a new period of critical reflection on what this apparently neutral economic language had been doing, and how political accounts of the economy should be scrutinised. The political consequences of the crisis have not, however, played out as might have been predicted. This research project began with an impulse to expose the contingency of the great moderation’s account of itself; it has evolved into a broader treatment of the role of economic ideas, and language, in driving both political change and, to a surprising degree, political continuity after a crisis.

This introductory chapter sets up the parameters of the research with reflections on some key themes. First, it posits the existence of a perennial tension in economic policymaking, between the uncertainty inherent in economics and the certainty required of politics. This tension, it is suggested, is resolved by the use of rhetoric to construct narratives, making language a core component of economic policymaking, but one which is not well theorised. Second, it broadly outlines the two main epistemological frameworks in which political science has tended to approach economic policy as its object: on the one hand, rational materialism, and on the other hand, social constructivism. Each implies a distinct set of assumptions about the role, and importance, of language in economic policy. Third, I suggest that the case of the New Labour Government of the United Kingdom exposes the limitations of both conceptual frameworks in respect of language and economic policy. The politics of Britain’s economic crisis in 2008-10 does not fit well with either rationalist assumptions about economic actors, or constructivist theories of

ideationally-driven change. As such, it is suggested that there is a need to further develop our theories of the role of discourse, and ideas, in economic policy.

The chapter will suggest that while both materialist and constructivist explanatory frameworks struggle to explain the ideational and discursive dynamics of economic policy, a broadly constructivist political economy offers the greatest potential to do so. Working within a constructivist paradigm, the thesis that follows then has two aims. The specific empirical objective is to delve into the ideational workings of a particular case: the New Labour government of the United Kingdom between 1997 and 2010. It is suggested that an analysis of Labour's narrative can shed new light on the ideas at work in an important political project, and particularly on the latter years of that government, including its response to the 2008-09 financial crisis, which has attracted less attention from scholars of New Labour so far. The broader objective, however, is theory-building: to see what the New Labour case can reveal about the role of narrative in political economy. Ultimately, the research asks what Labour's attempts to renew their rhetoric in the face of crisis can tell us about the operation of economic ideas across a political and economic cycle, and about the relationship between political constructions and economic events.

### ***The uncertainty dilemma***

Let us take as a starting point two assumptions about the politics of the economy. First, that the nature of the economic conditions is irretrievably uncertain; that doubt and contestation are permanent conditions despite, or perhaps in keeping with, the sophistication of the economics profession, as t'Hart and Tindall have noted:

"Despite its modelling prowess and the unrelenting certitude conveyed by some of its best-known practitioners, the field of economics is anything but an exact science... expert

disagreement is the norm and is, in fact, an additional source of uncertainty rather than a mechanism for helping policymakers cope with it." (2009: 6)

In assuming perpetual uncertainty I am making a straightforward empirical claim – that economic uncertainty is everywhere to be found – and leave aside, for now, the ontological question of whether economic conditions are fundamentally knowable. As a starting point it is enough to note that economies are generally complex and opaque, difficult to interpret and even harder to predict. Even where we have good information about certain dimensions of the economy – employment rates, GDP growth, inflation – the implications of those things are perpetually open to debate. And if the interpretation of a single economic indicator or trend may be debatable, the sum of those individual parts is even more unclear; acquiring data on a set of trends is not the same as having an objective view of "the economy" as a singular object. As such I take economic uncertainty to be the common denominator of economic policymaking.

Second, we may assume that economic uncertainty, no matter how inevitable, is politically unviable and must be replaced with a working measure of certainty. Mark Blyth has argued that faced with Knightian uncertainty, "human agents create the stability that they take for granted" (2006: 497); we are continually in the business of constructing solid ground on which we can stand. The pressure to achieve certainty is particularly acute in economic policy, since while some policy areas can be de-emphasised at different times, the economy is rarely in that category. Saying nothing about the economy can look too much like knowing nothing, to the extent that silence is not often a viable option for governments. T'Hart and Tindall note the dilemma this creates, since "policymakers can seldom afford to wait until they really know what's going on before communicating about it publicly" (2009: 4). Indeed, the imperative to pronounce on the state of the economy may increase in proportion to uncertainty about it, since in times of crisis the government

becomes a particularly important source of economic expertise and reassurance. Governments, by virtue of their special responsibility for the economy, have the job of conjuring solid political terrain out of profound economic uncertainty, and they must perform this trick year after year.

The problem on which this thesis will focus is thus a problem that routinely confronts those in power: how can economic uncertainty be transformed into political certainty, and what are the challenges attending that process? It is suggested that a key tool by which governments cope with economic uncertainty is the construction of narratives about the economy; that is, by conceiving and mobilising overarching stories that aim to define and master the economic conditions, and so provide a basis for policy action. Narrative, in a world of uncertain economics, becomes a key source of politically actionable certitude.

Based on that proposition, I will argue there is a clear need to understand how economic narratives are constructed, how they achieve their political and economic credibility and, in particular, how they cope with change and crisis. What, precisely, is the relationship between political constructions of the economy, and material economic events? How should we understand and theorise governments' economic discourses? When do they change, and when do they hold steady? What combination of material fact and interpretive action adds up to a valid economic narrative and how should the theorist proceed to answer that question? If we are to understand the implications of the uncertainty dilemma – to understand how governments reconcile economic uncertainty with political responsibility – two broad responses are available, which can be broadly characterised as materialist and constructivist. Either approach implies a particular understanding of the intellectual processes by which economic conditions are politically mastered and, hence, quite different understandings of the importance and role of economic narratives and rhetoric.

### ***Rational materialism and economic policy***

The materialist response is that the cure for uncertainty is knowledge: we master the economy by getting better at forecasting, refining our economic models, gathering good data and interrogating it systematically (e.g. Reinhart & Rogoff, 2009). Governments should, in theory, be better placed to do this than most, given their stock of in-house expertise, privileged access to data, and ability to draw on wider sources of expert advice. In a rational materialist world, the politics of economic policy should favour those who are most skilled at understanding the economy and responding to it. Economic policy narratives, then, should succeed when and because they correspond with the facts, deriving their validity from their grip on the economic fundamentals, and losing validity when the gap between the rhetoric and the reality becomes too large. The test of a good economic narrative comes down to its accuracy, so that the success of a political story should depend on whether it is materially correct and true. Voters being assumed to be rational creatures, they are expected to discern the true state of the economy and judge their own interests accordingly; while rhetoric might obfuscate those interests for a time, on the whole the public is expected to reject inaccurate narratives sooner or later.

Expressed in the abstract like this, the materialist view might appear exaggeratedly apolitical. Yet the assumptions underlying rational materialism are quite pervasive both in academia and in wider commentary on politics. Mainstream economics has, of course, been subject to extensive criticism for its sometimes crude assumption that rational maximisation is the keystone of social action, and that the micro-rationality of individuals can be aggregated to the level of groups and societies (Green & Shapiro, 1994; Kahneman, 2012). In particular, the empirical evidence for the all-knowing rational agent has been shown to be extremely thin. It is beyond the scope of this thesis to rehearse

the arguments for and against rational choice theory, but it is important to note that many of those criticisms have duly been taken on board; the growing field of behavioural economics, for example, seeks to more accurately reflect some of the systematic irrationalities driving human choices, aiming to improve economists' empirical grip on the real world, and with it their prospects of influencing policy. What behavioural economics retains, however, is a materialist ontology in which there is a measurable, and mostly predictable, distance between economic interests and actors' choices.

The important feature of rational materialism, for the purposes of this research, is its narrow view of the role of discourse and ideas. So long as rational materialist assumptions are in play, ideas about the economy are essentially reduced to an error function, describing a measure of the misperception of actors' true interests (Blyth, 1997). Political language about the economy is then revealing only insofar as it identifies systematic irrationalities and makes them available for measurement. Such assumptions are not confined to the academy; they also dominate large parts of the discipline of political science and, especially, international political economy (see McNamara, 2009), which imports from economics the archetype of the rational agent and, in doing so, reduces much political behavior to the maximization of economic utility, leaving ideas and language beside the point. Moreover, materialist assumptions are everywhere to be found in popular commentary on politics. The famous Clinton campaign slogan "it's the economy, stupid" made a mantra of the idea that where the economy goes, the politics must follow; that Governments' ideas and reputations must be expected to prosper when the economy is doing well, and falter when times are hard. Economic rhetoric can then effect, at most, only a marginal or temporary difference compared with the economic fundamentals.

Rational materialism performs an important role in the theoretical architecture of classical economics; however, as the Clinton slogan shows, it facilitates only a very thin account of real-world politics. In regards to the New

Labour years, it is quickly apparent that a rational-materialist reading is an unsatisfactory, and certainly an incomplete, conceptualisation of both that period in British politics and of the role of economic ideas and discourse more generally. It is now commonplace to deride Gordon Brown's "stability and prudence" rhetoric as either dishonest or fatally misguided; Labour's much-vaunted stability narrative was seriously damaged by the financial crisis of 2008-09, and swiftly gave way to a new coalition government and a new narrative of austerity. Yet it is worth recalling how politically successful Labour's stability talk was, and for how long. Until roughly 2007, the New Labour government could claim a good degree of success in rebuilding the party's economic credibility, to the extent that in the 2005 general election campaign the economic record, and Brown's reputation as Chancellor of the Exchequer, were seen as key campaign assets (Scammell & Harrop 2005). It now looks extraordinary that in 2007 Brown was still declaring that "we will never return to the old boom and bust" (BUD07), but at the time it embodied a tried and tested economic policy narrative that had survived a decade in government.

A materialist position leaves room for two possible explanations of that political success (Table 1.1). One possibility is that Labour's stability narrative was broadly correct for the first ten years, accurately describing a period of steady and continuous economic growth, low unemployment and low inflation. The financial crisis, in that account, is an exogenous change in the economic conditions that did not invalidate the narrative but overtook it, necessitating new rhetoric for new times. A second scenario assumes that the stability narrative was always factually dubious, but that it nonetheless succeeded for a time in obscuring the presence of underlying economic fault lines and earning the government undeserved credit. The financial crisis then served to expose the true state of the economy, and with it the falsity of the rhetoric. I suggest, however, that the very difficulty in choosing between those two accounts exposes the inadequacy of a materialist explanation. Whether one decides that Labour's narrative was overtaken by events, or exposed as false by them, is still open to interpretive judgment. Indeed, such judgments still appear to

break down according to party affiliation, with Labour spokespeople generally maintaining that the crisis was unforeseeable and separate from the stability years, while their political opponents argue Labour's narrative had misread or misrepresented the true risks to Britain's prosperity.

**Table 1.1: Two materialist accounts of Labour's stability narrative**

	<i>Before the crisis</i>	<i>After the crisis</i>
<i>A) Stability narrative was correct</i>	Rhetoric succeeds because it reflects reality	Rhetoric overtaken by events
<i>B) Stability narrative was wrong</i>	Rhetoric succeeds by obscuring reality	Rhetoric exposed by events

Ultimately, both materialist explanations share a common assumption: that there is a measurable distance between the narrative and the events it described, such that the gap between rhetoric and reality may be objectively assessed. As a consequence, the only question that need be asked about rhetoric is how accurate it is; the only available verdicts on political narratives of the economy are either that they are descriptive of reality, or that they misrepresent it. Political language, in the materialist view, is either redundant because it tells us nothing that a sound reading of the fundamentals would not reveal, or it is a red herring, because it leads us to believe things that are not true. I suggest that when we are asked to choose between accounts that locate the politics of economics in a critical divergence between rhetoric and reality, we are essentially looking for a way to measure the reality and discard the rhetoric. The irony is that the very process of doing so requires us to interpret the economy under conditions of uncertainty.

In the New Labour case, an objective measure of the rhetoric-reality gap is extremely difficult to determine. Even in hindsight, with all the new data provided by the unspooling of a financial crisis, we appear unable to decisively

reject either of the two explanations for the previous success of New Labour's stability talk. The fact of our continued uncertainty about the nature of the pre-crisis economy suggests that there is more to economic policy rhetoric than a sliding scale of correctness. Was it a period of growth that stopped because of a global downturn? Or a period of on-paper growth that turned out to be illusory? A political post-mortem on New Labour's economic record and the causes of the crisis continues to require the mobilisation of ideas about the economy in order to select between, and politically activate, competing narratives of our recent economic and political past. So while material events may be discernible, and material indicators available, the larger picture – Britain's economic crisis as an agreed story – cannot be assembled by simply summing those parts together, but must be arrived at through discourse and debate. Economic uncertainty persists.

### ***Economic narratives as social constructions***

The alternative to materialist readings is a constructivist political economy that has focused on reasserting the primacy of economic ideas over material conditions, and which points out that the "truth content" of economic ideas may be irrelevant to their political force (Blyth, 2003: vii). In a constructivist framework, the economic conditions are substantially in the eye of the beholder, not objective and exogenous to politics but "constituted by social processes" (McNamara, 2002: 61) and thus inseparable from political action. The politics of economic policy are assumed to originate not in "the economy" as observable landscape, but out of the ideational construction of the economy by political agents, as Hay and Rosamond have argued:

"It is the ideas that actors hold about the context in which they find themselves rather than the context itself which informs the way in which actors behave. This is no less true of policy-makers and governments." (Hay & Rosamond, 2002: 148)

A constructivist understanding of economics as based on ideas rather than a material context implies a different understanding of how political agents react to uncertainty. Rather than the cure for uncertainty being fact, economic uncertainty is assumed to be the trigger for processes of construction that draw on, but are not bounded by, ideas about the material economy. A constructivist framework thus implies a far more central role for economic language, and for the ideas it mobilises. Viewed as constructions, economic narratives are neither a description nor a misdescription of the fundamentals behind political behaviour, but the medium in which the economics become politically meaningful in the first place. Indeed, the politics in the political economy derive precisely from these processes of social construction, since “the material world always has to be interpreted, and the ability to determine which stories are told about that world is a source of power” (McNamara, 2015: 47).

Social psychologist Serge Moscovici<sup>1</sup> (2008) has argued that social construction (or “representation”, in his terms) is fundamental to humans’ ability to absorb new information and circumstances, especially in relation to subjects that are technical or abstract. He suggests the need to generate collective understandings is particularly a feature of the modern world, which is too complex for us to form our own conclusions about most of it. Instead, we rely on ideas and experts that have been certified as credible by the community:

“Increasingly, it is through the intermediary of other people that we are familiarized with theories and phenomena, and we cannot verify them on the basis of individual experience. The bloated mass of indirect knowledge and indirect realities

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<sup>1</sup> Not to be confused with his son, European Commissioner and former French minister of Finance Pierre Moscovici, who is not a known social constructivist.

extends far beyond the shrivelled mass of direct knowledge and direct realities, and it is spreading in every direction.

Under these conditions, we think and see by proxy." (Moscovici 2008: xxvii)

It is difficult to think of an area in which that idea is more apt than economics. Much of what we hear about the economy, and economic policy, is abstracted from our daily lives. We may think the fiscal deficit is important, but it cannot be seen or touched and, if asked, most people probably couldn't say how big it is. Even when economic events touch us directly – when we become unemployed, or our mortgage interest goes up – the causes of those events are unclear and require interpretation. Politicians, and especially governments, then become an important source of pre-certified ideas about the state of the economy. A constructivist view of economic policy therefore requires that narrative, and rhetoric, are placed at the centre of the analysis, with government narratives perhaps most central of all.

Constructivist political economy has important advantages, making possible a fuller conception of the role of narrative and rhetoric than is available using rational materialist assumptions. It opens up the political as well as the economic dimension of political economy, and allows us to ask more searching questions of rhetoric than simply whether it is correct, exploring instead the *kind* of correctness the narrative is trying to assert, and what the political implications of that attempt might be. However, constructivist political economy also runs up against some difficulties in explaining the dynamics of the New Labour case, and especially the Labour government's apparent inability to reframe its economic story in the face of the financial crisis. In a constructivist world, ideas and discourse introduce a theoretically bottomless flexibility to politics, allowing actors to perpetually redefine the world and build new coalitions of interests around new narratives. As such, the empirical literature in ideational political economy had until recently been oriented to the explanation of change, not continuity (see Blyth,

1997; Schmidt, 2010). If institutions were the source of continuity in politics, ideas and discourse were assumed to be the grit in the oyster; the building block of political creativity and innovation with which political actors, whether social movements or elite norm entrepreneurs, could conceive and instigate change.

Furthermore, constructivist political economy, in conjunction with historical institutionalism, had developed a punctuated equilibrium view of change in which crises should create the main window of opportunity for ideas and discourse. The 2008 financial crisis, and the political contortions that it triggered around the developed economies, should have been one of those moments in which the workings of economic ideas in politics is best revealed, since it was well established in the comparative political economy literature that moments of crisis are the key opportunity for ideational and discursive change (Hall, 1993; Blyth, 2003). For example, t'Hart and Tindall emphasise that moments of crisis are opportunities for discursive contests that produce more rapid change than would normally be possible: "When a particular 'crisis narrative' takes hold, it can be an important force for non-incremental changes in policy fields that are normally stabilized by the forces of path dependence, inheritance and veto-playing." (2009: 23). Mark Blyth has cautioned against treating ideas as an all-purpose *deus ex machina*, arriving from the ether to disrupt otherwise stable institutions (Blyth, 1997). However, Blyth himself allows ideas their greatest power in the aftermath of a disruption of the status quo:

"[I do not] say that only ideas matter, nor that institutional change is purely an ideational affair; they do not and it is not. But economic ideas certainly do matter in periods when existing institutional frameworks and the distributions they make possible fail and uncertainty prevails." (Blyth, 2003: 11)

Constructivist political economy, and its part in the ideational turn

within political science, had thus given rise to two broad expectations. First, that since politics is based on processes of ideational and discursive construction, ideas and discourse will be most important when they operate in the service of change rather than continuity. Second, that if crises are the moments at which the creative potential of ideas is most likely to emerge, we should have seen it in the 2010s; discursive change was supposed to follow institutional shock. It was therefore a problem for constructivist political economy that the largest exogenous shock in a generation – the global financial crisis – did not seem to have opened the ideational field as much as one might have expected. The orthodoxies of neoliberal economic policy, particularly its embrace of finance capitalism, should have been seriously weakened by the crisis of 2008-onwards. As Schmidt and Thatcher put it:

“assertions about allocation through ‘efficient markets’ as opposed to the ‘inefficient state’ faced the reality of disastrous private-market decision and state bailouts of large companies, including large financial institutions who had been the beacons of private markets... Such gaps between the rhetoric and a different reality might have been expected to weaken neoliberalism; however, their continued reappearance suggests the opposite.” (2013: 29)

Far from instigating a reckoning for neoliberal economic policy, the crisis proved “not paradigm challenging but rather paradigm-reinforcing” across the advanced economies (Hay & Smith 2013: 402). From Britain’s austerity budgets to Federal Reserve’s continuing entanglement with Wall Street (Jacobs & King 2016) to the Eurozone’s self-inflicted pain, neoliberalism appears to have survived the crisis with its grip on the levers of policy as tight as ever. Ideational political economy, having hitherto been mostly change-oriented, was forced to confront the failure of its predictions and come up with ways of theorising ideational continuity, and to ask whether it could be understood as something distinct from stable interests or institutional inertia

(Schmidt & Thatcher 2013).

The New Labour government of the UK offers a prime example of this puzzle. Following Labour's election defeat in 2010, Gordon Brown used his hastily-written book *Beyond the Crash* to acknowledge that the old ideas had proven useless in explaining what had gone wrong in 2008-09:

“With the major industrial economies hurtling toward a depression, we were facing a perfect storm. Economic orthodoxy was proving irrelevant; the market seemed intent not on self-correction, but on self-destruction.” (Brown, 2010a: xix)

Yet in the opening pages of the same book Gordon Brown reaffirmed his faith in the goodness of free markets:

“I am proud that whatever my faults, I have maintained a resolutely antiprotectionist, pro-free trade, *pro-market*, and pro-globalisation stance throughout my time as Chancellor, as Prime Minister, and since.” (ibid: 26, footnote, emphasis added)

Brown was not alone in exhibiting this kind of cognitive dissonance. Policymakers in the UK and other developed nations, despite much talk about the dramatic scale of the crisis in the years following the crash, did not seem to be rejecting the old policy paradigm nor even seriously questioning it. The New Labour case is best seen as a subset of a wider puzzle, in which despite massive shocks to existing narratives, ideational change did not emerge.

After the banking crisis of 2008-09, despite taking quite decisive policy action Labour floundered presentationally, struggling to adapt a new narrative to fit the changed conditions. The policy response to the crisis was, in fact, quite decisive, including government action to recapitalise British banks, and a

leading role for the UK in coordinating policy at the international level. Brown's proactiveness won praise from international observers and policy elites (Freedland 2009); nonetheless, the domestic politics remained unfavourable, with Labour apparently unable to articulate a convincing story about why the crisis had occurred, and what the future would look like. The question is why the rhetoric – ostensibly the most flexible part of a government's activity – should be so difficult to turn around, even in the face of extreme provocation. There is no doubt that the arrival of the credit crunch dealt a serious blow to Labour's "no return to boom and bust" narrative, but if the policy could adapt, why not the story? If economic narratives are social constructions, why not simply construct a new one to fit? Just as materialist political economy struggled to explain the political success of Labour's stability talk before the financial crisis, constructivist political economy also has some difficulty explaining the stubbornness of that narrative after the crash.

### ***Economic construction between crises***

The risk for constructivist political economy is therefore that the "strange non-death" of the old ideas (Crouch, 2011) simply brings us back around to material explanations. If ideational and narrative change was not a major feature of this crisis, perhaps ideas and social construction are not the causal force constructivists had believed. It might be argued that economic policy change is less a matter of ideational contestation after crisis, and more a straightforward regrouping of interest politics, or a simple case of institutional inertia, in which case a combination of rational choice and historical institutionalism is sufficient to explain things. To the extent that neoliberalism has been rebooted rather than rejected since 2008, this might be taken to reveal the primary importance of economic elites and their grip on key institutions: on the one hand, powerful interest groups maintaining their position by sponsoring the politics of austerity and retrenchment (Mirowski, 2013) and, on the other hand, the institutional stickiness of an intellectual framework that has put a generation of economists in tenured positions (Blyth, 2013b). In that case, there can be little to say about ideas and narrative except

that they provide useful tools for groups that wish to make narrow interests appear encompassing. The non-death of neoliberal ideas is only puzzling if you start with constructivist assumptions about the malleability of political thought; if you begin instead with institutional status-quo bias or interest-group politics, the puzzle arguably disappears. Ideas and discourse are once again epiphenomenal to the operation of more familiar causal forces.

This thesis will propose that ideas and discourse actually did matter a great deal in the story of Britain's financial crisis and its aftermath, but that understanding *how* they mattered requires a more nuanced theory of the ways in which ideas operate across a political cycle. In particular, it requires a much better theory of the extent to which continuity, and the periods in between crises, are also subject to processes of narrative construction. The role of discourse in shaping economic policy programmes is most well acknowledged in respect of economic crisis, since at times when policy paradigms are destabilised by crisis, the process of redefining the economy in speech becomes highly visible:

"Who gets to interpret the crisis, to speak what it is, and to specify what models can legitimately be brought to bear to tame it is worth attending to... Such practices are the exercise of power." (Abdelal et al 2011: 234)

However, this was only ever half the story. If we are persuaded that language acts to politically construct periods of crisis, it surely makes sense to ask what role economic rhetoric plays at other points in the cycle. The construction of economic stability in the period between crises is equally important as the construction of paradigmatic change, but remains undertheorised by constructivists. In particular, this shortcoming arises because the politics of stability and the politics of crisis cannot be adequately understood in isolation from one another. Focusing on narrative – on politics as a story, told in a particular order – has the potential to correct this weakness because it

imposes an awareness of sequence that can otherwise go missing in political economy. Responses to crisis are not hatched in a laboratory; they occur in the presence of prior narratives and may be conditioned, or indeed constrained, by the political stories that have gone before. As such we need an ideational political economy that does not treat ideational change and continuity as separate and free-standing phenomena, but which engages with processes of construction across the boom-bust cycle.

In that spirit, this research explores the proposition that in the New Labour case, ideas and rhetoric that began in the service of political change later became ossified, to the extent that Labour were eventually trapped by their own discourse; wedded to an imaginary of the economy that was increasingly difficult to sustain but which nonetheless imposed real boundaries on the government's ability to think, or speak, a different economic story. Keynes' much-quoted (and possibly apocryphal) bon mot on evidence-based policy – “when the facts change, I change my mind” – is often held up as an example for policymakers to follow. But New Labour's struggle to renew their rhetoric after the 2008 crisis appears illustrative of a different Keynesian observation: that “the difficulty lies not in the new ideas, but in escaping from the old ones” (Keynes 1973: xxiii). This research deploys the tools of ideational political economy to look more closely at why, exactly, that should be so.

## 2. Theory and literature

### Making sense of ideas and discourse in economic policy

In political science, causal theories are commonly grouped under three headings, each emphasising one of three contenders for the epistemological bottom line: interests, institutions and ideas. Of those three, theories of ideas are still arguably the least established; ideational theory is less a unified school than an umbrella term for a group of approaches, many of which are still relatively new (Abdelal et al, 2010, Béland & Cox, 2011). What ideational scholars share is dissatisfaction with conventional social science approaches that assume mostly fixed material interests or institutional structures. In its broadest form, ideational social science has argued simply that ideas matter and that without them, models of social action will always be underspecified (Schmidt 2010, 2011; Schmidt & Radaelli 2004,). Others have taken a more overtly constructivist position that asserts that ideas not only matter, but are fundamental to the operation of the social world, and should therefore be the starting point for theory (Beland & Cox 2011; Blyth 2003, 2011; Hay 2011). Most, though not all, ideational theorists tend towards constructivism, arguing that the material context must always be apprehended via processes of social construction, and that material objects are therefore less important or less interesting than the ideas people hold about them, and the politics in which those ideas are mobilised.

This research contributes to the growing literature in ideational political economy, being prompted by a conviction that what looks, at first glance, like rational interests or institutional inertia in economic policymaking might actually be better explained by reference to ideas and discourse. The introductory chapter suggested that ideas and narrative are fundamental to the politics of the economy, and that a constructivist epistemology offers the best means of theorising their significance. This chapter develops that

argument in more detail, beginning with a set of broadly constructivist assumptions about the nature of economic policy. The first is that economies are not amenable to simple observation, but require us to apply ideas in order to understand them. Economic ideas are not exogenous accounts of the political economy as object; rather the ideas should be understood as endogenous to the economic sphere, which cannot be understood except by grasping what and how political actors think about it. Put another way: it is never simply “the economy, stupid”, but rather the representation of the economy by political actors that determines the politics of economic policy. Second, I suggest that the primary means by which we arrive at those representations of the economy is through discourse, and the construction of narratives. The language of economic policy should therefore be seen as not only descriptive, but constitutive, of the politics. Both these points will be expanded on throughout the theoretical literature review that follows.

However, the aim of this project is not simply to swell the ranks of the ideational school by attesting that I too have concluded “ideas and discourse matter”. Rather, the aim is to build on the existing literature by showing *how* they have mattered in the politics of Britain’s financial crisis and, in doing so, to generate some new propositions about the mechanisms at work in the life cycle of economic policy narratives. Being more specific, the project explores whether, contrary to what theory in this area commonly predicts, ideas and discourse have as much to do with the construction of stability and continuity as they do with crisis and change. It will propose that ideational theory needs to develop the tools not only to explain continuity or change as separate phenomena, but to understand the interactions between these two states, since addressing theories of ideas to only one side of the coin dooms them to failure in explaining real-world cases. To that end, this research explores the proposition that ideas, and the narratives in which they are mobilised, first empower political actors but later constrain them, and that over time governments may find themselves caught in narrative traps of their own making. Those narrative traps should be understood not as rationally self-

reinforcing examples of path dependency, but rather as cognitive and ideological commitments whose causal power substantially derives from their internalisation by their original narrators.

The New Labour case appears to show that a narrative calibrated to provide a platform for policy action in one sort of context, can be overtaken by events that pose serious challenges to its validity but, despite this, continue to impose constraints on actors' ability to think, or speak, about alternatives. If correct, this would suggest that both ideas and the discourses in which they are mobilized have causal force in politics, but not in the ways that are usually assumed. Rather than being primarily the vehicle for political agency and endogenous change, it is proposed that economic narratives, rather than the institutions they inhabit, or the material interests of narrators, may become a key source of political continuity, because over time they come to embody ideational commitments in which change is difficult and slow. They do so not because ideas are always agents of continuity, but because ideas, once mobilised as political narratives, go through a life cycle in which change is less and less available as time goes on.

This chapter reviews the existing theoretical literature on three fronts. First it will develop the argument, introduced in the previous chapter, that a key function of ideas in the political economy is the construction of narratives as an antidote to economic uncertainty. Existing scholarship provides a rich vein of evidence on the processes by which rhetoric and economics interact, demonstrating not only that narrative-making is an important social process but that it has particular relevance to economic policy as a field. Second, the chapter compares that understanding of the role of narrative with the theoretical literature on ideas and discourse, particularly discursive institutionalism and constructivist political economy, and discusses their historic preoccupation with explaining political change rather than continuity. Third, the chapter reviews post-crisis developments in ideational theory around the puzzle of ideational non-change after 2008. It concludes by

suggesting that understanding the role of narrative in economic policy means developing a more sophisticated theory of the ways in which ideas play into the politics of both crisis and stability, and that this can best be done by tracing the operation of real narratives across periods that encompass both conditions.

### ***The politics of economic policy: narrative as the antidote to uncertainty***

The previous chapter introduced the idea of an uncertainty dilemma for economic policymakers, who are called on to project economic certitude while themselves operating under conditions of perpetual uncertainty. It was suggested that a key means by which governments respond to that dilemma is by the production and dissemination of narratives, which conjure a degree of certainty and so provide a basis for policy action. How exactly is that achieved?

First, narratives are “tools people rely on to stabilise their assumptions about political dilemmas and come to conclusions about what to do.” (Boswell, 2013: 2). In the context of economic policy, they provide a means by which technical information about the economy can be made intelligible. Faced with complex trends, incomplete data or competing theoretical claims, policymakers must arrive at an understanding of the economic conditions which, even if not 100 percent certain, is stable enough to serve as a basis for policy decisions (t’Hart & Tindall, 2009). This functional understanding of narrative will be familiar to policymakers themselves, who are cognizant of the need to ‘tell a story’ out of the data (Smart, 1999), and who recognize that since perfect certainty is not generally available, a good narrative of the economy can fill in the gaps. Anthropologist Douglas Holmes has termed this process the “economy of words”, in which language is the means by which mixed or uncertain signals on the economy are boiled down to a coherent story, and “the shifting and fugitive dynamics of global markets” can be rendered intelligible (Holmes, 2009: 384-5).

One does not need to be a constructivist to accept that economic trends require some interpretation, if only because the available information tends to be complex and incomplete (if the data spoke for itself, economists would go out of business). However, it is useful to extend that argument in a constructivist direction, in two respects. Firstly, one can argue that if economic data need interpretation, then it is likely that more than one interpretation will be possible, and that actors will need to select between competing accounts of the same events or trends. While economic indices such as employment, or price inflation, may have an existence independent of our narratives, deciding which of them matter, and how much, in order to combine them into a whole that we can label ‘the economy’ is clearly an interpretive exercise in which ideas have the potential to be causally important. Constructivists have further argued that even defining the economy as a singular object is an interpretive process, and one that has only evolved in the last several decades (Brown, 1994). For example, Earle et al (2017: 15) have shown that “the economy” first appeared in British party manifestos in the 1950s, rapidly increasing in prominence with every election cycle since. Obviously economic questions were important in politics before that point, but the identification of “the economy” as an object to be managed was a mid-twentieth century idea, suggesting that in economic policy, even the most unremarkable rhetorical constructions are socially and historically contingent. In short: neither the existence nor the shape of the economy is a straightforward projection of the material world; they are fields of uncertainty that require interpretation. This statement is less controversial than it used to be: one side-effect of the 2008 crisis was that even sections of the economics profession became suddenly interested in the constructedness of their object, with Nobel laureates Akerlof and Shiller remarking that “lest there be statistical doubt that the credit crunch is just one more story, every economist has his or her favourite statistical indicator of it” (2009: 87). Even so, it bears repeating that economics, both as an academic discipline and as a policy field, is in many ways inherently interpretive, making narrative an essential part of its professional toolkit.

Second, while one need not be a constructivist to talk about ‘telling a story’ out of economic data, that insight can usefully be expanded by recognising that what those stories do goes beyond assembling a descriptive account of the economy: narratives exist to persuade an audience of a certain kind of reality. Deborah Stone (1989) has laid bare the ways in which political narratives are not just stories, but *causal* stories, carrying explicit or implicit messages about why things happen, who should receive the credit or blame for them happening, and thus where the responsibility for further action belongs. By constructing causal stories about social questions actors not only describe the world but also define the scope for political action to change it. In particular, Stone argues that such stories “have both an empirical and a moral dimension” (1989: 283); they adjudicate questions of cause and, by extension, blame, when they arbitrate whether a problem is thought to have originated in the realm of “accident, fate or nature” (1989: 299) or in the realm of human behavior, control and intent. The distinction has important consequences for the kind, and degree, of government action that may legitimately be brought to bear on a problem; whether, for example, financial market failures of the kind seen in 2008 were the product of active human malfeasance, or the passive physics of markets, has important implications for future policy. Narratives of the economy thus construct the world not just to create order out of uncertainty, but to make that new certainty politically actionable. Causal stories act to shape and delimit policy agendas.

The proposition that narrative acts to reduce uncertainty and enable political action could apply to any number of policy areas. However there are also special characteristics of economic policy that make the ideational construction of narratives particularly relevant here. The first arises from the nature of economics as an academic discipline, and its particular blind spot for narrative and rhetoric. The assertion of narrative truth is an assertion that the narrator possesses authoritative knowledge, and a common strategy for invoking such authority is to present the ideas within the narrative as objective and unarguable. As Stone puts it: “political actors use narrative story lines and

symbolic devices to manipulate so-called issue characteristics, all the while making it seem as though they are simply describing facts" (Stone, 1989: 282). Economics being a particularly quantitative, positivistic branch of the social sciences, it is especially prone to adopt that stance, presenting its readings of the economy as technical and objective: that is, as apolitical. Both economic policymakers and their academic counterparts are, therefore, particularly likely to arrive at apparently neutral causal stories that validate their authority as experts, and they are likely to be uncomfortable with the notion that what they are doing is rhetorical rather than just technical.

Both economists and economic policymakers tend to share an instrumental view of narrative, accepting that a certain amount of interpretation (or inference, in the statistician's lexicon) is necessary to get the job done, but nonetheless seeing themselves as primarily in the business of facts not interpretivism. As Akerlof and Shiller put it:

"It is generally considered unprofessional for economists to base their analyses on stories. On the contrary, we are supposed to stick with quantitative facts and theory – a theory that is based on optimization, especially optimization of economic variables..." (2009: 54)

Deirdre McCloskey (1998) characterises the field of economics as operating on the implicit belief that political language is generally the enemy of good science because, in rational materialist terms, rhetoric provides "veils over bad arguments" (1998: 13). Instead, she suggests, "rhetorical devices... are also the form and substance of good arguments" (1998:13), in which case the presence of rhetorical or narrative language should not be automatically mistrusted, any more than the presence of complex statistics should automatically imply validity. Moreover, she suggests it is futile to imagine that rhetoric could somehow be stripped out of economics leaving only the science behind, because even the dispassionate, rationalist voice characteristic of professional

economists is, in McCloskey's view, an ethos position, established through the a particular kind of discourse in which scientific detachment is a powerful rhetorical tactic. Unfortunately, that very rhetoric leaves economists vulnerable to error, because:

“science does not protect us from all nonsense, only some. Science is human speech, too. If we do not realize that science uses metaphors and tells stories... we are going to do worse than make fools of ourselves. (1998: 173)

That is, it is not the presence of rhetoric that is economists' weak spot, but their denial of its existence.

McCloskey's target is the academy, but her critique is equally relevant to economic policymaking, which combines economists' scientific aspirations with politicians' need for certainty. As such economic policymaking might be considered particularly vulnerable to hubris and overconfidence in its predictions - not because it relies on constructed narratives to marshal its analyses, but because it is generally uncomfortable with admitting that fact, leaving it without the tools to identify and critically assess what its narratives of the economy are doing. There are of course strategic reasons why politicians might wish to tap into the economist's professional persona to depoliticise certain policy choices, as has been suggested in relation to the flagship New Labour policy of central bank independence (McNamara, 2002). Economic language plays into identity politics: a politician who speaks in economics is unlikely to appear exciting, but they may project other qualities, such as expertise or seriousness. Gordon Brown was, for a time, so successful in cultivating his image as the dour but responsible steward of the economy that “Not Flash, Just Gordon” became a Labour party promotional slogan. Those political imperatives should not, however, distract theorists from critically interrogating economic policymaking's scientific self-image. The trap for political science is that it takes the drily rationalist language of economic

policy at face value by studying it mainly in rationalist terms.

A constructivist theory of economic policy narratives would offer a corrective to the tendency to assume that because mainstream economics, and economic policy, speak the language of rational interests that is the key to their explication. Constructivist approaches have emphasised that economic narratives go beyond the technical, offering “both a “scientific” and a “normative” account of the existing economy and polity” (Blyth, 2003: 11). Theories of rhetoric also provide useful heuristics for thinking about economic language, since what looks like pure logos (logical argument) may also rely on ethos (qualities of the speaker) and pathos (emotive appeals) to get its point across. (Bauer & Glaveanu, 2011). The language of economics might appear to be the very opposite of political rhetoric, being dry, academic, and often “aggressively dull” (Galbraith, 1991:2), but those very qualities may in fact be contributing to its effectiveness in the construction of economic narratives.

Economic policy also has a distinctive relationship to ideas and narrative because of the endogeneity of economic policy discourses to the economies they seek to influence. In some policy areas, effecting change requires direct government action via legislative or fiscal policy: for example in education, exam results are not likely to differ from one year to the next because the education minister makes a speech about them. In economic policy, however, political discourse can have immediate material consequences, because economic performance is affected by sentiment and expectations, which are themselves affected by political speech (Wood et al, 2005). Narratives, then, are not the end of a process of analysing the economy as a static object, but are part of a feedback loop in which policymakers both react to, and seek to shape, the economy. Narrative operates on both sides of this loop, facilitating analysis of economic events but also materially altering them because what policymakers say, as much as what they do, influences economic sentiment and thus economic behaviour. Policymakers are aware of this potential impact and will be acutely conscious of the potential for their

words to either fuel economic confidence or damage it (Holmes, 2009). Narratives matter in economic policy because they have the potential to move markets, at which point “the stories no longer merely explain the facts; they are the facts.” (Akerlof & Shiller, 2009: 54).

If narratives are about creating certainty as a platform for policy, then clearly the ability to construct a convincing narrative confers significant political power on the narrator. Much recent literature in political economy has turned the spotlight on the interpretive contest to define the global financial crisis, on the basis that “who gets to interpret [a] crisis, to speak what it is, and to specify what models can legitimately be brought to bear to tame it is worth attending to... Such practices are the exercise of power” (Abdelal et al 2011: 234). Deciding whether, for example, the advanced economies should be considered to have experienced a crisis of debt, or a crisis of growth, is an interpretive battle in which the same data is mined for evidence to support utterly different policy prescriptions (Hay, 2013, Blyth, 2013a).

However, not all narratives are born equal: politicians, and especially governments, are an especially important source of stories about the state of the economy. Akerlof and Shiller argued during the crisis that governments’ accounts of the world are powerful because:

“the human mind is built to think in terms of narratives, of sequences of events with an internal logic and dynamic that appear as a unified whole... The same is true for confidence in a nation, a company or an institution. Great leaders are first and foremost creators of stories” (2009: 51).

This is not to say that political narrators have it all their own way; governments must work extremely hard to ensure their narrative is accepted, with varying degrees of success. They do however occupy a privileged position, since both the symbolic status of leadership, and the institutional resources at their disposal, ensure that a government’s view on the economy is guaranteed an audience and usually afforded a degree of credibility. This research focuses

particularly on developing a constructivist theory of *government* narratives, since these provide a window on the workings of discourse and ideas at the very centre of the political economy.

It is important to note that asserting the importance of government narratives in constructing the economy is not the same as saying that the economy is only a construction. Vivien Schmidt has noted that the language of discourse and narrative can be off-putting for many political scientists, for whom it “conjures up exaggerated visions of ‘post-structuralists’ or post-modernists who, they (often unfairly) assume, consider words without deeds” (2010: 15). To be clear: the economy is not just a figment of the Chancellor of the Exchequer’s imagination; for example, the global financial crisis had material consequences that would be belittled if one were to assume they could simply be re-imagined away, by politicians or anyone else. The point is not that there is no such thing as the material economy – it is that the economy can never be *politically* meaningful except via a process of construction, since “for things to be intelligible they must exist as part of a wider framework of meaning, that is, of a discourse” (Panizza & Miorelli, 2013: 303). One set of material conditions can give rise to many kinds of politics; this, of course, is where ideas and discourse come in.

### ***Change and continuity: are ideas revolutionary, or conservative?***

We have seen that ideas, and the narratives they support, are fundamental to the politics of the economy. Whether those politics tend toward change or continuity is a separate question, and for the most part the theoretical literature on ideas and discourse has tended to suggest the former: that ideas are the wellspring of political agency, and provide resources for political actors wishing to effect various kinds of change. The emphasis on change in the ideational literature, while valid in many ways, has also proved a weakness, since it fails to capture a large part of what economic policy narratives do in practice. As discussed in the previous chapter, this shortcoming was made particularly visible in the wake of the 2008 crisis, which should have provided

perfect conditions for ideationally-driven change, but which was characterised instead by the surprising resilience of the old paradigm. This chapter takes a closer look at this gap in the theoretical literature, suggesting that while ideas certainly have the potential to be revolutionary, since the purpose of economic narrative is to reduce uncertainty then it is equally likely that the ideas which become politically significant will be those that enable political agents to stabilise the world, and to promote continuity rather than transformation.

Early scholarship in the ideational school tended to emphasise the relationship between ideas and change, not least because other branches of political science appeared to have the continuity side well covered. In institutionalist political science, ideas only began to enter the analysis relatively recently, since the initial focus of that subfield had been on the capacity of institutions to structure social behaviour, and to establish the 'rules of the game' in a given institutional context (North, 1990). Scholars of institutions developed different views on the raw materials underlying institutions: material interests (rational choice institutionalism), established organisational forms and the legacy of past decisions (historical institutionalism) or conventions and cultural norms (sociological institutionalism – see Hall & Taylor, 1996 for a definitive review). All three branches of institutionalism, however, saw institutions as self-reinforcing, characterised by feedback loops and processes of increasing returns that would tend to constrain the ability of even the most powerful individuals or interests to bring about change. The great advantage of such theories was their ability to conceive of the state as actor, and government as something more than the sum of plural interest groups, thus helping to explain why apparently similar problems might give rise to very different political outcomes in different national contexts. The downside, of course, was a tendency to emphasise stability over change, and to reify institutions as seemingly unalterable bastions of the status quo.

According to Vivien Schmidt (2010), institutionalists therefore turned to ideas as a means of understanding how, in a world full of institutions, change is still possible. Bringing ideas, and the discourses in which they circulate, into the analysis achieved two things. First, by paying attention to the content of ideas it becomes possible to explore what agents think about institutions, and how they invest meaning in them, reinstating a sense that individuals have independent agency, with the ability to reflect on institutions and even reject them. Ideas thus reinstate the possibility of change, even if institutional continuity is the more common state of affairs. Secondly, a focus on the exchange of ideas as discourse begins to expose the mechanisms underlying institutional change. Rather than change having to come from an exogenous event, a focus on discourse allows us to theorise institutional change from within. Schmidt argued that the turn to ideas cut across all three branches of new institutionalism, and that it should rightly be considered a fourth, “discursive” institutionalism (DI), which is “concerned with both the substantive content of ideas and the interactive processes of discourse in institutional context” (Schmidt, 2010: 1).

For Schmidt, DI gave us a useful new tool to work with, but it still fell to the analyst to demonstrate “when discourse matters”, that is, when it exerts a causal influence on policy change by serving to reconceptualise interests, reshape institutions and reframe culture, and when it does not” (Schmidt & Radaelli, 2004: 201). In other words, ideas and discourse were considered to matter when they effect or instigate change. Discourse’s claim to significance was based on the premise that “how ideas are generated among policy actors and diffused to the public by political actors through discourse is key to explaining institutional change (and continuity)” (2011: 55). As a result, Schmidt seemed initially to confine the usefulness of DI to explaining change, leaving stability to the other institutionalisms, making discursive institutionalism a complement to the other three rather than a fully realised alternative. While she would allude, parenthetically, to a role for discourse in constructing continuity, this line of inquiry had not, until recently, been

developed any further.

If discursive institutionalism originally approached ideas as a counterweight to institutions, other discursive schools tended to be equally change-oriented, looking to ideas as a source of *a priori* political agency. Critical discourse theory (CDT), with roots in post-structuralist and post-Marxist thinking, conceives of discourses as important sites of resistance to power and hegemony (Howarth et al, 2000; Norval, 1996). Critical discourse analysis often aims to reveal the contingency of taken-for-granted ideas and social structures, creating the space in which they can be challenged and overturned. Once again, the theoretical emphasis is on the potential for ideas to effect transformations in politics, while the empirical focus is generally outside the political mainstream, on discourses of protest and resistance. For CDT the radical potential of ideas is, ultimately, the point; a connection between discourse and social change is baked into the theory.

Constructivist and ideational political economy sit somewhere in between institutionalism's focus on established structures and rules, and critical discourse theory's interest in language, power and resistance. Much of the ideational turn in political economy can be traced to Peter Hall's seminal 1993 article 'Policy Paradigms, Social Learning and the State', which was concerned with the ways in which policy models change, and thus with the operation of idea and discourse within the institutions of government. Hall's definition of a policy paradigm brought these elements into novel combination:

"Policymakers customarily work within a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing... This framework is embedded in the very terminology through which policymakers communicate about their work, and it is influential precisely because so much of it

is taken for granted" (1993: 279).

As with Stone's causal stories, Hall's policy paradigms assemble a set of ideas that both define and solve a policy problem; successful paradigms, like successful causal stories, succeed when they assume sufficient authority as to shut out alternatives, ultimately becoming institutionalized in the policy and practices of government. Out of that framework, Hall develops a theory of ideational change that distinguishes between changes in the settings and instruments of policy – first- and second-order change, which is part of "normal policymaking" – and paradigmatic change at the level of overarching policy goals. That is, he places special emphasis on change at this third order, which is where the big ideas live. Change at this level will be radical and therefore rare, requiring an "accumulation of anomalies" so great as to fatally undermine the authority of the old paradigm and allow a new one to come through. So while ideas could be hugely powerful once embedded in policymaking, disembedding them usually required "developments that are not fully comprehensible, even as puzzles, within the terms of the paradigm" (1993: 280).

Hall's insights did a huge amount to open up the ideational turn in political science, providing new conceptual tools with which to theorise ideas in operation, rather studying them than as abstracted ideologies or discourses. His emphasis on change in response to paradigm failure would prove particularly influential. The constructivist-ideational literature that followed duly tended to locate moments of change within a punctuated equilibrium framework, in which relatively stable paradigms experience periodic bouts of rupture and reinvention, usually in response to an exogenous event of some kind. Ideas were thought to be most powerful during crises, which provide the window of opportunity in which ideas may flourish (Blyth, 2003; Matthijs, 2011; t'Hart & Tindall, 2009). The revolutionary power of ideas was, in other words, subject to boundary conditions, the most important of which was thought to be the weakening or breakdown of a previously dominant paradigm. Mark Blyth summarised this position, arguing that:

“ideas permeate all aspects of materiality and determine agents’ orientations to social objects. But none of this means that institutions are “up for grabs” all the time. As such, the ability to determine the dominant narration of “the way the economic world works” is powerful only to the extent that ideas can reach across consumption categories in moments of uncertainty and transform supposedly given interests.” (2003: 271)

Similarly, Sheri Berman (2013) has described a two-stage process in which challenges to existing ideas creates the ‘demand’ for new ideas, allowing new political movements to provide the ‘supply’ by bringing new narratives to bear on existing questions. Ultimately, there has always been a tension at the heart of the punctuated equilibrium model between, on the one hand, its awareness of the constructedness of the social world and, on the other hand, its recognition of the embeddedness of many of those constructions. Ideationally-oriented work was continually called on to differentiate itself from historical institutionalism, which as Hall himself noted, had always been “attentive to the relationship between institutions and ideas or beliefs” (Hall & Taylor, 1996: 942). This was most commonly resolved by allowing institutions to embody stability, and ideas to introduce the possibility of change under the right conditions. It required only the right kind of shock or ‘moment of uncertainty’ to give ideas their window of opportunity over policy and, by extension, to reveal the power of ideational theory.

### ***Crisis: the strange non-death of a paradigm***

The 2008 financial crisis provided some vindication for constructivists, as the politics battles around the causes and remedies of the global crash made it suddenly uncontroversial to suggest that economics, and economic crises are, to a large degree, socially constructed (e.g. Hay, 2013). In other ways however, the crisis confounded ideational political economy’s best theories. An exogenous shock like the meltdown of the global financial system

was exactly the sort of event that was expected to destabilise old ideas and usher in new ones; in Hall's terms, the paradigm-threatening anomalies were piling up fast. Attention therefore turned to why, since 2008, new economic ideas were much less forthcoming than expected. Rather than a paradigmatic ideational shift being triggered by the crisis, there appeared to have been a brief period of policy experimentation in 2008-09, which was then rapidly reversed in favour of a return to the pre-crisis paradigm and policy toolkit (Blyth, 2013a, Farrell & Quiggin, 2012, Hay 2013). The 2008 crisis had, it seemed, contradicted the predictions of constructivist and ideational political economy, which were confronted with the fact that this very large punctuation had not upset the equilibrium of the old ideas, or at least not for long.

This new puzzle soon generated its own literature. In 2010, John Quiggin's *Zombie Economics* set up the question, asking why policymakers were still venerating discredited neoliberal doctrines such as efficient privatization, trickle-down economics and self-correcting markets. Colin Crouch (2011) dubbed this phenomenon the "strange non-death of neoliberalism", since neoliberal ideas appeared to be not only surviving their great crisis but perhaps profiting by it. In 2013, Schmidt and Thatcher's edited volume on "resilient liberalism" sought to bring a variety of theoretical weapons to bear on explaining neoliberalism's extraordinary ability to make the best of a crisis, asking simply why 'the illusions have survived the bonfire' (Callinicos, 2010, quoted in Schmidt & Thatcher, 2013: 14). Schmidt and Thatcher's introduction to the volume did not seek to resolve the question, but it identified five possible lines of inquiry. Three of these were broadly ideational explanations, the first being that neoliberal ideas were, in their substance, sufficiently elastic as to be able to absorb even a global financial crisis without sustaining fatal damage. Second, that the implementation gap between what neoliberalism had promised, and what it had actually delivered by 2008, left room for the argument that policy simply had not gone far enough. In this scenario, neoliberalism might actually have been strengthened

by its empirical failures, which had left its proponents free to keep arguing for perpetual revolution. Third, Schmidt and Thatcher suggested that neoliberal policymaking was able to skate around its apparent failures because its philosophy retained enough internal coherence to sound convincing. That is, discursive elegance might be trumping material validity in the battle of ideas around the crisis. A good example of this might be the resonance of the analogy, popular with proponents of austerity, between government debt and household budgets, which sounded so much like common sense that no amount of expert debunking was able to dent its political power in the post-crisis years (Blyth, 2013a).

Each of these three ideational explanations is intriguing, but each leaves open the question of *why* political actors were, in those years, still so committed to, and keen to promote, neoliberal ideas; why they were still motivated to make the best of neoliberalism's malleability, its incomplete implementation or its internal coherence. Why had so few policymakers been affected by the crisis? Why no neoliberal crisis of faith? Schmidt and Thatcher therefore left open the usual two alternatives to ideational explanations: interests and institutions. For all the adaptability of neoliberal ideas, there remained the possibility, in their analysis, that neoliberalism had survived its crisis thanks to a combination of active support from the winners in the neoliberal political economy, and the passive effects of institutions that retained pre-crisis ideas in their organisational DNA.

The surrounding literature is similarly divided on the causes of neoliberalism's resilience. Some emphasise the brute politics of interests, including the power of large corporations to continue sponsoring a policy suite that had always been more self-interested than philosophically pure. In this vein, Crouch (2011) lays much of the blame for neoliberalism's non-death at the door of large corporations, who have been well served by a policy model that preached free markets but actually delivered oligopolistic advantage to large incumbents. While that account clearly has some validity, it does not

explain why the big firms were able to protect their advantage after 2008, when their ability to lobby their interest should have been at its weakest. Mirowski (2013) offers a partial answer to that challenge, suggesting that the interest groups that sponsor neoliberal ideas underwent no more than a tactical retreat after the crisis, regrouping behind the scenes and continuing to dominate the ideational field through their established networks of political influence. Mirowski is surely right that “a burst of bad news does not generally bring a dogma crashing down of its own accord. It takes a whole lot more than that” (2013: 34). However his account of a “neoliberal thought collective” outmanoeuvring leftwingers shades towards conspiracy theory, presuming an extraordinary degree of coordination by neoliberals. It is also strongly oriented to the US context in which lobbying and campaign finance combine with multiple veto points to put politics up for sale. It is far weaker as an explanation of ideational continuity in the UK, where neoliberalism’s non-death occurred under the auspices of a centre-left government with near-total executive power, and a less pervasive lobbying industry (Hopkin & Alexander Shaw, 2016). Ultimately, such interest-based accounts rely on pointing to the reasons neoliberalism suited certain actors all along, providing much thinner evidence that those actors continued to exert influence on policy during and after the crash.

John Quiggin’s explanation puts more emphasis on institutions, and specifically on the “internal dynamics of the economics profession” (2010: 31). In Quiggin’s analysis, the intellectual architecture of the pre-crisis period was not reoriented afterwards, because:

“the Great Moderation vanished in 2008 and 2009... [but] the academic industry built to analyze it did not. Research projects based on explaining, measuring, and projecting the Great Moderation were not abandoned.” (2010: 31)

That is, the path-dependencies involved in academic research programmes helped to immunise economists against disproof, even as the world

spectacularly diverged from their standard models. Mark Blyth has also questioned the lack of a paradigm shift in economics, “despite the demonstrable disconfirmation of 30 years of theory” (2013b: 206), ultimately suggesting that academic economists have been shielded from the failure of their theories by tenured positions and the inelasticity of demand for their courses from undergraduates looking for an entry route to still-lucrative financial sector jobs. The old ideas, however dubious, remained institutionally secure, and in the absence of a competitor paradigm waiting in the wings with comparable institutional heft, neoliberalism survived because “it is politics, not economics... authority, not facts, that matter for both paradigm maintenance and change” (2013b: 210).

This argument is something of a departure from Blyth’s earlier work, which put heavier emphasis on the independent power of ideas (e.g. Blyth 1997), suggesting that the 2008 crisis had led him some way back towards institutional explanations as a means of accounting for ideational continuity. So where does all this leave ideational theory? It might be argued that the crisis, and the new focus on ideational non-change, rightly nudged ideational political economy back toward institutions for a more grounded theory of ideas and power, including institutional power. Even if one remains committed to explaining crisis and non-change within a constructivist-ideational framework, it is worth acknowledging that not all constructions are equal; that institutions matter too, and that perhaps the transformative potential of ideas had been overemphasised. In this spirit, Farrell and Quiggin (2012) called for a focus on “the interplay of power and ideas”, looking particularly to the expert networks in which ideational consensus is created or destroyed. They suggest that in the post-crisis period there was enough dissensus among networks of economic experts as to snuff out the brief turn to neo-Keynesianism in 2008-09. Politicians were effectively able to go shopping for experts that would support their preferred policy options, facilitating a neoliberal fightback through the selective use of expert evidence (the controversial Reinhart & Rogoff paper on expansionary fiscal contraction in 2010 springs to mind). Once

again, however, this begs the question of why politicians, including leftwing ones in Britain, were so keen to find for ways to re-validate the old paradigm and so anxious to see policy to revert to its pre-crisis settings.

Some others have attempted to address the puzzle in a way that retains a primary causal role for ideas and language. Such explanations tend to incorporate a cognitive or social psychological dimension, as a means of explaining not just why ideas matter in politics, but how those ideas support particular political choices over others. For example, Hindmoor and McConnell (2013) note the tendency of politicians to read new evidence through old conceptual frames, introducing a kind of confirmation bias into policymaking that make it more likely new ideas will be repelled than absorbed. Wesley Widmaier (2016a, 2016b) goes still further in this direction, combining insights from cognitive psychology with discursive and historical institutionalism to suggest that rhetorical leadership by politicians can become first path dependent, and eventually pathological, in its unwillingness to bend over time. Widmaier's analysis, like this research, finds a gap in the political science literature between institutions and ideas, noting that while historical institutionalism is good at identifying sequential dynamics and path dependencies it tends to fall back on flawed materialist assumptions that "obscure endogenous inefficiencies" (2016b: 729) by presuming that institutions are the embodiment of rational equilibria in a given context. Discursive institutionalism jettisons the rational materialism, but in doing so often "abstract[s] away from the sequential analysis of order development in time" (2016b: 728). Widmaier's solution is a hybrid theory of rhetoric "in political time" that makes it possible to ask whether political ideas may be endogenously inefficient (i.e. wrong) while still behaving like stable, self-reinforcing institutions.

However, having developed an ostensibly discursive theory of ideas in political time, Widmaier seems to fall back on more straightforward interest-constructions in explaining the politics of real-world cases. In the case of the

great moderation in the UK and US, Widmaier finds that:

“Clinton and Blair recognized the importance of new financial sources of demand and growth, and so acquiesced to the epistemic power over ideas of central bankers and professional economists as a means to sustain asset price appreciation” (2016a: 346).

This sounds less like a theory of ideas over time than a fairly straightforward story about venal politicians knowingly pumping up a doomed asset bubble for short term gain, in which case ideas have very little to do with it; pure political self-interest is doing the causal work. Ideas, in this account, belong to epistemic communities; politicians are not themselves keepers of ideas but strategic consumers of them, in which case politics is still the domain of rational self-interest. This seems to me an insufficient conceptualisation of the New Labour case, since it leaves alone the most vexing part of the New Labour puzzle: how had an ostensibly centre-left government talked itself into this corner? Did Labour truly realise the great moderation was a chimera, but forge ahead out of pure electoral expediency? Making an all-in political bet on a known asset bubble seems the very opposite of a rational choice, unless one is concerned only with the very short term. And anyway, if New Labour truly were short-term utility-maximisers, would not the crisis have prompted the swift and total abandonment of the failed ideas? The great puzzle of New Labour’s resilient neoliberalism is that even a leftwing party with a once-in-a-generation opportunity to rethink the relationship between state and market was largely unable to do so.

The strongest part of Widmaier’s account is that in which he traces the evolution of great moderation ideas from their construction, through consolidation and into crisis. In this last phase in particular, Widmaier argues there is “structural power *in ideas*” (2016a: 346), which is to say that over time, established intellectual positions come to constrain actors whose belief in

their validity has gone well beyond rationality into received wisdom, confirmation bias and hubris. This overconfidence, according to Widmaier, breeds both political jeopardy and real-world economic risk, because excessive faith in the great moderation paradigm had led policymakers to compound their own errors over time. This framework clearly illustrates the value of bringing the temporal dimension into play, because it shows that the causal force of ideas is not a static phenomenon; it alters over time as once-novel ideas congeal into orthodoxy.

Widmaier's theory of increasing dysfunction in political ideas draws on Grube (2016), who particularly identifies rhetoric as the mechanism of ideational path dependence. Grube, like Widmaier, connects institutionalist theories of path dependency with discursive and rhetorical theory in political science, arguing convincingly that "actors effectively become trapped in gilded rhetorical cages of their own making, wherein the very success of their earlier rhetoric paradoxically prevents them from easily adopting new rhetorical formulations even when circumstances may require it" (2016: 531). This notion of "sticky words" is an important departure from the typical assumptions of rhetorical and discursive theory, which tend to emphasise the power of words to effect change by embodying the agency of social actors. To suggest that the words may be acting upon their speakers is a theoretical reversal that opens up a very different conception of what political language does: in Grube's own terms, it offers "a corrective to the conceptual starting point that communicative behavior is itself unrestrained" (2016: 533).

The kind of path dependency that is being specified is, however, critically important. Grube draws on Pierson (2000) and Mahoney (2000) to outline a theory of path dependency based on increasing returns for consistency, versus compound costs of exit to a different rhetorical path. That is, he invokes a theory of path-dependency that goes beyond asserting the importance of sequence to an assumption about self-reinforcing payoffs. Grube goes on to hypothesise a set of factors which might increase the

stickiness of political rhetoric, from the degree of public salience attached to an issue, to the frequency with which the rhetoric has been repeated and the extent to which a piece of rhetoric hedged its bets by making itself contingent on events in some way. By connecting institutionalist insights with rhetoric in this way one can, Grube argues, arrive at “a dynamic conceptualisation of path dependency that recognises the key part that individual agents play in discursively erecting the very boundaries that end up restraining them.” (2016: 532).

Underlying that heuristic, however, is an assumption that rhetorical traps are mainly a problem for politicians who, having seen that events have moved against their earlier rhetoric, would like to jettison that language but are prevented from doing so by public opprobrium. Grube argues that the presence of one or more of these factors makes it more likely that rhetorical path-dependency will bite, at which point “there are costs associated with exit from one rhetorical path to another, [whereas] increasing returns flow to those leaders who are able to be consistent in their rhetoric” (2016: 541). That is, the forces of path-dependency are applied externally: the political penalty for a u-turn is the major barrier to rhetorical change, leaving politicians trapped by language they themselves would prefer to revise. And here once again, the New Labour case raises some awkward questions. New Labour’s economic policymaking certainly displayed many of the tendencies that Grube predicts would create rhetorical path dependency: high levels of repetition, lack of ambiguity and, being economic policy, a high level of political salience. Labour’s crisis response, however, does not fit the picture of a government trying to find ways to conduct a u-turn without being penalised for it. Rather, they did everything to avoid a reversal, cleaving to old ideas and old rhetoric long past the point most politicians would have abandoned them. If Labour found themselves in a rhetorical trap it seemed to have been in large part self-imposed.

The notion of rhetorical path-dependency is an important and

promising departure for discursive institutionalism. But once again, it may be helpful to move towards a more fully constructivist theory of how politicians think, and how rhetoric connects to ideas. If we understand path dependency in terms of increasing returns versus costs of exit, we are retaining materialist assumptions in which political actors accurately assess their interests and adapt their thinking to fit, subject to certain external constraints (which in Grube's formulation include their own past rhetoric). I suggest there is more mileage in a constructivist conception of path dependency, in which past rhetorics do not only impose external constraints but internal ones, layering up cognitive and perceptual barriers to change that may be even more powerful constraints than the fear of a public u-turn.

The next chapter sets up the research design for this project with these considerations in mind, aiming to further develop this new literature by pulling several strands together. Firstly, this research is intended to contribute to wider attempts, particularly in ideational political economy, to explain the puzzling resilience of the neoliberal policy paradigm despite an apparently perfect crisis. Secondly, it aims to build on recent developments discursive political economy, where ideational and rhetorical theories have been combined with key concepts from institutionalism, on the one hand, and social psychology on the other, to generate new conceptual hybrids.

I will show that New Labour case can be seen as a sub-set of the wider puzzle of neoliberalism's non-death, and one which remains stubbornly difficult to explain. Labour's pre-crisis rhetoric was indeed a good candidate for path-dependency. But Gordon Brown's rhetorical non-change in the crisis years was so dogged as to stretch the definition of increasing-returns path dependence to breaking point. The idea that rhetorical continuity, rather than change, still attracted sufficient positive returns as to outweigh the ideational challenge posed by a global financial crisis is quite some claim. In Brown's case, there was very little payoff for his rhetorical consistency, which led him to be viewed as increasingly out of touch. His non-change must, therefore, be

explained either by a different kind of path-dependency, or by something else altogether. The next chapter sets out an alternative hypothesis that has elements in common with both Widmaier's phases of ideational development and Grube's rhetorical traps, but which roots the analysis in constructivist assumptions about the purpose, and hence the evolution (or non-evolution), of economic ideas across the lifetime of a political project.

### ***Do zombie narratives matter anyway?***

One might argue that if some governments are unable to change their ideas, or their narratives, it does not matter a great deal. Just as markets are supposed to deal with bad investors by ensuring they lose money and leave the game, democratic politics should be self-clearing. Politicians who remain attached to failed paradigms will probably lose office, and if Gordon Brown preferred to go down with the rhetorical ship than alter his core story, one might argue that is a matter of personality rather than politics. Why then should we focus our explanations on him and the stubbornness of New Labour's pre-crisis ideas?

I suggest that the New Labour case is worth understanding better for both empirical and theoretical reasons. Empirically, it is worth asking why the crisis of 2008-09, and the brief window of opportunity it created for neo-Keynesian ideas, could not be more effectively seized. And theoretically, the case has the potential to tell us something new about how ideas and narrative evolve over the life of a political project, and how the same set of ideas may go from being change agents to conservatives. We have seen that historically, ideational scholars have generally been more interested in the birth of new paradigms, and the conditions under which new ideas achieve a breakthrough. But if we are interested in political ideas, this introduces a kind of survivorship bias into our accounts, focusing only on the ideas that win, at the moments of their greatest effectiveness as change agents. This also puts the emphasis on the upswell of new ideas rather than the processes of their stabilisation or decay. In Sheri Berman's (2011) terms, these are supply-side explanations of

how ideas come to fill a vacuum, rather than demand-side explanations of the ways in which old ideas may or may not vacate the political arena. I suggest we need to do more to understand the full life cycle of political ideas, and especially the processes by which ideas, in their attempts to stabilise the politics of economic policy through narrative, may themselves become key sources of constraint, fragility and risk. The fact is that New Labour's stability narrative, though seriously damaged by the economic crisis, remained politically embedded long past the point any rational materialist would have abandoned it, and perhaps longer than even the institutional literature would lead us to expect. The question is: why? The next chapter will outline a framework for answering that question.

### **3. Research design:**

#### **Operationalising the study of ideas and narrative**

The first challenge for any study of ideas is to arrive at a research design that makes it possible to draw credible conclusions about what, precisely, ideas have done in specific cases. This means converting the large and often subtle edifice of ideational theory into a manageable project that somehow preserves constructivist assumptions while achieving some traction on real-world events. Craig Parsons has called for a “second generation agenda” that takes ideational political science “beyond the literature’s initial focus on the notion that ‘ideas matter,’ to explorations of how they matter” (Parsons, 2015: 1). This thesis aims to contribute to that new empirical literature, using a focus on narrative to better demonstrate the causal significance of ideas in economic policy, and to develop new theory about the mechanisms by which the political power of ideas is made manifest.

Until recently, the available literature on ideas in politics provided few pointers on how empirical work could, or should, be done. Many of the core texts in the subfield were centrally concerned with confronting rationalist and institutionalist skepticism about ideas being important at all, and so operated mostly at the level of theory (Abdelal et al, 2010; Beland & Cox, 2011; Blyth, 1997; Schmidt, 2010). Empirical studies of ideas often left their methodological choices implicit (e.g. Epstein, 2010), providing few usable models for others to adopt beyond a vaguely specified “interpretive, historically oriented approach” (Widmaier 2010: 162). Conventional handbooks on political science methods, based on linear causation and inference from controlled comparison (most famously in King et al, 1996) proffered more problems than solutions for empirical projects concerned with the “muddle of ideas” (Beland & Cox, 2011: 13), but the ideational school had yet to develop clear alternative methodologies better fitted to its research agenda.

That has now begun to change, and several recent papers have offered explicit advice on how to produce valid empirical studies of ideas. Alan Jacobs' (2014) chapter on process tracing in ideational research takes the techniques of historical case study research and considers their application to ideational objects, emphasising "expansive empirical scope" that places policy outcomes in their broader context, careful attention to the limitations of data on ideas (discussed further below) and creative use of theory to tightly specify the causal claims being presented. Craig Parsons further argues that for ideas to be considered "distinctively and demonstrably" significant, they must be shown to have led policymakers in "non-obvious" directions that are not simply reducible to the material constraints they faced at the time (2015: 7,11). The design of this project takes Parsons' and Jacobs' advice and applies it to the particular task of explaining the role of narrative in economic policy.

This chapter sets out the research design for the empirical work that follows, and so provides a bridge between theory and empirics. First, the chapter considers case selection and the anticipated value of the New Labour study in theory-development. Second, the central research question is defined, and a proposed explanation based on ideas and narrative is put forward. A range of alternative explanations are outlined, and the evidentiary requirements for arbitrating between them are discussed. Third, definitions are provided for key concepts including discourse, narrative and rhetoric, and the relationships between them are clarified. Fourth, a distinction is drawn between two properties of narratives: internal and external validity, which together provide the analytical framework that the empirical chapters will go on to apply. Finally, the chapter anticipates potential weaknesses in the research design and data, and explains how these will be mitigated.

### ***Case selection: New Labour as a pathway case for ideational continuity through crisis***

If the main theoretical preoccupation of this research is the role of ideas and narrative, its empirical focal point is the puzzling absence of ideational change in response to the 2008 financial crisis. Those two concerns are intertwined: it is precisely because a large material event did not substantially disrupt the neoliberal policy consensus that theories of ideas are so interesting, because the material conditions would appear to have been ripe for ideational change, yet it did not emerge. As argued in the previous chapter, existing theories of ideas, being more concerned with change than continuity, have struggled to explain why this particular dog did not bark. Untangling what impact ideas and narrative had during the financial crisis, if any, is thus an important task in both understanding what has happened in a particular case and refining our broader theories of the politics of boom and bust.

The empirical core of the project is a case study of the New Labour government of the United Kingdom, 1997-2010. The primary research design in this project is therefore not cross-case comparison but a set of detailed within-case comparisons that examine the evolution of the New Labour economic narrative. How is the choice of this single case to be justified? Single case studies are viewed with disfavour by much of the literature on social science research methods; they are often judged to carry a high risk of selection on the dependent variable, to provide too few degrees of separation to allow for causal inference, and to be incapable of supporting generalisations, limiting their audience to those scholars with a specific interest in the particular case. Regarding causation, however, John Gerring (2004) has argued that single cases may in fact provide significant inferential leverage when they are used as a source of information about within-case variance of key conditions. For example, single cases may allow for observations about covariance over time, which could potentially support causal inferences, making it possible to say what factors caused the outcome of interest in that particular case.

Establishing causal relationships in a single case does not, however, guarantee that the finding has any general significance. Political science has been deeply skeptical of the value of single case studies, preferring to leave deep readings of single cases to historians and cultural anthropologists with (it is presumed) fewer aspirations to generalisable theory. George and Bennett's (2004) typology of case study designs allows for a continuum of research objectives from the detailed "idiographic" investigation of a single case for its intrinsic interest, to comparative theory-testing models, but the implication is still that theory-testing work is more interesting and probably more worthwhile. George and Bennett define a case as "an instance of a class of events" (2004: 17), suggesting a preference for case studies that speak to some phenomenon larger than themselves. Similarly, Gerring has defined the single case study as "an intensive study of a single unit for the purpose of understanding a larger class of (similar) units" (Gerring, 2004: 342), making generalisation a fundamental aim of the case study method, in which case single case research designs may be problematic.

This research project does have an interest in developing generalisable insights, albeit cautiously. The purpose of the New Labour case study is not simply to understand what happened to Gordon Brown, or to fashion a political biography of a particular administration, though those could be valid research objectives. Rather, the intention is to use the New Labour case to illuminate the broader question of how economic policy is impacted by narrative and, by extension, how economic ideas work in politics. Such theory-building ambition rests on the proposition that the New Labour case study fits the criteria for a crucial case study and, especially, Gerring's model of the "pathway case", in which a single case may "elucidate causal mechanisms" (2007: 238) with broader applicability.

The New Labour government is a good candidate for a pathway case on political ideas because it was a plausibly likely case for policy and ideational change after the financial crisis. If ever the pro-market, pro-finance Washington consensus were vulnerable it was in the period 2008-10, when

the near-implosion of the global banking system blew apart the notion that unimpeded markets would deliver steady and continuous growth. The so-called “great moderation” that had underpinned Labour’s pre-crash prospectus was suddenly and unmistakably finished, upending the argument that financial services were at the cutting edge of British economic success. The party in power in the United Kingdom was not the one traditionally allied to the City of London but a centre-left party with its major funding from the trade union movement and its core vote outside the financial capital and its commuter belt in the south east of England. The centrality of the banking sector to the British economic model left the UK particularly exposed to the crisis, potentially creating the conditions for significant political as well as economic upheaval. According to theory, crises should provide ideal opportunities for ideational change, and if that change were to occur anywhere, it might surely have occurred in Britain, yet did not. The empirical case study will attempt to discover why not; whether ideas can be considered causally important in such circumstances and, if so, what ideational mechanisms may have been at work in preserving the status quo.

### ***Question and hypotheses***

The research question for this project is open-ended: **what was the causal impact of narrative on New Labour’s response to the economic crisis, if any?**

Theory would predict that narrative, as a form of discourse, introduces a degree of political flexibility not present in institutions or materially given interests. However, I propose that narrative may either empower or constrain governments at different points in the political and economic cycle, and that in the case of New Labour, rhetoric which began as empowering of policy later became its primary constraint. New Labour, it is suggested, did not cleave to their pre-crisis positions out of material necessity or institutional inertia, but because they continued to hold the same ideas that had motivated their pre-crisis policy, even after the material context was radically altered. This

explanation might be considered an inversion of Lindblom's (1982) notion of the market as prison – for New Labour it is suggested that the narrative became the prison. It is an ideational explanation for policy outcomes, but an ideational explanation of a specific kind: that ideas which had been publicly mobilised in a government's narrative took on a causal significance over and above the agency of the people who expressed them, to the extent that it became a constraint on the government's thinking and policy around the crisis.

Narrative has the potential to constrain its creators on two dimensions: because there may be a political penalty for a perceived u-turn, and because the constructive effort involved in putting forward a narrative involves a degree of cognitive or ideological commitment to the ideas being espoused which makes it painful to abandon them later. The first of these problems cannot really be considered an ideational phenomenon. If politicians stick with an established narrative that they no longer believe in purely because they fear being accused of inconsistency, then they are indeed trapped by narrative but for largely pragmatic reasons (e.g. Grube, 2016). When policy change does not occur because a government refuses to be caught in a "u-turn" or "flip-flop" then primary causal force must be deemed to come from electoral interests rather than ideas (or at least, not the government's ideas). However, the second kind of narrative trap is deeply ideational. Sticking to an established narrative even when the world has changed may indicate the operation of political ideas at their most powerful, constraining policy choices and blocking change by defining the "parameters of the possible" (Abdelal et al, 2010: 238). If ideas and narrative are in the driving seat, there will be evidence of politicians attempting to bend circumstances to fit their ideas, rather than the reverse. This narrative rigidity is posited as having been the key dynamic in the later years of the New Labour case.

For the causal impact of narrative to be demonstrated, it must of course be weighed against other possibilities. Alternative explanations for New Labour's policy continuity fall broadly into two groups: institutional, and interest-based (see figure 3.1, below, for a summary). On the institutional side,

it might plausibly be argued that any turn to the left by the New Labour government would have been frustrated by the conservatism of the British establishment, most prominently the Treasury and the Bank of England. International institutions might also have had a part to play in constraining policy change: a broad neoliberalism remained the default setting of the European Union and most of the G7 during the period, making a unilateral British policy reversal more difficult. Institutions may also present a more straightforward obstacle for policy reversals, because big organisations are ill-equipped to change direction in a hurry, and may lack the capacity for rapid policy innovation, being geared to existing priorities. It might be that New Labour could have effected change after the crisis given more time, but that a general election in 2010 left them too little road on which to turn around the institutional caravan.

Alternatively, interest-based explanations might point to the continued presence after the crisis of structurally powerful interests opposed to a leftward shift in British economic policy. Fear of a negative reaction in the bond markets or a downgrading of Britain's credit rating might have prevented New Labour from attempting a turn to the left, crisis or no crisis. The threat of capital flight if policy were to become unfavourable to the City of London could plausibly have been as present after the banking crisis as before, and could arguably have been sharpened by it. In such an account, Labour's policy stasis would then not be particularly puzzling, since there could little reason to expect policy change while financial interests remained the same. Similarly, an explanation based on electoral interests might suggest that Labour faced the same constraints after the crisis as before it, in that their electoral chances still depended on winning over swing voters in middle class constituencies whose preferences had not changed and might even have been sharpened with the onset of recession. Each of these counter-arguments will need to be carefully weighed in the empirical account.

**Table 3.1: Competing explanations of New Labour non-change after crisis**

Ideas	<i>Narrative as prison</i> : New Labour trapped by prior rhetorical commitments and ideational inertia
Institutions	<i>The Treasury as prison</i> : British policymaking establishment wedded to market liberal paradigm and opposed to leftwing change
	<i>Prison break pending</i> : institutional inertia means that policy change takes too long
Interests	<i>Market as prison</i> : powerful financial interests still opposed to leftwing policy; crisis did not change those material barriers
	<i>Basildon constituency as prison</i> : New Labour continued to be captured by the preferences of middle class swing voters

The above framework borrows the familiar “three ‘I’s” configuration from as a means of clearly delineating the preferred explanation from conceivable alternatives. Such a framework is, of course, a simplification, and risks exaggerating the independence of the three causal worlds from one another. Setting ideas, institutions and interests against one another risks implying that the researcher must discount two of them altogether in order to support claims about the third. Such an undertaking would of course be spurious, and sets an unreachable bar for empirical research that is as likely to yield false negatives as genuine insight (Jacobs, 2014). To be clear: this project does not proceed on the basis that ideas, institutions and interests are free-standing variables whose relative weight can be precisely calculated and whose causal importance is mutually exclusive. Rather, the three ‘I’s are

assumed to be distinguishable groups of causal pressures that are each likely to exist in some combination at any given time. For the causal importance of ideas to be proven it is not necessary that institutions, for example, be irrelevant. It should, however, be possible to discern particular moments at which one of the three is particularly decisive. A satisfactory explanation of political outcomes must attempt to sort out one cause from another, and to assess their relative weight, without forcing complex causes into artificially tight boxes.

Craig Parsons has turned to cultural sociology for the suggestion that “we must show that ideas ‘exercise an influence of their own but not completely by themselves’” (Biernacki, 1995, cited in Parsons, 2015: 3), allowing for the possibility that ideas may be causally significant without being detachable from other features of the political context. The case study that follows will sift the empirical evidence with a view to establishing how the relative impact of different causes may have waxed and waned over time. Explanatory traction is likely to come most strongly from moments when one potential causal pressure holds steady and another varies (when, for example, material conditions alter but ideas do not), but such variance is assumed to illustrate the balance of causal power *at a particular moment* rather than always and everywhere. To the extent that broader theoretical claims about the politics of ideas emerge out of the empirics, these will be carefully specified.

#### ***Key concepts: narrative, discourse, rhetoric***

The project takes narrative as its conceptual keystone, but it is, of course, just one of many available frames for the analysis of political language and ideas. This section considers the concept of narrative in closer detail, and especially by reference to two alternatives: rhetoric and discourse.

Figure 3.2 below illustrates the distinction between these three frames, for the purposes of this project. At the top level, discourse is taken to indicate

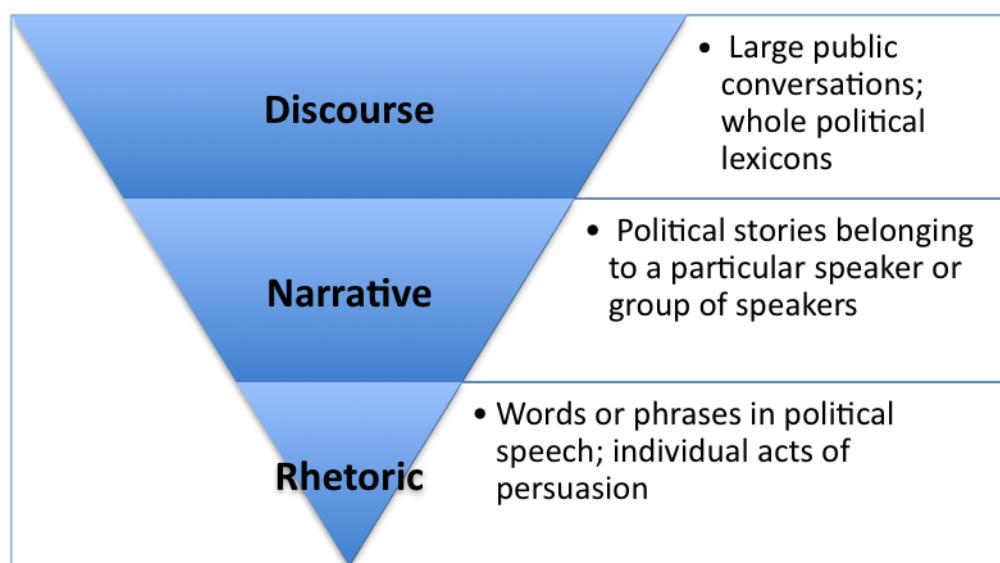
very large public conversations with fuzzy boundaries. The term discourse tends to imply dialogue, rather than monologue; it may be taken to imply intersubjectivity (as in postmodern kinds of discourse analysis) and certainly implies a large and various population of speakers. “A discourse” may also mean a whole worldview (e.g. Daddow, 2011) or a complete political lexicon in which a common language encapsulates a group’s shared assumptions about the world. The common thread is that discourses are bigger than any single speaker or group, and freighted with implicit political assumptions. They are also notoriously difficult to study empirically.

Rhetoric is another term often used interchangeably with narrative in popular commentary on politics, but again I take it to mean something quite specific. Rhetoric is the micro-foundation of political speech; it relates to individual “acts of political persuasion” (Beech & Lee, 2008: 5). Studying rhetoric generally means close reading of individual speeches and may make use of literary theory to unpick the linguistic devices at work (e.g. McCloskey, 1998; Roe, 1994) or draw on classical rhetorical theory that lays bare the ways in which ethos, pathos and logos enable a single speaker to move his or her audience (Bauer & Glaveanu, 2011). Finlayson (2007) has exhorted a new school of rhetorical political analysis (RPA) in which the focus is on speech as action, emphasising the extent to which rhetoric exists not just to explain or describe but to persuade and to provoke action in an audience (see also Finlayson & Martin, 2008). What these approaches have in common, however, is that rhetoric appears at the opposite end of the linguistic scale to discourse, being fine-grained, individualised and relatively amenable to empirical scrutiny.

I locate narrative at the middle level, conceptualising it as something larger than rhetoric but less expansive than a discourse. It belongs to fewer people than a discourse, and will be more one-sided: a narrative is less a conversation than a set of assertions made by a particular group of actors. The picture is complicated by the fact that much of the political science literature on discourse (Schmidt’s discursive institutionalism, for example) is addressing something closer to this middle level, steering clear of the grander

conceptions of discourse found in poststructuralist branches of the social sciences (see Schmidt, 2010: 15). There is therefore some overlap between my conception of narrative and some of the political science literature on discourse. There is also a difference between this conception of narrative and the way it is often invoked in rhetorical analysis, making it important to clearly define what the term means in this project.

**Figure 3.2: Three levels of political language**



In popular commentary on politics the term ‘narrative’ has become “an important part of the contemporary political lexicon” (Boswell, 2012: 1) and needs little explanation. Commentators may refer to “a narrative” in the singular to denote a political story that achieves a basic degree of coherence: for example, governments may be criticised for their failure to advance a narrative of their politics that articulates a clear story about what they are doing and why (e.g. Toynbee & Walker, 2010). Alternatively, the term may be used to label a loose confederation of political arguments around a given policy agenda, articulated by a range of actors. This usage is often adopted by those who would wish to see such arguments challenged: for example, critics of austerity politics may refer to “the austerity narrative” to expose its contingency and invite counter-arguments to come forward. In both popular commentary and political science, however, writers display a tendency to rely

on the reader's familiarity with common usage and do not provide their own definitions.

Some academic definitions of narrative are available. Akerloff & Schiller concentrate on the idea of coherence, defining narratives as "sequences of events with an internal logic and dynamic that appear as a unified whole" (2009: 51). Others have focused on the instrumental value of narratives as "sense-making mechanisms" (Boswell, 2012: 2) that are particularly useful in conditions of uncertainty because they "underwrite and stabilize the assumptions for policymaking in policymaking in situations that persist with many unknowns" (Roe, 1994: 34). Some authors emphasise the social character of this sense-making, seeing it as "a collaborative process of corporate knowledge-making... [toward] communally constructed representations of knowledge about past, present, and future developments in the... economy" (Smart, 1999: 250). McNamara (2015) casts narration as a "technology of cultural construction", through which elites seek to legitimate political systems or projects by drawing on recognisable myths and tropes, often in relation to the past. Narrative in this conceptualisation becomes a means by which contemporary institutions do their own historiography (see also Hobsbawm & Ranger (2002) on the cultural power of invented traditions). Others see narrative as a projection of human psychology and the "story-based patterns of human thinking" (Akerlof & Shiller, 2009: 52) or, more pejoratively, "our predilection for compact stories over raw truths" (Taleb, 2008: 63).

It is noticeable that many of these definitions contain implicit or explicit value judgments about whether a narrative is a good thing. Similarly, the term "rhetoric" is often used to denote either the highest form of public oratory or the basest kind of spin and obfuscation. Either conception can be an obstacle to considering what rhetorical language does in policymaking. Studying rhetoric mostly as great oratory places the primary focus on extraordinarily persuasive one-off interventions by great leaders, and thus disqualifies the majority of political language. On the other hand,

dismissing rhetoric as mere spin assumes a cynical politics concerned with covering up its true (and presumably materially-given) purposes, and thus gives us little traction on what political ideas might be at work. The concepts of discourse and rhetoric may be invoked approvingly as a healthy public dialogue to be facilitated (Finlayson, 2007) or as the linguistic carapace of power structures that should be exposed and dismantled (Norval, 1996; Howarth et al, 2000). Each implies a distinctive research agenda with a strongly normative component.

I prefer to leave aside such value judgments in favour of a more open-ended definition that serves as a prompt to empirical observation. For the purposes of this research, a narrative is defined as a political account of a set of conditions, their origins and, in particular, their relationship to policy. This definition of narrative draws particularly on Deborah Stone's concept of the "causal story" (Stone, 1989), connecting an account of a problem with arguments for or against its resolution in policy. This definition is also congruent with Finlayson's argument that "narrative is a fundamental way in which we grasp the meaning and the ordering of the events we experience and in particular of how we understand human actions and their effects (2007: 557). It differs, however, from Finlayson's rhetorical approach in important ways. In RPA narrative is listed alongside rhetorical techniques such as metaphor, commonplaces and so on, thereby presenting it chiefly as a mechanism by which political speech can be made more persuasive. This essentially reduces narrative to a sub-set of rhetoric in which the focus is language with an internal structure that tells a story in some kind of sequence. This research takes a different view, treating a narrative as an observable object (i.e. a complete causal story) rather than a technique out of which rhetorical objects are constructed.

Policy narratives, in this view, are not static representations of an object but are an attempt to persuasively connect external conditions to the possibilities and justifications for policy action (or inaction). Since this project is primarily interested in economic narratives, it looks to accounts of the

economic conditions that comprise an interpretation of the present situation, including an account of how the economy came to be as it is; a diagnosis of what policy should be applied and a claim about what will happen as a result. This definition reflects the theoretical assumptions set out in chapter two: that narratives respond to uncertainty about the economic conditions and, by distilling a working understanding of those conditions, provide the platform on which policy can be built. I focus particularly on the economic narratives of governments, in which a relatively small number of key narrators are responsible for the narrative work that conceives and facilitates the government's policy agenda.

This does, however, pose the question of how narratives and narrators relate to one another. Once again, seeing narrative as the middle ground between rhetoric and discourse is important. A discourse is generally theorised as having a life of its own, being too large and mutable to be owned by any one discussant. Theorising discourse often means theorising the ways in which language becomes invested with structural power, shaping the world in which agents must make their way. A piece of rhetoric, on the other hand, represents the agency of a single speaker, and can be approached using theories of intentionality, purposive speech and strategic political action, as well as psychological framings that prioritise the personality and cognition of the speaker. Crudely put, discourses are broadly structural, while rhetoric is linked to individual agency.

As the middle tier of political speech, narrative sits at the intersection of structure and agency. My theoretical claims for narrative rest on this tension, in many respects: I have posited that ideas which are, at first, empowering of policy (because agents deliberately mobilise their ideas to reduce uncertainty and set up their policy agenda) may later come to constrain the very same agents and prevent further policy change. That is, the relationship between narrative and narrator, structure and agent, is not a steady state. The construction of a new narrative is a process in which the agency of narrators is centrally important. It does not follow, however, that

such agency is a permanent facility, and my proposed theory of narrative suggests that older narratives behave much more like structures, moving out of the control of their original narrators to the extent that “politicians can become prisoners of their metaphors” (Stronach et al, 2014: 322). The empirical work that follows will be an opportunity to explore this contention in greater depth, but the working assumption is that there may not be a static relationship between narrative and narrator, and as such it is not likely that the causal impact of narrative will be found stable over time.

### ***Internal versus external narrative validity***<sup>2</sup>

Having established our definition of narrative it is necessary to operationalise it for the empirical study. This means devising a method by which narrative evolution may be systematically observed and, in particular, by which inferences may be drawn about when and why any changes occur. Framing an empirical study of a narrative can be difficult because it risks either being only descriptive of its content, or an exercise in contrasting what was said with external conditions (rhetoric versus reality framings). On one hand, purely discursive analyses risk becoming an insular exercise in close description, concerned mainly with the internal properties of a given text. This is clearly problematic in relation to the language of economic policy which, as argued in the last chapter, is inseparable from its object, the economy itself. Events clearly matter too. But neither is it satisfactory to simply pit a narrative against its material context and ignore its internal logics, given our assumption that economic events must be constructed in language in order to be politically meaningful. The fact is that economic policy narratives are both stories in their own right, and stories in context, and we need to find ways to interrogate both dimensions.

The solution proposed here is to give due space to the dual properties of

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<sup>2</sup> A version of this section was originally developed in Alexander, 2012.

narrative – both the internal shape of a narrative and its relationship to external events – but, crucially, to keep the two things conceptually distinct from one another. Schmidt and Radaelli pointed up this possibility when considering the reasons why certain political discourses are unsuccessful:

“What makes a discourse and/or a policy programme ultimately fail? External events that undermine the applicability and relevance of the policy programme? Internal contradictions in the discourse itself?” (2004: 202)

This distinction is useful for the purposes of operationalising a narrative analysis because it allows us to disaggregate the two kinds of validity to which political narratives must aspire. First, economic narratives aim to achieve internal validity: that is, to be coherent in their own terms. Second, narratives seek to achieve a degree of external validity: to fit the facts, however perceived. Both kinds of validity are necessary if a narrative is to do its job of convincingly combating economic uncertainty, but the two can be separately observed and their covariance should not be presumed. It is suggested that a full analysis of economic narratives should assess how the two validities interact, when they converge and diverge and, especially, what governments do when faced with validity problems on one or both fronts.

To expand the definitions more fully: the external validity of a political narrative is its consistency with external conditions; the extent to which a narrative fits – or is perceived to fit – the facts. It will be immediately evident that any attempt to design an objective test of external validity would be highly sensitive to the indicators that are included in the calculation. For example: a given narrative might score very well on its consistency with trend growth in the economy, while having little to say about debt, so the composition of the measure for external validity would heavily condition the results. The standard response to such dilemmas would be to construct a sophisticated basket of indicators that aims to capture all relevant measures of economic performance. Government narratives would then be scored on

each of these indicators, such that those with the broadest grip on the economic conditions would likely score highest for external validity. However if we assume a world of uncertainty, as described above, then different kinds of external validity may serve political purposes at different times, making the definition and measurement of external validity an endlessly moving target.

The fundamental problem with arriving at an objective measure for external validity is that it is what Kathleen McNamara has called a “perceptual variable”; validity exists in the eye of the beholder. As such, establishing the external validity of an economic policy narrative is not only achieved by fact-checking; it must be “constituted by social processes” (McNamara, 2002: 61). External validity ultimately relies on distilling a common verdict out of trends that are open to a number of different interpretations. It involves not just the weighing of data but an ongoing process of agenda-setting and interpretation. Governments claim a high degree of authority to speak about the economy, giving their narratives a certain advantage in establishing external validity. But they are also subject to very high levels of scrutiny and are open to accusations of partiality and politicisation of evidence that can undercut their authority. The extent to which they succeed in asserting an externally valid account of the economy will therefore depend strongly on their ability to agenda-set by specifying the indicators on which economic performance should be judged, as well as depending more straightforwardly on whether data for those indicators is consistent with the narrative’s predictions.

If the economic context is always contested, even amongst the experts, then “fit with the facts” will be as much a matter of assertion as proof. Evidence of external validity therefore tends to be negative, rather than positive; it cannot be absolutely proven to be present, but it can plausibly be falsified in certain circumstances. The construction of external validity goes awry when one of two things happens: either a gap opens up between the narrative and the data *on one of the indicators that the narrative itself prioritises*, or voices from outside are able to assert that the narrative is

prioritising the wrong things. That being the case, instead of seeking an objective measure of external validity, it may be more useful to focus on the presence or absence of external validity challenges: moments at which the existing narrative is subject to exogenous pressure from events the narrative itself deems important, or from rival interpretations of which events matter. The empirical study that follows will make use of the notion of external validity challenges in order to pinpoint moments at which the narrative is under most pressure to change. Observing whether the outcome of such moments is change or continuity will be fundamental to understanding the relationship between economic narratives and economic events.

The internal validity of a narrative, on the other hand, relates to its coherence within itself. It requires an internally consistent set of messages that, taken together, make a persuasive case for a particular economic story. Signs of internal validity would include consistency over time, mutually reinforcing themes and well-developed links between problem analysis and policy solutions. Poor internal validity would be evidenced by contradictory claims, disunity between government spokespeople, frequent changes of direction and the absence of clear headline messages. The crucial point is that these conditions for internal validity could, in theory, be satisfied even if the narrative bore very little relation to the external context. Internal validity is about how well a narrative functions as a story, not how realistic that story might be. Unlike external validity, internal validity can be quite readily observed in the language of a narrative itself, and need not be inferred from a contrast with other data. Operationalising this concept therefore requires a systematic approach to content analysis of speech material, in order to trace key language over time and take observations about its coherence and consistency. (Chapter M1 sets out the content analysis methodology in full, based on the research goals explained in this chapter.)

The aim, in separating out the two kinds of validity, is to make it possible to see how different imperatives may drive economic narratives at

different moments. The two categories are not very surprising on their own; it is intuitively obvious that governments will ideally want to be both factually right and rhetorically coherent. Where the distinction becomes most valuable is in tracing the dynamics of validity over time. That is, rather than taking a static materialist view that asks how large the gap is between the rhetoric and the reality at a given point – or a purely discursive view that takes the ‘story’ out of its context – we should ask how and when the two kinds of validity wax and wane over the life of a political project.

### ***Data, and other problems***

In calling for more work in the rhetorical tradition, Alan Finlayson advises that “if we wish systematically to investigate political rhetoric as a way of understanding and explaining political actions and events the first step must be to specify a corpus of argument for analysis” (2007: 554). In this regard, focusing on government narratives has an important practical benefit, in that they are, by definition, publicly available. Speeches, statements, parliamentary transcripts and media interviews enable the researcher quickly to amass a wealth of data on a government’s economic story, and indeed the sheer scale of verbiage produced by modern governments makes sifting rather than accumulating data the primary challenge. In the case of New Labour’s economic policy, good data exists from across the period of government, most importantly via the “newsroom and speeches” section of the archived Treasury website, preserved online by the National Archives since 2010. The empirical chapters in Part II will briefly set out the methodology applied to the case study, with a fuller discussion of methods in Part IV, including the sampling procedures that have been used to select speeches that operationalise the narrative as a manageable dataset.

There is, however, a trickier dilemma for ideational researchers looking at narrative: whether one can use data on what people said to make valid inferences about what they thought. Most ideational work approaches its

object, ideas, through the intermediary of language, discerning what political actors think substantially, though not exclusively, through what they say. Finlayson & Martin argue that “the political speech is a snapshot of ideology in action” (2008: 449), and that in any case, there is no way to get at ideology without going through language because “ideas can only be accessed by studying the arguments made for or against them by political actors employing political rhetoric” (Finlayson & Martin, 2008, quoted in Grube, 2016: 534). The obvious rejoinder is that we could choose to judge a politicians’ ideas by their actions, inferring ideas from what leaders do rather than what they say. The difficulty with such an approach is that it makes it impossible to distinguish between policies that are pragmatic and those that are ideologically motivated. We are also left with no way of getting at the moments of tension and dissonance that often accompany policy change or continuity. And ultimately, we cannot assert a causal relationship between ideas and certain policies because they would be assumed always to be in lockstep.

But while governments’ actions are not a viable proxy for their ideas, nor is language an unproblematic window on ideology; there is an obvious risk in assuming that political speech is a reliable representation of political thinking. Alan Jacobs cautions that “error in the measurement of ideas can arise from the fact that the most readily interpretable manifestation of actors’ cognitive commitments – their own verbal expressions of their ideas – is often a systematically biased indicator” (Jacobs, 2014: 45). Indeed, politicians have the potential be the most unreliable of narrators, having every incentive and, in most cases, the requisite skill to use language strategically. The inferential leap from narrative, which corresponds directly to language, to ideas, which may not, requires exceptionally careful handling.

Jacobs’ advice is that the strongest evidence of ideational commitments can be found in circumstances where material conditions observably change, but the expressed ideas do not (2014: 57). That is, if a politician continues to express the same position even when circumstances

are no longer so favourable to that interpretation, one may begin to infer that the ideas are sincerely held. The ‘three I’s’ research design outlined above is intended to look for just such evidence. In addition, the empirical analysis will aim to buttress its conclusions about the ideas behind key speeches by supplementing content analysis of speech data with interviews that probe the intentionality of speakers. By speaking to officials and advisers involved with the New Labour government it should be possible to stress-test emerging conclusions about the ideational underpinnings of the government’s narrative activity, and so to avoid heroic inferential leaps. This method is not watertight, since participants’ accounts of what the government believed may themselves be selective, strategic or simply biased. However, taken alongside content analysis of speeches, interviews should contribute to a fuller and more robust account of New Labour’s ideas up to and through the financial crisis. This mixed-methods approach should thereby provide a stronger foundation for testing the hypothesised impact of narrative on a government’s ability to speak, and think, new economic policy directions in the face of crisis.

The research design for the New Labour case study can be seen as utilising familiar elements in somewhat novel combination. Discursive branches of political economy have often made use of case studies and qualitative-historical methods, but have less often used computerised content analysis. The research question prioritises the temporal dimension, asking not just what the narrative says but how it evolved. Content analysis provides a relatively structured means of arriving at conclusions about that narrative evolution, while the theoretical separation of internal and external validity should facilitate a new and relatively systematic assessment of what may be driving narrative change or continuity. Part II of the thesis now puts these frameworks into practice.

## **Part II: New Labour's Economic Narrative, 1997-2010**

## 4. Constructing the great moderation

### Narratives of stability and prudence, 1997-2007

The first of four empirical chapters on the New Labour case, this chapter presents an analysis of the New Labour government's domestic economic narrative in the ten years preceding the financial crisis. It will show that Labour's economic language in that period was characteristic of the 'great moderation' thinking of the time, according to which business cycle volatility had apparently been tamed by a new policy consensus for anti-inflationary monetary policy and fiscal restraint. Longitudinal analysis of Labour speeches shows that these ideas became increasingly entrenched through repetition, encountering a series of external challenges that might have provoked change, but through which the narrative only became more deeply embedded. Furthermore, the presentation of Labour's economic narrative tended to become narrower and less sophisticated over time, as rhetorics that started life as multi-dimensional problem analyses become more tightly focused on single indicators that reflected well on the government's policies. Periods of economic uncertainty did not tend to generate doubt or reflection, but rather provided a spur to ever-increasing certitude in policymakers, as the dynamics of narrative validity tightened their grip.

The analysis begins by mapping Labour's domestic economic narrative as a pair of intertwined, but distinguishable themes: macroeconomic stability and fiscal prudence. Based on the theoretical framework set out in chapter 3, these themes are approached as causal stories with three core components. First, rhetoric in each theme presents an interpretation of the present situation, advancing a particular account of how the economy came to be as it is and diagnosing its particular problems. Second, following on from this problem analysis, each theme puts forward prescriptions for how policy should respond. Third, implicit or explicit in the policy prescriptions are predictions of their expected results: "if we do that, then this will follow". This

chapter begins by distilling the essential elements of Labour's domestic narrative, identifying its keystone ideas and central claims, before tracing their evolution over time.

### ***Stability and prudence as causal stories***

New Labour's economic policy was, at its root, based on a single promise: "in place of the boom and bust years, long term stability for Britain" (B5 CONF98). Macroeconomic stability was to be the defining theme of Labour's economic story, developed first in opposition and then articulated at every opportunity in the early years of the New Labour government. Chancellor of the Exchequer Gordon Brown had diagnosed Britain's economic weaknesses as originating in a lurching business cycle that prevented business confidence from flourishing. In particular, he saw economic volatility as being driven by inflationary tendencies, which ensured periods of growth inevitably ended in a wage-price spiral that hurt confidence and converted expansions into contractions:

"At around this point in every recovery, when inflation, and interest rates have risen, a second wave of wage inflation has brought a recurrence of stop-go instability." (PBR97)

Going into further detail in 1998, Brown also pointed to capacity constraints in British industry as a brake on prosperity:

"Every time the British economy started to grow, it quickly overheated and ran into inflationary pressures, and it did so because our economic base in Britain was too narrow and its capacity was too weak to sustain anything other than slow growth. That is why every past growth cycle has contained in Britain the seeds of its own destruction." (CONF98)

The way out of this bind was, apparently, to impose wage restraint during the good times, choking off inflation in the interests of stability:

“If the country's wage responsibility matches the Government's inflation resolve - and this is as relevant to the public sector as to the private sector - then Britain can have a low inflation environment for many years to come that will end the violence of stop-go economics in our country.”  
(CBI98)

There was an important party-political dimension to this framing, which was intended to sever the association between Labour governments and the instability of the 1970s by addressing Labour's historic inflation problem, while attributing boom and bust to both parties. In his early speeches, Brown would often refer to “Tory boom and bust” (CONF99) a deliberate subversion of the Conservatives' traditional image as the party of economic competence. Labour's stability rhetoric tended not to invoke the 1970s but the more recent experience of the early 1990s, when a Conservative government had presided over recession, falling house prices and spiking interest rates, culminating with Britain's “Black Wednesday” exit from the European Exchange Rate Mechanism in 1992. The rhetoric of stability was not always partisan; elsewhere, Brown would acknowledge Britain's “unenviable history, under both parties” of economic instability (PBR97). Nonetheless, the promise of a new era of stability was central to the New Labour project; if Brown could convince the public to trust Labour with Britain's economy he would have overcome one of the most important barriers to the party's electability, whilst appropriating territory in which the Tories were used to holding the advantage.

The presence of such partisan motivations should not, however, be taken to imply that Labour's enthusiasm for macroeconomic stability via inflation hawkishness was purely strategic. Rather, the macrostability narrative was the principal repository of New Labour's economic thinking, expressing the most important components of their policy model. Within the macrostability theme, two key ideas are present. The first is that Britain's principal economic ailment was inflation, such that inflation control had to be the overriding priority of monetary policy. While the government often

emphasised that its inflation target was symmetrical, taking “deflation as seriously as inflation” (BUD03), there was also a tendency to trumpet low inflation as an unequivocal good, as in 2003 when Brown’s budget statement heralded “the lowest inflation for thirty years” (*ibid*). As noted above, Labour’s stability narrative rooted its diagnosis of the problem in specific past episodes of *high* inflation. As such they were implicitly, and continually, emphasising the upside risk, and it was the risk of high rather than low or negative inflation that was the primary driver of their monetary policy. This ‘deflationary bias’ extended to the Bank of England, who tended to bring inflation in below, rather than above target (Angeriz & Arestis, 2007, cited in Kitson & Wilkinson 2007: 810), suggesting that the new arrangements institutionalised not just the principle of inflation targeting, but an underlying preference for low inflation. This was a profoundly conservative stance for a Labour government to adopt, given its implications for wages.

The second key idea was that governments were prone to stoke inflationary pressures for political purposes, choosing short-term advantage over long-term stability. The most important inflationary pressures were therefore understood to come from government, so that containing the threat of state interference becomes a necessary condition of monetary stability. If inflation was the threat, government was its most likely catalyst due to politicians’ preference for short-term growth, and their propensity to concede to public sector wage demands. Labour governments were considered doubly vulnerable to inflationary temptations, given their ties to the trade unions and their dependence on the voter constituencies who would benefit most from public spending. The solution was therefore to insulate the monetary policy authorities from government and mandate them to control inflation as a precondition to all other economic policy goals.

Based on these foundational ideas, Labour adopted a policy of “constrained discretion” (Balls & O’Donnell 2002: 30-5; see also Lee, 2008: 21-2) a form of self-binding less rigid than the fixed targets of monetarism but that would, in theory, compel the government to make decisions for the

economic long-term rather than the political present. This new institutional framework would restrict the government's policy options in key areas and, where they retained discretionary powers, provide greater transparency about their intentions. In practice, this meant granting independence to the Bank of England; mandating the bank to single-mindedly focus on inflation-control; publishing the voting record of the Monetary Policy Committee and a new requirement that the government publicly state its monetary and fiscal principles and goals. By credibly committing the Bank of England to take the necessary action to hold down inflation (albeit a particular conception of what constituted the wrong sort of inflation; see Hay, 2009), monetary policy would, it was assumed, shape investors' long-term expectations and deliver favourable conditions for inward investment. Over time, stable macroeconomics would create a long-termist investor class with confidence in the promise of future stability. In other words, Labour's causal story posited that markets would respond to constrained monetary policy by delivering perpetual, if moderate, GDP growth. Make governments predictable, institutionalise inflation-hawkishness in the central bank, and the private sector would do the rest.

These ideas were not unique to Labour: Bank of England independence, for example, was supported by a growing international consensus for central bank independence, with some thirty countries having adopted a form of CBI between 1990 and 1994 (McNamara, 2002: 49, Figure 1). However, Labour's rhetoric can be seen as a British variant of the 'great moderation' thinking of the time, in which institutional and policy reforms in central banking were believed to have inoculated democracies against the government-stoked inflation crises of the past. The economic literature was beginning to present empirical evidence of a simultaneous reduction in output volatility and inflation volatility starting in the 1980s (Kim & Nelson, 1999; McConnell & Perez-Quiros, 2000), an outcome that would have been considered impossible under previously-standard assumptions about the trade-off between inflation and growth (see Bernanke, 2004). Explanations for this apparently happy

outcome varied (see Stock & Watson, 2003), but prominent amongst them was the belief that monetary policy had undergone a generational step-change for the better. Central banks' adoption of fixed inflation targets was supposed to produce better results through continuous fine-tuning, in place of the old tendency to lurch from under- to over-reaction to the inflation rate. In the early years of the 21<sup>st</sup> century, this inflation targeting was considered the apotheosis of good monetary policy, putting New Labour's new monetary framework well within the international consensus.

New Labour's approach to monetary policy had been to voluntarily surrender control to an independent body in the interests of stability. On fiscal policy, by contrast, the government retained its full range of tax and spending powers and, after 18 years of Conservative rule, there was some considerable public expectation that spending on public services would now be more generous. This presented a dilemma for Labour, who had to reconcile their social agenda with their concern for economic credibility. The answer, once again, would be a form of constrained discretion.

The causal story in the fiscal narrative began with the proposition that "responsible public finances are the cornerstone of stability" (CBI97), but that such responsibility had been too little in evidence. There was therefore an urgent need to "overcome instability and imprudence" (MH97) in fiscal policy. In this reading, government spending plans and, especially, public borrowing, had in the past been a source of risk and needed to be brought under control.

The argument was recapped by Balls & O'Donnell in 2002:

"Macroeconomic policy can be a stabilising force. But the powerful influence of government borrowing and interest rates on the economy can be destabilising, if not managed effectively. The evidence suggests that fiscal and monetary policies over the last two full cycles had failed to provide the requisite stability." (2002: 156).

The nature of past ‘irresponsibility’ was left fairly vague in Labour’s public rhetoric, but the clear implication was that fiscal policy had been politicised and short-termist. In an interview for this research, one longstanding Treasury official described in more detail how the economic forecasts underpinning the fiscal envelope had been open to manipulation by previous Chancellors:

“Nigel Lawson always used to get the forecasts from the Treasury, cross out the growth number and put a bigger growth number in, cross out the inflation number and put a lower inflation number in. It’s his forecast, you know?”

(Interview F)

Labour’s prescription was a new Code for Fiscal Responsibility designed to increase the transparency of the government’s fiscal decision-making by giving the National Audit Office scrutiny powers over forecasting, and requiring the government to state its fiscal objectives from the outset. Out of those high-level objectives, Labour then put forward a pair of new, self-imposed fiscal rules. The first specified that, over the economic cycle, public borrowing must be only for the purposes of capital investment (not current spending, consumed in-year). Simon Wren-Lewis has dubbed this “a cyclically-adjusted balanced budget rule for government consumption” (2013: 28), since it hinged on a zero (or positive) average deficit over the measurement period. The second rule required that public sector net debt be held at ‘sustainable’ levels, defined by Labour as 40 per cent of GDP. The new fiscal framework was therefore geared particularly toward risk arising from public borrowing, which could expose governments to the wrath of the financial markets. It did not directly constrain tax and spending, but set the boundaries within which they could operate by imposing an effective ceiling on how much the government could borrow in both the short- and the medium-term.

The Code for Fiscal Responsibility was an attempt to publicly lay out the logic and boundaries of the fiscal process, and to commit future governments to the same transparency. It stopped short, however, of placing

the fiscal levers in the hands of independent experts, on the basis that “making decisions about taxation and public spending is part of the essence of a democratically elected Government, requiring economic and social judgements that only the Government can make.” (Balls & O’Donnell 2002: 157). An interviewee reported that this distinction between fiscal and monetary policy was particularly important to then-Chief Economic Adviser Ed Balls:

“[Some] wanted a fiscal policy committee to go along with the monetary policy committee right from the start. But Ed... said no that’s democratic choice.” (Interview F)

In theory, then, the democratically elected government would retain full discretion over tax and spend, and while increased transparency would make it clearer when governments were loosening fiscal policy, it did not prevent them from doing so. The government therefore sought to fetter their own discretion through a set of political commitments, pledging to adhere to their Conservative predecessor’s spending plans for the first two years in office, despite the fact that these were extremely stringent:

“Gordon Brown, in a sense, rubber-stamped Ken Clarke’s plans, which Ken regarded as eye-wateringly tight and never intended to stick to.” (Interview B)

They also promised there would be no increase in the basic or higher rates of income tax. With borrowing constrained, major tax increases off the table and spending plans fixed, the early signals from the Labour administration were as fiscally conservative as they were hawkish on monetary policy.

Part of the explanation for this signalling was Labour’s belief that the *perception* of fiscal responsibility was as important as the actual shape of fiscal policy. The predicted outcome, according their narrative, was that the confidence created by the newly prudent fiscal framework would set the economy on a stable footing, eventually creating space for more expansive tax

and spending plans in the future. A rules-based system of constrained discretion was expected to be more reassuring to the markets than simple fiscal restraint, because it allowed economic actors to price in fiscal discipline without having to wait and see if it materialised:

“If the policy framework lacks credibility, households and firms will continue to base their decisions on past experience... Through this open and transparent framework, the Government has been able to bridge the credibility gap that developed after years of poor fiscal management.”

(2002: 157)

Two ideas were implicit in this part of the narrative. The first, in line with the thinking on monetary policy, was that governments are unpredictable and short-termist, making them a source of risk and instability. While the rights of the democratically elected have an inalienable right to make fiscal policy, they still have to be made safe. This belief is illustrated by Balls and O’Donnell’s observation that fiscal rules did not even need to be perfectly specified, since it was the existence of rules, rather than their substance, that would underpin confidence:

“Even if a fiscal rule is not ‘optimal’ in a perfect world, it may well be the best economic response in a situation where the unconstrained political process produces outcomes that are even less desirable.” (2002: 157)

As in monetary policy, the ‘unconstrained political process’ was a thing to be feared, so that making policy predictable was at least as important as making it right. And, as in monetary policy, the threat posed by unpredictability of government was viewed asymmetrically: higher spending, like higher inflation, was the implied risk. The new frameworks therefore sought to institutionalise not just transparency about fiscal objectives, but a tendency towards fiscal restraint.

The second implicit assumption was that fiscal policy was “in a subordinate role to monetary policy” (Sawyer, 2007: 889) since the narrative made all spending plans secondary to, and conditional on, the achievement of macroeconomic stability. Elsewhere, Labour had committed to a thoroughgoing renewal of Britain’s public services, but in the economic narrative this was presented as a second-order goal on the basis that “without stability all plans for investment, employment and education founder” (BUD97). The Code for Fiscal Responsibility ensured that the primacy of monetary policy was built into the architecture, requiring that policy should “take account of risk and of the need to avoid, so far as possible, conflict with monetary policy” (Balls & O’Donnell 2002: 140). New Labour policy duly did so: the decision to stick to Conservative spending plans for two years was disappointing to the party base, but Brown argued that “it is only by being prudent and disciplined now, building a platform for long term stability, that we will be able to deliver the people’s priorities - as we will - for health and education in the years ahead” (CONF97). The first two years would therefore be devoted to macroeconomic stabilisation and ‘prudent’ fiscal consolidation.

This is not to say that Labour were out-and-out fiscal conservatives. Broadly speaking, fiscal policy underwent three distinct phases in Labour’s pre-crisis decade: deficit reduction from 1997-2000, significant expansion from 2001-2005, and a period of consolidation from 2005-07 (Budd, 2010: R38; Wren-Lewis, 2013: 26). So while “prudence” began as Brown’s favoured shorthand for tight spending plans, it soon evolved into “prudence for a purpose”, a classic piece of third-way rhetoric that sought to resolve the tension between Labour’s economic and social objectives by framing both the initial freeze and the later spending as equally temperate. Initial fiscal restraint would, it was argued, be a means to achieving social progress, because once stability had been achieved it could provide the platform for greater largesse. The critical point, however is that the construction of the narrative established a clear pecking order: stability first and, when the markets could bear it, spending later.

**Table 4.1: Stability and Prudence as causal stories**

<i>Narrative theme</i>	<i>Diagnosis</i>	<i>Prescription</i>	<i>Prediction</i>
<b>Macroeconomic Stability</b>	<p>Britain prone to 'stop-go', because periods of growth stimulated wage-price inflation spirals that undermined confidence.</p> <p>Government has incentives to exacerbate the inflation problem.</p>	<p>Control inflation as the essential precondition for economic stability.</p> <p>Insulate monetary policy from government interference.</p>	<p>Inflation stays low. No more boom and bust. Labour become the party of economic credibility.</p>
<b>Fiscal Prudence</b>	Expansive spending plans frighten the market unless stability is locked in.	Keep fiscal policy within 'prudent' and transparent limits by means of fiscal rules ('constrained discretion')	Government can safely invest in public services without threatening stability.

The twin themes of stability and prudence spoke to the same basic concern: the necessity of creating the economic and political space in which other policy objectives might be safely pursued. They rested on the same fundamental ideas: inflation as the great evil, government as a source of risk and stability as primary. In the early days, the narrative displayed strong internal validity, with the two themes providing mutual reinforcement and a clear line from problem analysis, to prescription, to predicted outcomes. Table 4.1 summarises the causal stories advanced in each narrative theme, as articulated in early rhetoric, distinguishing between their key components of problem-diagnosis, prescription and predicted outcomes. The question was whether those predictions would stand up to events.

### ***Internal and external validity in the pre-crisis years***

It is a key property of narratives that they project the expected outcome of the policies they prescribe and thereby specify the criteria on which they expect to be judged. While all economic narratives are political constructions, they are constructions with a particular view of the material indicators that matter, making it possible to set them against empirical data and draw conclusions about how far that data supports or contradicts them. If the evidence begins to point away from the causal story's predictions the narrative is subject to a challenge to its external validity, precipitating a choice between remaining consistent and adapting to events – between preserving its internal or external narrative validity. Ideally, political actors like to be both correct and coherent, but when this is no longer possible a trade-off must be made. At such moments the political response can be particularly revealing.

The external validity claims in Labour's macrostability rhetoric were twofold: first, that inflation would be held low and stable by the Bank's independent control of monetary policy and, second, that the control of inflation would allow for stability and growth in the economy at large. The key

indicators for the stability theme were therefore the rate of inflation, and the rate of GDP growth. For the fiscal prudence narrative the key claims were, first, that fiscal policy would be constrained by the new fiscal rules and, second, that as a result the markets would be able to bear future spending on public services. As such the crucial EV tests for the prudence theme were whether the government met its fiscal rules, and what impact the fiscal position had on market sentiment, particularly once public spending began to rise.

I will suggest that these twin narratives faced a series of external validity challenges during the pre-crisis years:

- in 1999-2000, due to a pessimistic growth forecast;
- in 2003-05, when inflation threatened to rise, due partly to booming house prices;
- also in roughly 2003-2005, when disappointing revenues threatened to undermine the government's ability to meet its golden rule; and
- in 2004-06 when weak growth presented a challenge to the government's claims of success.

Longitudinal analysis of the rhetoric, however, suggests that there was never any serious deviation from the core messages as laid down in 1997, much less any ideational change. Rather, the narrative showed an exponential tendency to stubbornness, with unfavourable economic data either being absorbed into the narrative or masked by measurement changes designed to leave the headline story intact. While Labour's narrative did not change course in response to these EV challenges, it did display a tendency toward simplification. What started out as a multifaceted analysis of Britain's economic weaknesses would evolve into a narrower focus on headline growth and inflation that, in the absence of any recession or inflationary spike, allowed the government to assert that its policy framework was a success. To that end, several elements of New Labour's original problem analysis fell away over time or were reframed as supportive of the overall thesis.

### *1999-2001: pessimistic forecasts, strong growth*

At the beginning of the New Labour period, GDP growth appeared to present the immediate problem. Britain had been recovering from the recession of the early 1990s, but growth rate was actually falling over the first two years of Labour's tenure, from 3.25% in 1997 to 2.25 in 1998 and a projected 1.25% in 1999. Concerns about a slowing world economy therefore led the Treasury to downgrade its 1999 growth forecast from 2% at the 1998 PBR. During 1999-2000 quarterly GDP data became highly volatile, even allowing for seasonal swings, falling to just 0.2% in Q2-1999. The weak second quarter saw the UK economy within a whisker of negative growth, though it would rebound in Q3. Output at this time was thought to be below trend, though not by much; the 1999 budget made a virtue of this dip, suggesting that at least "this cycle is set to be much more moderate than those in recent decades" (HM Treasury, 1999a: para 1.6). Nonetheless, three years of slowing growth represented the first challenge to external validity of the government's story.

In the event, outturn growth for 1999 came in at 2%, almost flat against 1998 and substantially better than the downgraded forecast (figure 4.2), allowing Gordon Brown to conclude that, thanks to the government's policy framework, all was well. The clear message in Budget 2000 was that the prescription was working, and that "it is because the foundations on which we build are strong that the economy can meet our inflation target and achieve steady growth" (BUD00). The first external validity challenge to the narrative had passed, with the surprises in the data all on the upside, leaving the government apparently vindicated. UK growth remained fairly steady in wake of the September 2001 terrorist attacks, during which time the UK economy performed better than several of its G7 counterparts, further strengthening the government's conviction that policy was on the right track. Paradoxically, the early wobbles in Britain's growth performance actually became a source of

confidence for the new government, who were developing a sense of important policy tests having been passed.

The improved growth outlook was accompanied by better than expected fiscal outturns. The 1999 PBR and 2000 Budget reported apparently structural improvements in the fiscal position, with larger budget surpluses than projected and a smaller public borrowing requirement:

“A year ago I estimated that this year's current surplus would be 2.5 billion pounds. I can report that we have not only balanced the current Budget but our current surplus this year is forecast to be 17 billion pounds... due to the performance of the economy and to prudent management, [public borrowing] is not in deficit by 3 billion but in surplus by 12 billion pounds.” (BUD00)

This highly favourable position enabled Brown to face both ways on public spending, simultaneously announcing he would “lock in fiscal tightening” for another two years while also offering discretionary measures worth 0.5% of GDP, rising to 1.6% over three years (Wren-Lewis 2013: 35). There was now so much room for manoeuvre in the public finances that it appeared possible to have all things at once.

The improved fiscal position ensured the prudence narrative would come under no pressure during Labour's first term. The official analysis in 1999 was that the UK economy had been performing on trend in early 1997 (HM Treasury, 1999b), conveniently lining up the start of a new economic cycle with the political cycle. The 2001 budget offered a “provisional judgment” that a complete economic cycle had begun in early 1997 and ended in mid-1999, meaning that the first two years in office represented a “full, albeit short and shallow” economic cycle (Balls & O'Donnell 2002: 164). Labour's golden rule required a balanced budget over the cycle, but policy in 1997-99 had gone beyond this by enacting a “large fiscal tightening” (HM Treasury 1999: 16), ensuring that they not only met the golden rule, but exceeded it with an

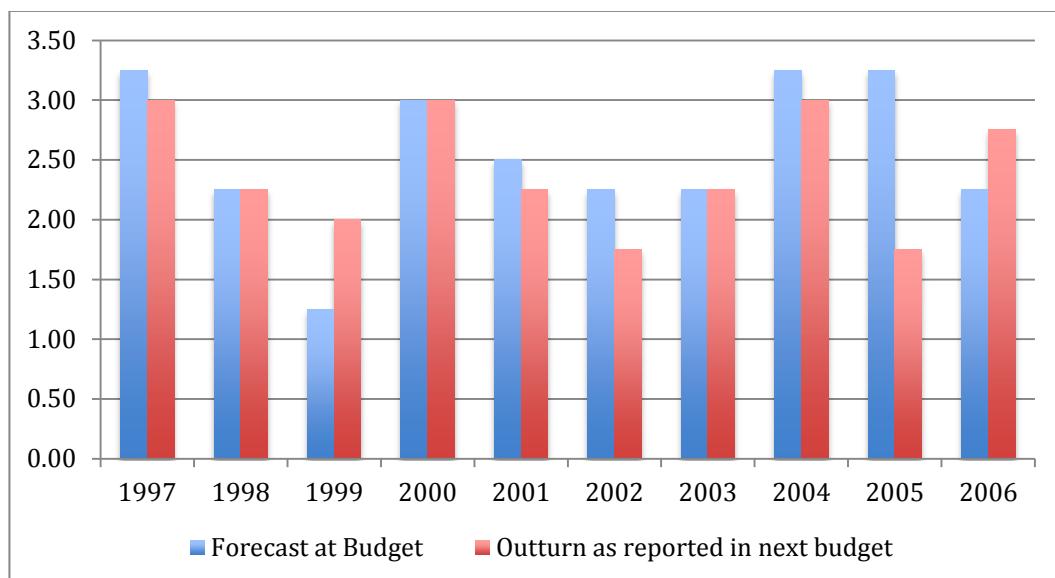
average annual surplus of 0.75% of GDP (HM Treasury, 2000: para.C3). From the presumed start of the new cycle in mid-1999, Labour would then be starting again at zero, but with the political credit for having imposed two years of prudence to reduce the debt accrued by their predecessors.

Since the first external validity challenge had passed off without requiring any narrative adjustment, the internal validity of the narrative was unaffected and, indeed, reinforced. Existing rhetoric had provided an off-the-shelf framework for explaining better than forecast data in 2000, which was immediately interpreted as proof that the fiscal framework was delivering its expected results. That is, things were not just turning out well, they were turning out *as they were supposed to* in the causal story. This was reflected in the rhetoric both qualitatively and quantitatively; 2000 was the peak year for references to prudence and the fiscal rules (Fig. 4.8) which appear an average of nine times per speech. Qualitatively, it was also the year in which the tone of the rhetoric went from optimistic to triumphant, Brown declaring that “these extra resources are not at the expense of our prudence, they arise *because of* our prudence” (BUD00, emphasis added). This period thus appears to have been a critical juncture for Labour’s economic story, embedding a sense of confidence in the correctness of the government’s approach.

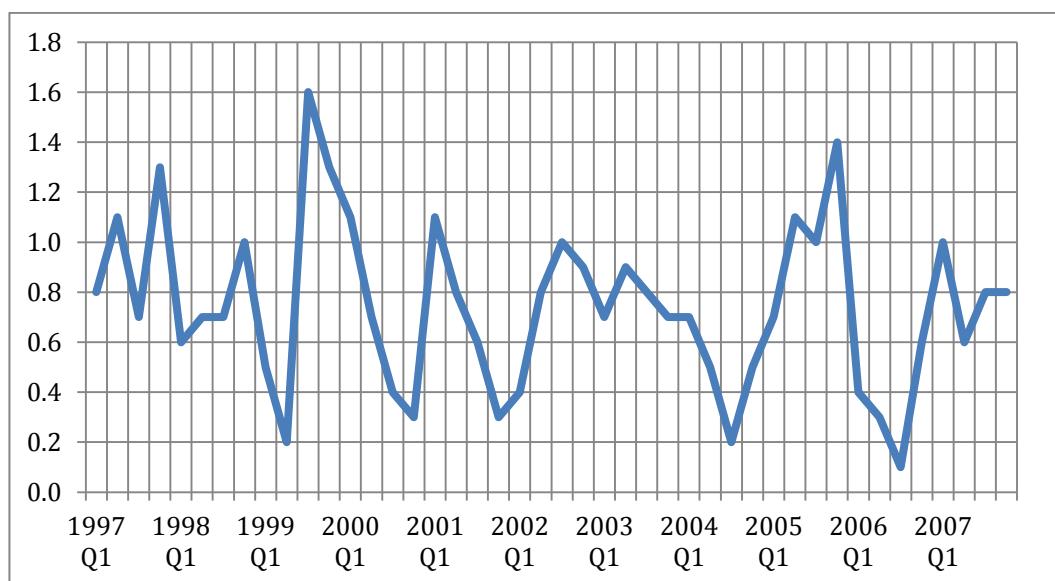
This moment of narrative vindication coincided with a policy turning point in 1999-2000, when the commitment to Conservative spending plans expired and Brown could begin allocating money to Labour priorities. Until that point, Brown had been continuing to make use of ‘prudence’ as the justification for not doing very much with his fiscal levers. The frugality of the first two years would now provide the justification for new spending, with Brown arguing that “because we have been financially disciplined, extra resources are now available” (BUD00). Prudence having been established, the taps could now be turned on:

“Today, two years on, by applying our fiscal rules we have reduced the inherited deficit by 32 billion pounds; budgeted

**Figure 4.2: Annual GDP growth rate, forecast at Budget and outturn, 1997-2006<sup>3</sup>**



**Figure 4.3: Quarterly GDP growth (%) 1997 – 2007<sup>4</sup>**



<sup>3</sup> Source: Author based on Budget documents. Forecast and outturn data as reported in the Budget is used because it represents the information available to the government at the time, allowing for inferences about their thinking. Budget growth forecasts are given as a range of 50 basis points. For simplicity this analysis takes the mid-point of the range.

<sup>4</sup> Source: Office for National Statistics, Quarter on quarter CVM SA, Series IHYQ

well within our public spending ceilings; and brought debt down towards 40 per cent of GDP. As a result of this cautious and prudent approach, we remain on track to meet the fiscal rules while at the same time guaranteeing an extra 40 billion pounds for schools and hospitals.” (MH99)

Further spending increases were rolled out over the next several years, the most totemic of which was the 2002 announcement of a step-change in funding for the National Health Service. Despite this increased spending, at the time of the 2002 Budget, current spending was expected not only to balance over the economic cycle but to remain in surplus every year to 2007-08, beyond the expected end of the cycle in 2005-06. For the first five or six years of New Labour’s tenure, therefore, the fiscal narrative encountered almost no EV challenge whatsoever, as low borrowing costs, buoyant revenues and strong growth combined to support enormous investments in public services while not only meeting the fiscal rules but forecasting budget surpluses across the period.

### ***2003-05: a housing boom and inflation problems***

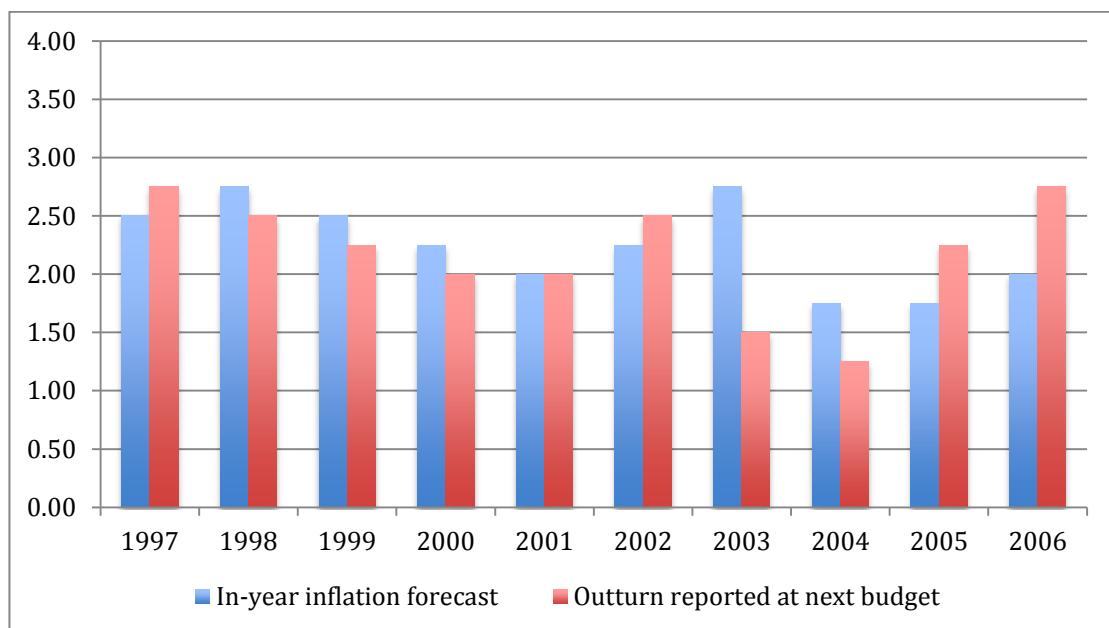
While New Labour’s first term had seen a brief wobble in the growth figures, data for inflation – the other key measure for the external validity of the stability narrative – had been extremely favourable from the start. Inflation had fallen steeply from its early-1990s peak by the time Labour took office, and was within the Bank of England’s target range by the time of Gordon Brown’s first budget. The rate of inflation remained close to target, and often on the low side, throughout the first term, while inflation forecasting also proved reliable (Fig 4.4), reinforcing the impression that the new monetary framework had done away with the scope for nasty shocks. The low and stable inflation of this early period therefore appeared to support both Labour’s narrative and the wider international perception that business

cycle volatility had been brought under control by a generational leap forward in policy design. By the end of the first term, Brown was in no doubt that the government could take the credit for this outcome, telling the Labour Party conference that “it is not by accident, but by our actions, that we now have the lowest inflation for over 30 years and around the lowest long term interest rates for 35 years” (CONF00).

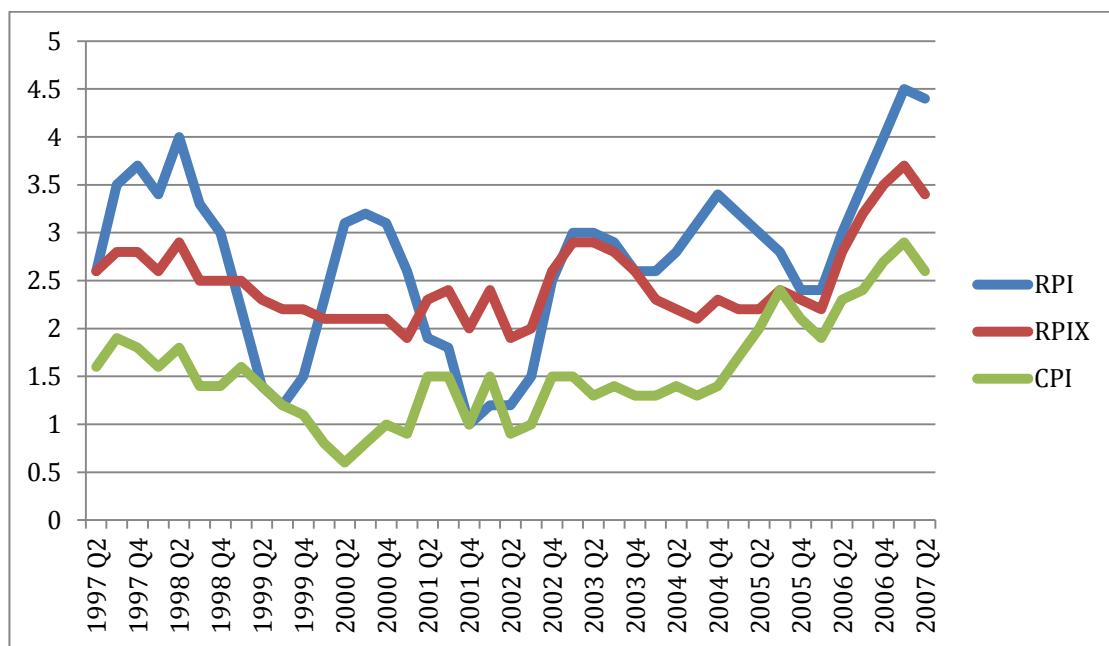
In the second parliamentary term however, some considerable sleight-of-hand was required to ensure the inflation narrative stayed on the rails. At the 2002 budget, outturn inflation for the previous year was higher than forecast, albeit by only 0.25 per cent. While Brown was careful to say that the Bank’s symmetrical target guarded against deflation as much as inflation, undershoots had generally been heralded as good news; an overshoot must, by implication, be a matter of concern. The next budget in 2003 reported that 2002 inflation had come in on target, but slightly above its forecast (2.5% rather than 2.25%) and projected a further quarter-point rise in the coming year. While still well within the target range, these increases represented the first indication that inflation might rise again, at least raising the possibility of an external validity challenge to the narrative. On one view, inflation was still well within bounds; however, Labour’s hyper-vigilance on inflationary pressures meant that even small increases could represent a threat to the narrative.

While the headline increase was small, the reasons for it pointed to trouble, with the uptick in RPIX being substantially driven by booming house prices. House price inflation was by this time soaring, with double-digit growth in every year of Labour’s first term, rising to 25% growth in a single year in 2002 (Fig. 4.6). By early 2003 the Bank of England were warning that house price inflation was “unsustainably high” (2003: ii) and in late 2003 they implemented the first of a series of increases to the base interest rate, accompanied by heavy hints that house buyers should expect further rises in future (Bank of England, 2004b). On the face of it, this was the monetary

**Figure 4.4: Inflation rate, forecast at Budget and outturn, 1997-2006<sup>5</sup>**



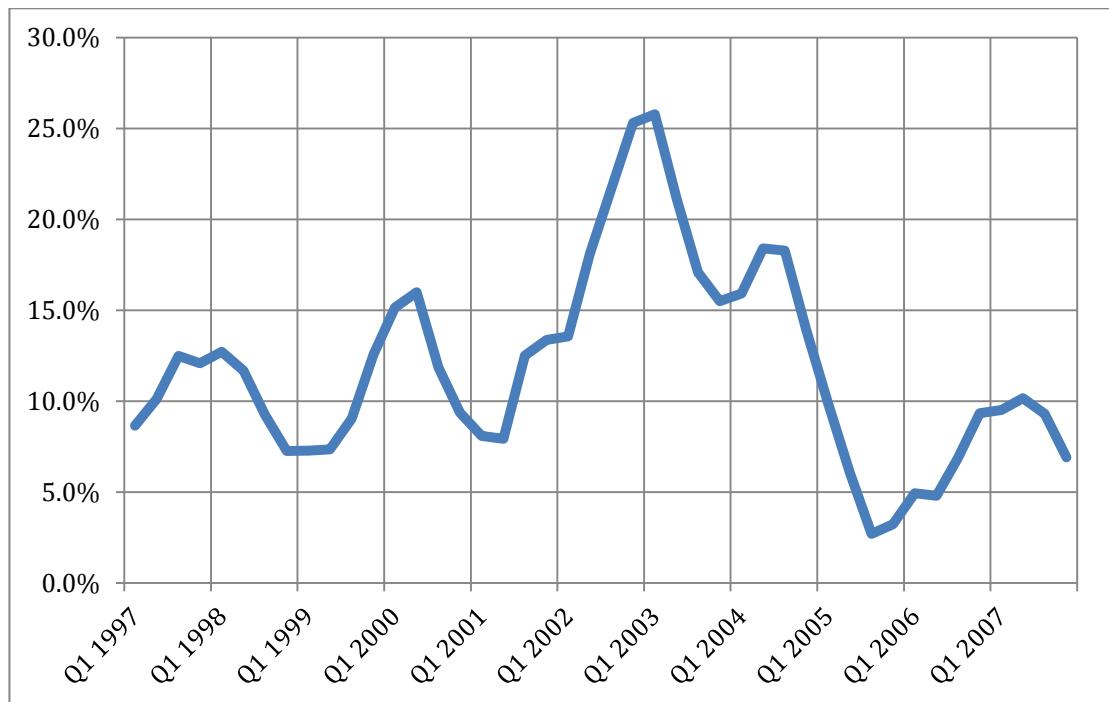
**Figure 4.5: Three measures of inflation, 1997-2007<sup>6</sup>**



<sup>5</sup> Source: author based on Budget documents. In-year forecast is the Budget estimate for inflation in the current year (e.g. in 1998, the estimate for 1998 inflation as published in Budget 1998). Outturn is the figure as reported at the next budget (e.g. 1998 outturns reported in Budget 1999). The official measure of inflation changes from RPI to CPI between the forecast and outturn for 2003.

<sup>6</sup> Source: Office for National Statistics, series CZBH, CDKQ, D7G7, retrieved April 2016

**Figure 4.6: House price growth, annual % change, 1997-2007<sup>7</sup>**



framework functioning as designed, adjusting rates and managing expectations to prevent overheating in the economy. But Labour rhetoric shows an ambivalent attitude to house price inflation, which they alternately conceptualised as a threat to, or as proof of, Britain's economic stability.

The early narrative had taken a clear position that housing market inflation should be kept in check, with early rhetoric making an explicit connection between house price booms and instability. Brown promised in his first budget that because "volatility is damaging both to the housing market and to the economy as a whole... I will not allow house prices to get out of control" (BUD97). Some later speeches also referenced the idea of housing volatility as a source of risk, as in 2003 when Brown noted that "most stop-go problems that Britain has suffered in the last fifty years have been led or influenced by the more highly cyclical and often more volatile nature of our housing market." (BUD03).

<sup>7</sup> Source: Nationwide house price index, retrieved August 2016

Alongside this, however, sat a second strain of rhetoric that presented low inflation and low mortgage interest rates as equivalent goods. In this reading policy should not aim at house price moderation but at “entrenching a low inflation culture that prudently keeps *interest rates and mortgage rates as low as possible*” (PBR00, emphasis added). Government rhetoric repeatedly celebrated the government’s success in driving down mortgage rates, Brown noting approvingly in 2004 that “mortgage rates have been lower than in any seven year period since the late 1960s” (PBR04). Brown even went so far as suggesting that the public’s preference for low mortgage interest would be a key mechanism for moderating inflation:

“under the new system, unacceptably high wage rises... will not lead to higher inflation, but to higher interest rates, [so] it is in no one's interest if today's pay rise threatens to become tomorrow's mortgage and interest rate rises.” (CBI99)

That is, Britain’s heavily leveraged housing market was now supposed to be a force for stability because in the presence of a credible threat from the Bank of England to raise rates, fear of higher interest rates would disincentivise inflationary wage bargaining. The clear potential for low interest rates to fuel a housing and consumption boom was not acknowledged. Colin Hay has argued that during this time, the Labour government displayed “increasingly differentiated” inflation preferences in which house price inflation was good but retail price inflation bad (2009: 462). Analysis of the rhetoric supports this analysis, but suggests that the inflation that most concerned Labour was, in fact, wage inflation. Stability, it seemed, meant avoiding a return to 1970s style wage-price inflation; it left plenty of room for a new kind of inflationary spiral based on housing.

Budget documents show that over time, the notion of housing booms as a source of risk gradually gave way to the second logic of low interest rates as proof of stability. For example, the 1999 Pre-Budget Report noted that “housing market volatility might... pose a threat to wider economic stability”

but argued that the ratio of house prices to incomes (which was then 3.9) was not far from trend, and anyway “under the Government's new framework... a build up of similar pressures in 1997 was quickly alleviated through a timely policy response” (HM Treasury, 1999c: Box A4). By 2003 however, the ratio of house prices to incomes had increased to 5.8, suggesting the problem had not been contained. This did not seem to trouble the Budget analysis which reported, with some considerable understatement, that “strong house price inflation [had] helped sustain growth in consumer spending, offsetting the negative impact of declining equity values on total household wealth, while mortgage equity withdrawal added a further stimulus to consumption” (HM Treasury, 2003: para B25). In other words, the previous year's 25% house price growth was keeping the British economy going through a period of uncertainty in world markets. The 2004 Budget regarded a housing market slowdown as a “downside risk” to consumer spending but one which the Treasury regarded as reassuringly distant and which “should not be overstated” (HM Treasury 2004a: 26-7). By late-2004, the Treasury was offering a further reinterpretation of house price inflation as a form of savings activity by British households, who were accumulating asset wealth as an alternative to traditional savings. Viewed in that way, house price inflation could be welcomed as an indication that “saving behavior has been more robust in recent years than is often appreciated” (HM Treasury 2004b: 96).

There was therefore a kind of cognitive dissonance emerging in the government's inflation policy, which remained extremely concerned with headline inflation but was increasingly accommodating of inflation in house prices. Incrementally rising headline inflation, driven by rapid price inflation and overheating housing market, posed an external validity challenge to a narrative that depended on delivering low and stable inflation and growth in perpetuity. The government's response to this challenge was to move the goalposts, announcing in June 2003 that it would change the inflation measure from RPIX to the Consumer Prices Index (CPI). Announced alongside the “five tests” assessment of Britain's prospects for joining the European single

currency, the adoption of CPI as the official measure was ostensibly part of a move toward European harmonisation, bringing Britain's national statistics in line with the international standard. However, considering that the five tests had pushed Euro membership off the agenda for the foreseeable future, it is far from obvious why in 2003 Britain was suddenly ready to adopt the EU's official measure, especially given Gordon Brown's proven willingness to resist European harmonisation in other areas. Framed as a Euro-convergence story, the change to CPI, and especially the timing of the change, makes little sense. Seen in the context of the government's macrostability narrative, it appears rather more logical.

The change to CPI has often been interpreted as a calculated move to exclude house price inflation from the official measure at a time when house prices were booming (Hay, 2009; Besley & Sheedy, 2010). The previous measure, RPIX, had been exclusive of mortgage interest but had included 'a measure of owner-occupied housing costs' (see Bank of England 2004a: iii) whereas CPI excludes mortgage costs, which are difficult to harmonise across Europe's very different housing markets. The timing of the change was also significant: Differences in the ways the two indices are calculated ensure that CPI tends to return a lower inflation rate than RPI; at the time of the announcement it was running 160 basis points lower than RPIX. Alongside the change of index Brown simultaneously cut the Bank's target by 50 basis points to 2%, but the change of index still created significant new headroom in the target. Besides this short-term advantage, the new measure effectively guaranteed a far greater likelihood that economic performance would continue to be interpretable as on-track. RPIX inflation would have been higher than CPI; RPI would have been both higher and more volatile (fig 4.5). Taking CPI as the official measure of inflation thus offered the best fit with the government's 'low and stable' inflation narrative, while making the change in 2003 rebooted the inflation data at the first signs since 1998 that it might be creeping upwards and at a time when booming house prices meant the gap between indices was unusually wide. The RPIX index nudged 3% in 2002-03,

but the CPI measure stayed flat and well below target, apparently reinforcing the message that the government's macrostability policies were working well despite their failure to effectively rein in housing inflation.

Despite the fact that this "covert re-politicisation of monetary policy" (Hay, 2009: 474) had weakened the Bank's incentive to do anything about housing inflation, through 2004 the MPC enacted a series of increases in the base rate. The housing market cooled dramatically over the course of 2005, prompting Brown to welcome this "necessary slowing in house prices" (PBR05), but at no point did house prices actually fall. The gap between average earnings and house prices continued to widen in 2005, median house prices reaching seven times incomes in 2006. Despite this, the government chose to interpret the 2005 slowdown as sufficient on the basis that it had been achieved without negative GDP growth, whereas "in any other decade, a house price bubble would have pushed Britain from boom to bust" (CONF05). Once again, the lesson drawn was that the key to success had been the groundwork laid in 1997, and that no further policy action was warranted besides letting that system work. Brown told the CBI in 2005 that "our resolution has again been tested by the need to moderate the housing market" (CBI05) but that by sticking the course, inflationary pressures had been contained without any lurch into recession. In 2005 average house prices were almost 7 times average earnings in England,<sup>8</sup> but in the 2005 Pre-Budget statement the government was back to celebrating "the lowest mortgage rates for 40 years" (PBR05). After 2005, as house prices once again accelerated away from earnings, there was no further talk about housing market risk. Monetary tightening had damped prices without causing a recession, so all was well and low mortgage rates were still a good thing:

"mortgage rates which averaged 11½ per cent between 1979 and 1997, have since then averaged just half that at 6 per

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<sup>8</sup> Source: Office for National Statistics, ratio of median house price to median annual earnings

cent. As I have said before Mr Deputy Speaker: No return to boom and bust." (BUD06).

At no point in the pre-crisis decade had house prices fallen back, and even the 2005 cooling was a plateau, not a correction. By mid-2007 annual house price growth was back to 10%, but the stability narrative had dropped any interest in housing market volatility. As long as the two main indicators remained favourable – just – that was good enough.

The interplay of political interests and economic ideas is particularly interesting in this episode. The Treasury's reframing of house price inflation as evidence of, rather than a threat to, stable economic growth could be interpreted as pure interest politics: specifically, Gordon Brown's interest in keeping a housing-based boom going for political reasons (e.g. Hay, 2009, Widmaier, 2016a). Excluding housing from the inflation measure effectively weakened the Bank's mandate to do anything about the house price bubble, a move apparently in direct contradiction to the government's rationale for independent monetary policy because it privileged short-termist pandering to homeowners over central bankers' concern for long-term economic stability. The change of inflation measure might therefore be seen as proof that the high-minded ideas in the macrostability narrative were less than sincere.

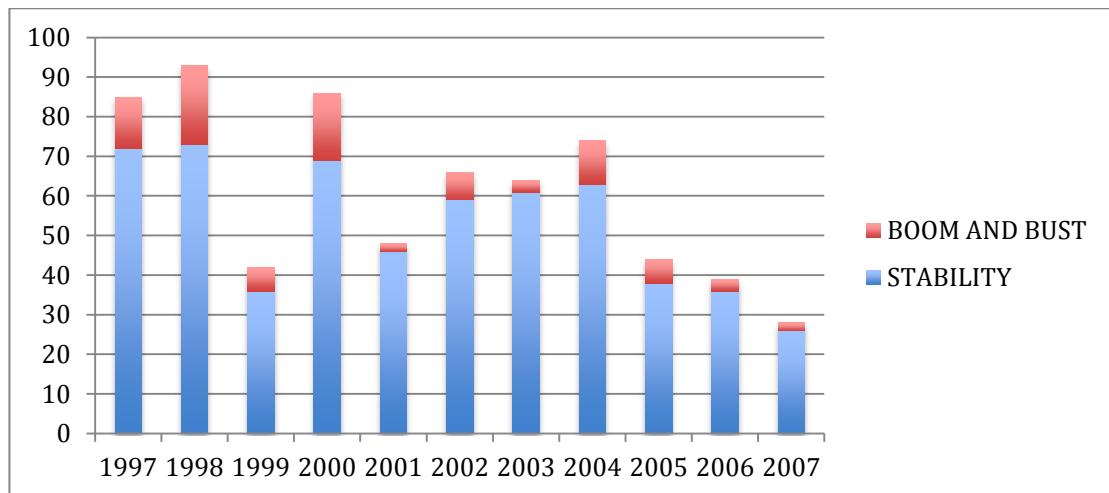
However, another reading is also plausible. The government's separation of wage inflation, which was bad, from house price inflation, which was fine, actually maps neatly onto certain of the underlying ideas in New Labour's political economy, which located risk in the public sector and opportunity in the private market. Under that ideational framework, if households were capitalising on low interest rates to make leveraged investments in an appreciating asset class they could be congratulated on their willingness to embrace financial capitalism, provided they didn't also agitate for a payrise. A non-housing inflation measure could be seen to reflect the core of the original causal story by focusing on bad inflation, rather than repudiating the story overall. Labour were not only choosing to ride a housing

boom, but were attempting to find ways to feel good about doing so, by rationalising that boom as emblematic of progress towards a modern, flexible economy. They then made the necessary narrative and policy adjustments to allow them to interpret events as compatible with the original story, deciding that that so long as stability was the watchword of monetary policy, whatever that policy produced must count as stable. The change of inflation measure enabled the government to interpret the economy as validating the predictions of their policy framework, showing that growth (even rocketing asset growth) and stability were compatible goals. In this instance, a change of policy did not only preserve the boom; it also preserved the narrative. Political interests were on the side of housing inflation; but in important respects, so were New Labour's ideas, allowing them to assimilate what might have been an external validity problem into their overarching narrative.

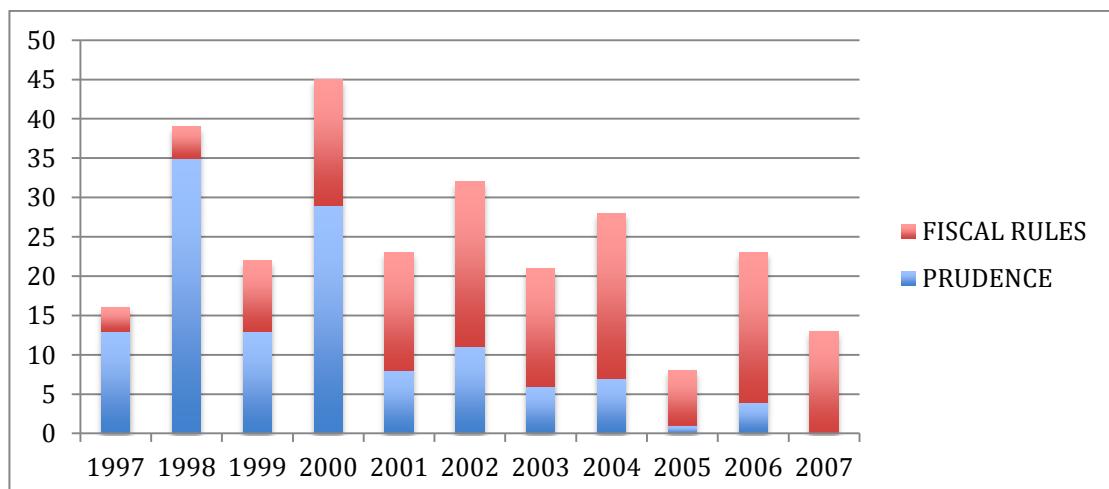
### ***2005: meeting the fiscal rules 'over the cycle'***

As we have seen, the government's ability to meet its fiscal rules had come under no strain in the first term, ensuring there was no challenge to the narrative of fiscal prudence. That narrative had nonetheless begun to evolve, with the specific vocabulary of prudence being much less frequently invoked after 2000. This was apparently deliberate, one official recalling that "in the early budgets, Prudence was there, very much. She was quietly dropped though." (Interview F). Two things appear to have happened instead: generic references to the fiscal rules became more common (Fig. 4.8), providing a technocratic stand-in for prudence, which had become an object of satire in the press. And, to the extent that prudence was still invoked, its meaning had become differentiated. At the outset in 1997, prudence described the government's fiscal self-binding, but as early as 1998 it also became attached to spending announcements as "prudence for a purpose". This rhetorical segue might be seen as simply descriptive of the policy shift from deficit reduction to spending growth, but it is noteworthy that the policy shift was

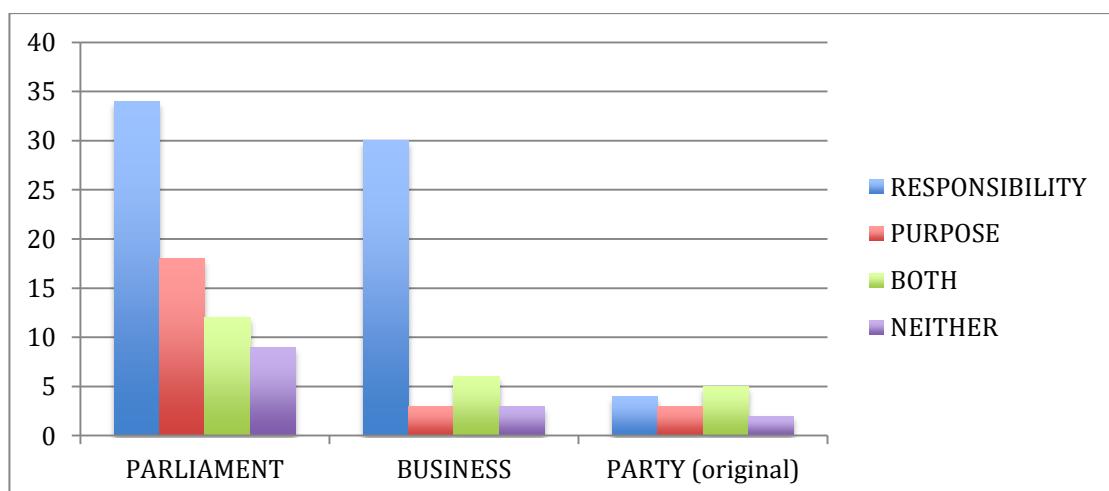
**Figure 4.7: Macrostability rhetoric (frequency) 1997-2007**



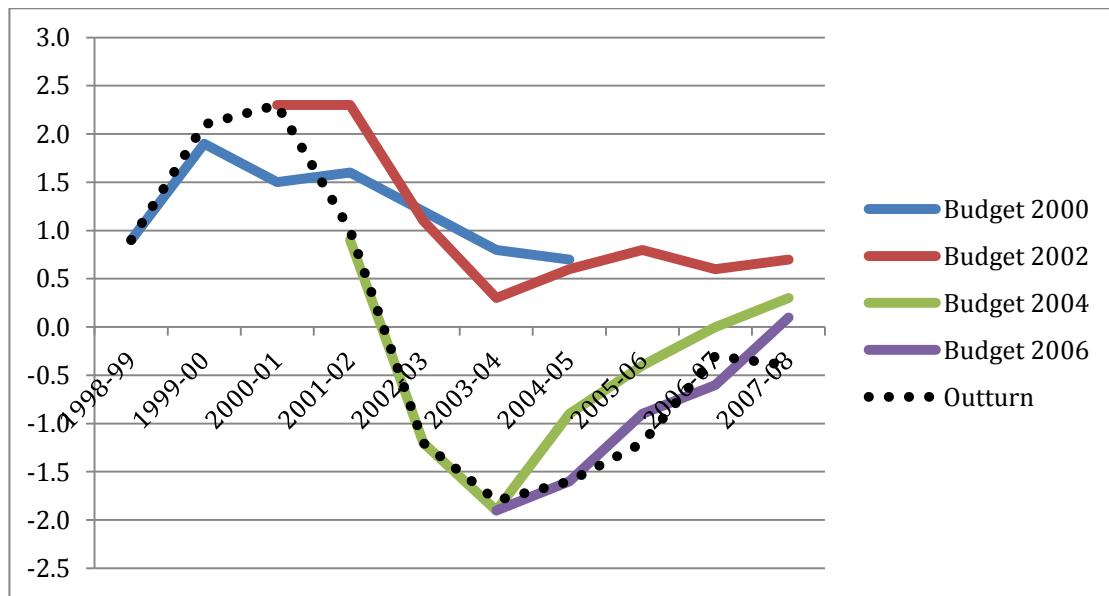
**Figure 4.8: Prudence rhetoric (frequency) 1997-2007**



**Figure 4.9: Variants of prudence, by audience**



**Figure 4.10: Current budget surplus, budget forecasts and outturn, % of GDP<sup>9</sup>**



presented in terms of an existing rhetorical framework that invoked caution, frugality and the prioritisation of stability. The social purpose of the new spending plans was not put forward as justification on its own; even with a huge parliamentary majority and highly favourable economic conditions, new public spending required a side-order of prudence to make it palatable.

Unlike the original “prudence”, the rhetoric of “prudence for a purpose” was deployed only selectively. Figure 4.9 breaks down prudence language into subcategories: ‘responsibility’, which relates to the fiscal rules, debt reduction and sound public finances; ‘purpose’, which relates to increased public spending often justified as “prudence for a purpose”; ‘hybrid’, in which third way rhetoric links fiscal responsibility with public investment as a win-win; and a residual ‘neither’ category. While fiscal responsibility remained the most common usage of prudence, there was also a substantial volume of rhetoric in which the language of prudence was adapted to justify public spending. But while parliamentary statements made liberal use of both variants, the idea of prudence for a purpose was almost never articulated before a business audience, who got unadulterated prudence. This rhetorical inconsistency

<sup>9</sup> Source: author based on budget documents

might look like an internal validity problem, weakening the coherence of the narrative and indicating it was perhaps not sincere in the first place. In fact, once again this rhetorical differentiation represents strong continuity with the underlying ideas in the fiscal causal story, which had always privileged stability over public investment. The fact that the fiscal rules – the constrained discretion – was everywhere discussed, while the spending – the exercise of discretion – was only sometimes articulated, is perfectly consistent with a narrative that says spending is only permissible when, and because, policy has been conservative enough to create the political space for it. In the rhetoric and in the thinking, stability and sound finance was essential while social purpose was conditional.

The tension between prudence and purpose would bite on the New Labour government in the second term, when rising spending and weak revenues combined to put pressure on the government's ability to meet its golden rule. The first external validity challenges for the prudence narrative emerged from 2002-03, when tax revenues began to disappoint (Wren-Lewis 2013: 37), opening up a gap between outturn data and the forecasts (see figure 4.10). At the 2003 Budget the estimate for the 2002-03 fiscal position turned from surplus to deficit for the first time in Labour's tenure, with the current budget expected to return to balance in three years times. That horizon would prove elusive: the point at which the budget was expected to return to surplus moved back by another year at five out of six budgets from 2003-2008. While the existence of a deficit would not of itself mean breaking the golden rule over the cycle, persistent deficits were eroding the margin by which it would be met, raising the prospect that some policy change would be necessary to avoid a breach.

In the event, the necessary breathing space was created not by changes to tax or spending, but by redefining the cycle. Nothing was done until mid-2005, allowing Brown to go into the general election campaign with no change to his core message. Two months after the election the government announced an update of its analysis of the economic cycle, which was now

deemed to have begun in 1997, not 1999 as previously stated (HM Treasury, 2005c). This had the effect of counting in the initial two years of fiscal contraction to offset later deficits, increasing the government's leeway by £22.5 million in 2005-06, which was then expected to be the last year of that cycle and the point at which the books would have to balance (Institute for Fiscal Studies 2006: 23). The re-dating of the beginning of the cycle was arguably consistent with the government's stated methodology: the better-than-expected GDP growth in 1999 meant that the economy had been nearly on-trend in that year, rather than dipping below trend and closing out a short cycle as originally thought. The government therefore argued that revising the start of the cycle to 1997 was simply a correction in line with the empirical evidence. However the timing of the change was greeted with widespread cynicism, with the respected Institute for Fiscal Studies noting that "the case for making this judgment in the summer of 2005 seemed little stronger than at any time in the previous five years" (Institute for Fiscal Studies 2007: 41).

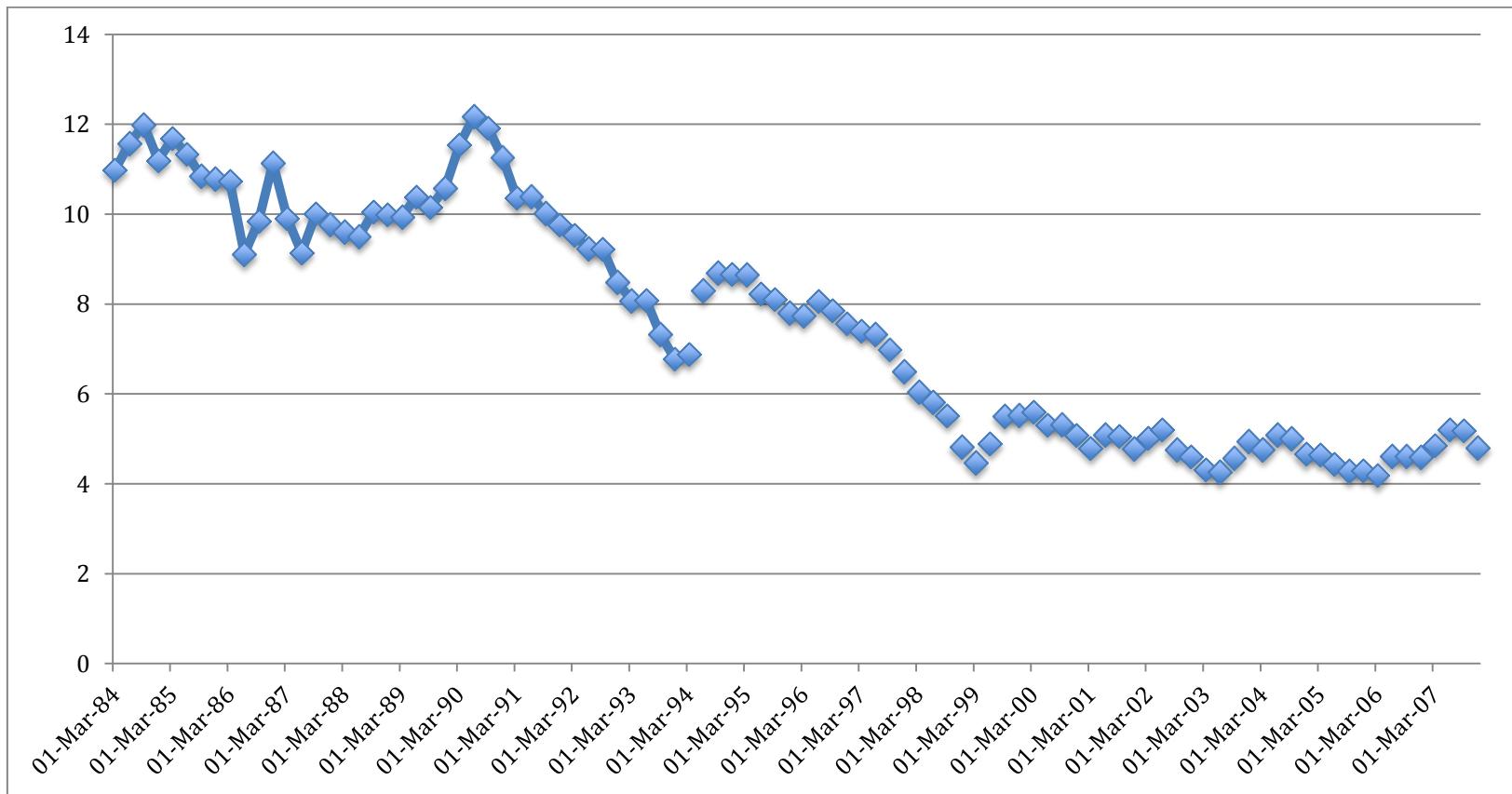
Further redefinitions of the cycle followed, this time adjusting its estimated end-point. The Pre-Budget Report in 2005 responded to weak growth forecasts by pushing the end of the cycle back to 2008-09. When the growth forecast improved again, PBR 2006 largely reversed that change, bringing the end of the cycle back up to 2006-07. That last revision exposed an irony at the heart of the fiscal framework: for a government running deficits, strong growth data which brought the economy back to trend sooner than expected created a problem by giving them less time in which to adjust fiscal policy to meet the golden rule. In the end, Brown decided that narrowly meeting the rule over a nine year cycle from 1997-2006 was good enough, and declared the cycle to have ended there. This undermined his earlier claim that Labour would have met the rule regardless of the change to the start point (Treasury Committee, 2005). According to the Institute for Fiscal Studies, 'without the extra two years that the Chancellor added to the beginning of the cycle in 2005, Treasury forecasts would now show him breaking the rule by £5 ½ billion' (2007: 2)". Despite this, ending the cycle in 2006 locked in a verdict

that, in the final analysis, the golden rule had been met, by a margin of 0.1% of GDP (HM Treasury, 2006a).

The question is why these rather transparent contortions were considered necessary in the first place. The causal story had been predicated on the idea that the markets would only bear public spending if it was appropriately constrained, making credible fiscal rules the government's bulwark against a loss of confidence. But at no point in the pre-crisis period had the markets given any signal that they were concerned. When Labour took office, interest on government bonds had already been falling for several years, from a high of 12 per cent in 1990 to around 8 per cent in 1997 (Fig. 4.11). This trend would continue under New Labour, who saw the cost of borrowing almost halve over their first three years in government. Gilt yields remained low, in the range 4-6%, for the rest of the pre-crisis period. The markets' confidence in the solvency of the UK government was further underlined by Britain's ability to raise financing over longer time periods, culminating in 2005 when the Bank of England issued its first ever 50-year gilts. Not only was a Labour government paying no additional premium on borrowing, but it was attracting better rates than its Conservative predecessors, both during its initial two-year period of austerity and through the fiscal expansion that followed. If the golden rule had been crucial to that outcome one would have expected the government to pay a penalty after 2005, when it became clear that only by redefining the cycle would the rule be met. No such market reaction is evident, suggesting that several years of increased public spending had been absorbed with equanimity, irrespective of the precise position on the golden rule.

The government was interpreting low borrowing costs as proof that their framework was delivering, with Brown arguing that the new long-running bonds were "only possible because of our long term stability" (BUD05). The official narrative explicitly assigned the credit for low bond yields to the policy framework, asserting that "through [its] open and transparent framework, the Government [had] been able to bridge the credibility gap" (Balls & O'Donnell

**Figure 4.11: Quarterly average yields (%) from 10 year government securities, 1984-2007<sup>10</sup>**



<sup>10</sup> Source: Bank of England, series IUQAMNPY, retrieved April 2016

2002: 157). And if prudence were responsible for the benign borrowing climate, it followed that prudence must still be indispensable. It might just as credibly have been argued that the government's ability to finance its debt cheaply was a consequence of financial globalisation, not domestic policy, (e.g. Kitson & Wilkinson, 2007), and that the golden rule was epiphenomenal to Britain's good credit. That reading would, however, have been incongruent with Labour's causal story, which held that the fiscal rules were essential to contain the threat posed by public spending. Meeting the fiscal rules was necessary not because they identified the material threshold between risky spending and safe spending, but because they provided a one-line defence of whatever spending they encompassed. It was a property of the narrative, not the markets, that so long as the fiscal rules were technically intact, spending plans must be unimpeachable.

The redefinition of the cycle in 2005 seems to have had less impact on market confidence than on the government's political confidence. In 2005 the frequency count for prudence rhetoric was lower than in any other pre-crisis year (Fig. 4.8) with just a single mention of prudence and a handful of references in the Budget and PBR statements to meeting the fiscal rules. From 2005 onwards, the prudence theme dropped out of speeches to business audiences altogether, and almost disappeared from party conference speeches, but continued in parliamentary statements reporting on the fiscal balances.<sup>11</sup> After a quiet 2005 Brown did go back to reporting the fiscal rules, but in a largely defensive manner, simultaneously defending spending growth as essential investment, while criticising deficit spending by the Conservative governments that had been responsible for underinvestment in the first place:

“The last Conservative Government had two economic cycles.  
They failed to meet the golden rule in the first economic cycle  
by £150 billion and they failed to meet it in the second cycle

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<sup>11</sup> Budget tables also continued to report the fiscal position under the heading “fairness and prudence” until 2008.

by £250 billion, so we will take no lectures from the Conservatives on that" (HC Deb, 2005-06: 441 col. 1495)

For a Labour Chancellor to be effectively casting the Thatcher administration as spendthrift shows how far the narrative commitment to the fiscal rules had taken them. The fiscal rules had not constrained policy in the way they had been designed to, but this had had little or no impact on government borrowing costs. The external validity of this part of the narrative – both its diagnosis of the problem and its application of a cure – was by now obviously weak. Despite this Labour chose to shore up the internal validity of the story by continually repeating that the rules were critically important, that they had been met, and that they would continue to be observed in the future.

#### ***2004-06: continuous growth in every quarter***

Further challenges to the external validity of the macrostability narrative occurred in the period between 2004 and 2006, when the GDP growth figures once again weakened. Figure 4.3 shows that growth slowed considerably in 2004-05, before rebounding in late-2005 and dropping again, almost touching zero, in mid-2006. This volatility appeared to catch the Treasury by surprise; whereas in March 2005 the Budget had predicted 3.25% growth for the year, by the Pre-Budget Report in December that estimate had been cut by 150 basis points, to 1.75%, which proved accurate. Until 2005 Labour's growth forecasts had been accurate to within 50 basis points, with the exception of 1999 when growth had been 75 basis points better than expected. In 2005 forecast error was, for the first time, substantial and on the downside (Fig. 4.2).

For the economy to be underperforming at this stage was especially problematic given the causal story Labour had advanced. Low inflation had been delivered; strong and steady growth was supposed to follow. A slow 2004 and a volatile 2005 do not look like major problems in the knowledge of what came next, but such hindsight was not available to Brown and his

colleagues, and in the context of the time the data would have been worrying, coming as it did alongside the revisions to the measurement of the golden rule. The Conservative opposition attacked the weak 2005 figures as “among the weakest in the developed world” (HC Deb. 2005-06: 440 col. 614), contrasting Britain’s 1.75% growth forecast with an anticipated 3.6% in the United States (HC Deb. 2005-06: 441 col. 1494).

The government’s response to this challenge was a combination of concern and defiance. On one hand, they became less inclined to talk about economic stability, with the total frequency of macrostability rhetoric falling from 2005 onwards (fig 4.7). Qualitatively, however, the disappointing growth figures did not prompt any moderation of the message, which was if anything increasingly strident. Throughout the second term Brown had developed a rhetorical formulation based on the claim to continuous growth in every quarter, and even as growth wavered he continued to offer increasingly triumphalist variations on the theme:

“I can tell the House that Britain has now enjoyed the longest period of peacetime growth since records began in 1870 – over 130 years ago.” (PBR03)

“Having asked the Treasury to investigate in greater historical detail, I can now report that Britain is enjoying its longest period of sustained economic growth for more than 200 years; the longest period of sustained growth since the beginning of the industrial revolution.” (BUD04)

“In other words Britain will extend the longest period of uninterrupted growth in the industrial history of our country.” (PBR04)

“Britain is today experiencing the longest period of sustained economic growth since records began in the year seventeen hundred and one. And the foundation of this Budget is our

determination to maintain British stability and growth.”

(BUD05)

“This is my tenth Pre Budget Report and under this government the tenth consecutive year of growth.” (PBR06)

“My eleventh Budget... is built on the foundation of the longest period of economic stability and sustained growth in our country's history.” (BUD07)

Besides being obviously hubristic, this form of words shows that the government's measure of economic success had been simplified almost to a single point: anything but negative quarterly growth. The sophistication of the early problem analysis, which highlighted industrial capacity, housing volatility and productivity as relevant to the maintenance of a stable economy had now been reduced to a single test, that if growth was positive (or even zero) in every quarter then stability had been achieved. The fact that continuous quarterly growth had been maintained through periods of challenge was taken as particularly strong evidence of success, as argued in Brown's 2006 budget statement:

“Even when facing, in succession, the Asian crisis, the it bubble, an American recession, Euro area stagnation, and most recently the challenge of the oil shock and house price inflation – challenges which in previous decades led to British recessions – our economic framework for stability has proved robust and prudent.” (BUD06)

The narrative had not only survived a decade in government more or less unchanged, it appeared to take new strength from the idea that it had held steady through various tests.

### ***Two phases of narrative evolution***

The analysis presented in this chapter allows us to begin drawing some conclusions about how Labour's core economic narrative evolved over its first ten years. The narrative went through two distinguishable phases, in each of which the relationship between internal and external narrative validity has a particular shape. The first phase, between roughly 1997 and early-2000, is a period of narrative construction and assertion. Speeches in this period set up the causal stories on macroeconomic stability and fiscal prudence, often explaining the thinking behind key policies at some length. In reality, this construction phase will have begun before 1997 as the ideas were worked up in opposition, but by definition the government narrative launched with the general election victory in 1997. Rhetoric in this period was building the platform for Labour's policy framework, making the case for Bank of England independence, inflation targeting, the new fiscal rules and the initial commitment to fiscal restraint, though with the promise that such prudence would serve social purposes later. Internal validity in this period is extremely strong, with the two themes of stability and prudence being mutually reinforcing and consistently expressed. External validity, for a new government, cannot be proven but may be inferred in the absence of disproof, and Labour benefited from benign economic conditions that did nothing to overturn the plausibility of their narrative in the early years.

The New Labour case suggests that external narrative validity may be viewed in Popperian terms, with a narrative gaining its strength not by positive proof but by withstanding attempts at falsification. For Labour, the first such moment came in 1999 when a downgraded growth forecast put the optimism of the government's causal story in doubt. Growth then exceeded expectations, so a moment of potential narrative falsification passed harmlessly. This near miss may actually have been more consequential to the evolution of the narrative than if the data had remained narrative-neutral that year. If growth had been neither better nor worse than expected the

construction phase might have lasted longer, with Labour simply continuing to assert the logic of their policy framework and promising it would bear fruit in the future. Instead, the year 2000 appears to have been an important turning point as the rhetoric went from advancing the possibility of future stability to claiming it had now been achieved.

From 2000 the narrative went into a second phase, characterised by repetition and reinforcement. This phase differed from the construction period in that external validity challenges were frequently present, putting pressure on the government's ability to maintain that their policies were delivering results as predicted. None of these challenges, however, proved decisive. In each instance, unfavorable economic data could either be interpreted to fit the causal story (e.g. when a brief housing market slowdown proved that macroeconomic policy had contained the housing inflation problem), or accommodated through backstage adjustments (to the inflation measure, and to the fiscal rules) that left the headline story intact. In this period the government showed a growing tendency to confirmation bias, since the narrative provided the frames by which they could interpret uncertain economic signals as confirmatory of their causal story. As a consequence, whenever external and internal validity appeared to be in tension, Labour's response was to double down on the internal consistency of their message, compensating for weaker external validity by reinforcing internal validity.

Chapter 2 put forward a theoretical case for political narratives being a source of continuity, rather than change, and indeed the New Labour case displays just such a tendency. Labour's domestic narrative was not only geared to delivering stability in the economy but in policy; prudence implied not circumspection but the determination to stick with the chosen course. Labour's problem analysis was most complex during the construction phase, during which time the rhetoric could reflect on the weaknesses of the British economy as a means to justifying particular policies. In the reinforcement phase, however, the diagnosis was locked down; all that remained was to show that the situation was being steadily improved, and that policy could

take the credit for the improvement. To the extent that policy was not changing, this narrative continuity might be considered unsurprising, since if no new policies are envisaged there would be little need to rethink the presentation. However, rhetorical consistency is evident even when policy did change, as when fiscal policy went from contraction to expansion. The narrative did not alter with the policy reversal, but rather sought to frame change as continuity, presenting new spending as necessary investment, prudently undertaken, and above all as consistent with what Labour had been saying all along. Narrative continuity operated to stabilise policy frameworks both against external challenges and across periods of internal adjustment.

There is some evidence that over time this rhetorical continuity became more difficult to sustain, leading the government to narrow its top line message and thus its measures of success. This was essentially a Lakatosian move, as peripheral elements of the problem analysis such as housing market volatility were sacrificed to preserve the integrity of the core. Dropping the concern with housing market inflation was a change to the narrative – and a change to policy, with the switch to CPI – but not one that required any concessions from the ideational core, in which the primary inflationary threat was understood to come from government and from wages, not from asset prices or private debt. Adjusting the measurement of the economic cycle was a policy swerve, but one that left alone the central assumption that government spending could not be safely justified in any other way but by reference to its constraints.

The reinforcement phase saw the narrative not only survive external challenges, but entrench against them. By 2007 what Labour's economic story had lost in sophistication it had made up in tenacity, with each restatement of the core message making it less likely that the next challenge would provoke a rethink. Interview evidence from senior staff corroborates this interpretation:

“it almost wouldn't have mattered what crisis had hit the UK economy, I could have predicted that Gordon Brown's main

message will start with “we will do nothing that will put at risk the stability of the British economy that we have fought so hard to achieve”... and it wouldn’t have mattered what. And I think you heard exactly that sort of language after 9/11, exactly that language [after] the dotcom crisis... any of those.”

(Interview E)

“I think consistency was the main thing, in that you know, ‘we will not let these shocks put us off our long term path’.”

(Interview F)

Narrative reinforcement in this phase occurred not in spite of economic risk but in direct response to it. By continually renewing their commitment to core rhetorics and core ideas, New Labour met every challenge to the external validity of their political economy by reinforcing the internal structure of their rhetoric, narrating the great moderation into being.

### ***Interests, institutions or ideas?***

It remains to determine whether the tenacity of Labour’s stability and prudence rhetorics should be viewed as evidence of ideational stasis, as opposed to institutional inertia or the straightforward politics of interests. Institutionalist explanations typically posit that the state-as-actor produces policy continuity because policy models have become embedded the organisational architecture, and so become self-perpetuating. This has some clear relevance to the New Labour programme, which actively sought to harness the intransigence of institutions when it enacted Bank of England independence and the Code for Fiscal Responsibility. These acts of self-binding were designed to create institutions with their own causal power to prevent the government, and its successors, from reverting to short-termism in monetary and fiscal policy. Policy continuity in that context could simply be Labour making the best of the constrained position that was the inevitable

result of their framework. Furthermore, the fact that they later chose to bend the new rules at the margins might suggest that Labour may to some extent have relaxed their initial concern for inflation and prudence, but could only relax so far within their self-imposed institutional fetters.

However, the rhetorical evidence does not point to a government that no longer believed in its initial positions. While Labour were unwilling to pare back their spending plans when the fiscal rules began to bite, they continued to insist on the compatibility of the spending with the fiscal rules, on the grounds that the new stability had delivered an economy capable of supporting increased spending without excessive borrowing. Part of the reason the fiscal rules had come under pressure was the government's belief that buoyant tax revenues in the early years represented a structural improvement rather than a cyclical windfall (Wren-Lewis, 2013). That is, the government had quickly decided that their policies had worked, with stability and prosperity now going hand in hand. Admitting the incompatibility of their spending plans with prudence would have implied the admittance of doubt about whether their policies for stability could really square off inflation and growth, and there is no sign that such a radical rethinking was being contemplated. Labour's confidence in their policy prescriptions went beyond acceptance of the new institutional reality; after the 1999-2000 turning point they were not only committed to their economic ideas in principle but convinced of their success in practice. Subsequent challenges in the form of slowing growth, consequent fiscal pressure and rising inflation made life more difficult, but do not appear to have shaken their faith in the overall approach.

There is clear evidence of ideational dynamics at work in the reinforcement phase in particular. The publication of the Balls & O'Donnell book was the action of a government so confident of its analysis that it presented it as a fully worked up treatise which, they humbly suggested, might become required reading for economics undergraduates alongside standard textbooks (2002: 1). As time went on, this self-confidence did not wane, but developed further into hubris. Labour's unwillingness to engage with

economic data unless favourable; the tendency to confirmation bias in the face of uncertainty; even the ways in which the narrative *did* change: all these point to a government deeply wedded to its central assumptions. The keystone ideas remained intact throughout: inflation targeting as the primary path to stability, government as a primary source of instability, and macrostability as a precondition for all other policy goals.

Nonetheless, there was substantial overlap between ideas and interests in this period. For example, Labour's retreat from the idea that housing market volatility should be repressed looks like straightforward venality when the homeownership majority were benefiting from rapidly growing housing wealth. A government that had promised to rein in unsustainable consumption booms was now becoming comfortable with a consumer-credit based growth model. Narrative continuity was, to a certain extent, papering over ideational compromises driven by electoral self-interest. As long as growth and inflation remained just steady enough, there was little incentive to reflect or change course. The stability narrative was a construction, and a particular interpretation of the economic conditions, but it was one that had been extremely politically fruitful for nearly a decade, ensuring that the government's original ideas and their concern to present a positive account of their time in government were generally aligned.

The economic tranquility of the pre-crisis decade therefore offers too few degrees of freedom to fully adjudicate between ideas and interests as possible drivers of Labour's policy choices. In conditions of relative economic tranquility, material interests and ideational commitments could remain in close touch with one another, albeit that they went through some moments of challenge. The financial crisis of 2007-10 would, however, radically realign the material conditions, providing an excellent test of the power of those interests as against ideas. Chapter 6 will pick up the stability and prudence themes in the crisis period. First, though, we turn to the other key dimension of Labour's economic story: globalisation and financial capitalism.

## 5. Embracing the market

### Narratives of globalisation and financial capitalism, 1997-2007

The previous chapter discussed the core themes in New Labour's domestic economic narrative, focusing on monetary and fiscal policy. While stability and prudence formed the bedrock of Labour's domestic policy agenda, to properly understand their overarching political economy it is necessary to connect the domestic agenda to New Labour's broader philosophy of market capitalism, which may be summarised as the belief that embracing open markets offered the best prospect of delivering prosperity for the many. To that end, this chapter will track two further narrative themes: Labour's philosophy of globalisation, and their approach to the most global of sectors, financial services. As before, it will unpack the two themes as causal stories and then track the interaction of those narrative constructions with external economic signals over time, with a view to understanding how the foundations for Labour's eventual crisis response were laid during the preceding period of stability.

The following analysis will show that Labour's globalisation narrative, like the prudence and stability narratives, went through an initial period of construction followed by a period of reinforcement and deepening ideational entrenchment. Academic critiques of Labour's globalisation rhetoric have tended to assume that it was a convenient justification for the party's reorientation towards a winning electoral coalition, and thereafter a means of justifying otherwise controversial policy choices (Watson & Hay, 2003; Cerny & Evans, 2004; Dye, 2015). Such accounts, though important in exposing the contingency of the economic assumptions inherent in Labour's pro-globalisation story, tend to understate or assume away the possibility of a genuine ideational commitment to those assumptions. This chapter will show

that while the globalisation narrative undoubtedly had “strategic applications” (Dye 2015: 547) it was not merely “an attempt to provide a largely pragmatic political project with some belated ideological coherence” (Cerny & Evans 2004: 52). Rather, it represented the internalisation by Labour thinkers of a particular school of economic thought, in which free trade and open markets were believed to bring not just economic but social benefits. I will argue that Labour’s fashioning of free trade theory into a centre-left prospectus for growth deserves scrutiny as something other than cynical triangulation toward the political centre ground. Instead, by interrogating it in terms of the imperative to balance internal and external narrative validity, we see that globalisation was another domain in which ideas and rhetoric were not simply a cover for, or a projection of, Labour’s underlying interests. Rather, the narrative was the channel through which the government sought to define the public interest as served by, not threatened by, free markets, an interest-construction that allowed Labour to reconcile the otherwise competing claims of their economic and social agendas.

The chapter will go on to argue that the inter-connectedness of interest-perceptions, rhetoric and ideas was nowhere more evident than Labour’s rhetoric on the regulation of financial markets. New Labour’s narrative treatment of the finance sector drew significantly on the high level themes already discussed, in particular those of stability and globalisation; over time, however, the notion of embracing globalisation would come to overtake concerns about stability. Policy on financial services would give practical application to the high level ideas in New Labour’s political economy, as Labour’s in-principle determination to embrace globalisation became an in-practice embrace of the City, whose growing prosperity in the pre-crisis years was believed to demonstrate the correctness of a policy model based on free trade and light-touch regulation. Viewed in terms of narrative dynamics, it appears that the tendency to confirmation bias was particularly strong in respect of the finance sector, whose success underpinned not just the growth model of New Labour, but its intellectual model too.

### ***Embracing globalisation: New Labour's rhetoric of open markets***

Colin Hay has argued that “the significance of globalisation and claims made about globalisation to the political economy of New Labour can scarcely be overstated” (2005: 31). The invocation of a new, global, era in which global markets were both the context for, and an ever-present constraint on, policymaking was to provide the bedrock for the remaking of the ‘New’ Labour party in the early 1990s. In particular, the globalisation narrative allowed the party’s modernisers to move away from traditional leftwing positions not by attacking them from first principles but by declaring them obsolete, fitted to a context that no longer existed (Watson & Hay 2003). Daniel T. Dye’s close analysis of New Labour’s globalisation rhetoric shows that this language was deployed to stake out new and electorally promising political terrain, Labour arguing that “the world has irreversibly changed, the traditional debate between different models of national economy are irrelevant, but there is an opportunity for a new politics centred on preparing Britons for a global future” (2015: 541). Where the stability narrative had served to build up Labour’s reputation for economic competence, the globalisation narrative described a context in which competence could be defined as monetary and fiscal conservatism, legitimating a break with the so-called ‘old left’ on the grounds that it was essential to adapt to a new world.

The globalisation narrative theme was built around two interlocking claims about the world economy. The first was that global markets were now an incontrovertible fact of life, to be treated as inevitabilities – an ostensibly straightforward economic argument about the irreversibility of technological change. The 1997 election manifesto stated bluntly that “we accept the global economy as a reality” (Labour Party, 1997), and the point would be repeated down the years, as when Brown argued that “the real question is not whether [globalisation] exists or not, but whether it is well managed or badly managed” (CBI06b), or when Blair told his party that the evidence for globalisation was now so undeniable that “you might as well debate whether autumn should

follow summer" (Blair, 2005, quoted in Dye 2015: 531). Resistance to these new realities would, it was argued, be futile at best, self-defeating at worst, and protectionism of all kinds should be rejected because "there is no shelter in siege economics" (CONF98). The contestability of these claims has been frequently highlighted in the political science literature (see especially Watson & Hay, 2003), but Labour projected them with absolute certainty.

The second, more political, claim was that despite the potential for insecurity in global markets, Britain should adopt a positive stance in which globalisation was understood as an opportunity rather than a threat. The new world was presented as a source of new prosperity, provided Britain could be brave enough to embrace market openness:

"For our country, the first industrial nation, this new global economy driven by skills, creativity, and adaptability offers a historic opportunity." (GE2 Budget97)

"With ever more rapid changes in technology and ever more fierce global competition in almost every product and service... people are, understandably, less certain of the future. But globalisation also brings vastly increased opportunities for individuals, businesses and countries. And it falls to us now to maximise the opportunities of globalisation and to minimise its risks." (MH02)

This rhetorical juxtaposition of risk and opportunity was critical to Labour's story on global markets. In this narrative, globalisation's downsides were not entirely airbrushed but were always presented as being manageable within an economic model that prioritised flexibility and openness over protection and mitigation. While risks, or "challenges", were frequently noted, this acknowledgement was nested within an overarching narrative in which globalisation was presented as "inevitable, immutable and inherently positive" (Berry 2011: 194); a "benign, if challenging, opportunity if only we responded to it appropriately" (Denham 2011: S47).

Rhetoric in this theme was of course closely related to the broader 'third way' ideas of the New Labour era, purporting to split the difference between Old Labour interventionism and Thatcherite laissez-faire. On the one hand, Labour declined to pursue any significant decommodification of Britain's political economy, rejecting any notion that citizens should be shielded from markets. Tony Blair's rhetoric, in particular, made sweeping claims about the socially disembedded nature of global capitalism, and the necessity of facing it head-on:

"The character of this changing world is indifferent to tradition. Unforgiving of frailty. No respecter of past reputations. It has no custom and practice. It is replete with opportunities, but they only go to those swift to adapt, slow to complain, open, willing and able to change." (CONF05b)

On the other hand, Labour envisaged a role for government in helping to prepare people to take their opportunities in the marketplace. Britain was to maximise its opportunities in the global age through supply-side flexibility, investing in a workforce well equipped to find new work if the old jobs moved elsewhere. Skills and education were therefore presented as the means of thriving in the new world:

"The new realities of fast changing labour markets mean there is a constant need for retraining and upskilling by the British workforce in the new global economy." (MH97)

"The way forward is neither old style regulation or a crude form of deregulation, which leaves the unskilled without the training or education essential for employability. The way forward is one that recognises that bringing out the best in people by policies that ensure opportunities for all is the best route to prosperity in the modern world." (MH98)

In other words, it was right that global markets dictated the survival of only the fittest, but the government was prepared to subsidise economic gym memberships for its citizens.

Supply side reform notwithstanding, it was suggested that Britain was uniquely well placed to benefit from global markets, provided it could maintain an openness to trade that was presented as somehow a quintessentially British virtue:

“In this new century, globalisation with all its opportunities and despite its insecurities can herald a new period of British success precisely because enduring British qualities – our internationalism, spirit of enterprise, fair play and creativity – can come to the fore” (MH02)

“If we can build a British progressive consensus around these long term economic decisions, then globalisation is indeed made for Britain and British prosperity. And we, Britain, can – equipped for the future – be, just as Britain triumphed in the industrial revolution, one of the global economy's greatest success stories and look forward to a century of British achievement.” (CBI04)

Policies under the heading of globalisation would include, for citizens, investment in education and skills and, for business, ‘flexibility’, particularly in respect of employment, deregulation, infrastructure investment and the promise of macroeconomic stability. Barriers to entry into British markets would be removed, the corollary of which was that barriers to exit must also be lower. As such Labour’s embrace of globalisation was effectively a bet on the idea that in an open economy, businesses would be reassured by having the option easily to disinvest, but would have no reason to exercise that option. The government was adamant that “with the right policy approach – openness to trade, a flexible economy and a focus on skills and enterprise –

the UK stands to gain in terms of productivity, growth and jobs." (HM Government, 2004: 13).

The causal story on globalisation (Table 5.1) thus presented an assessment of the situation (globalisation is real, all-encompassing and irreversible) and a congruent policy prescription (market openness, plus skills and education). Predictive claims in this narrative theme are harder to pin down, because they mostly take the form of an implied counter-factual in which a retreat to protectionism makes everything worse. Concrete arguments against protectionism were mainly expressed in historical terms, built on a highly simplified account of 20th century capitalism in which the turn to trade tariffs after the first world war had ended the rapid growth of the 19th century and led directly to the Great Depression (e.g. HM Treasury, 2004c: 7-9). It was not made explicit what might happen if such protectionism were reenacted, but it was made clear that any movement in that direction should be rebuffed, Brown arguing in 2003 that "in a global economy, the case for free and open trade more pressing than ever before, we must stand firm and resist political pressures for protectionism" (MH03).

This emphasis on resisting *political* pressures is significant because it references the same underlying assumptions as were evident in the stability and prudence narratives: that economic risk originates in, or at least is amplified by, the political realm rather than the markets. Protectionism is populist; it must therefore be dangerous. Just as Labour's monetary policy was built on surrendering the government's discretion over interest rates to institutionalise resistance to inflationary populism, on trade Labour sought to achieve an anti-protectionist consensus that would allow global markets to operate unimpeded by democratic pressures. Once again, the vision was of

**Table 5.1: Globalisation as a causal story**

<i>Narrative theme</i>	<i>Diagnosis</i>	<i>Prescription</i>	<i>Prediction</i>
<b>Embracing globalisation</b>	<p>Globalisation is incontrovertible and irreversible.</p> <p>Retreating to protectionism will be economically damaging.</p> <p>Globalisation creates risks but also opportunities.</p>	<p>Market openness through free trade, flexibility and the removal of protectionist barriers.</p> <p>Investment in skills and education to help people compete in open markets.</p>	<p>Britain's openness allows it to perform better than more protectionist nations.</p> <p>Global markets bring more benefits than problems.</p>

politics as a contaminant, whereas the sterilisation of political forces would lead to temperate, benign markets and rising prosperity.

This all begs the question: how on earth had centre-left political party adopted a set of assumptions in which markets were naturally beneficent, and politics generally a source of risk? What ideas made that position tenable? The answer emerges from a closer inspection of the globalisation narrative, particularly as it reached its fullest expression during the mid-2000s. During their second term the New Labour government produced a series of pamphlets in which the intellectual basis of their pro-globalisation policy was explicated more fully, just as the Balls & O'Donnell book had done for the monetary and fiscal framework (HM Government 2004; HM Treasury 2004, 2005a, 2005d). These publications argued, based on theories of comparative advantage, that fully open and flexible markets would enable each nation to specialise differently and appropriately to their natural and human resources, thus increasing total efficiency and maximising growth.

Once again, these ideas were not unique to Labour but represented the mainstream economic consensus of the period, which was overwhelmingly pro-free trade. Greg Mankiw observed in 2006 that “few propositions command as much consensus among professional economists as that open world trade increases economic growth and raises living standards” and in the early 1990s, when New Labour was forming its positions, those on the respectable left wing of the profession were equally happy to argue that free trade was, if not optimal, the least of all evils (Krugman, 1993). Crucially for Labour, this theoretical consensus gave them confidence that they could embrace global markets without seeing themselves as laissez-faire neoliberals because increased specialisation “in the long run... benefits everyone by increasing the global potential for growth” (HM Treasury, 2005d: 3). Allocative efficiency through free trade would, it was believed, ensure that market openness was not a race to the bottom, but a positive-sum route to higher growth that would therefore bring benefits across the global marketplace:

“Protectionist fears generally rest upon the belief that international trade and investment are a zero-sum game. But one more job in India does not mean one less job in Britain. More growth in China does not mean less growth in Britain.”

(HM Government 2004: 10)

That being the case, economic and social objectives could be understood as mutually reinforcing, rather than in tension, and Labour could advocate free trade as a question of global social justice as well as economic advantage. This logic was particularly evident around 2005 when Britain placed trade justice at the heart of its agenda for its simultaneous presidencies of the EU and G7, presenting tariff reduction and market openness as serving both fairness and mutual benefit:

“We will benefit as developing countries grow. Above all, it is morally right that developing countries should be able to lift their people out of poverty. But their growth is in our interest too: as people in the developing world become richer, we will all buy more from each other.” (ibid: 10)

The difficulty with the economic case for positive-sum globalisation was that it dealt in aggregates, leaving the distribution of gains from free markets unexplored. The literature on free trade drew on Ricardian insights that demonstrated positive-sum outcomes for nations trading across specialisms; that literature was, however, primarily concerned with overall gains, not the distributional consequences of market openness. Comparative advantage theory promised a larger pie across trading nations, but made no assurances about how that pie might be shared *within* nations. (Mumy, 1986). For Labour to adapt this classless theoretical construction into a policy model for a centre-left government required a particular interpretation of the economics, in which the general interest was assumed to be served by first securing comparative advantage leading to higher growth, after which there would be time enough to consider the distribution of its proceeds. Just as the prudence

narrative had established a hierarchy of priorities in which stability must precede public investment, so the globalisation narrative implied that market liberalisation must precede redistribution because “there was room for ‘fairness’, but only on the basis of growing national prosperity” (Berry, 2011: 70). The rhetoric was somewhat vague on the mechanisms by which the many would come to benefit from globalisation, eliding the question of whether opening the door to the global capitalism was a sufficient or merely a necessary condition for shared prosperity. Brown did, however, argue explicitly that opening up markets was in the interests of the majority, and so congruent with leftwing values:

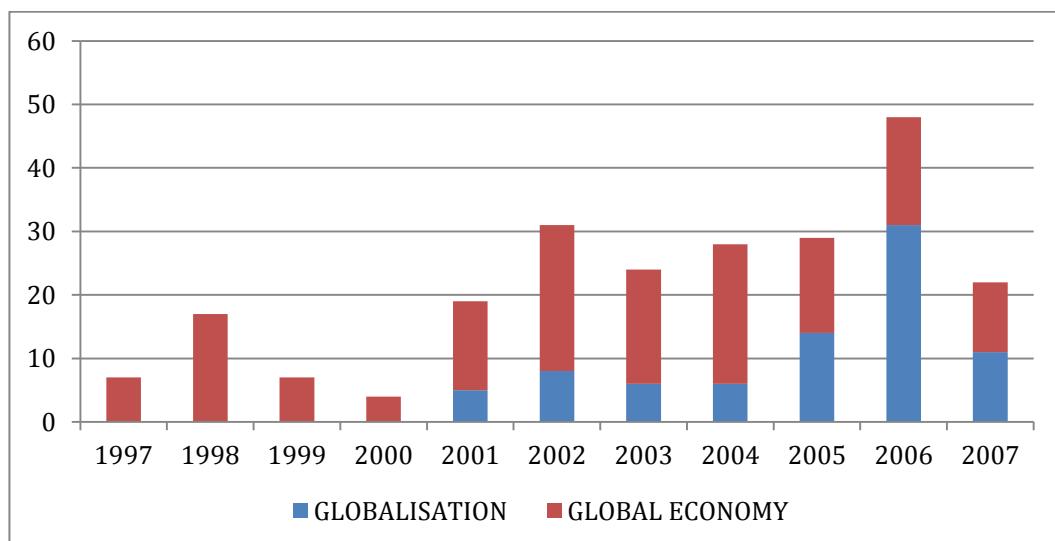
“Friends, just as on the economy the decisions we have taken have not ignored Labour values but honoured them, so too in the times ahead – as we meet and master the next wave of global economic change – the future will belong to those countries that by flexibly opening the doors of opportunity, nurture the full potential not just of a few – as in the industrial age – but of the many... I believe that we in Britain can – even amidst the pressures and insecurities of globalisation – become the first country of this era to combine enterprise and economic strength with a strong public realm where... we eradicate child and pensioner poverty.” (CONF03)

The narrative’s central claim, then, was that it was not only possible to combine market openness with social justice, but that it was imperative to do so because under globalisation, competing successfully in global markets was the only viable means to social democratic ends.

### ***Globalisation rhetoric over time***

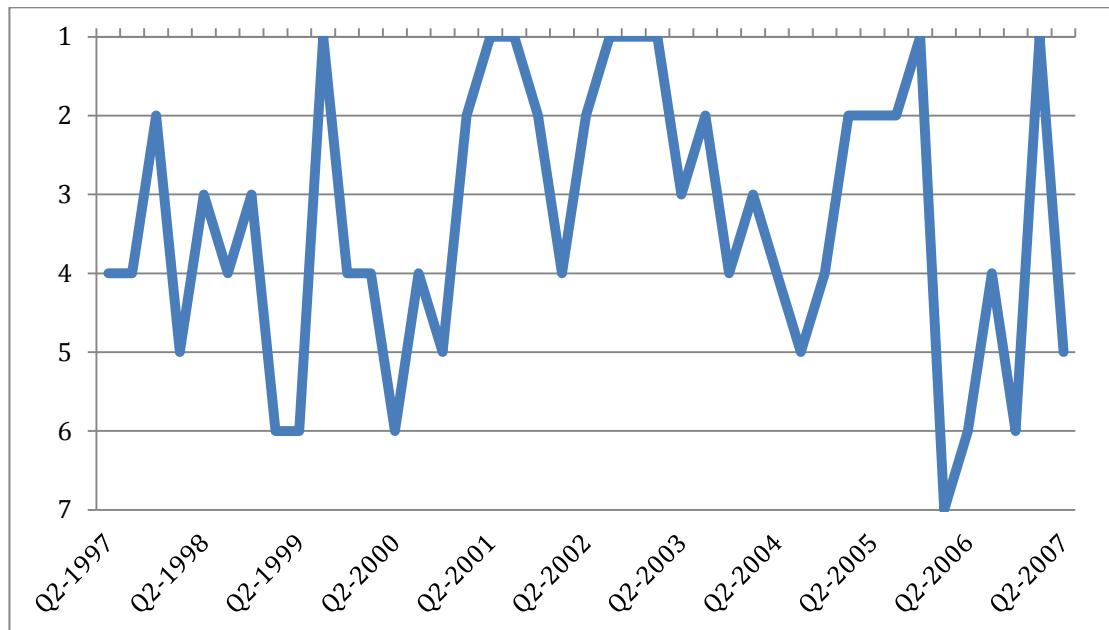
Having outlined Labour's causal story on globalisation, the next step is to assess whether, and how, it changed over time. While New Labour's globalisation rhetoric was born out of the process of rebranding the party in opposition, content analysis of the government's rhetoric shows that Labour's rhetorical recourse to globalisation only increased once they were in government. Indeed the globalisation theme dominates the corpus of speeches in this analysis, particularly in Labour's second and third terms of office. "Global" is the fifth most used word in the sampled speech material, appearing 590 times across 65 speeches, or an average of nine times per speech. "Globalisation" gets a further 107 mentions. From 2001, this language appeared in every single speech in the corpus, suggesting a growing preoccupation with Britain's place in the world economy, culminating in the flurry of pro-globalisation publications in the mid-2000s. Given this rhetorical prominence, and the obvious relevance of the globalisation narrative to the politics of Labour's response to global economic crisis, this was undoubtedly a crucial dimension of their overall economic narrative.

**Figure 5.2: Globalisation rhetoric (frequency) 1997-2007**



Compared with the stability narrative, which was clearly pinned to data on inflation and GDP growth, identifying the key measures of success for the globalisation narrative – and thereby identifying the key moments of external validity challenge – is not straightforward. The predictions in the globalisation narrative are more negative than positive: eschew protectionism or things will be worse; there are risks but openness will forestall them. Such loose predictions do not lend themselves to clear validation or falsification, but despite this, certain key indicators can be identified as relevant to the narrative in its own terms. The central claim in this theme was that Britain was strengthened by its relative openness to global markets; that is, success under globalisation was defined in relative terms. In particular, the globalisation theme turned on the contrast between pro-market Britain and its more protectionist European neighbours. By embracing globalisation Britain was expected to outperform countries that are less willing to do so, moving the UK “up the world economic league” (MH97) and making it an exemplar of the benefits of open markets. The key measure of external validity was therefore the relative growth performance of Britain and the other advanced economies, usually defined in government rhetoric as the Group of Seven (G7) countries.

**Figure 5.3: UK growth ranking in G7, 1997-2007<sup>12</sup>**



<sup>12</sup> Source: OECD, retrieved May 2016

Once again, early indications were that the external validity of this theme was strong. The comparison with other G7 nations (Fig. 5.3) fit the narrative very neatly in the early years of the Labour government, as Britain went from the middle of the pack on GDP growth in 1997 to the fastest-growing G7 nation in mid-1999 (another side-effect of the rebounding growth that had buoyed their stability narrative in that year). Between 2001-03 Britain was consistently outperforming most other G7 economies. The UK's rise to the top of the G7 rankings had less to do with strong GDP growth than the relative weakness of its competitors at the time. Nonetheless, the fact that Britain's modest growth rates help up during the post-9/11 period of global economic turbulence led Gordon Brown to conclude that the government's pro-stability-pro-globalisation stance was working:

“So while some Pre-Budget representations claimed Britain was worst placed of any to withstand the global slowdown, the OECD and IMF have both forecast that Britain this year will have the highest growth of any of the G7 countries.”  
(PBR01)

“Some have argued Britain is least well placed to cope with global slowdown. In fact taking growth last year, this year and next year together, Britain is not the weakest but the strongest of the major economies. And while Japan, America and Germany have all been in recession, Britain has now grown consistently in every quarter for the last five and a half years” (PBR02)

In the period 2001-03, the ‘embracing globalisation’ narrative appeared to have particularly strong external validity, with the UK consistently at or near the top of the growth rankings. The evidence appeared, at this point, to vindicate Britain's stance on macrostability and market openness, fulfilling the predictions of the narrative as causal story. Brown's rhetoric implied a causal relationship between economic flexibility and global success, by grouping the

UK with the United States in implied contrast to a sclerotic, anti-globalisation Europe:

“This year, 2002, amidst the worst global slowdown for nearly thirty years, the British and North American economies will grow faster than all other major economies... [and] I can report that next year in 2003 Britain and North America are now forecast, even in a still uncertain and unstable world, to continue to be the fastest growing of all the major economies.” (PBR02)

Also around that time, the government amplified its rhetoric on the benefits of openness, arguing that economic challenges must be met not with caution, but with confidence, and a renewed commitment to “reform” to make markets ever more open:

“In this global downturn all of us, each continent, must play our part, do our duty, and face up to our responsibilities in sustaining and strengthening economic recovery around the world: Japan taking decisive action on financial sector reform; America showing corporate reform working; Europe matching efforts to promote economic reform with efforts to encourage domestic demand; All of us insisting on a new round of trade liberalisation.” (CBI02)

Speaking from an apparent position of strength, Britain was not only concluding that its pro-global markets stance had paid off, but that others should pursue similar reform efforts.

After 2003 however, G7 and Euro area growth recovered while UK growth fell, creating a potential external validity problem for the globalisation narrative. Furthermore, UK quarterly growth rates after 2005 were more volatile than those of their comparators, taking Britain from the top of the G7 rankings in late 2005 to seventh place in early 2006, and back to first in 2007.

This very volatility presented a validity challenge to a narrative that said pro-globalisation policies should be better for stable prosperity than protectionism, since while the narrative could accommodate the idea that world growth might go through slow patches, it dictated that open, flexible Britain should get through those bad spells better than most. The period to 2003 had seen the economic data move closer to the government's story, but after 2003, the disjunction between rhetoric and evidence was widening again.

Labour's globalisation narrative, however, appears to have been undisturbed by these less favourable signals, and though Britain's absolute and relative performance was fluctuating, the rhetoric was on an unbroken upward trend. The volume of rhetoric in this theme rises nearly every year (Fig. 5.2), reaching some 14 per cent of all words in the corpus by 2006. The content of that language also changes over time, with references to globalisation becoming both more frequent and more explicit. Discussions of the global economy had always been part of New Labour's lexicon, but the specific term "globalisation" first enters our corpus of speeches in 2001. With Britain performing strongly compared with G7 comparators, Gordon Brown was apparently now happy to use this technocratic term in public, overtly making the case for globalisation-as-opportunity. The word globalisation had first appeared in Brown's speeches during a spell of good data in 2001-02, but it did not disappear when the growth outlook changed. After 2003, the number of references to globalisation continued to increase, though the comparison with other G7 nations was (unsurprisingly) only reported in years when it was favourable to Britain, as in 2005 when Brown boasted that "again North America and Britain will see the fastest growth in the G7" (BUD05). In 2004 and 2006, in-year G7 comparisons were noticeably absent, substituted by the looser claim that "*over recent years [the UK has been]* contributing more to the growth of the world economy than all the G7 countries put together" (MH04, emphasis added). This rhetorical sleight-of-hand suggests the government was well aware of the sometimes uneasy fit in those years

between their narrative and its key measure of external validity. Nonetheless, Labour's in-principle commitment to market openness was unwavering.

I suggest that this rhetorical continuity arises precisely because the preceding period had allowed the causal story on globalisation to become fully embedded. As far as Labour was concerned, by 2002 the causal story had been first hypothesised and then proven, with Britain's ascent to the top of the G7 rankings despite a global slowdown proving that the government's pro-market stance had passed the test. The expected conclusions had been drawn; the loop was closed. That being the case, new evidence would be highly likely to be interpreted as confirmatory of the narrative, rather than challenging to it. For example, in 2003, Gordon Brown made explicit the conclusion he had drawn from the recent turbulence, and Britain's relatively smooth passage through it:

The lessons I learn from the recent downturn are that to succeed in the new global economy we must... not be protectionist but pursue free trade; and that we must embrace reform to make our economies more flexible.”  
(MH03).

Very similar rhetoric persisted through the less favourable 2003-05 period:

“The Britain that will succeed in this open global economy will be the Britain that, true to our history, rejects any form of protectionism or parochialism.” (MH05)

“The pace of globalisation requires us to push ahead with greater determination and greater urgency a set of comprehensive economic reforms.” (ibid)

Such rhetoric effectively doubled down on the existing causal story, interpreting possible setbacks not as a reason to change course, but as a reminder to redouble Britain's commitment to market liberalism. This heroic interpretation was made possible by the confidence generated by the previous

period in which the narrative had appeared to be proven correct. Though the external validity of the narrative became more questionable, its internal validity was continually being shored up.

Qualitatively, there is also evidence of a deepening attachment to the globalisation narrative over time, and in particular to the emphasis on opportunity rather than risk. From the start, Labour's rhetoric was clear about the need to "combine open markets, free trade and flexibility with investment in people and also fairness to them" (PBR06) – that is, to acknowledge the potential downsides of globalisation by matching market openness with supply-side reform. However, as time went on this emphasis on domestic policy to mitigate globalisation's risks was overtaken by a new emphasis on 'building a consensus' for globalisation, both at home and internationally:

"I want to build in Britain an even deeper lasting British consensus – a shared national economic purpose... [so that] we become, in the era of globalisation, one of the world's most enterprising, flexible and successful economies." (Brown, PBR03).

"Some day, some party will make this country at ease with globalisation. Let it be this one." (Blair, CONF05b)

"it is for us to be evangelists for globalisation, taking on the anti globalisation and protectionist forces who fail to recognise today's economic truth that free trade, open markets and flexibility are preconditions of modern economic success across our global economy... we need a worldwide campaign for globalisation and its benefits." <sup>13</sup> (Brown, CBI06b)

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<sup>13</sup> For context: this passage of the speech has Brown referencing the irony in a protester's banner at the Washington G7, which read "worldwide campaign against globalisation". His "worldwide campaign for globalisation" is a play on that language.

In particular, Brown saw a role for Britain in persuading the European Union of the benefits of market liberalism, particularly after the French and Dutch publics had voted ‘no’ in referenda on the Treaty establishing a European Constitution in 2005. Brown’s analysis was that “Europe’s voters are telling us that globalisation has led them to feel economically insecure” (MH05); his solution was not to address the insecurity, but to challenge the public’s misperception of it by fostering a discourse in which citizens are made to understand that “the economic reality is no longer as it was in the 1980s” and that “each continent is part of – and benefits from – globalisation as a whole” (ibid).

This rhetorical shift is subtle but important, since it changes the policy prescription: rather than government being responsible for producing a workforce with the necessary skills for global business, its main challenge is to make people *see the opportunity*:

“If we can show people that by equipping themselves for the future they can be the winners not losers in globalisation, beneficiaries of this era of fast moving change, then people will welcome open, flexible, free trade and pro competition economies as an emancipating force.” (MH07)

Embracing globalisation thus became an end in itself; by this point, the notion of risk and insecurity was being situated less in the global economy than in people’s misperceptions of its threats, which had to be corrected before it led to protectionism. Government, in this narrative shift, goes from being a manager of global market forces to a cheerleader for them, and in the process, the narrative became less and less open to change. By positioning Britain as an exemplar of, and advocate for, positive globalisation, Labour left no room for doubt or reflection on how well it was working out in practice. The UK position was, by this time, rhetorically and ideationally locked in.

### ***The narrative applied: financial capitalism under New Labour***

Labour's approach to the financial sector was, in many respects, an extension of its wider thinking on economic stability, which held that predictable and constrained government would deliver temperate market conditions. On one hand, Labour's policies on financial regulation were informed by their approach to stability in the broader economy, to extent that financial stability was framed as a third pillar alongside monetary and fiscal stability (Brown, 2002: x-xi). Financial instability was acknowledged to have been a serious problem for the UK in the past, and more recently to have erupted in other parts of the world, including in the Asian crises of the early 1990s. However, this past instability was interpreted primarily as evidence of the need for *governments* to be viewed as stable and credible. For example, in respect of the Asian currency crises of the 1990s:

“These financial crises... have demonstrated clearly the need for national governments, which are dependent for investment funds on the day to day confidence of international investors, to pursue consistent and credible policies that guarantee stability.” (Balls & O’Donnell 2002: 302)

In this regard Balls & O’Donnell were echoing previous statements by Brown, as when he told the Council of Foreign Relations in New York that:

“the answer to the uncertainty and unpredictability of rapid financial flows is... the certainty and predictability of well understood procedural rules for monetary and fiscal policy”  
(Brown 1999, quoted in Watson, 2013: 9)

As Arestis and Sawyer noted in 2001, the underlying presumption in Labour's political economy was “that instability emanates from government policy... rather than from private markets” (p.264).

However, Labour's rhetoric on financial markets was also the place where their concern for stability converged with their ideas about globalisation. New Labour's unequivocal view of the financial sector was that it exemplified the potential of a positive attitude toward global markets. From the start, Labour were at pains to emphasise their friendliness to the financial services industry, with Brown's first Mansion House speech extolling the virtues of the City of London:

"[The City] has demonstrated the best qualities of our country, what can be described as the British genius: always outward looking and open to the world; invariably innovative; aware of the need for hard work and perhaps most relevant of all, to the bewildering changes we see around us, continuously willing to respond and adapt to changing conditions and emerging technologies." (MH97)

Over the next ten years, Brown would repeatedly express his admiration for the City's willingness to compete and thrive in international markets, holding up the financial services sector as the acme of successful globalisation:

"It is part of the greatness of this City of London's history that as the world economy has opened up, you have succeeded not by sheltering your share of a small protected national market but by striving for a greater and greater share of the growing global market.... Always outward looking - for centuries part of a trading empire - you have taken globalisation in your stride, its risks and opportunities, and have become ever more international in your reach. What you, as the City of London, have achieved for financial services we, as a Government, now aspire to achieve for the whole economy." (MH02)

"The City of London – and our financial services industry has learnt faster, more intensively and more successfully than

others the significance of globalisation: that you succeed best not by sheltering your share of a small protected national market but by striving for a greater and greater share of the growing global market; and that stability, adaptability, innovation and openness to new ideas and to global trading opportunities – great British assets and advantages – matter even more today than ever. And what you have achieved for the financial services sector, we as a country now aspire to achieve for the whole of the British economy. “ (MH04)

“The City is a prime example of a sector which has responded successfully to the challenges of globalisation and reaped the benefits.” (HM Treasury, 2005d: 30)

“The city of London is showing us that Britain can succeed in an open global economy, a progressive globalisation, a Britain that is made for globalisation and a globalisation that is made for Britain.” (MH06)

This pro-finance rhetoric appears to have been more than just flattery of potential donors, (or perhaps mollification of the party’s traditional antagonists). Such themes were, unsurprisingly, most prominent in speeches to business audiences such as the CBI conference, or the annual Mansion House Dinner. However the same message was also present in policy papers and transmitted to much less favourable audiences, as in 2006 when the then City Minister, Ed Balls, told a Fabian Society fringe meeting of his party’s conference that large bonuses for bankers were defensible because "if the City is doing well, the country is doing well. When it prospers, we all prosper" (Evening Standard, 2006). Whether this consistency across audiences should be read as indicating true ideational conversion, or just committed service to vested interests, will be discussed in more detail below, but the government’s willingness to make the case for financial liberalisation even to unfriendly

audiences does indicate a narrative, and a policy set, that was being robustly defended against challenges.

The manner in which the new financial regulator was established further illustrates Labour's embrace of a pro-finance idea set, since it displays an overriding concern with supporting the future success of a valued industry. The new regulator was given four statutory objectives: maintaining confidence in the financial system; improving public understanding of the financial sector; protecting consumers and reducing financial crime. It is striking that the first two objectives related not to the structure or activities of the financial services industry, but to its perception by outsiders. This was a vision of financial markets in which market failures could generally be corrected by transparency and good information, requiring only limited enforcement activity to deal with outright breaches. This vision was enthusiastically taken up by the regulator itself, which proclaimed itself "keen to ensure that our regulatory interventions always add to rather than detract from the positive impacts of market forces and really are justified in terms of the level of risk to our statutory objectives" (Cole, 2006). On the whole, Britain's status as a leading participant in global financial markets was assumed to provide more solutions than problems, needing only to be supported by government and communicated to the public at large. Concerns about risk, especially systemic risk, were very little in evidence. Rather, the causal story assumed that financial stability was primarily a question for policymakers, that London's financial services industry was a national asset and that the regulatory framework should do as much to nurture as to control it (table 5.4). By legislating for stability, and otherwise acting only insofar as it would further liberalise financial markets, Labour hoped to unleash the full growth potential of the financial sector, to Britain's ultimate benefit.

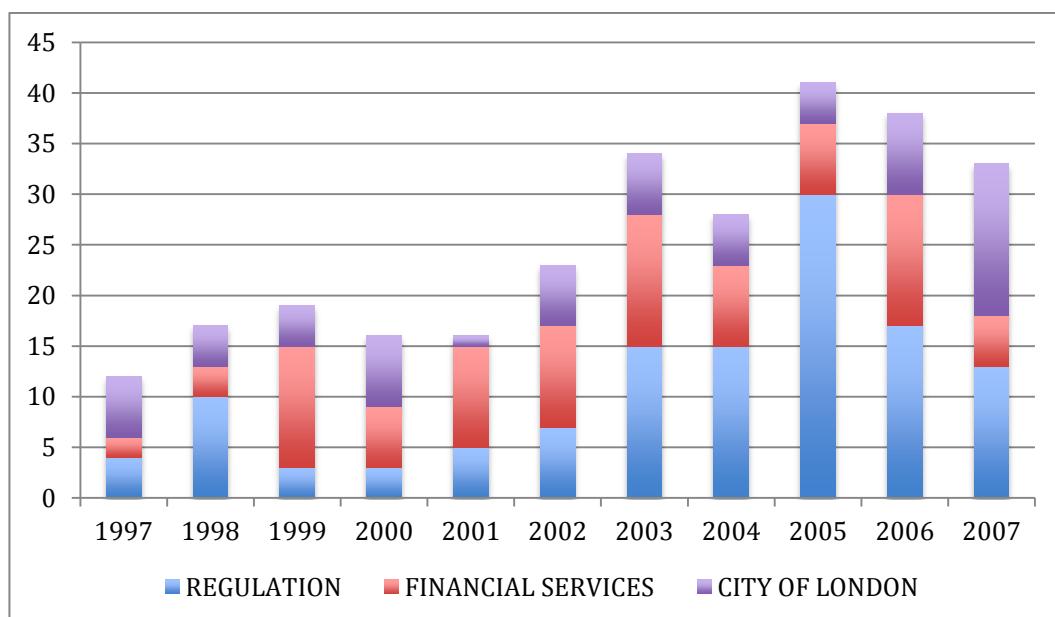
**Table 5.4: Financial capitalism as a causal story**

<i>Narrative theme</i>	<i>Diagnosis</i>	<i>Prescription</i>	<i>Prediction</i>
<b>Financial capitalism</b>	<p>The City of London exemplifies success through embracing global markets.</p> <p>Past financial instability has arisen from government mismanagement.</p>	<p>Deregulate financial services to improve competitiveness.</p> <p>Government intervention limited to stable macro policies and removal of regulatory burdens.</p>	<p>Macroeconomic policy will ensure stability, allowing space for the financial services sector to prosper.</p>

### **Financial sector rhetoric over time**

Having established a causal story on the financial sector, how did that story evolve, if at all? To what extent did it encounter challenges to its external validity? The quantity of rhetoric on financial services and the City of London was largely stable over the period to 2007 (Figure 5.5), being mainly confined to predictable, set-piece speeches to business audiences such as the annual Mansion House speech. The exception to this trend was the language of regulation, which increased dramatically in volume between 2002-2006. Closer examination of this change reveals that the upswell of regulatory talk was in fact an increase in references to *deregulation* as Labour increasingly pursued a liberalising agenda for business in general, and financial services in particular, both domestically and in EU negotiations. Furthermore, this rhetorical push on deregulation was reflective of a broader qualitative shift in the financial sector narrative over time, as Labour gradually de-emphasised their initial concerns with stability, and instead focused on the ways in which the financial sector embodied their theory of globalisation as a source of opportunity.

**Figure 5.5: Financial sector rhetoric (frequency) 1997-2007**



Early rhetoric on the financial sector tended to draw on language from the government's stability narrative, identifying financial stability as a priority for both domestic action and international cooperation. According to Gordon Brown, globalised markets made supra-national regulation imperative, since "because today's financial markets are global, we need not only proper national supervision but also a second fundamental reform - global financial regulation" (CFR99). While domestic reforms including the new regulator were quickly completed, international cooperation on financial stability proved more difficult to achieve. Labour had attempted to put the UK "at the forefront of [an] unprecedented international reform effort" (Balls & O'Donnell 2002: 316) and they did succeed in generating a fair degree of consensus around this agenda, as in 1999 when the G7 agreed to establish the Financial Stability Forum to "promote international financial stability, improve the functioning of markets and reduce systemic risk" (Group of Seven, 1999). However, while the Forum brought national regulators and central banks together, its powers were advisory only, with little traction on individual nations, much less the private sector itself. As a result, this "loosely assembled regulatory and institutional framework... [lacked] coherence and political legitimacy" (Alexander et al, 2007: 23). The Balls & O'Donnell book hints at the government's frustration at the limited progress made on international financial regulation, particularly in respect of private sector engagement, where the authors argued there was still a need for "a new framework of partnership... which ensures that all parties which benefit from the international financial system play their part in maintaining stability" (2002: 208). In other words, by 2002 no such partnership had yet been meaningfully forged, while implementation of the principles agreed in 1999 remained patchy at best.

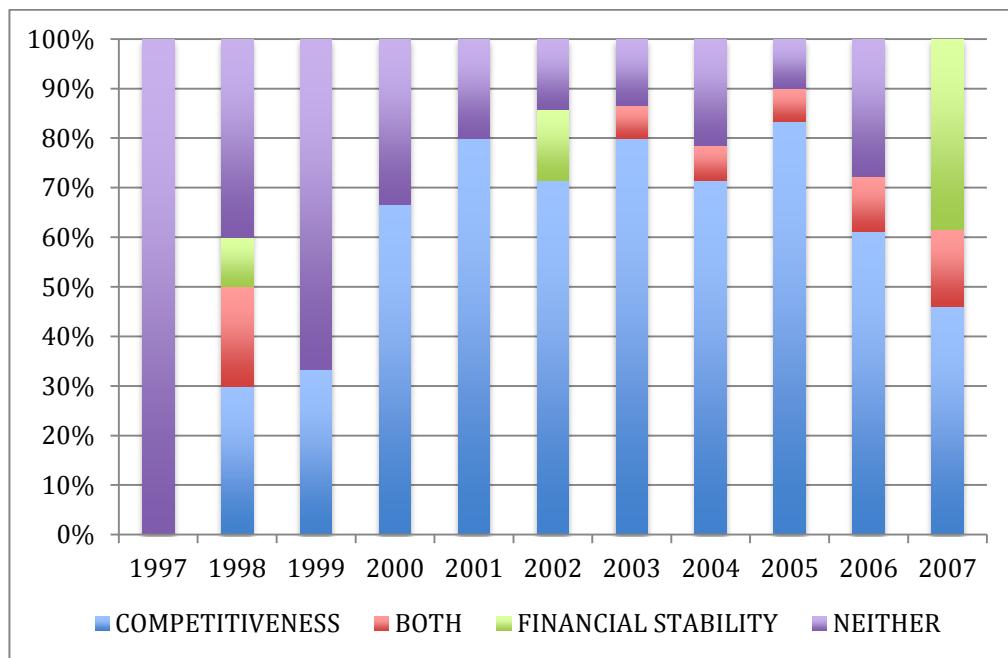
Despite the limited progress in coordinating financial regulation on the international front, the calm conditions of the late 1990s and early 2000s were allowing Labour to feel confident that their domestic policies were at least delivering improved financial stability for the UK. We have already seen that

there were few challenges to the external validity of Labour's stability and globalisation narratives in their early years in government, and indeed there had been plenty of vindication during that period. In respect of financial services, there was also plenty of positive feedback, with the new tripartite regulatory framework winning praise from international observers including the IMF, which described it in 2003 as being "in many respects... at the forefront internationally" (International Monetary Fund, 2003: 1).

It is around this time that the rhetoric of financial stability seems to disappear from view, being replaced by a new preoccupation with regulatory policy in general, and deregulation in particular. Figure 5.6 breaks down all references to regulation in our corpus into four subcategories: those primarily concerned with stability; those primarily concerned with competitiveness; those relating to both stability and competitiveness, and a residual category in which neither is referenced. It shows that while in the late 1990s competitiveness language was present in less than half of all regulatory talk, in the 2000s it rapidly emerged as the major frame through which regulatory policy would be approached, accounting for 80 per cent of all regulatory talk by 2001. This proportionate increase, combined with the rising overall volume of regulation rhetoric between 2002-2006, shows the extent to which deregulation was becoming a central theme of Labour's narrative for business and for the City of London in particular. Labour's policy agenda for the financial sector was now explicitly deregulatory, focused on reducing burdens for businesses in general, and financial firms in particular, and promising to bring forward "measures - both for the City and beyond - to tackle unnecessary and wasteful bureaucracy and red tape" (MH04).

If the first phase of Labour's financial sector policy had been the establishment of the new regulatory framework, the second phase was the pursuit of deregulation. In policy terms this meant repelling EU attempts to introduce new regulation, and recommitting to 'proportionate', 'risk-based', 'principles-based' or 'better' regulation that created a "supportive regulatory

**Figure 5.6: Subcategories of regulatory rhetoric, 1997-2007**



environment" (HM Treasury 2005b: 48) at home. The policy shift was accompanied by a rhetorical shift; for example, in 2005 the government was reframing its regulatory reforms as having been geared to competitiveness rather than stability, claiming a causal link between their regulatory policies and the ongoing banking boom, and celebrating the fact that the new tripartite model had been no barrier to City profits:

"It is widely accepted that the new regulatory framework has been a success. The UK's approach has been followed by a number of other countries, including Germany. The UK financial services industry has continued to flourish following the government's reforms." (HM Treasury, 2005b: 49)

That is, it was a matter of pride that competitiveness had held up despite government intervention; the regulator's success was to be judged by its *not* having derailed a boom. This emphasis on supporting competitiveness – as opposed to containing risk, the more obvious role of a regulator – was critical to enabling the second phase of policy in which deregulation overtook stability as the primary concern.

The new rhetoric of deregulation for competitiveness drew less on the stability narrative than on the globalisation narrative, in which the role of government was to legislate for stability and then withdraw, allowing markets to operate:

“Government and others have a role in delivering a competitive business environment for financial services activity in the UK. That means good regulation – through setting up the Financial Services Authority and now ensuring that EU-driven regulation is proportionate and consistent with wider economic goals.” (HM Treasury 2005d: 4)

In regards to the European Union, policy papers from the Treasury made clear that “EU legislation should be a last resort”, used only if “competition policy, market-based solutions and initiatives at a national level” had been exhausted (HM Treasury, 2005b: 50). Political speeches also made the point increasingly bluntly:

“I believe, too, we should consider how we can continue to extend our risk-based approach, applying the concept of risk not just to the enforcement of regulation, but also to the design and indeed to the decision as to whether to regulate at all. And we will take the fight on deregulation to Europe.”

(CBI06a)

In that spirit, Brown and Balls convened a new ‘High Level Group on City competitiveness’, hosting bank Presidents and Chairmen for a seminar at Number 11 Downing Street in October 2006 to discuss, amongst other things, “proposals to reduce administrative burdens of regulation, to take further action against unnecessary gold-plating of European Directives and push for a more de-regulatory stance in the EU under the German presidency” (HM Treasury, 2006b). Balls told a banking audience in 2006 that Britain’s approach to international regulatory coordination was now mainly about repelling the threat of externally imposed rules, stating bluntly that:

“I am determined to protect our domestic regulatory approach from global developments... [we will] enable the FSA to veto changes to regulatory provisions proposed by these bodies that would impose an unnecessary or disproportionate obligation or burden.” (CITY06)

By now, competitiveness was routinely emphasised over stability and risk, Balls arguing that international regulatory policy must “ensure we have the best possible environment in which our financial services industry can prosper and create jobs” (ibid).

There is a clear connection between this deregulatory push for the City, and Gordon Brown’s stated aim to evangelise for globalisation. Labour did not only consent to deregulation, quietly acquiescing to the wishes of key interests; they wanted to deregulate in the open and persuade everyone of the rightness of doing so:

“Even with the global challenges now clear, and this year has brought them home as never before, I am optimistic that as an ever more enterprising nation, *we can build a national economic purpose*: a consensus around our shared belief in stability; investment in science, education and transport; a radical commitment to minimise regulation and to maximise flexibility; and to reach out and to take our rightful place in the world.” (CBI05, emphasis added)

And, once again, Labour were at pains to present their support for global finance as both economically and socially beneficial. Financial sector competitiveness was presented not as a narrow win for that industry, but as serving the broader purpose of transmitting globalisation’s benefits, through financial channels, to the economy at large. Treasury analysis argued that the financial sector “and in particular the City of London... plays an important role in securing for everyone the benefits that wider, deeper and integrated markets offer” (HM Treasury, 2005b: 2). Furthermore, increasing financial

integration for developing economies was presented as a matter of global social justice, on the basis that “developing the financial services sector should stimulate economic growth, particularly in emerging economies” (ibid: 5).

These claims were not without supporting evidence; the Treasury was drawing on academic studies showing that other things being equal, increased financial integration might produce better outcomes for developing economies (ibid: 6, Box 2.1). The point is not that Labour were wholly wrong about the benefits of market openness, but rather that they were increasingly emphasising those benefits and downplaying potential risks. The internal logic of the globalisation narrative dictated that financial globalisation must be a good thing, almost regardless of the prevailing conditions. Market openness was the clear choice in good times, and the right choice in difficult times, making Labour’s narrative largely impervious to fluctuations in global growth or market performance. Indeed, the high point of Labour’s globalisation and deregulation rhetoric in 2005 and 2006 coincided with some of the weakest data on growth, G7 ranking and the public finances, suggesting that weak signals from the economy were either considered irrelevant to the case for deregulation, or as further justification for pushing ahead.

This is not to say Labour now lacked any concept of financial risk. Where developing nations were concerned, Labour did show some circumspection around the process of market opening, suggesting liberalisation should proceed in an “orderly” manner by matching increased openness with institutional reform. There was also some acknowledgement of the risk of financial contagion, given the increasingly open channels between markets in different parts of the world, though again this risk was seen as a problem mainly for emerging economies with vulnerable currencies. However the principle of liberalisation was throughout presented as unimpeachable, with Labour calling for “an approach to capital account liberalisation in the developing world which is *bold in concept*, but cautious in implementation.” (Balls & O’Donnell, 2002: 306, emphasis added) And it was further assumed that innovative financial products were ensuring that risks were distributed as

never before, offsetting the threat of contagion “by encouraging the use of new instruments, such as derivatives, to hedge and diffuse risk” (HM Treasury 2005b: 6). To the extent that financial stability was still under discussion by the mid-2000s, stability risks were presented as mostly for, and in, developing countries, whose increasing integration into global capital markets might expose the weaknesses of their regulatory apparatuses. The advanced economies with their more stable and transparent policy frameworks were, by implication, much less vulnerable.

In summary, New Labour’s rhetoric around financial services appears gradually to have tilted away from the cautious, defensive, stability narrative towards the more optimistic, assertive, globalisation story: that is, away from concerns about risk and towards the idea of opportunity. Implicit in this narrative and policy shift were two underlying ideas. First, that financial risk was largely exogenous to the UK, whose cutting edge regulatory model and constrained, transparent government made it a least-likely candidate for financial instability. The government acknowledged the existence of other jurisdictions in which weak institutions meant the threat of government-stoked instability was less well contained than in Britain, but believed that by exporting the UK regulatory and macroeconomic framework to developing economies, those risks would over time be reduced. Capturing the benefits of globalisation depended, it was argued, on having “the necessary frameworks in place” (*ibid*: 2) but the clear view was that for the UK, that was already the case. UK regulatory policy was assumed to represent best practice, to be defended at home and exported abroad; residual risks would be dealt with once the rest of the world caught up with the cutting edge British model. There was no hint in this rhetoric that Britain’s openness might also increase British vulnerability to shocks in global markets, or that UK regulatory framework might need to evolve to keep up with new risks.

Second, the government’s concern with the contagion risks posed by developed nations’ institutional immaturity points once again to the idea that economic risk originates mainly in government weakness rather than market

dysfunction. The Balls and O'Donnell book went as far as itemising the failures that had, in their estimation, caused a variety of crises in Asia, Russia and Latin America in the 1980s and '90s. They identified five problems: poor financial regulation and supervision; the perception that government would backstop private risk; bad investment decisions "as a result of directed lending practices and close relationships between governments, banks and businesses"; a lack of transparency in policymaking and "poor lending decisions and inadequate risk assessment by western banks" (2002: 302). Or, rephrased slightly: regulatory failure (by government); moral hazard (created by government/central banks); crony capitalism (in which entanglement with government contaminates the purity of the market mechanism); opaque policymaking creating uncertainty (government again) and, it is conceded, some bad judgments by western banks. That is, four out of five problems were the responsibility of the public sector. Developing nations should strive toward financial stability not by closing off to western banks, but by adopting UK-style governance aimed at facilitating pure, honest, and thus stable, financial capitalism.

As we have seen, New Labour's approach to the financial sector represented a point of convergence between the government's narrative of stability and their theory of globalisation. Measures of, and challenges to, the external validity of this theme could conceivably have come from either direction, with the narratives predicting both financial stability and a prosperous, liberalised financial sector. Either macroeconomic instability or City underperformance would have been sufficient to undermine the financial sector narrative, and these twin vulnerabilities should, logically, have doubled the overall fragility of such a story. However in the period 1997-2007, when there were few validity challenges on either front, the dual nature of this narrative theme allowed it to become powerfully self-reinforcing. On the one hand, the booming financial sector was taken to indicate that the government had succeeded in delivering macrostability, giving business the confidence it needed to prosper: that is, a prosperous financial sector must indicate a stable

business environment. A causal story that originally said “we must be stable in order to prosper” became a conviction that “we are prospering therefore we must be stable”. And on the other hand, the absence of financial instability was taken as proof that open markets could, in the right policy environment, be a benign force: that is, openness is not the threat; policy instability is. Market openness and competitiveness could, apparently, be compatible with stability provided the market believed in the government’s commitment to a stable and minimally interventionist policy model. In this way, financial services rhetoric in the pre-crisis period functioned less as a distinct narrative theme than as a confirmatory case study for New Labour’s economic story as a whole.

### ***Analysis: from narrative construction to reinforcement***

Viewed in terms of narrative evolution, Labour’s rhetorics of global and financial markets display similar dynamics to the stability and prudence themes examined in chapter 4. An initial period of narrative construction and institutional reform gives way to a reinforcement phase in which policy is mostly static, while the rationale for, and success of, the early reforms is continually asserted. Indeed, during this reinforcement phase the narrative itself may have limited the space for policy change, since the problems identified in the original causal story had already been addressed, notably with the establishment of the new financial services regulator. Without a reassessment of the causal story as a whole, further policy change was difficult to contemplate because the space for a new problem analysis was effectively nil. Subjected to these narrative dynamics, policy for the financial services sector went from being a sub-set of Labour’s concern for stability to the poster child for the success of their pro-stability, pro-market policy mix.

And, just as the success measures for Labour’s stability narrative narrowed over time, so their globalisation and finance rhetorics gradually

narrowed in scope. On globalisation, the early rhetoric made clear that rejecting protectionism should be accompanied by investment in skills to support people in coping with free markets. Over time, however, openness to globalisation was increasingly presented as a freestanding good. In regards to the financial sector, we observe a gradual tilt from problem analysis (“we must pursue stability”) to problem solved (“stability is a given: we can therefore take credit for City success”). External signals were largely irrelevant to the continued projection of this narrative, except to the extent that challenging conditions were interpreted as requiring a redoubled commitment to the government’s existing policies.

This narrative entrenchment was further reinforced by Labour’s efforts to persuade international counterparts, in Europe and in the developing world, that they should emulate Britain’s macroeconomic and regulatory policies. For example, the hermetic self-confidence of the Balls & O’Donnell book demonstrates that, as early as 2002, Labour were certain enough of the success of their first term reforms as to preserve them as artifacts to be studied by future policymakers. The publication of such a full account of the government’s rationale, with a body of evidence for its apparent success, is a perfect example of rhetoric becoming constitutive, rather than simply descriptive, of policy. The book did not simply describe what had been done; it solidified the narrative, in full and in public, making it much harder to revise that rationale later. Two senior officials remarked on the impact of such publications on ensuring policy continuity:

“those were documents prepared under the Chancellor’s directions, they were... that’s the way they believe, they think the economy operates... I think, to the extent that it’s real it is going to constrain you. Because it’s saying that there are choices and we’ve made these choices, not other choices. Can you do u-turns and say actually that wasn’t the right thing? It’s quite hard.” (Interview F)

“So as well as [the] broader message, you then get this... call it the rationalists’ message. It explains in tedious detail all the mechanisms of the framework... it was going to be a university textbook... No false modesty there.” (Interview D)

It is possible that the difficulty of performing a u-turn resided in the appearance, rather than the substance of changing direction mid term. However, a deeply embedded narrative would plausibly constrain not just a government’s ability to be seen acting differently, but also its space to *think* differently. The next section considers this proposition in more detail by considering whether Labour’s narrative commitment to the benefits of global and financial capital was a reflection of their ideology, or simply a rhetorical front for a government hemmed in by political or economic interests.

### ***Ideas, interests or institutions?***

It has been suggested that Labour’s embrace of globalisation as an external constraint was a “politically expedient” cover for a party repositioning itself toward the swing voters it needed for a majority (Watson & Hay, 2003: 290). However, once again I suggest that the presence of party-political strategy does not imply the absence of genuine ideological conversion. New Labour were in the business of reconciling that which had previously been thought irreconcilable, not just in their rhetoric but in their thinking. Tony Blair often claimed that he was operating out of pragmatism, not dogma, and Labour’s economic narrative was built on the conceit that it was not ideology but fact; ironically, this very assertiveness suggests the presence of deeply held ideational commitments. The globalisation narrative was not only a tool for persuading the public that a new era warranted a new government; it was an attempt to convince the public of what Blair and Brown held to be newly-revealed truth, on the basis of which New Labour could claim to be the only party who understood the economic realities of the looming 21<sup>st</sup> century.

Another, alternative argument is that New Labour's deregulatory overtures to the City of London were less a triumph of ideas than a textbook example of regulatory capture by a well-resourced industry lobby. The fact that Labour's new single regulator, the FSA, was established to be leaner and less adversarial than its US counterpart, the SEC (Daripa et al 2013: 81) could be interpreted as a clear example of regulation "acquired by the industry and... designed and operated primarily for its benefit" (Stigler, 1971: 3). The very fact that the Chancellor of the Exchequer addresses the Mansion House dinner every year ensures that opportunities for capture are present. The favourable economic climate ensured that the clubby atmosphere of the Mansion House dinner was never disrupted, which Daripa et al argue provided a favourable climate for lobbying, since "a benign environment... makes for easier regulatory capture by a wealth-generating financial sector. The pattern of regulation under Labour bears all the hallmarks of such tendencies" (2013: 93).

The difficulty with the 'regulatory capture' explanation is that it assigns total causal power to the relationship between financial sector lobbying power and government policy on financial regulation. Implicit or explicit in the literature on regulatory capture is an assumption that government's regulatory stance toward a given sector springs primarily from the relationship between the government and each separate regulated industry. This imposes an epistemological straightjacket on the analysis, since for financial sector lobbying to be the principal driver of regulatory policy for finance, it is necessary for financial regulation to be conceptualised as distinct from other kinds of regulation, and regulatory policy as distinct from other kinds of policy. By defining the dependent variable (financial regulation) in this way we have also defined the expected parameters of its explanation (financial lobbying). This chapter suggests that such an explanation is incomplete at best, since it detaches the question of financial regulation from the wider political economy of the government designing the policy. In the case of New Labour, as we have seen, that wider intellectual landscape significantly informed the approach to

financial sector policy, providing an ideational prism through which uncertain data could be interpreted as validating a pro-globalisation, pro-finance policy stance. Without that wider context, the push to light-touch regulation of banking could theoretically be viewed as pure capture; in that context, however, it appears rather more complex.

Furthermore, most capture literature sets up the relationship between regulator and regulated as essentially oppositional, drawing on an intellectual lineage back to Milton Friedman's market liberalism, which considered government activity always and everywhere an unwelcome interference in private concerns (Friedman, 2002). Carpenter & Moss' recent edited volume on regulatory capture approaches the matter from a more positive starting frame, assuming regulation to be directed toward the public interest, but they similarly conceive of government and market as two opposing poles. Regulatory capture occurs when "regulation, in law or application, is... directed away from the public interest and toward the interest of the regulated industry, by the intent and action of the industry itself" (Carpenter & Moss 2013: 13). That is, regulatory policymaking is assumed to be a struggle between what government, the instrument of the people, would ideally like to do, and the power of well-resourced sectoral lobbies to override the public interest and impose their own preferences.

If that is true, it is unclear how a centre-left party, with ambitions to protect the public interest, and with an enormous parliamentary majority, could have been so completely captured as to deregulate their way towards a banking crisis. Theories of interests must surely confront the fact that New Labour's accommodations of finance capitalism were not defeats for the government, but were proactively pursued. They went well beyond a few pieces of friendly legislation (or omissions to legislate), nor did they proceed by the "quiet politics" of backroom influence over areas screened from public view (Culpepper, 2011). Rather, Blair and Brown's support for the banking sector was loudly expressed, in public and often. Their support of pro-City regulation was not expressed in pragmatic terms, but in the language of

principles and values, holding up the City as a national asset and an exemplar of the kind of economy Labour wished to cultivate. The literature on capture implies either conflict and resistance, or covert operations; there is little evidence of either here.

To define New Labour's embrace of the city as regulatory capture is to stretch the definition of capture far beyond its usual scope, which turns on the implied venality of politicians accepting campaign contributions in return for more-or-less reluctant acquiescence. Some of the literature on capture does expand its conception of capture beyond this, as in James Kwak's notion of "cultural capture", which starts from the insight that

"both the capture model and the public interest model of regulatory action assume that regulators are rational actors: either they maximize their material self-interest or they maximize their consciously held policy interests. However, there is another possibility: that regulators are susceptible to nonrational forms of influence, which interest groups can exploit to achieve the practical equivalent of capture – favorable policy outcomes." (2013: 76)

The juxtaposition Kwak makes is somewhat crude: either politicians are rational maximisers or they are irrational, subject to being duped into making bad policy by crafty interest groups. However, it does helpfully open up an alternative understanding of regulatory capture in which sociological, and perhaps ideational, forces are at work. Hanson and Yosifon's work on the rise of rational-choice theory in legal economics also advances a more sociological account of how thinking institutions may come to be captured:

"It is necessary to look deeper than the behavior of the captured institutions and individuals... much of the power of deep capture comes from the fact that its targets include the way that people think and the way that they think they think."

(2003: 214)

I suggest that if New Labour were indeed captured by the finance industry, it was a kind of capture that went well beyond creating a strong enough incentive to compel them to act against their, or the public's, best interests. Rather, Labour were subject to a kind of self-imposed intellectual capture, having internalised a set of concepts that permitted them to believe that pro-City policy served the general good. Labour did not believe themselves to be weighing competing interests and opting to serve those of the powerful over those of the people; they believed themselves to have reconciled the two. The government's overarching narratives of stability and positive-sum globalisation provided readily applicable frameworks of understanding through which the very notion of conflicting interests could be rebuffed. Policy could then proceed in the belief that economic and social goals were not just compatible but inseparable.

In regards to the UK, conceptualising capture as an ideational process rather than a battle of interests is particularly compelling because the nature of Britain's political system makes interest-based capture far more difficult than in the United States (Hopkin & Alexander Shaw, 2016). First-past-the-post elections and a majoritarian system of government concentrates power in the executive branch, granting a government enormous power to pursue its legislative agenda with few impediments. Effective lobbying in such a context will have less to do with identifying veto players, of which there are few, and more to do with agenda setting that influences the overall strategy and legislative programme of the executive before it gets anywhere near parliament. In such a context, influence based on material power is an all-or-nothing game, since the party in power must be either influenced or ousted altogether. Ideational influence, on the other hand, can be continuous, progressive and far less risky, since it ensures that whoever is in power, the ideas underpinning their policy actions may be made favourable through the maintenance of a generally benign intellectual climate. Britain's cross-party veneration of the City of London, which persisted through the pre-crisis

decades (and substantially since then), is a clear example of such Ideational capture in action.

This chapter has demonstrated that New Labour's approach to financial regulation, far from being a discrete policy question, was in fact informed by a series of mutually reinforcing narratives about the economy at large. By broadening the lens to situate financial regulation within Labour's wider economic narrative, we see that New Labour's capture by the financial sector was possible not in spite of, but because of, Labour's broader ideological positions. The government's narratives on stability and globalisation offered frameworks of understanding in which regulatory policy could be pro-business without, it was believed, being against the interests of the wider public. Labour's positive-sum globalisation narrative allowed them to get comfortable with financial capitalism and, even more importantly, it prevented discomfort from setting in later. The narrative became a bulwark against doubt, internally perfect and perpetually self-validating. Ideas, in Labour's pre-crisis decade in government, achieved far more for the finance sector than brute interests could have hoped to do.

## 6: Crisis, Part I

### **Content analysis of New Labour's resilient neoliberalism, 2007-2010**

“Britain cannot afford a recurrence of the all too familiar pattern of previous recoveries: accelerating consumer spending and borrowing side by side with skills shortages, capacity constraints, increased imports and rising inflation. Already there are warning signs that this pattern could be repeated. In similar circumstances some of my predecessors have ignored these signs while others have deluded themselves into believing that growth, however unbalanced, was evidence of their success. I will not ignore the warning signs and I will not repeat past mistakes.” (Brown, BUD97)

“Booms channel too many resources into speculative activities and not enough into others, hampering economic progress. The fleeting gains that such episodes bring are invariably far outweighed by the pain of the downturn that must follow.” (HM Treasury, 1998: para 2.04)

“We will never return to the old boom and bust.” (Brown, BUD07)

When New Labour came to office in 1997, the then-Chancellor of the Exchequer appeared to have a clear-eyed awareness of Britain's economic weaknesses. With the recession of the early 1990s still a recent memory,

Gordon Brown was prepared to be frank about the British economy's propensity for speculative booms and unbalanced growth, followed by overheating and disaster. A decade of continuous GDP growth later, Prime Minister Brown would find himself presiding over the largest financial and economic crisis for generations; a crisis which, moreover, arrived as a complete surprise to Britain's government despite embodying the very weaknesses that had been identified at the start. This extraordinary failure of insight has been much noted but very little explained. How could the same Chancellor who vowed never to ignore the warning signs go through a decade-long boom without becoming concerned it might be a bubble preparing to burst? This chapter will show that Brown's myopia in 2007 was substantially a product of his narrative, within which he was now cognitively and discursively trapped. Indeed, the narrative boundaries that prevented Labour from foreseeing the crisis would also ultimately constrain the government's ability to understand, and adapt to, the crisis it once it occurred.

Let us briefly recapitulate the ideas that have been identified, in the last two chapters, as having been in play in Labour's political economy over the period 1997-2007. They can be summarised in four dimensions corresponding to our four narrative themes:

- First, that economic risk originates in government, which is capricious and short-termist, not in markets, which are rational. Inflation is the economic manifestation of government irresponsibility. Macroeconomic stability is therefore a function of constrained monetary policy rather than constrained markets.
- Second, that fiscal restraint can further reinforce confidence and credibility, such that social democratic policies may be affordable. However progressive spending plans are conditional on, and subordinate to, the achievement of macrostability.

- Third, that while globalisation brings some upheaval, it also contains great opportunity, which can be realised by opening markets fully and equipping citizens to become competitive participants in them.
- Fourth, that the financial services sector exemplifies the positive potential of embracing global markets, and should be deregulated to fully unleash its capacity for innovation and risk-distribution.

To these four substantive ideas, each of which was present in the causal story as early as 1997, we may add a fifth, which was developed over time: *that the ideas above had been proved right by all the evidence of the past decade*. Both the fact of the long boom and Britain's record of continuous growth throughout it, even (perhaps especially) through periods of challenge, were taken as proof that the narrative had been validated. Stability and growth were being compatibly advanced. The British economy was now strong enough to withstand challenging conditions in the global market, from the dotcom bubble, to Enron, to 9/11 without serious incident. The medicine had worked, and for policymakers it remained only to hold a steady course.

We have already seen that the substance of New Labour's political economy was informed by, and situated within, the intellectual mainstream of the time. So too was their confidence in the success of the prescription. Much of the literature on the so-called Great Moderation was devoted not just to proving the existence of a new and less volatile equilibrium, but to assigning the credit for the new economic tranquility to policy rather than to luck. Academic papers used language that was professionally equivocal, assigning only a minority share of the credit to monetary policy improvements; for example, Stock & Watson (2002) estimate that better policy had been responsible for just 10-15% of the reduction in volatility. Nonetheless such analyses reinforced an increasingly pervasive sense that macroeconomic policy since the mid-1980s had been a clear force for good. Taken up by

public-facing economists, notably by Ben Bernanke in a famous speech in 2004, this evidence was presented as being rather more decisive:

“If the Great Moderation was largely the result of good luck rather than a more stable economy or better policies, then we have no particular reason to expect the relatively benign economic environment of the past twenty years to continue... My view is that improvements in monetary policy, though certainly not the only factor, have probably been an important source of the Great Moderation.” (Bernanke, 2004)

Adapted still further into political rhetoric, the caveats in the academic literature were of course all but lost, with the role of luck being largely downplayed and the role of policy put front and centre, as in Alistair Darling’s claim, as late as September 2008, that “thanks to the reform of economic policy in 1997, we have seen the longest period of continuous growth in living memory” (MAIS08). But even in the academic debate, the only question being considered was how to weight the relative significance of three causes of the moderation: structural changes such as the shift from manufacturing to services; sheer good luck in the reduced frequency of exogenous shocks in the period; and policy skill in the new era of macroeconomic management. Nowhere in any of this was it considered that the “moderation” might be concealing its own in-built self-destructive tendencies; that it was “actually a reflection of policies that were bound to fail in the end... a series of bubbles, each larger than the last, and each encouraged by a combination of financial deregulation and expansionary monetary policy” (Quiggin 2012: 14-5). The fact of the moderation was assumed to be secure, and the causes of it assumed to be at least partly attributable to good policy, in which case the benefits of the new macroeconomic wisdom would endure as long as it continued to rule the policy roost. In the story that academic and professional economists were telling themselves, as in Labour’s political narrative, the changeability of government was the main acknowledged risk; the potential

for policy and markets to become mutually-reinforcing risk-generators was excluded.

This combination of economic ideas and narrative reinforcement offers a new and simple answer to the question of why Britain's government did not see the financial crisis coming. They did not foresee the crash because it was outside the terms of their narrative, and years of rhetorical work validating that narrative meant there was no longer any appetite to question it. In substance, a crash based on market irrationality and systemic mispricing of risk was not only unpredicted by the evolved narrative, but inconceivable within it. Markets were supposed to be stable and self-correcting, provided government's ability to spring surprises remained closed off. And, thanks to the dynamics of narrative construction, they didn't simply fail to see the crash coming; the government's cognitive and political investment in their causal story meant that *they had become less likely to see it as time went on*. To the extent that the narrative had encountered challenges to its external validity, these had been absorbable within the logics of the existing story, allowing it to not just survive periodic tests, but to emerge from them with renewed confidence. What had not killed the causal story had incrementally made it stronger.

### ***The puzzle restated***

This chapter now turns to the question of why the largest economic shock in several generations did not provoke more change. New Labour were a broadly centre-left government, under a new leader ostensibly more leftwing than his predecessor, whose core voters were hurt by the crisis and whose intellectual edifice should have been invalidated by it. What is more, as the quotes at the top of this chapter demonstrate, adapting the narrative to the crisis did not require new thinking, exactly; a return to Gordon Brown's 1997 analysis of the fragility of economic booms would have been sufficient. Given that background, how on earth did Labour become another example of the strange

non-death of neoliberalism? Several propositions are present in this framing and need to be clarified. First, that New Labour's pre-crisis political economy can reasonably be characterised as neoliberal in character. Second, that it remained so after the crisis. Third, that this continuity was surprising and requires explanation. I will briefly take these claims in turn.

The question of how far New Labour should be considered neoliberals has been endlessly debated, both contemporaneously and in retrospect. Alan Finlayson noted as early as 2003 (pp. 179-87) that academic treatments of New Labour's political economy have been overwhelmingly concerned, implicitly or explicitly, with the same question: whether New Labour should rightly be considered a social democratic or a neoliberal project (see also Diamond, 2013 for a review of this debate). Some have emphasised New Labour's continuity with Labour's history (Beech & Hickson 2007) and their commitment to achieving social democratic ends within the constraints of late capitalism (Glyn & Wood 2001; Watson 2008). Others have insisted that New Labour made a decisive break with social democratic traditions, adopting new assumptions about the rationality and inexorability of market forces and getting comfortable with a growth model based on private debt (Crouch, 2009; Diamond, 2013; Hay, 1999, 2013). This more critical literature acknowledges the presence of progressive impulses in New Labour's social policy, but sees them as peripheral compared with New Labour's embrace of market liberalism, a view exemplified by Arestis and Sawyer's famous contention that New Labour's economic policy amounted to "neoliberalism with a human face" (2001: 275).

When New Labour were still in power such debates were part of an ongoing battle for the soul of the government, whereas historical accounts can afford to be more equivocal, and have tended to present more nuanced conclusions. In this vein Craig Berry argues that there was a significant accommodation of, but perhaps not full conversion to, neoliberalism, suggesting that Labour managed to "uphold a policy agenda consistent with neoliberalism while rejecting neoliberalism's ontological assumptions" (2011:

95). Still others have suggested that to look for a coherent philosophy, neoliberal or otherwise, is to miss the point: for example Martin Carstensen's work on 'bricolage' (2011) emphasises the pragmatism and incrementalism in most political projects, which borrow policy ideas, or parts of ideas, that serve their ultimate purposes without concerning themselves overmuch with fidelity to a particular school of thought. Tony Blair's managerial style of government appears in certain regards to fit this picture, Blair himself suggesting that he turned to academic thought mainly for an idea of "what works" (2010: 216).

However, on the evidence of the last two chapters, I tend to agree with those who see New Labour's political economy as neoliberal rather than social democratic in its central assumptions. The elevation of macroeconomic stability (i.e. inflation hawkishness) over social policy, the implicit faith in the wisdom of markets, the mistrust of government's populist tendencies and the mania for globalisation all point in that direction. While Labour undoubtedly possessed many progressive impulses – the purpose in their prudence – their insistence on the primacy of stability over all other goals placed the neoliberal parts of their thinking at the essential core of their politics. Nor was their neoliberalism a pragmatic accommodation, despite Blair and Brown's ostensibly pragmatic rhetorical justifications of it. New Labour's intellectual constructions were neither reactive nor piecemeal, but were assembled carefully over years in opposition and in government. The evidence of the last two chapters shows clearly that while policy bricolage may have been occurring at some levels, there was a substantive vision at the heart of the New Labour project that must be accounted for at the level of ideas, and those ideas were substantially neoliberal in character.

It is insufficient, however, to leave it there. Delivering a verdict from on high as to the true nature of a political project misses a key dimension: what the architects of New Labour *thought* they were doing. While it is important to be clear about the neoliberal character of many of Blair and Brown's core ideas, it is equally important to recognise they would themselves have rejected the charge of being neoliberals, and were happy to claim in various

contexts that they were social democrats, progressives or even (in Brown's case) socialists. Labour's own argument was that the juxtaposition of these two ideological poles was misguided; yesterday's debate. They did not believe themselves to be choosing sides between the neoliberal and the social democratic; rather they believed themselves to have united the two, Blair telling his party in 2000 that "self-interest and the common good are at long last in alliance" (Blair, 2000, quoted (as 1999) in Finlayson 2003: 184).

In academic terms it is no longer fashionable to talk about 'third way' politics except as a tag for a rather shallow and outmoded discourse, an embarrassing piece of Blair-era branding. However, for the purposes of understanding New Labour's narrative this will not do; third way thinking was essential to New Labour's internal logic, and was as present in Brown's philosophy as in Blair's. Whether the term was used or not, Labour's narrative throughout its time in government was a third-way construction, insisting on the compatibility of economic and social objectives, on the newness of the economic conditions, and thus the redundancy of any politics predicated on tensions between state and market. New Labour's political economy rested on the assertion that by the institution of macrostability, the circle could be squared: markets would serve the masses as well as capital, and the pursuit of growth, trade and liberalised finance would not be a betrayal of the working classes but the key to their future prosperity. Labour's enthusiasm for financial globalisation was made possible by their belief that well-functioning markets would ensure finance served the common interest, rather than only its own. This chapter, and the next, therefore make a working assumption that New Labour, in the pre-crisis period, had been operating with a broadly neoliberal idea set but *without believing themselves to be neoliberals* or to have sacrificed social justice to the market. Patrick Diamond has suggested that "the Labour party needs to be understood in terms both of ideas and of the dilemmas that they create" (2013: 92). I suggest that the keystone of New Labour economics was not the dilemmas it created, but its insistence that the old dilemmas were no longer relevant.

The second claim on which this chapter rests is that New Labour's essential political economy remained broadly neoliberal even after the crisis, and that they are therefore an exemplar of the larger puzzle in which the 2008 financial crisis did not upset the dominant economic paradigm of the great moderation period. As discussed in chapter 2, there is now a substantial literature around the puzzle of neoliberalism's surprising resilience since, and despite, the financial and economic crisis of 2008-onwards (Callinicos 2012; Crouch 2011; Mirowski 2013; Schmidt & Thatcher 2013; Quiggin, 2009; Farrell & Quiggin 2012). In Britain, the sharp turn to austerity by the Conservative/Liberal Democrat coalition government post-2010 swiftly recast a crisis of private risk as one of public debt (Blyth, 2013a) but there is also room to reflect on how far New Labour were also participants in British neoliberalism's non-crisis.

It must be acknowledged that the neoliberal order has not been entirely undisturbed since the crisis. There has been much recent commentary on the rise of a new strain of populism (Blyth & Matthijs, 2017; Schmidt, 2017) that speaks the language of anti-globalisation, describing an economic nationalism that is in direct opposition to the pre-2008 Washington consensus. As Blyth and Matthijs have recently observed, "it is now no longer unthinkable that the neoliberal macroeconomic regime has run its course and that a new, neo-nationalist one will take its place" (2017: 223). The rise of President Donald Trump in the US, and the UK's withdrawal from the European Union are the most vivid examples of this new politics in action, and suggest that eight or ten years after the crash the ideational rupture presented by the crisis may finally be opening up new political fronts, albeit not by effecting the Polanyian renaissance of social democracy that many in comparative political economy seem to have expected (Alexander Shaw 2017b; Hopkin 2017). However, this nascent populist revolution does not yet obviate the puzzle of neoliberalism's non-death, for two reasons. First, it remains to be seen whether the new populism is truly an alternative political paradigm, or just an electorally expedient set of arguments made by those who continue to

operate a neoliberal policy set in practice. There appears to be a disjunction, to say the least, between Donald Trump's populist rhetoric and his emergent record in office, which may yet prove solidly neoliberal in character. Likewise, Britain's withdrawal from the European single market does not necessarily imply a withdrawal from liberal market logics more generally. Second, if the new populism is indeed an alternative paradigm on the rise, its rapid ascent to power has been supported by a wave of voter discontent with relatively little political groundwork, such that despite its recent electoral success the new populism has only a tenuous grip on the institutions of government in the liberal economies. Established elites remain deeply wedded to the neoliberal paradigm, which is still institutionally and intellectually dominant, as well as being clearly aligned to the economic interests of capital. Neoliberalism had found new expression in the austerity politics that dominated the immediate post-crash period, and it may yet find ways to colonise the terrain being opened up by economic populists. The new wave of populists are doing business in an institutional landscape that continues to be dominated by neoliberals with long years of experience in operating the machinery of government; populism has so far not replaced that elite but is improvising a working coalition with it (Alexander Shaw, 2017b). Neoliberalism's non-death therefore remains very much a live concern.

The New Labour case is germane to the puzzle of resilient liberalism because they were a particularly good candidate for ideational change, given the scale of the crisis and the fact that neoliberalism was always a somewhat uneasy fit for a centre-left party. We have seen that Labour's accommodation of neoliberalism relied on their faith in third-way arguments that erased the tension between market freedom and the common interest, between socially-motivated policy and efficient markets. When the crisis made that intellectual manoeuvre impossible, why did Labour not choose the other side of the argument? The timing of the crash in 2007 ensured that Labour went into the crisis with a new leader ostensibly to the left of Tony Blair. It is at least plausible that when faced with the failure of third-way political economy they

might have reverted to their social democratic roots rather than continuing on a neoliberal trajectory.

The empirical literature on Labour's crisis response is in fact rather inconclusive as to whether or not they should be understood as having changed direction after 2007. On the one hand, Colin Hay has credited Gordon Brown with having led "a surprisingly co-ordinated if short-lived proto-Keynesian counter-offensive to the crisis" (2013: 25), suggesting some significant movement away from Labour's pre-crisis orthodoxy. Some very large policy decisions were made, from the nationalisation of the retail bank Northern Rock in early 2008, to the £500bn recapitalisation and rescue package for the wider banking system in October that year, to the government's embrace of a version of Keynesian stimulus via the Bank of England's various liquidity schemes. The contrast between Labour's relatively interventionist stance in 2009, and the subsequent turn to austerity and small government under a Conservative-Liberal Democrat coalition after 2010, lends weight to the conclusion that New Labour under Brown did respond to the meltdown in recognisably leftwing ways, that should prevent their being pigeonholed as unrepentant neoliberals.

However, others have found evidence of ideological continuity through crisis. Hodson and Mabbett, writing mid-crisis in 2009, drew on Peter Hall's classic framework to suggest that policy change was occurring only at the level of instruments and institutions, stopping short of change to the third-order goals of economic policy, which remained "rooted in the policy paradigm that [Labour] put in place after 1997" (2009: 1042). More recently, English et al have used fuzzy set data comparing Conservative and Labour framings of the crisis, finding that "the critical juncture of the economic crisis did not challenge... the neoliberal consensus in British politics" (2016: 593). That finding is somewhat problematic however, since it relies on measuring the distance between Labour and Conservative positions at any given time, rather than movement in Labour's own position over time. It thus situates post-crisis politics based on Conservative rather than Labour positions, which makes it

difficult to assess whether Labour's own thinking had failed to evolve, or whether they had moved the debate but taken the Conservatives with them. We currently lack a detailed empirical account of New Labour's crisis response, as it evolved over the two or three years to 2010, that would allow us to satisfactorily tease out both the policies and the motivating ideas that drove politics in that period.

The empirical analysis that follows will show that the opportunity for paradigmatic change was not just missed by the Labour Government; it was actively repelled. The Labour government's response to crisis, and Gordon Brown's response in particular, was to emphasise continuity over responsiveness, and to continually restate the government's commitment to the policy axioms of the great moderation era. Fast footwork on policy during the banking crisis was not matched by rhetorical innovation, and indeed the struggle to preserve the integrity of the old narrative became a major brake on the government's ability first to conceive new policy solutions and, later, to explain those they did conceive. In the early part of the crisis there was an ongoing attempt to frame policy change as exceptional and short-term. Later, as the policy mix became more radical, there remained an overarching impulse to protect the validity of pre-crisis ideas, by insisting on the exogeneity of the crisis and denying any link between policy in the great moderation period and the subsequent meltdown. Given the scale of the disaster, new policies could now be openly advocated, but Labour's crisis rhetoric still sought to discursively contain them, either by making the crisis exogenous to, rather than directly contradictory of, their causal story, or by embedding policy change within the globalisation-as-opportunity part of the narrative. That is, even in the face of the mother of all external validity challenges, Labour remained strikingly concerned with internal narrative validity, in a mostly failed attempt to absorb the crisis into existing ideational frameworks.

The third claim this chapter makes is that Labour's resilient liberalism through the crisis was a non-obvious outcome and so requires explanation. I

suggest that this is surprising because it contravenes theories of political action based on interests *and* those based on ideas. As far as interests are concerned, if Labour's economic liberalism had represented a capitulation to the material interests of the wealthy and powerful in Britain's financialised economy, the crisis should have brought it all crashing down. The financial sector had never been in a weaker position to argue its interest. Popular anger with the banks gave Labour an opportunity to reorient around the interests of their core voters and champion a leftist populism, should they have so wished. A more radical realignment of the material conditions could hardly be imagined. And in respect of ideas, as we have seen, there is a plentiful body of theory that suggests exogenous shocks provide perfect conditions for ideational rupture and change. Neither of these schools of thought obviously predict an outcome in which a seismic financial and economic crisis does not significantly disrupt the rhetorical or policy status quo. If New Labour's crisis response was a non-death for their brand of conscientious neoliberalism, the question is simply: why? Was it simple institutional stasis, or something else?

The rest of the analysis will proceed as follows. First, it is necessary to establish when the government became persuaded that they did indeed have a crisis to deal with – in our terms, when they acknowledged the existence of an external validity problem. To that end, content analysis of speeches is used to trace the language in which the government named the growing economic crisis in the period between mid-2007 and mid-2010. Second, further content analysis tracks the evolution of rhetoric in our four themes, looking for evidence of change and/or continuity. Based on these findings a broad picture is established of when, and whether, the crisis began to impact on the government's economic narrative by bringing internal and external validity into tension with one another. This structured analysis sets up the next chapter, in which a detailed qualitative account of the crisis period is developed, in which the interaction of internal and external validity is explored in finer detail. Out of that account, further phases in the life cycle of the economic narrative are added to our typology.

### ***Content analysis: naming the crisis***

In order to arrive at a systematic assessment of Labour's crisis vocabulary, content analysis was conducted on a collection of speeches from the crisis period, with the specific objective of isolating the names the government gave the economic crisis in the period between mid-2007 and the 2010 general election. For the purposes of this exercise a new corpus of speeches was selected, which differs from that used in the longitudinal analysis of narrative themes in the previous two chapters. The goal of this new crisis corpus was to produce a more fine-grained picture of how the government's rhetorical vocabulary changed over a period of less than three years, so it was necessary to include more speeches to leave smaller gaps between them. The crisis corpus duly contains 28 speeches, 14 of which are additional to those included in the main narrative corpus. The additional speeches were also selected in order to provide an even balance between the government's two principal speakers during the crisis periods, Prime Minister Gordon Brown and Chancellor of the Exchequer Alistair Darling. The additions ensure an even spread over time, with the crisis corpus containing three speeches per speaker from late-2007, five each from 2008 and 2009, and one speech per speaker from the short pre-election period in early 2010. Chapter M1 sets out the coding framework and operational methodology in full, including a list of speeches included in the corpus (Table M1.5).

The 28 speeches in the crisis corpus were manually coded to identify sentences in which the crisis was referenced and given a name, be it specific or euphemistic: for example "these difficult times", "the global financial crisis" or "the recession". The resulting body of text (some 350 segments in total) could then be analysed mechanically, tracing the occurrence of certain keywords through the period, and allowing for comparisons between the two speakers. The value of this two-stage process was that it ensured irrelevant occurrences of keywords could be excluded: for example, references to different periods of "crisis" or to other sorts of "difficulties". The first round of

coding effectively created a population of language that related specifically to the financial crisis as the object of interest; the second, more mechanistic round of coding searched that population for patterns. This method does not obviate the necessity to qualitatively assess what was happening to the narrative, but it provides a semi-structured basis for doing so, distilling some 120,000 words of speech material into a manageable but complete dataset of crisis-naming rhetoric.

Tables 6.1 and 6.2 indicate whether or not particular crisis keywords were present in coded segments from each of the speeches analysed. (Note that it does not indicate how often a word was used, simply whether it occurred in a speech or not.) Alistair Darling and Gordon Brown's speeches are presented separately, to enable us to see whether their choice of words evolved differently. In both sets of speeches, two distinct phases are observable. Between mid-2007 and mid-2008, the vocabulary chosen by both Brown and Darling is that of "uncertainty", "difficulties" and "turbulence", which lexicon is replaced in late 2008 with a new vocabulary of "crisis", "recession" and "downturn". The rhetorical turning point is, unsurprisingly, in September 2008, which saw the collapse of the US investment bank Lehman Brothers and the near-meltdown of the global financial system. The crisis corpus includes Brown and Darling's speeches from the Labour Party conference, which took place one week after Lehman's insolvency; it therefore picks up the government's thinking at the very height of the financial crisis. In Brown and Darling's 2008 conference speeches we see two rhetorical phases overlap, with both men continuing to talk about turbulence and uncertainty, while also introducing the word crisis as a descriptor for the first time. After September 2008, the language of turbulence and uncertainty is mostly dropped, and the government's vocabulary becomes centred on "crisis" and, especially, the bluntly technical term "recession".

There are, however, some observable differences between Brown's language and Darling's. The first is that Brown does talk about crisis as early as 2007. However, the word crisis is not at this point a descriptor of the current

**Table 6.1: Names for the crisis, Alistair Darling speeches**

DARLING	2007			2008					2009					2010
	SEP	OCT	NOV	MAR	MAY	JUN	SEP	NOV	APR	JUN	SEP	OCT	DEC	MAR
	Labour Party Conference	Pre-Budget Report	CBI Conference	Budget	CBI Dinner	Mansion House	Labour Party Conference	Pre-Budget Report	Budget	Mansion House	Labour Party Conference	Reuters	Pre-Budget Report	Budget
UNCERTAINTY		X	X	X	X		X		X	X				X
DIFFICULT	X		X	X	X	X	X		X					X
TURBULENCE		X	X	X		X	X							
SLOWDOWN				X	X									
CREDIT CRUNCH						X	X		X					
CRISIS							X	X	X	X	X	X	X	X
RECESSION								X	X	X	X	X	X	X
DOWNTURN								X	X	X		X	X	

**Table 6.2: Names for the crisis, Gordon Brown speeches**

BROWN	2007			2008				2009					2010	
	SEP	OCT	NOV	JAN	SEP	OCT	NOV	NOV	JAN	MAR	MAY	SEP	NOV	FEB
	Labour Party Conference	Reuters	CBI Conference	Global Europe	Labour Party Conference	Reuters	Council for Foreign Relations	CBI Conference	Foreign Press Association	St Paul's Cathedral	CBI Dinner	Labour Party Conference	CBI Conference	Progressive Governance Conference
UNCERTAINTY			X	X	X									X
DIFFICULT			X	X	X	X		X			X		X	
TURBULENCE	X	X	X	X	X									
SLOWDOWN														
CREDIT CRUNCH					X									
CRISIS		X	X		X	X	X	X	X	X	X	X	X	X
RECESSION		X	X				X	X	X	X	X	X	X	
DOWNTURN					X		X			X	X			X

**Table 6.3: Naming the crisis as “recession”**

	Pre-Budget Report	CBI Conference	Foreign Press Association	St Paul's	Budget	CBI Dinner	Mansion House	Labour Party Conference	Labour Party Conference	Reuters	CBI conference	Pre-Budget Report	Progressive Governance	Budget	AVG
	Nov 08		Jan 09	Mar 09	Apr 09	May 09	Jun 09	Sep 09		Oct 09	Nov 09	Dec 09	Feb 10	Mar 10	
<b>Brown</b>															
Frequency %		3 23	1 13	2 29		8 38			4 67		1 25		0 0		2.7 28
<b>Darling</b>															
Frequency %	8 31				16 59		5 38	11 69		8 73		10 67		20 71	11.1 58

Note: Frequency is number of references per speech. Percentage is “recession” as a proportion of all crisis names in that speech

problem; rather, Brown juxtaposes his early references to “turbulence” against previous episodes of “crisis”, as here:

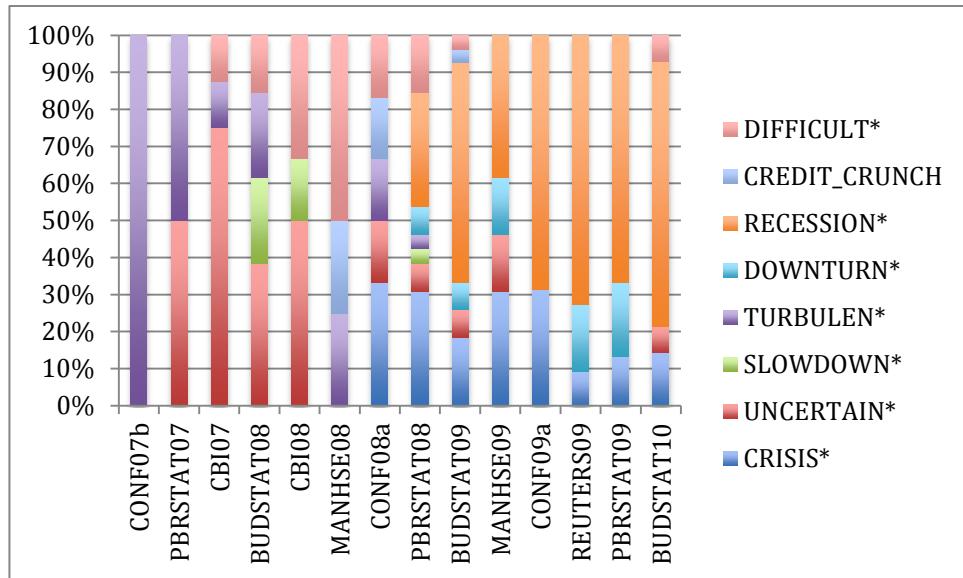
“In the last 10 years our commitment to stability has been tested again and again, in the Asian crisis in 1997/8, the Russian crisis, the American recession, the trebling of oil prices, and of course in the last month with a wake up call for every financial system round the world, a wave of turbulence that started in America, then Germany, has impacted on all countries and tested the stability of our own system.” (REUT07)

That is, when Brown talked about crisis in 2007 he was not naming the emerging economic problems, but using the example of previous crises to suggest that Britain had seen far worse in the past, and had always survived with economic stability intact. “Crisis” serves here as a contrast to “turbulence”, not as a substitute for it.

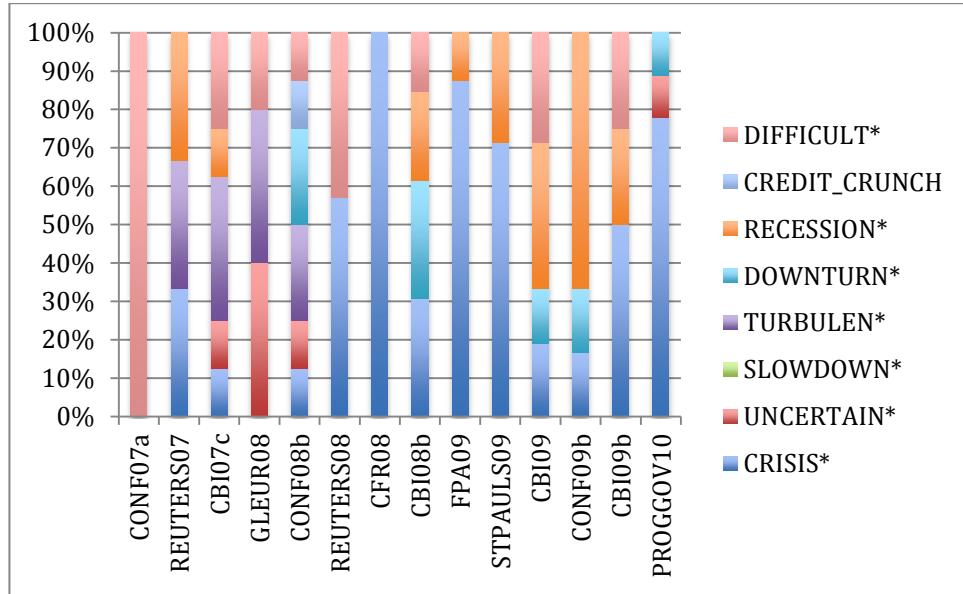
The second difference is Gordon Brown’s avoidance of the word ‘slowdown’. In the first half of 2008 we see gradual movement toward naming the crisis as an object rather than an open-ended condition, with Darling beginning to speak of a “world economic slowdown” (BUD08), albeit that this was carefully framed as the product of exogenous and generalised “external shocks which are affecting every economy in the world” (MH08). John Quiggin has observed that at this stage, there was still a good deal of resistance to using the word recession, noting that “a great deal of energy was expended in 2008, arguing that, despite obvious signs of economic distress, the required two successive quarters of negative growth had not yet been observed” (2012: 11). As shown in table 6.2 Gordon Brown did not use the word slowdown in any of the speeches analysed here, suggesting some greater reticence on his part about acknowledging the poor growth outlook.

Thirdly, while the term ‘recession’ was adopted by both Brown and Darling from late-2008, figures 6.4 and 6.5 show that it was a much more central component of Darling’s language than of Brown’s. Throughout 2009, most

**Figure 6.4: Crisis names, percentage of all descriptors by speech, Darling**



**Figure 6.5: Crisis names, percentage of all descriptors by speech, Brown**



speeches by Alistair Darling adopted ‘recession’ as their main crisis descriptor, using this term about two thirds of the time; otherwise, it was ‘crisis’ or ‘downturn’. Brown, meanwhile, preferred the generalised term ‘crisis’, making much more limited use of ‘recession’. This difference suggests a degree of narrative divergence between the two men that warrants further exploration. After 2009, the word recession accounted for around 60-70 per cent of all crisis descriptors in each Alistair Darling speech (with the exception of the 2009 Mansion House speech, with 38%). Darling’s 2010 Budget speech says recession 20 times. In Brown’s speeches in the same period recession accounts for a smaller share of all crisis names, generally no more than 40 per cent (with the exception of his 2009 Party conference address, with four references out of six total). Darling says recession more frequently than Brown, and the word accounts for a larger proportion of his overall crisis vocabulary (Table. 6.3).

Part of this difference can be accounted for by the fact that at this time, Gordon Brown was adopting a particular set of euphemisms for his speeches to the Confederation of British Industry, based around “difficulties”, leaving recession as a smaller share of the total. In Brown’s CBI speeches, ‘difficulties’ is used as a crisis descriptor in passages expressing sympathy for, and solidarity with, the embattled business sector, acknowledging the crisis somewhat obliquely as “difficult times” and couching that acknowledgement in optimistic and pro-business language. For example, in November 2008 Brown was at pains to express confidence that “together we can take the British economy through difficult times and equip ourselves for our global future” (CBI08b), framing government and business as allies in confronting a difficult but surmountable problem. By 2009, the language of “difficult times” was even more clearly an attempt to frame an optimistic and collaborative response to the downturn. By talking about shared difficulties Brown reaffirmed his friendliness to the private sector and exhorted business leaders to a kind of Dunkirk spirit in the face of crisis:

“This is a most difficult time. It's a most testing time. You're in the eye of the storm... And I believe we owe to you all this debt

of gratitude for the resilience that you've shown facing a worldwide recession... I believe that being tested now, you are showing that we are innovative, that we are dynamic, that we are enterprising, that we can come through these difficulties."

(CBI09a)

Two things appear to be going on in the 2009 speeches. Brown's decision to soften his description of the crisis as "difficulties" in front of one particular audience appears part of an attempt to maintain friendly relations with business representatives when (and perhaps because) the government's economic policy had become more unorthodox. But at the same time, the Chancellor was becoming comfortable with the liberal use of the word recession to a degree that the Prime Minister was not. This finding, of apparent divergence between narrators, will be explored further in the qualitative account in Chapter 7.

The other key finding of this content analysis exercise is, however, that Brown and Darling appear to have reached the same rhetorical turning point in September 2008. This is not particularly surprising given it was the month that saw the most dramatic events of the global banking crisis, including the collapse of US investment giant Lehman Brothers on 15 September. The 2008 Labour Party Conference took place just a week later, making those speeches rhetorical time capsules from the very height of the crisis. The fact that both Brown and Darling's conference speeches now adopted the language of crisis was a conscious and coordinated change after a long period in which the word had been deliberately avoided. Gordon Brown's wife reportedly asked him, in October 2008, "are we allowed to call it a financial crisis now or are we still saying downturn?" to which Brown replied "I think we can safely call it a crisis now" (Pearson, 2008). However tongue-in-cheek the question, Sarah Brown had hinted at the deliberation behind the government's choice of crisis descriptors. Their reticence to name the crisis as such – or even to acknowledge its existence – spoke to Brown's longstanding caution about the potential for government's language to move markets. As such Brown's government could not be the first mover; it would only talk about a crisis after everyone else was doing so too.

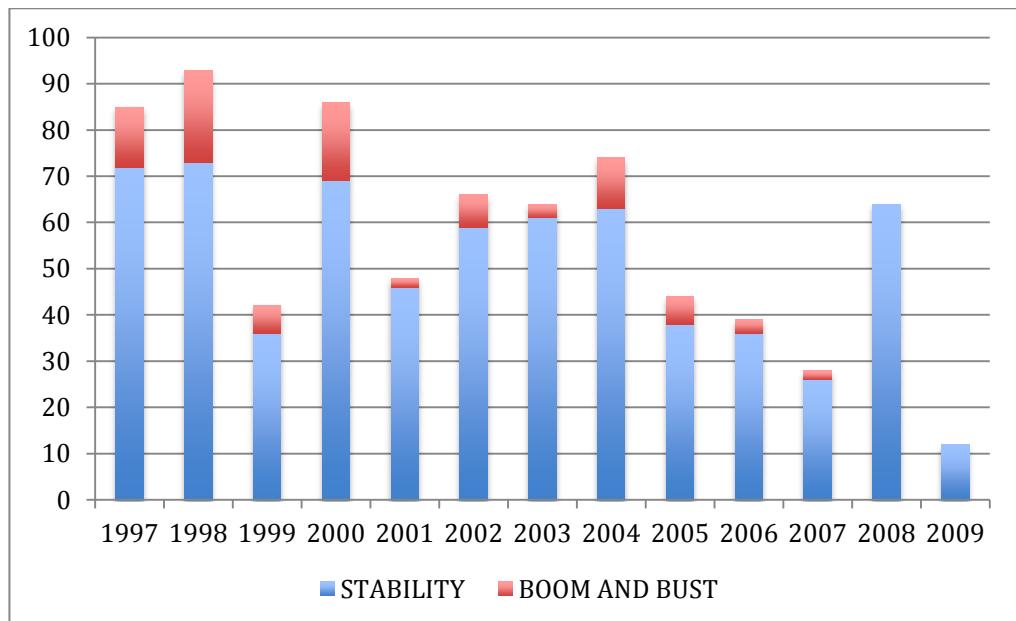
### ***Change and continuity in the four narrative themes***

The ‘crisis names’ coding exercise suggests two distinct phases in Labour’s crisis thinking: circumspection up to September 2008, and open acknowledgement of crisis thereafter. We might reasonably expect the main themes in the narrative to evolve around this turning point. Did this happen? Or, as in previous episodes of instability, did the narrative persist in the face of external challenges? This section returns to longitudinal content analysis of the main themes in the pre-crisis narrative, to ask when and if they displayed any change in response to the newly-acknowledged crisis.

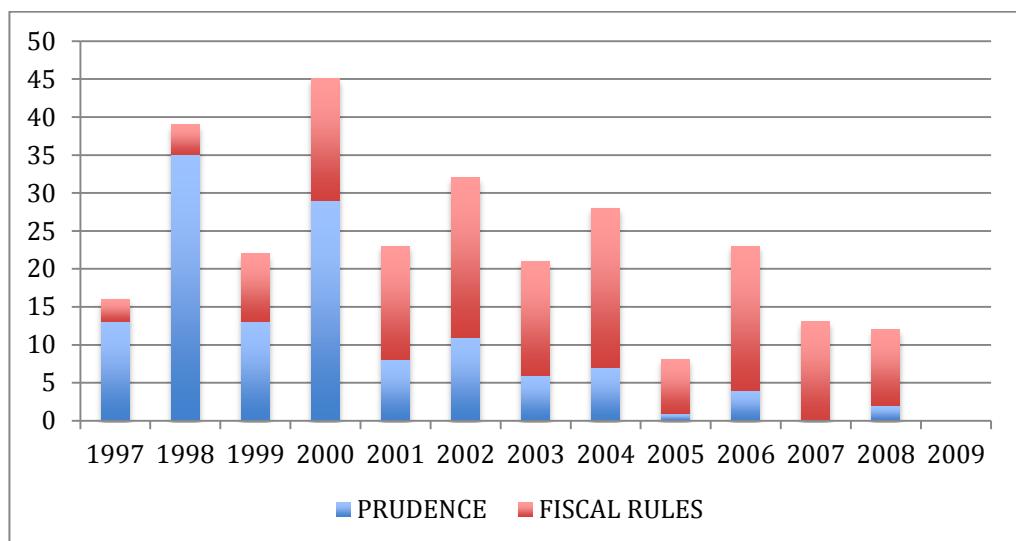
Content analysis for the four themes returns to the main corpus of speeches used in the previous two chapters, which is comprised of five set-piece speeches by the Chancellor each year: the Budget, Pre-Budget, Mansion House, CBI Conference and Labour Party Conference speeches. As before, this corpus allows for longitudinal analysis including a comparison between the pre- and post-crisis periods. Figures 6.6 to 6.9 show the extent to which key vocabulary in Labour’s pre-2007 narrative continued into the crisis period. Each chart shows the total frequency count for coded language in the four themes, over the period 1997-2009 (updating the counts shown in chapters 4 and 5). The year 2010 is excluded because only one speech, the 2010 budget statement, features in the corpus for that year, compared with five speeches for each previous year. While it would be possible to express the counts as a percentage of total words and so control for the smaller sample of speech material in 2010, this would not deal with the underlying difference between years in which we can take observations from five different speeches, given to different audiences, and a year in which only one speech to one type of audience is present. A simple frequency count excluding 2010 is therefore presented as a fairer reflection of rhetorical trends over time.

These data allow us to see, at a high level, the extent to which narrative themes developed in the pre-crisis period survived into 2008 and 2009. It is

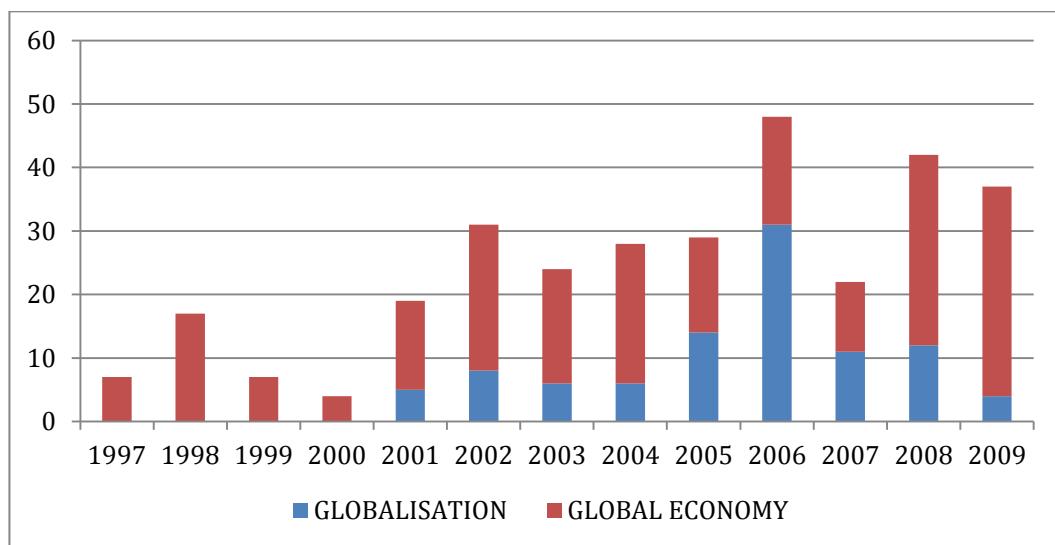
**Figure 6.6: Macrostability rhetoric (frequency) 1997-2009**



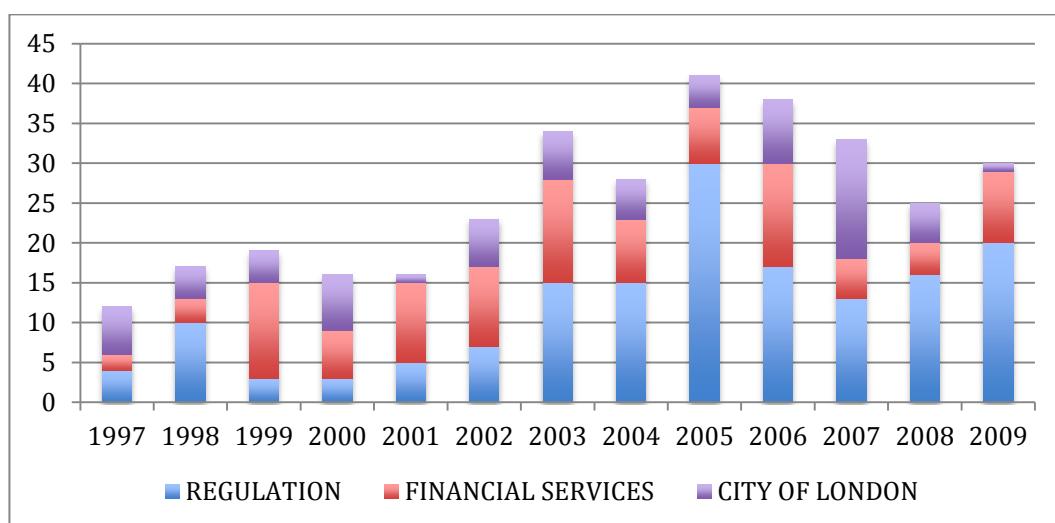
**Figure 6.7: Prudence rhetoric (frequency) 1997-2009**



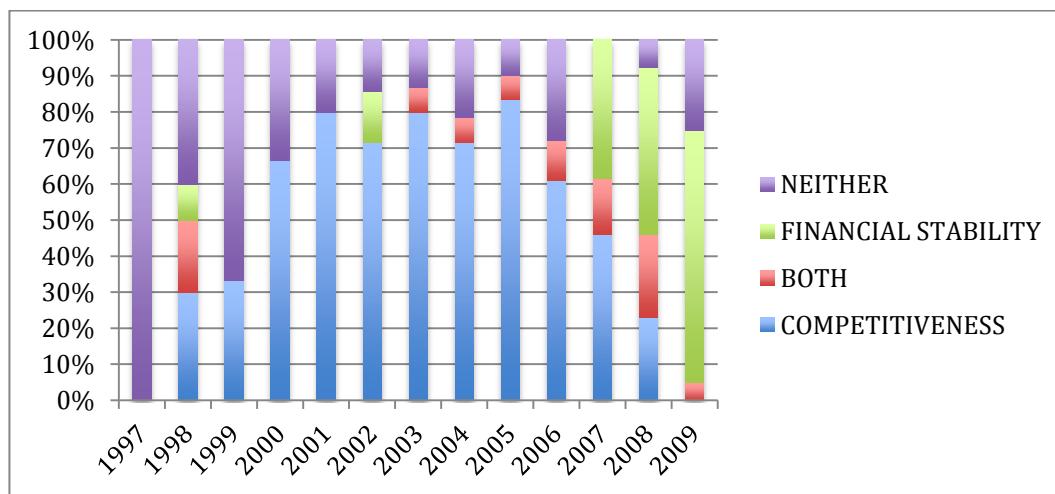
**Figure 6.8: Globalisation rhetoric (frequency) 1997-2009**



**Figure 6.9: Financial sector rhetoric (frequency) 1997-2009**



**Figure 6.10: Subcategories of financial sector rhetoric, 1997-2009**



immediately apparent that 2008 saw a resurgence of stability rhetoric (Fig 6.6), which appears twice as frequently in 2008 as in 2007. That is, even as the economy destabilised and uncertainty increased, the language of stability became a larger not a smaller feature of the government's narrative. This finding appears strongly consistent with the patterns outlined in the previous two chapters, where increased uncertainty about the external conditions led to narrative reinforcement, focused particularly on stability. That is, the deteriorating economic conditions in 2008 appear to have provoked the familiar defensive reaction in the government's narrative. External validity challenges in 2008 prompted rhetorical continuity, not change, in this theme.

Other parts of the narrative displayed more change in 2008 and 2009. References to prudence were very few in 2008 and absent altogether in 2009, perhaps reflecting the handover from Gordon Brown to Alistair Darling. However references to the fiscal rules continued into 2008 before vanishing in 2009, suggesting a critical break between those two years. In the globalisation theme, coded rhetoric increases in frequency in the crisis period, appearing more often than in any year except 2006, which was the apotheosis of Gordon Brown's "evangelists for globalisation" period. Noticeably however, the emphasis is on the global economy rather than globalisation *per se*, suggesting a qualitative shift in the way this theme was being invoked that requires more careful unpacking in order to determine whether this high frequency count represents narrative continuity or change. Finally, the financial sector narrative theme sees a slight drop in rhetorical activity in 2008, before increasing again in 2009. Given the onset of a global banking crisis in late 2008 this is perhaps not surprising. It is noteworthy, however, that within this theme there is a shift toward regulatory keywords, which become a greater proportion of the total language around the financial sector. And indeed the nature of that regulatory language changes. Figure 6.10 shows that whereas the principal focus of regulatory rhetoric before the crisis had been on financial sector competitiveness, from 2007, through 2008 and especially in 2009, there is a new emphasis on the relationship between

regulation and financial stability. This finding points to an important policy and perhaps ideational change in respect of the banking sector.

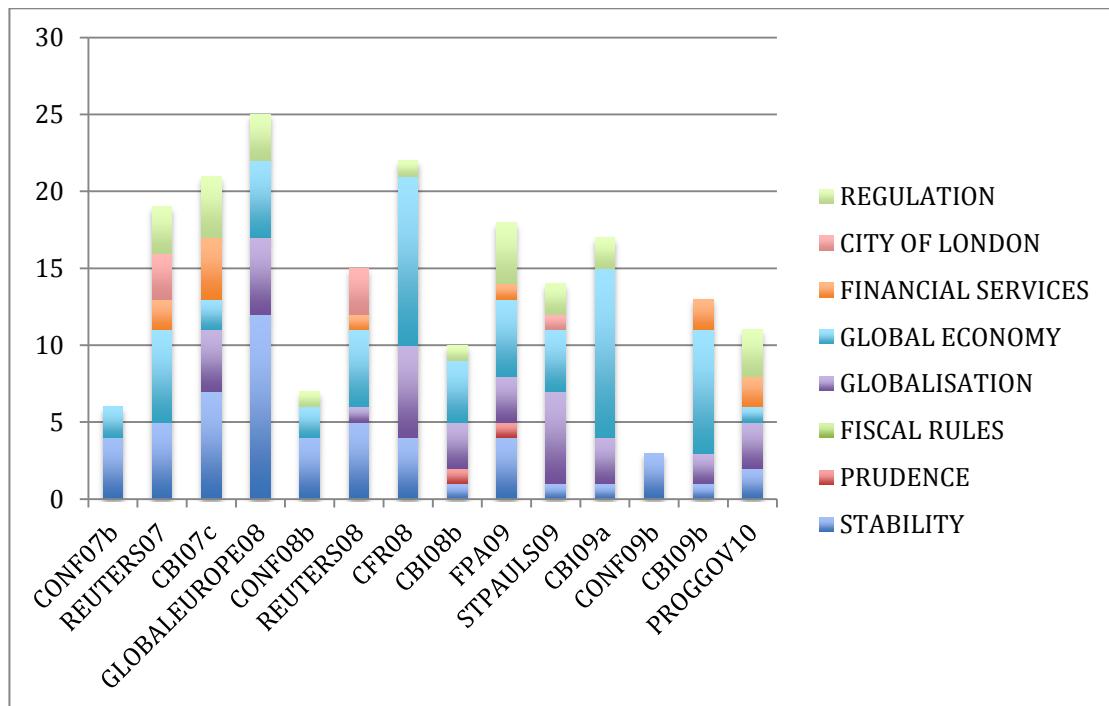
To summarise: the stability theme shows the strongest evidence of rhetorical continuity into 2008, before a change in 2009. The globalisation theme also appears to show some headline continuity but perhaps with a change of emphasis in the underlying language. The prudence theme appears to fall apart, or be abandoned, after the change of Chancellor. The financial sector theme shows the strongest evidence of change, with a significant alteration in the content of rhetoric in that area.

Of course, to the extent that rhetorical change can be observed, it might be accounted for not by responsiveness to the changing economic conditions, but simply by the transition from Brown to Darling as Chancellor in 2007, which happens to have coincided with the onset of crisis. Since the longitudinal content analysis is based on a set of speeches by the Chancellor, these were delivered by Brown until mid-2007 and by Darling thereafter. It is therefore necessary to take observations from the crisis period that include Gordon Brown, and to compare Brown's language with Darling to see what, if any, differences may be observed. Figures 6.11 and 6.12 therefore code for the four themes using our crisis corpus, presenting Brown and Darling's frequency counts separately. This is the same corpus of 28 speeches used in the 'crisis names' coding exercise, having been constructed to focus on a shorter period of time and, in particular, to facilitate a comparison between the two key speakers in the period 2007-2010. By coding these speeches for the four themes already identified as present in Labour's pre-crisis narrative, we can examine the extent to which Brown and Darling stuck to the same rhetoric after the crisis, and so determine whether there were important differences in the ways these two speakers narrated the crisis.<sup>14</sup>

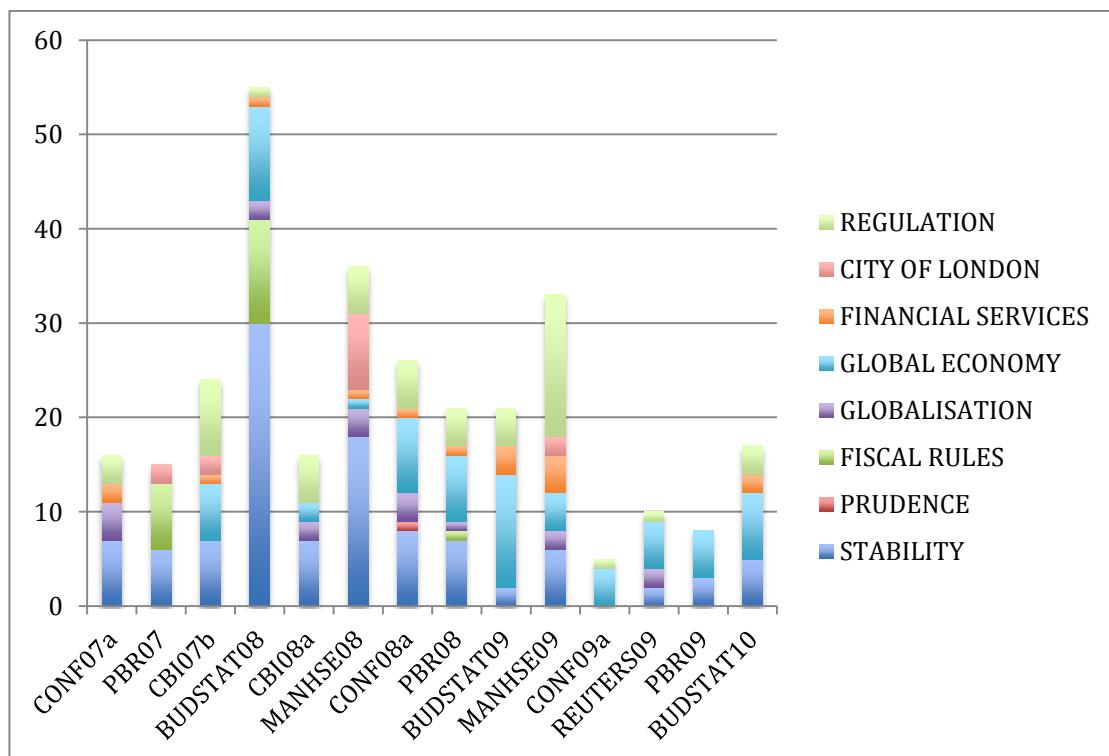
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<sup>14</sup> See Chapter M1 for a further discussion of the methodological implications of the leadership transition in 2007.

**Figure 6.11: Thematic rhetoric in Gordon Brown speeches, crisis corpus**



**Figure 6.12: Thematic rhetoric in Alistair Darling speeches, crisis corpus**



This new coding exercise reveals several things about the evolution of Labour's narrative, and perhaps their thinking, through the crisis period. First, it appears that both Brown and Darling reverted to the stability theme as a response to uncertainty in 2008, but that this tendency was, perhaps surprisingly, a particularly marked feature of Alistair Darling's speeches in that period. Most prominently, the Budget statement in March 2008 and the Chancellor's Mansion House speech in June 2008 each made liberal use of familiar language, restating the importance of stability and the government's track record in achieving it through the monetary and fiscal policy frameworks. That is, the stability narrative does not appear to have belonged only to Gordon Brown but to be a more integral part of Labour's economic story across the leadership change and well into 2008. In 2009, however, both narrators move away from the stability narrative somewhat, but it remains a larger proportion of Brown's coded language after that point than of Darling's, suggesting a differential degree of attachment to that language after the September 2008 turning point. Once again this finding will be picked up more thoroughly in the qualitative account.

The more marked difference between the two speakers can be observed in relation to the globalisation theme. Brown's crisis rhetoric makes quite frequent reference to globalisation, particularly from late-2008 and into 2009. One-off keynote speeches such as his address to the Foreign Press Association in January 2008, and at St Paul's Cathedral in March 2009, lean particularly heavily on this rhetoric. Darling, by contrast, speaks very little about globalisation but refers frequently to the global economy. That is, to the extent that the 'embracing globalisation' narrative persisted into the crisis period it was mostly via Brown, with Darling's global economy talk representing change rather than continuity. We already know that in this period Darling's preferred descriptor for the crisis was "recession", while Brown preferred to use the more nebulous "crisis". Taken together with the divergence in their recourse to globalisation, this suggests a fundamental divergence between the two narrators in late 2008 and 2009.

We have seen that there was an increase in rhetoric in the financial markets theme in 2009, driven particularly by an increase in regulatory language. Furthermore, this regulatory language is shown to be qualitatively different than in the pre-crisis period, with the emphasis moving from financial sector competitiveness to financial stability. Coding for this theme in the crisis speech corpus reveals that this narrative change was almost entirely driven by Alistair Darling, not Gordon Brown. Darling spoke far more about regulation than Brown, particularly in his 2009 Mansion House speech, which contained a fairly long discussion of the need for global regulatory supervision of finance. Brown mostly avoided the topic, and where he did speak about regulation it was mostly in ways that affirmed previous positions rather than repudiating them. In particular, Brown continued to defend the British model of regulation as basically sound, and to locate any “regulatory deficit” at the international level (FPA09). That is, Brown’s crisis rhetoric embodies a degree of narrative continuity on financial regulation, whereas Darling’s displays some change, promising domestic, as well as international regulatory improvements.

### ***Internal and external validity tradeoffs, 2007-2010***

What we appear to find, based on content analysis of Labour’s rhetoric in the period 2007-10, is the existence of two distinct narrative phases, before and after the banking meltdown of September 2008. For simplicity, these can be labeled as early crisis and late crisis periods. In the early crisis period, we continue to see a high degree of narrative continuity, with familiar themes being mobilised in response to growing uncertainty. As before, greater economic uncertainty appears to have generated renewed political and narrative certitude, particularly around the theme of stability. In the late crisis period, rhetorical shifts appear that seem to indicate the narrative has been forced to bow to events in some important respects. That is, the banking meltdown of September 2008 finally provided an external validity challenge large enough to cut through

the tendency to narrative reinforcement that had characterised Labour's approach until then.

These are, however, only headline findings based on the presence or absence of certain language. It is not possible to use content analysis to grasp subtler evolutions in the meaning and significance of headline themes, or their connection to ideational change. For example, it is not possible to tell from content analysis alone why the rhetorical turning point in September 2008 came about. Was it because events had finally persuaded the government that this was a crisis? Or had they believed in the existence for some time but remained circumspect about saying so? For questions of this nature, qualitative-historical analysis is required. Chapter 7 therefore picks up the historical account begun in chapters 4 and 5, tracing the evolution of internal and external validity through the period 2007-10.

## 7: Crisis, Part II

### **Narrative continuity and policy change in the financial crisis, 2007-2010**

Content analysis of crisis-naming rhetoric indicated that there were two distinct periods, before and after September 2008. The qualitative account put forward in this chapter largely confirms this finding, and further shows that in the period up to mid-2008, despite mounting challenges to the external validity of the narrative, very little rhetorical and ideational change was evident. During this time, the now-familiar tendency to narrative reinforcement was not only present, but had become a real constraint on policymaking. The early-crisis period provides particularly strong evidence for the power of narrative and ideas to exert independent causal power, solidifying over time to become self-reinforcing mechanisms for the maintenance of the status quo. The stability and globalisation themes were particularly resilient during this time. Into 2008, as the economy turned downwards, there was also a short-lived attempt to interpret the crisis in terms of British resilience, by arguing that the UK's open, flexible economy and credible policy frameworks would make it well placed to weather the storm. This too represented a form of narrative continuity, retooling pre-crisis logics for the crisis period. By mid-2008, however, evidence of a deepening global downturn and serious problems in the banking sector was putting the narrative under extreme strain.

The turning point in September 2008 was a brief moment of narrative disarray, as both external and internal validity broke down. The immediate response to the meltdown in September 2008 was characterised by narrative dissonance as the government tried to adapt a new story for new times without invalidating the prior story. After this point, the scale of the external validity challenge posed by the banking crisis did provoke quite considerable policy change, and some significant narrative change, as the content analysis had

indicated. But, as we shall see, there was also a surprising degree of narrative resilience into this late-crisis period. The final breakdown of internal validity came about in 2009-10, not only – or even primarily – because the crisis had finally led to ideational change, but because of a divergence between Brown and Darling that reflected their differential investment in the pre-crisis story.

### ***Late 2007: Northern Rock as a test of Labour's economic philosophy***

We have seen that in the period to 2007, the government's usual response to events that put their economic story under pressure was to recommit to their four narrative themes. That is, they typically responded to external validity challenges by prioritising internal narrative validity, repeating core ideas, revisiting familiar rhetoric and reassuring the public and the markets that they would not change course in the face of economic turbulence. The 2007-08 period saw the same pattern repeated again, this time in response to the early tremors of a banking crisis, most significantly the failure of Northern Rock.

Formed out of a series of mergers of building societies, Northern Rock was a medium sized, publicly traded retail bank and an important presence in the British mortgage market. By 2006 it claimed to be the UK's fifth largest mortgage lender, with over £100 billion in assets (Ridley, 2006). Pursuing an aggressive strategy of "capital efficiency" (i.e. leverage) to support growth in its lending book, it was particularly well known for offering mortgage loans for up to 125 per cent of the value of a home. Problems at Northern Rock first came to public attention on 13<sup>th</sup> and 14<sup>th</sup> September 2007, when BBC correspondent Robert Peston broke the news that it had approached the Bank of England for emergency funding. Like many financial institutions at the time, Northern Rock relied heavily on overnight funding via the 'repo' markets for its immediate cash flow. The bank's mortgage business was highly geared, based on a business model that assumed a buoyant housing market and the ready availability of relatively cheap liquidity, both of which had indeed been present throughout the

early-2000s. By 2007 however, emergent losses in the US sub-prime market had begun to change that benign operating context, and the quality of Northern Rock's own asset book was beginning to be affected by rising arrears rates, suggesting that bad mortgage loans might not be a purely American problem. By mid-September, unable to raise short-term finance in the markets, Northern Rock turned to the Bank of England for an emergency loan. When news of that approach leaked it prompted Britain's first bank run in 150 years, as depositors queued outside branches to withdraw their savings.

A straightforwardly political reading of the problem might have favoured a quick bailout for Northern Rock: the future of the bank would directly impact constituents in Labour's traditional heartlands, and local MPs were quick to mobilise in support of government assistance for the only retail bank still based in the north east of England (Carlin, 2007). Northern Rock operated out of headquarters in Newcastle and acting as the principal sponsor of Newcastle United football club. Many of its shareholders were also based in the region, being former depositors who had acquired shares when the then-building society demutualised in 1997. It was thus symbolically and materially important in the Labour Party's traditional heartlands, and its collapse would have been highly damaging to the government even without spillover effects on public confidence.

Yet the government was deeply reluctant to take the bank into public ownership, to the extent that they spent the last months of 2007 desperately seeking a private investor to effect a rescue instead:

“there was this whole awkward phase in which the then Prime Minister was desperate to find someone to buy it... [but] it became rapidly clear that you were only ever going to do a deal like that, if at all, on incredibly disadvantageous terms.”  
(Interview A)

“we spent months dealing with Branson, and Flowers... who offered us ludicrous deals... and we would all kind of look at each other and think, what are we wasting our time on this for?

It was a small bank, we just needed to get on and nationalise it.”

(Interview F)

Only when these private deals had proved so monumentally unfavourable to the taxpayer as to be ruled out, could a government bail-in be considered.

Why then did a government-led rescue not materialise more quickly? What is striking about the Northern Rock episode is not simply that the government was reluctant to go for nationalisation, but the sheer length of time it took them to come around: almost five months in total. Institutional inertia might offer one plausible explanation for the delay, and indeed it has been suggested that the slowness of the government response reflected a lack of institutional capacity, particularly in the Treasury, to respond to banking failures (National Audit Office, 2009; Public Accounts Committee, 2009). Officials who were present at the time acknowledge that few people in the Treasury staff had ever witnessed a bank failure, and that there was a lack of institutional memory to draw on in designing the response:

“the number of individuals in the Treasury who dealt with a failed bank... probably one or two tops, if any. So, you've got to remember you're building capability.” (Interview G)

“Northern Rock forced us, as an institution, to confront the fact that we had visibly failed; to confront the fact that we were demonstrably short of expertise in a very important area”

(Interview A)

Legal barriers can also be added to these capacity constraints, since the government initially lacked a legal basis on which to nationalise Northern Rock, taking powers in the Banking (Special Provisions) Act 2008 that would allow nationalisation to be enacted via secondary legislation. Once in place, that legislation made it possible for subsequent actions, including the partial nationalisation of Bradford and Bingley building society in September 2008, to proceed more rapidly:

“our resolution regime was inadequate and our deposit protection regime was inadequate. So, that whole five months... should never have happened, basically it should have been resolved over a weekend and we subsequently had the technology to do that... the resolution of Bradford and Bingley... was an absolutely brilliant, clinical, over the weekend operation, which is how we should have dealt with Northern Rock had we been on the ball and had we had the tools.” (Interview A)

It seems clear, therefore, that the Northern Rock response had been constrained by the process of designing a suitable legislative instrument, and that the slowness of the government’s response was partly caused by the need to improve Treasury capacity and to retool legal frameworks.

However, accounts that treat institutional factors as the main brake on government action offer only a partial explanation for the Labour government’s gradual inching toward nationalisation for Northern Rock. Such explanations focus primarily on the operation of government and its capacity to implement policy, rather than the decision-making that sets the policy in the first place. This political dimension is explicitly off-limits for certain commentators: the NAO, in particular, is barred from critiquing government policy and may only comment on the effectiveness of its implementation. As such they will tend to emphasise administrative barriers to action over political ones. For political economy purposes, this will not do, since there remains the prior question of what the institutions of government were being asked to deliver, and why.

If we examine the coordinative processes leading up to the Northern Rock rescue, we see that while institutional constraints were present, the long lead-up to nationalisation reflects more than simple institutional inertia. The evidence does not suggest that ministers were ahead of their departments on this matter, nor that institutional conservatism was blocking the preferred political solution, but rather that the barriers to action on Northern Rock were rooted in ideational and narrative constraints on the government’s willingness to

nationalise. One senior official recalls that the Treasury was prepared to recommend nationalisation for Northern Rock quite early on, but ministers were deeply worried about the politics of a Labour administration pursuing that course:

“If you look at Northern Rock, I mean we all knew straight away you had to nationalise Northern Rock, right? But Alistair, and Gordon, were absolutely paranoid that they wouldn’t do it. Because they said Labour can’t be nationalising banks... they were saying well ok, that’s an easy solution for you, but it’s politically costly for us, so go off and explore other options. Therefore we went off and explored other options. [Then we’d] come back and say well none of them work, so let’s nationalise. And that’s what we did.” (Interview F)

“[Brown] was terrified of having to nationalise. Because he felt that... people would think somehow that this was a dangerous left-wing thing to do” (Interview A)

“What was extraordinary was the difficulty we had in getting agreement that Northern Rock should be nationalised. It was clear to [senior official] and myself pretty much from October, that this was going to happen. I think Alistair Darling really knew deep down probably from November but there were just big obstacles and this comes back to how some narratives can get in the way. The whole point of New Labour was that it didn’t believe in nationalisation” (Interview B)

Thus it was not until February of 2008, some five months after the bank run, that Brown “accepted with an incredibly heavy heart the reality of the choice the Treasury presented me with” (Brown, 2010a: 29), and nationalisation went ahead.

If it was not institutional reticence that delayed Northern Rock's nationalisation, might it have been simply a presentational problem: fear of performing a u-turn? Alistair Darling was apparently wary of the appearance of nationalisation, believing that even if it might be the functionally right policy option, it was one the public was not yet ready to accept. If nationalisation were to be successfully explained to voters, a softly-softly approach would be necessary to pave the way for the ideational shift it implied. However, the problem ran deeper than that: nationalization did not only contradict the government's story but its most important ideas. Gordon Brown acknowledges in his 2010 account of the crisis that in late-2007 the nationalisation of a bank remained firmly in the "unthinkable" column:

"I was against nationalisation... and at that stage I would not let it be considered. I favoured a private-sector buyout... Tony Blair and I had spent twenty years building New Labour on the foundation of market competition, private enterprise, and economic stability as the path to growth and I was not prepared to undermine that painstaking work with one decision" (Brown, 2010a: 23).

One official interviewed was clear that government's wariness of nationalisation was not simply about the optics of the government owning a bank, but was rooted in quite fundamental concerns about the proper role of government:

"I don't think it's [just] symbolism, I actually think when you step back and think, when you nationalise an institution, you are effectively appropriating somebody else's property." (Interview G)

Northern Rock's failure had effectively presented New Labour with a test of their core beliefs: was it worse to let the markets wipe out a private bank and its shareholders and depositors, or to have the state appropriate the assets of the bank and so partly protect their value? Deliberating that choice took five months.

Even once nationalisation was agreed upon, the rhetorical presentation of the Northern Rock rescue is further revealing of the ideational conflicts it had triggered for Labour. As Patrick Diamond has noted, “Labour ministers were continually reluctant to couch their approach in terms of state intervention” (Diamond 2013: 97), to the extent that the word “nationalisation” was initially avoided. For example, Alistair Darling’s January 2008 statement to Parliament (HM Treasury, 2008a) raised the possibility of nationalisation for the first time, but in mostly veiled terms: the Chancellor made six references to a period of “temporary public ownership” of the bank, and used the dreaded n-word only once. Despite being now persuaded of the merits of a public sector solution to Northern Rock’s problems, there was considerable reticence about making a positive case for government ownership, and the government’s discursive presentation of the policy attempted to soften the impact of nationalisation by couching policy change in terms that minimised the threat posed by government to the private sector. In the presentation of the bailout, “the key word is temporary” (Interview G); public sector ownership would be explicitly time-limited and should be seen as driven by necessity, not ideology. Darling was at pains to reiterate that “a private sector solution for Northern Rock is the preferable route” (HM Treasury, 2008a) and that only once all other alternatives had been ruled out would nationalisation be on the table.

The potential threat posed by Northern Rock’s rescue was thus neutralised by its confinement within familiar rhetorical boundaries. There would be no recanting of New Labour’s faith in the merits of private business and shareholder rights, and while the nationalisation of a bank might be unprecedented, the language in which it was expressed made clear that it should not be taken to signal any deeper re-evaluation of the relationship between government and market.

“The policy decision was not ‘government should own a bank’.

The policy decision was: the consequences of not intervening in this bank are so systemic and so profound, that government is

going to take a temporary step to deal with those." (Interview G)

Indeed a major concern, following nationalisation, was that the public stake in Northern Rock should not disrupt the otherwise smooth functioning of market competition:

"One of the things we did worry about in the first half of 2008 was getting Northern Rock off the top of the Best Buy tables because it was unfair competition in some ways." (ibid.)

Even as the banking crisis gathered pace, such was the government's instinctive disapproval of public ownership that they were keen to ensure a publicly owned bank not be competitive, lest it undermine the real market players.

In practice, the nationalisation of Northern Rock did not prove as politically explosive for Labour as they had feared:

"They realised that the world didn't cave in when a Labour government nationalised a bank. That actually people thought that was sensible" (Interview F)

"this taboo moment had passed off without a great political downside." (Interview A)

Yet the protracted agonies Labour had gone through to arrive at this point provide clear evidence of the extent to which an existing idea-set, and an established narrative, can constrain policy. Labour initially resisted making a decision that would cut across their long-held belief in the primacy of private ownership and the efficiency of markets; once that finally became unsustainable, they made the change reluctantly and as unobtrusively as possible. Material interests (of Northern Rock depositors, and of the wider financial system) may have forced their hand, but ideas and discourse had mounted a formidable rearguard against the intrusion of these material problems, and sought to close around them again as quickly as possible. As one senior official put it:

“obviously in the end, we did do it. The world didn't fall in and it wasn't a particularly big deal, but it comes back to how the longer you've got a story, the more difficult it is to do something which cuts across it.” (Interview B)

The five months of resistance to policy change we observe in the Northern Rock episode cannot be explained in terms of material interests, nor were they straightforwardly consistent with theories of institutional inertia. Rather, the slow walk to nationalisation is strongly indicative of the potential for narratives to outlive the conditions in which they were conceived, and so to constrain their narrators' ability to adapt to change.

### ***Budget 2008: narrative reinforcement again***

Having broken through their initial reservations to nationalise Northern Rock, would Labour now take a different view of the state of the economy, and of government's proper role in managing it? Officials involved at the time report that in early 2008, the Treasury still hoped Northern Rock's failure would prove to be a singular blip:

“at the time, the economy appeared to be still growing. [Northern Rock] appeared to be, if not an isolated event... it looked like a wake-up call... it certainly wasn't obvious that the whole...that the financial situation would deteriorate as rapidly as it did through 2008.” (Interview B)

That being the case, the rhetorical stance taken by both Brown and Darling was to continue projecting confidence and treat Northern Rock like every other challenge to date: as a test that had been passed without disruption to the overall framework.

“the government was keen to try and convey a sense that it had a grip. That this thing was a one-off. You know, 'keep calm' kind of thing.” (Interview A)

In early 2008, while Northern Rock was felt to have exposed some weaknesses in the regulatory system for banking, these were not yet thought to have systemic implications, and there is little evidence of the government experiencing doubts about the overall robustness of their economic policies. Rather, the evidence of early 2008 is that after another fairly serious external validity challenge, the government once again took refuge in internal narrative validity, mobilising familiar rhetoric in an attempt to discursively reconstruct the stability that had been threatened by the events of late-2007.

This tendency was most clearly evident in the 2008 Budget, which was the first under Alistair Darling. The Budget statement was delivered on 12 March 2008 in a context of heightened uncertainty about the prospects for the British economy, with the Institute for Fiscal Studies pronouncing the economic outlook “worse than it has been for some time” (2008: 2). Most commentators continued to project a slowdown though not a recession, and the scale of the expected hit on growth was disputed; that is, there was clearly a growing external challenge to the validity of the narrative, but the size of that challenge remained uncertain. The government’s response to the uncertain outlook was again characteristic of the narrative reinforcement phase, drawing very clearly on the stability and globalisation themes already developed and using those themes as a basis for the government’s interpretation of the economic data.

At the time of the Budget, the Treasury still anticipated growth in the British economy in 2008, but had cut its estimate from 2.75% to 2%. The medium term forecast predicted a return to 2.5% growth in 2009, rising to 2.75% in 2010, reflecting an official view that the impact on Britain of a global slowdown in 2008 should be moderate, and short-lived. Driven by this rather optimistic growth projection, fiscal forecasts were similarly predicting only a short-run problem, expecting that the fiscal deficit would increase slightly in 2008-09 and reduce

thereafter as growth recovered. The Treasury was aware their forecasts were somewhat more positive than those of influential commentators including the IFS, so Darling chose to justify this relative optimism by reference to relatively strong UK growth in the previous year when, “despite the slowdown in the world economy, in 2007 the British economy grew by 3 per cent – the fastest growth of any major economy”. The statement went on to emphasise that “while other countries have suffered recessions, the British economy has now been growing continuously for over a decade – the longest period of sustained growth in our history” (BUD08). So while 2008 was expected to be a difficult year, Britain was presumed to be in better shape than its major competitors, able to ride out any turbulence. The counterargument – that Britain’s rapid growth in 2007 might indicate a bubble market, or a more pronounced economic cycle than other nations – does not appear to have been contemplated; as ever, more growth was presumed to equal more stability.

Inflation was causing some concern in early 2008. There had already been an inflationary moment in 2006, with Gordon Brown reporting at his final budget in 2007 that outturn inflation for the previous year had been 2.8%, above target and above the forecast rate of 2%. The 2007 outturn, now reported by Darling in Budget 2008, was back on target, but price rises in global commodity markets were now expected to push domestic inflation up again, with the 2008 budget forecast being increased to 2.5%. Darling’s response in the Budget statement was to acknowledge this upside risk while emphasising its manageability within the New Labour macroeconomic framework:

“The reforms we have made since 1997 mean we can be confident about the inflation outlook... The success of the Monetary Policy Committee and the resilience of the UK economy is clear.” (BUD08)

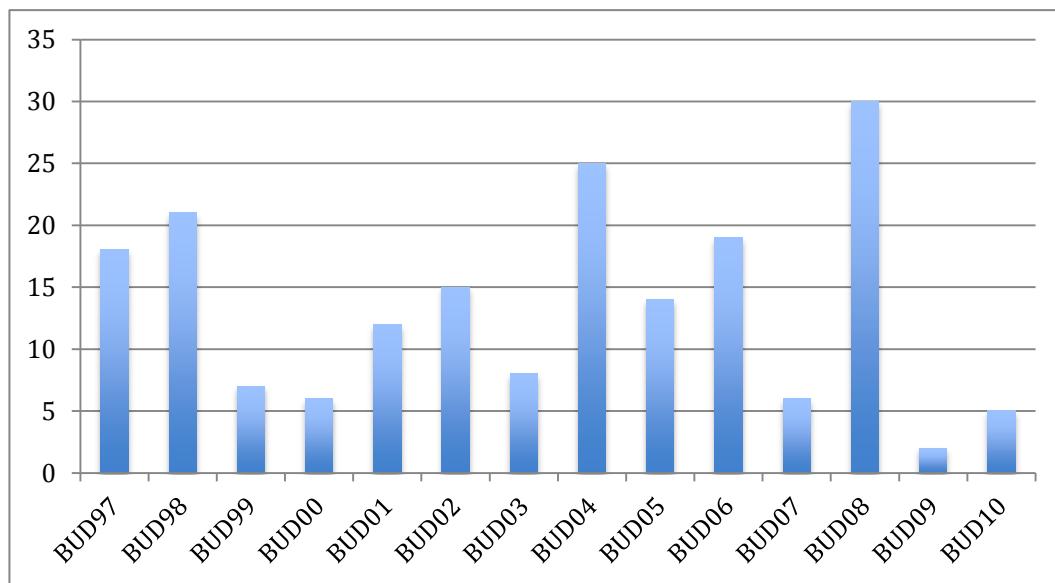
Despite Darling’s apparent confidence, it was deemed necessary to publicly renew the government’s vows with the inflation framework, reassuring the

markets that the new Chancellor would do nothing to loosen the system of inflation control put in place by his predecessor:

“To provide certainty, and to build on this foundation of stability, I am today writing to the Governor of the Bank of England to re confirm that the inflation target for the Monetary Policy Committee remains 2 per cent on a CPI basis, entrenching our commitment to low inflation.” (BUD08)

In reality Darling was required by the 1998 Bank of England Act to write an annual open letter renewing the inflation mandate of the Monetary Policy Committee. But the fact that in 2008 he chose to highlight this bit of routine business in his budget statement was a deliberate attempt to signal policy continuity, responding to inflationary spikes in global commodities markets by flagging the UK government’s ongoing commitment to low inflation. In other words, narrated stability was once again the antidote to uncertainty.

**Figure 7.1: Stability rhetoric (frequency) in Budget statements, 1997-2010**



In fact, the 2008 Budget was an exercise in narrative continuity, as the government retreated to the rhetorical safe ground by once again making stability the headline theme. The 2008 Budget statement would prove the high-water mark of the stability narrative, with no fewer than 30 references to

stability in the statement, more than in any other Budget speech (Fig. 7.1). Interestingly, the previous peak year for stability talk in the budget statement had been 2004 with 26 references. In that year, as in 2008, inflation was causing concern, with RPI going through the symbolically important 3% threshold (albeit that the official inflation measure had been changed to head off that challenge), and the Bank of England raising base rates against the backdrop of a housing boom. It seems plausible that the 2004 budget had also been responding to external problems with an amplification of stability rhetoric. Now in 2008, a moment in which the economy was arguably less stable than at any time in Labour's eleven years in power, the stability narrative was apparently finding its fullest expression.

There are also striking qualitative similarities between the 2004 and 2008 statements, suggesting that the 2008 speech had to some extent been modelled on the earlier statement. For example, compare the opening sentence in each of the two years:

“The purpose of this Budget is to lock in, for Great Britain, an economic stability that can and will endure.” (BUD04)

“Mr Deputy Speaker, the core purpose of this Budget is stability - now and in the future.” (BUD08)

In both statements, at approximately 200 words in, the Chancellor highlighted the government's record on growth:

“I can now report that Britain is enjoying its longest period of sustained economic growth for more than 200 years...the longest period of sustained growth since the beginning of the industrial revolution.” (BUD04)

“While other countries have suffered recessions, the British economy has now been growing continuously for over a decade

– the longest period of sustained growth in our history.”

(BUD08)

And in both budgets, the message was that while the world economy may turn down, Britain is was placed to weather the storm, thanks to Labour’s monetary and fiscal framework:

“In the past Britain has been first in, worst hit and last out of world recessions... in 2004, of the G20 countries, Britain and America [are] again growing fastest.” (BUD04)

“Between the early 1970s and the mid 1990s the UK was one of the least stable economies in the G7. Today we are the most stable... the reforms we have made since 1997 – independence for the Bank of England and tough fiscal rules – mean that Britain is now more resilient and better prepared to deal with future shocks.” (BUD08)

Darling’s 2008 statement was thus overtly a continuity budget, using Brownian language, restating familiar messages, and framing the emerging crisis as a piece of bad weather that Britain expected to withstand as well, if not better than most.

The reference to Britain being “resilient” in the face of shocks is particularly important. Interviews with officials confirm that there was a deliberate attempt, around this time, to regroup rhetorically by emphasising this language in particular:

“we developed a narrative, which was that Britain was well placed to weather the storm. We were resilient... we were doing ok.” (Interview B)

Variants of the word “resilience” duly appear six times in the 2008 Budget statement, and were repeated in the press notices released alongside the Budget, which insisted that “the flexibility and resilience of the UK economy provides a

solid platform from which to face the global economic shocks" (HM Treasury, 2008b). In reality this was less the development of a new narrative than the pointed continuation of the old one. Darling's rhetoric in early 2008 was a straightforward recapitulation of the language of the Brown era, and a repeat of Brown's favoured tactic of responding to unfavourable data with an explicit refusal to change course.

While stability and resilience were the primary messages, all four of our pre-crisis themes appear in the 2008 Budget statement. The prudence theme is also there, but slightly tweaked for the downturn, Darling suggesting that the government's record of fiscal restraint left a buffer for some counter-cyclical fiscal policy if needed:

"It is precisely our commitment to... discipline and stability that gives us the flexibility now to respond to the global economic challenges we face today. Given the fundamental strength of our public finances, it is right to allow fiscal policy to support monetary policy over the period ahead in helping to maintain stability in the face of the global downturn." (BUD08)

And the statement referenced the globalisation theme, acknowledging the present turbulence but placing it within a framing that was still broadly optimistic:

"throughout the world economies have benefited from the globalisation of trade and investment, which has delivered strong world growth. Here in Britain, our openness, our global reach, our history of scientific invention and creative success, make us uniquely placed to succeed in the global economy. But with the benefits of globalisation we see too how problems in one part of the world can quickly spread to another." (ibid)

So while the potential instability of the global market was acknowledged, it was still placed within a framing that saw globalisation as a net positive. There was

still no recognition that some of the “global” turbulence might originate close to home, in London’s financial sector. The usual glowing references to the financial sector were present, with Darling pledging policies to ensure “London retains its position as the world’s pre eminent international financial centre”. As ever, the answer was to remain confident and rely on Britain’s world class policy framework – particularly its anti-inflationary credentials – to steer the country through.

The 2008 budget does provide an interesting test of the relative importance of ideas and institutions in creating rhetorical continuity. Material conditions can be mostly discounted: while nobody yet anticipated the scale of the coming downturn, it was clear enough in early 2008 that this would not be a good year, for the global economy or for Britain. Uncertainty was as acute as at any time since 1997, but this were certainly not an economy that could be considered self-evidently stable. The uptick in stability language was not descriptive of the conditions but an attempt to construct them as stable. It is fairly plausible, however, that the 2008 statement might have been the product of institutional continuity within the Treasury, with officials delivering their new Chancellor a speech built on the skeleton of older statements. Interview evidence confirms that in the absence of a strong alternate vision from Darling himself, the Treasury had defaulted to Brownian rhetoric as a matter of habit:

“His first budget was a massive challenge for him, because frankly I’m not sure he’d thought through at that stage what his vision was for the British economy... [and] the Treasury has served up this narrative.” (Interview G)

The familiar language in the statement was both a pragmatic choice (old statements being an easily available resource for Treasury speechwriters) and a tactical one, because Darling had been appointed by Brown to embody continuity rather than change:

“the whole reason that Alistair Darling was given that job was because – I remember this was the rhetoric, or the sort of explanation that we put out at the time – was that we wanted stability, we wanted continuity, we wanted, in inverted commas, a “safe pair of hands” in the Treasury, and also the language that we kept on using was that the markets had got so used to the idea that you would have one Chancellor in place for a long time, that what we didn’t want was that they would go back to a short-termist view of how long a particular Chancellor would be in place...” (Interview E)

Given that background, can we give ideas any of the credit for the causing the non-change, or was it just institutions? The observed rhetorical continuity certainly implies a lack of ideational change, but the ideas may not have been in the driving seat; in this instance, the familiar rhetoric in the 2008 Budget statement might simply reflect the conservatism of officials for whom cut-and-paste speechwriting was less risky than asking ministers to sign off new and untried formulations. If Darling did not push back against the Treasury’s default language, this might be taken to indicate an absence of ideas on his part.

Another reading is that by this stage in the game, ideas and institutions were not easily separable. The use of familiar rhetoric by a new Chancellor reflected the institutionalisation of the narrative itself, and the internalisation of Brown’s core ideas by a Treasury that remained wedded to them even after he had left the building. By this point, Brown’s economic ideas were themselves an institution, structuring the operating environment for his successor and providing the Treasury with its default positions. After the budget, however, the spring and summer of 2008 did see the beginnings of a divergence between Gordon Brown and Alistair Darling’s economic narratives, in a way that strongly points to the independent causal importance of ideas, and prior narrative, in conditioning political choices during a crisis.

### ***Mid-2008: the reinforcement phase breaks down***

As 2008 progressed Gordon Brown was, increasingly, prepared to acknowledge the growing sense of strain in the global economy, but this did imply any change in the overall messages. A speech to the Institute of Directors in April 2008 (IoD08) is a good example, containing both references to a new problem ("a credit crunch which started in the American housing market") and a very clear restatement of the old narrative themes. Most prominently, Brown reached for his globalisation rhetoric to interpret the growing crisis suggesting that "people will probably look back to say that this is the first truly global financial crisis of this new era of globalisation". As in previous speeches, Brown's major concern was that a protectionist response to market turbulence might undermine public tolerance of globalisation, and that governments should be leading their citizens to greater understanding of its benefits:

"This is a testing time for all of us who believe in an open and flexible globalisation...

... I see that there is a reaction building up: popular fears in America especially but across Europe too; people's fears that they are not in fact the winners of globalisation but losers... that even when they are benefiting from low inflation and lower interest rates and cheaper consumer goods they are instead the victims not beneficiaries...

... We have to be aggressive advocates together of free trade, openness, flexibility and an inclusive globalisation. We should start - businesses and governments together - by showing people that the rise of Asia - and the wider changes brought by globalisation – need not be a zero-sum game."

The other narrative themes were also restated in this speech, from the argument that “an internationally competitive global Britain will maintain and enhance its flexibility through deregulation and competitive taxation” to a familiar pledge of “monetary and fiscal stability first and always”. It is clear that for Brown, any sense of economic challenge had done nothing to disrupt a narrative in which policy was already doing all the right things, and the main risks to prosperity came from “an anxious workforce and an uncertain people”, not from the things they were becoming anxious about.

If Brown’s speeches to business were mainly focused on global competitiveness, the message for the British public was that they should take confidence from Labour’s record. Interviewed on live television in May 2008, after a poor set of local election results, Brown continued to pursue the ‘British resilience’ angle, saying the government was determined to “[show] people we can come through as we have in the past, very difficult economic times” (No.10 Downing Street, 2008). The message was that these were global challenges, exogenous to Britain and affecting all nations, but that the government was confident they would be overcome. However the challenges to this narrative were becoming more direct; in the same interview Brown was asked explicitly whether the building crisis was the product of policy failures by the Labour government. His response was predictably defiant:

**Interviewer:** A lot of people would say actually what’s happened over the last ten years is we’ve had a huge boom on the back of vastly inflated housing prices, and unsustainable personal borrowing, and as Chancellor you never tried to stop that happening. You went along for the ride and you didn’t warn people. And that’s what’s gone wrong now.

**Gordon Brown:** It’s quite the opposite. We’ve had low inflation over the last ten years that has given us low interest rates and high levels of growth in the economy. And it’s because we took the difficult decisions to tackle the inflation problem in the British economy, the inflation problem that was bequeathed to us by our predecessors, that we have been able to grow and create three million jobs in the British economy over these last 11 years. Now, we can have a debate about the economy. The issue at the moment of course is to come through these difficult times...

Later in the same interview, Brown was asked what he had learned about himself from this difficult week. The response: “that you’ve got to be resilient in the face of difficulties” (*ibid*). That is, the lesson was the same one Darling had expressed in the Budget two months earlier, and indeed the same conclusion Brown had been drawing from every challenge since 1997: that the right response to uncertainty was always to reject any change of course.

However there was, in this period, some work going on behind the scenes to prepare for the possibility the crisis would be worse than expected and, especially, that more banks might fail. Treasury officials responded to the Northern Rock episode by working up a “contingency plan for the possibility that actually Northern Rock was not just some random event... we’d have been completely mad not to have been thinking about [that]” (Interview A). Under Brown’s leadership, none of this could be discussed publicly, for fear of undermining public or business confidence, but this put the government in a position of seeming increasingly out of touch with reality: faced with a choice between appearing responsive to events, and projecting unwavering confidence, Labour consistently chose the latter. Alistair Darling, however, was less and less willing to hold the line, believing that perceived unrealism was becoming damaging to the government’s credibility. External validity and internal consistency – with the past narrative and between spokespeople – were increasingly pulling apart. The rupture came in August 2008, when Darling told a reporter from *the Guardian* that the economic conditions were now “arguably the worst they’ve been in 60 years. And I think it’s going to be more profound and long-lasting than people thought” (Aitkenhead, 2008). The interview provoked a furious reaction from Brown’s people, who saw the Chancellor’s intervention as reckless and a threat to confidence (see Darling, 2011: 105). The Chancellor, meanwhile, argued he was simply being realistic, and that to be otherwise would itself undermine the public’s faith in his economic judgment.

There are two possible interpretations of this episode. In one analysis, the *Guardian* interview appears to have been the point at which the fissures in Labour’s coordinative discourse emerged into their communicative discourse,

suggesting some disagreements of substance that could no longer be contained. Alternatively, it is plausible that this was only a disagreement about press strategy, not about the economy itself. The evidence from those close to the dispute is mixed. Darling's team acknowledge that the Chancellor's intervention was an abrupt break with the old stability narrative, but argue that this reflected how the Treasury's thinking had moved on through mid-2008:

“in summer 2008... it was clear we were going to go into a recession... so it was a case of trying to incrementally move away from the bullish economic narrative that we'd had. And I just don't think you could do that in a way, so it turned out that the '60 years' was the shock therapy that moved it on quicker than people expected.” (Interview G)

Similarly, Darling's own account of the episode suggests that the Prime Minister's objections to the “worst in 60 years” formulation were rooted in Brown's unwillingness to accept this new, pessimistic outlook; that is, in a disagreement of substance about the likely path of the crisis:

“[Gordon] said that the people he was speaking to were telling him the recession would be over in six months. I replied that that was not what I was hearing.” (Darling 2011: 106)

Brown's team at No.10 were, according to Darling, building their economic strategy on the basis of a short and shallow recession, whereas Darling's Treasury was, he claims, increasingly convinced that the downturn would be longer and deeper than initially presumed.

Brown's people, on the other hand, argue that Brown was perfectly seized of the problem but was concerned to protect confidence, believing that whatever the government's private assessment of the economy, it should never be caught talking Britain's prospects down:

“[Brown's position was that] “you've always got to be incredibly disciplined in what you say because you can move markets”...

[that's why] he operated his own self-denying ordinance, but also why he was quite brutal in the discipline he enforced on his ministers, about what they could and couldn't say, and whether they were even allowed to talk about the state of the economy more broadly." (Interview E)

That is, Brown allies indicate that the disagreement was mostly about presentation, though they do not go so far as saying Brown agreed with Darling and the Treasury's dismal view of the coming downturn. Gordon Brown's recent autobiography revises the account still further, suggesting that he agreed at the time that Darling was "absolutely right" about the seriousness of the slowdown, though perhaps not right to suggest it was a British rather than an international slowdown (Brown, 2017: 305)

On balance, the suggestion that the rift between Brown and Darling in summer 2008 was purely about messaging is not very plausible. Brown certainly would not have chosen to make a public comparison with the 1930s but, that having been done, he could have chosen to back his Chancellor, confirm that the Treasury was preparing for the possibility of a serious downturn, and so ensure that the government was at least presenting a united front. Instead his poorly-concealed anger at the *Guardian* interview compounded economic pessimism with cabinet division, giving the markets even more reason to be concerned. Brown's defensive reaction fits more convincingly with the account given by Darling's people, in which Brown was presented with alternative readings of the economy and chose to cling to the possibility that the more optimistic forecasts were correct. Brown and Darling were not only presenting the economy differently, they were *interpreting* it differently against a backdrop of heightened uncertainty. Moreover, the direction of their disagreement was not surprising when one considers the power of ideas: Brown, being more deeply wedded to the prior narrative than Darling, was also the most committed to finding confirmatory evidence for it, and less willing to countenance the reality of a serious problem. Put another way: Darling's adoption of pre-crisis narrative themes in his March budget appears to have been an institutionally-driven

default position, from which he was later able to detach himself. Brown's attachment to those themes was operating at the level of ideas, and was therefore much more tenacious.

The dispute between Brown and Darling in August 2008 is therefore particularly good evidence for the causal power of narrative. Both men were subject to the same electoral and financial interests; both were operating within the same institutional framework. They faced the same economic conditions and the same uncertainty. Where they differed was in their degree of investment in Labour's stability and prudence narrative. Brown had been instrumental in developing Labour's economic story over the past fifteen years; he was politically and cognitively tied to its success. Darling had inherited the narrative as something akin to an institutional structure, delivering a Budget built on Brownian rhetoric because it represented the default position, rather than out of any deep ideational commitment. Darling was therefore more likely to respond to uncertain conditions by questioning the narrative; Brown responded to it by reactivating the same rhetoric and ideas which had been his antidote to uncertainty for a decade.

It should be noted that in mid-2008 Darling had not abandoned the prior narrative in its entirety. His assessment of the coming recession was a major departure from the stability theme in which the post-1997 macroeconomic framework would forever guarantee stable non-inflationary growth. But he remained committed to the other themes, particularly on globalisation and financial services. For example, Darling's Mansion House speech in the summer of 2008 could have been written for Brown, setting out the usual paeans to globalisation as opportunity:

"The forces of globalisation are becoming ever stronger. They bring both opportunities and challenges. We must never be complacent. But we should also be confident." (MH08)

On stability, however, Darling had made a critical break with a central tenet of the established causal story. His willingness to admit that the boom might be

over was a step outside the bounds of the macroeconomic narrative, in which neither boom nor bust should have returned; it was problematic for Brown because it called into doubt Labour's account of the recent past as well as the future.

The disagreements of August 2008 represent a crucial turning point in the relationship between external and internal validity in Labour's economic narrative. Until now, external validity challenges had been absorbed into the narrative via the prioritisation of internal consistency. By holding to its habitual lines, the Labour government had always been able to wait for the external data to recover sufficiently that it could be interpreted in line with the narrative. That being the case, the very act of holding steady could then be held up as a successful policy choice. In the reinforcement phase, Labour's dogged maintenance of internal validity was believed to have been the key to seeing Britain through difficult times, maintaining confidence during periods of uncertainty and then contributing to a sense of material vindication afterwards. In this 'fake it and you make it' approach to economic uncertainty, the actual size or shape of the external validity problems had become second order questions; what was going on in the economy was somehow less important than what was going on with the government's ability to project confidence. Brown's response to the 2008 downturn was an attempt to make the same rhetorical manoeuvre yet again, but he found himself blocked from doing so because the public differences between Chancellor and Prime Minister meant that internal validity, at least in the crucial stability theme, had broken down. The reinforcement phase had reached its limit, and a new validity tradeoff would be required.

### ***September 2008: Banking crisis provides the turning point***

The breakdown of internal validity in August 2008 came about because Brown and Darling responded differently to heightened economic uncertainty. In September, that uncertainty would be drastically reduced, as a full-blown banking crisis sent markets into turmoil but finally removed any doubt that the

long boom was over. The collapse of US investment bank Lehman Brothers on 15 September 2008 is now widely considered the defining event of the financial crisis, representing both the largest banking failure of the period and the one with the greatest potential to destabilise the wider financial system. Lehman's ultimate collapse had been triggered not just by losses in its trading books but by a series of collateral calls from JP Morgan who, concerned about Lehman's liquidity, required the immediate repayment of billions of dollars. Unable to meet those demands and unable to raise private capital elsewhere, Lehman's liquidity problem became real and the bank went into administration. Uncertainty in mid-September centred on how many other banks might be similarly vulnerable; with market confidence failing and liquidity drying up, the contagion risk was enormous.

But if financial market uncertainty had reached its zenith, political uncertainty about the existence of a serious problem had finally fallen away. As one Treasury official recalled: "the whole system seized up in early October [2008] and at that point it was clear that we were just in a totally different world. That we were heading for a serious downturn, a serious increase in the deficit" (Interview B). Whereas past EV challenges could be glossed over within Labour's existing causal story, this one was undeniable: for a narrative based on economic stability, fiscal responsibility, positive globalisation and the merits of an open, self-regulated banking sector, the external validity problem posed by a global banking crisis could hardly have been more serious or self-evident. The financial market meltdown contradicted every theme in Gordon Brown's causal story, suddenly and on a dramatic scale.

The existence of a crisis was no longer a matter of debate, but it still remained to construct a causal story that could explain why the crisis was happening and what government should do about it. As we have seen, September 2008 did prove a rhetorical turning point, being the moment at which the government finally permitted itself to acknowledge the economic conditions constituted a "crisis" rather than just "turbulence" or "difficult times". On one level, this is exactly what we would expect to happen, since the external validity

problem was now large enough to be incontrovertible. Events had left the old narrative clearly exposed, making this the obvious time for a rethink. But had this finally provoked the kind of ideational change that could repair the external validity of the narrative, even if it meant further sacrificing internal validity in order to make the change? Was acknowledgement of crisis the same as acknowledgement of the invalidity of previous thinking? Was this finally a shock big enough to challenge, and change, the big ideas of the great moderation period?

As this section will show, there is evidence of rhetorical change, and indeed very significant policy change, in late-2008. Naming the crisis was the first step, and a sign that the government was finally starting to adapt. And of course, alongside these rhetorical concessions, new policies were being swiftly adopted, from measures to restrict short selling in financial markets, to a £25 billion bank recapitalisation scheme<sup>15</sup> based on direct government investment in financial institutions, and a £250bn guarantee facility to underwrite banks' medium-term debt refinancing. Each of these was a radical move that would have been considered dangerously interventionist only weeks earlier, and the speed with which they were announced put the UK out in front of the international community. Economist Paul Krugman (2008) complimented the UK government at the time for its "clarity and decisiveness" and even suggested that the UK government was proving less ideologically constrained than their American counterparts. The US Treasury, in Krugman's assessment, continued to hold fundamental beliefs about the sanctity of private enterprise that were making it "hard to face up to the need for partial government ownership of the financial sector", whereas Gordon Brown and Alistair Darling were now prepared to think, and then swiftly implement, the unthinkable. The UK government's proactivity is particularly striking when compared with the extended period of foot-dragging before the nationalisation of Northern Rock, suggesting that if the old narrative

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<sup>15</sup> £25bn was the initial estimate of how much would be needed across 8 banks – in fact £37bn was put into RBS and Lloyds/HBOS combined, just a week later

had been constraining policy in 2007, it retained no such power in 2008. Had the narrative prison finally been escaped?

I suggest it is not quite that simple. In fact, closer analysis of Brown and Darling's speeches in this period reveal a surprising degree of narrative continuity, even alongside quite radical policy change. There is evidence of an attempt to *reset* the causal story, but also of a simultaneous unwillingness to *rethink* it, leading to a bizarre situation in which the government could make policy that bore no relation to its old assumptions without ever admitting those assumptions had been wrong, much less that policy had played a part in creating the crisis. Indeed, Labour's attempts to segue into a new causal story while denying any failure in the old one, are in fact highly revealing of how tenacious economic ideas and narratives can be, even under conditions of severe shock.

The 2008 Labour Party conference took place just one week after the Lehman collapse (though before the announcement of the banking bailout package), making it the first important opportunity for Labour to narrate the crisis in set-piece speeches and to explain why policymakers were doing what they were doing. Brown's approach, in his Leader's speech to the party conference, is worth quoting at length because it illustrates how the Prime Minister was, at that moment, suspended between the competing claims of continuity and change. He said:

"Because this is a time of greater than ever change around us, it must be a time of higher ambition from us. And because the world of 2008 is now so different from the world of 1997 I want to talk about the new settlement we must build for these new times...

...The collapse of banks, the credit crunch, the trebling of oil prices, the speed of technology, and the rise of Asia - nobody now can be in any doubt that we are in a different world and it's now a global age.

In truth, we haven't seen anything this big since the industrial revolution. This last week will be studied by our children as the week the world was spun on its axis and old certainties were turned on their heads. And in these uncertain times, we must be, we will be, the rock of stability and fairness upon which people stand." (CONF08b)

On the one hand, this excerpted passage describes the economic conditions as unequivocally new. Brown's willingness to acknowledge the largest economic transformation "since the industrial revolution" was a significant departure, given his disputes with Darling just a month earlier on the "worst in 60 years" formulation. The end of the "old certainties" also hints strongly at ideational change, though Brown does not specify which certainties he means. Yet at the same time, Brown could not resist anchoring his analysis of the crisis in very familiar themes. The abrupt onset of "new times" and "different world" is attributed not just to short run changes like the banking crisis but, simultaneously, to technological change and the "rise of Asia" – that is, to the kinds of things Brown had been talking about under the heading of globalisation for many years. This rhetorical fusion of sudden crisis with longer running global transformations effectively rooted the conditions of September 2008 in the existing narrative, particularly the globalisation theme. There is therefore a kind of dissonance in Brown's language in September 2008. It is unclear whether he believes the crisis should be understood as an economic meteor strike – sudden, novel and totally exogenous – or the culmination of a set of processes that had long been understood. These are quite different causal stories, and Brown had yet to decide which he was pursuing. And in the meantime, Labour would still claim to offer a "rock of stability", as they had since 1997. The external conditions were presented as irrevocably changed, but the government was determined to embody continuity.

There is also, in Brown's conference speech, a rather brazen attempt to fit the crisis into a third-way framing that leaves Labour on the centre ground:

“just as those who supported the dogma of big government were proved wrong, so too those who argue for the dogma of unbridled free market forces have been proved wrong” (ibid.)

This rhetorical swerve at once acknowledged the failure of market liberalism while refusing to acknowledge that New Labour were ever its proponents. Both the crisis and the errors it exposed were held at arms length. The coming policy changes could then be undertaken as if Labour had always been ready and waiting to make them:

“And so it falls to this party and to this government, with its commitment both to fairness and to business, to propose and deliver what after recent events everyone should now be willing to accept - that we do all it takes to stabilise the still turbulent financial markets and then in the months ahead we rebuild the world financial system around clear principles. And friends the work begins tomorrow.” (ibid)

The focus, in this rhetoric, is relentlessly forward-looking – it reads like a speech by a new government on its first day in office. There is no analysis of how the crisis might have come about, or who was to blame for the wholesale malfunction of the financial system. There is only a government poised to help, based on its unique ability to reconcile private profit with social justice. In other words, a very large change of policy is framed as being entirely consistent with New Labour’s values and yet, somehow, nothing to do with its record.

Alistair Darling’s speech at the same party conference is equally striking as an example of rhetorical continuity around new policies. Much of the content was a straightforward restatement of familiar lines, as in the assertion that “the global economy brings not only threats but opportunities and we should be confident we can seize them”, the promise to “make sure that inflation does not become entrenched here” and the insistence that “we’ve taken the right long term decisions for our country” and that “the British economy has been a real success story in recent years” (CONF08a). But there was also a new defence of

interventionism, as in the deceptively radical statement that “we believe there is a role for government” (*ibid*). In particular, Darling signalled a new role for government in righting the financial system, including by “giving new powers to the regulators”. The Northern Rock rescue was held up as a policy success, and other interventions including the ban on short-selling and the government-brokered merger of Lloyds TSB and HBOS were also defended.

This new argument for government activism would make sense as part of an overtly new causal story in which there were new policies to be justified. But Darling went further, by suggesting that Labour had always been comfortable with interventionism and that their crisis response was therefore a continuation of existing principles, not a change. He implied this through a subtle reframing of the policy narrative that used very familiar language but reinterpreted Labour’s record in ways that are not in fact consistent with the logic of the pre-2007 causal story:

“Britain is in much better shape now than in the past to weather these global storms. Our economy is strong, we have historically low levels of inflation and high levels of employment; achievements which owe a great deal to this party’s vision and to its values. These values of fairness, of partnership, of belief in the role of government which is more important than ever after the events of the last few months.”  
(*ibid*.)

Darling’s speech tried to present Gordon Brown’s record as having been built not on the constraint and containment of government’s destabilising influence, but on the positive vision of government intervention that he was now expounding. Whereas Brown’s speech had skirted around the problem of Labour’s record in office by speaking only about the immediate present and the future, Darling’s rhetoric attempted to revise the government’s account of itself and of the previous ten years.

This revisionist history of New Labour would be further developed on 29th September in Darling's keynote Mais Lecture at City University in London (MAIS08). The Chancellor was using the lecture as an opportunity to signal another policy change, trailing the relaxation of Gordon Brown's fiscal rules in anticipation of the crisis' impact on the public finances. Clearly this was a significant policy change in its substance, given the symbolic importance of the fiscal rules to Labour's economic story until that point. The Mais lecture gave the first signs that Darling's fiscal policy would embrace a version of Keynesian demand stimulus, on the basis that "when private activity slows, it is even more important to maintain wider public spending... To increase borrowing in a downturn is sensible" (ibid). Compared with Brown's prudence rhetoric, in which fiscal purpose was always subordinate to monetary stability, this was a major reversal.

However, once again rhetoric was deployed to soften the blow. While Darling made clear that the fiscal rules would no longer constrain policy in the same way because "to apply these rules rigidly in today's changed conditions would be perverse" he insisted that a degree of flexibility had always been built in, for use in exceptional circumstances. This would have come as news to anyone familiar with Gordon Brown's repeated insistences that there would be no relaxation of fiscal prudence, but nonetheless that was now the chosen framing. Darling made the case that "constrained discretion... means combining credibility with flexibility", and that the fiscal framework had always been designed to operate that way. On a technicality, this is true: the Balls and O'Donnell book had indeed left room for the theoretical possibility that a government which had established its credentials as fiscally prudent would have some room for manoeuvre in an emergency (2002: 37). But to highlight this point now promoted a theoretical footnote to the status of a philosophy. The original causal story had always had a totally different emphasis, and its exposition of the concept of constrained discretion had always placed the emphasis very strongly on constraint. Darling sought to switch the emphasis to discretion, and so present a large policy change

as if it were continuity. Darling even suggested that counter-cyclical spending has always been the government's policy – the purpose in the prudence:

"Because we acted to cut debt and live within our means, we were allowed the flexibility to support the economy. This is how extra borrowing cushioned past slowdowns – in 2000 when the internet bubble burst and in 2005 when the housing market slowed." (MAIS08)

This is again a rewriting of history: Brown's justification for extra borrowing had always been that investment in public services was justifiable so long as macrostability had been achieved. Fiscal stimulus in the absence of stability was never on the table. Darling was aware, of course, that he was embarking on a new trajectory: his Mais lecture made pointed use of the famous Keynes aphorism about changing one's mind when the facts change. Yet even this change of direction had, it seems, to be couched in terms of the old rhetoric. This was a new causal story attempting to disguise itself as an old one.

What both Brown and Darling displayed, at this point, was a vestigial concern to protect the internal validity of the old causal story, even as both the external circumstances and, indeed, their own policies, presented it with overt challenges. Brown did so by attempting to straddle continuity and change in his rhetoric, insisting that there had been a fundamental rupture in the economic conditions that meant the world was now at a rhetorical day zero, but then locating the rupture itself in his long-standing globalisation story. The past was another country; all that mattered now was the new global era. Darling, on the other hand, attempted to connect changing policy with past ideas, but he did so by rewriting the old causal story to suggest that the crisis response could be read as continuity (albeit in heightened circumstances) rather than change.

One obvious reading of the confused rhetoric in September and October 2008 is that Brown and Darling were simply experimenting with different kinds of blame-shifting. It is plausible that the events of the banking crisis had wrought some ideational change, and that the government now realised certain pre-crisis

ideas had failed, but could not admit it publicly for political reasons. The Brown approach was therefore simply to avoid the question of why the crisis had happened, to ignore the obvious return of boom and bust, and focus attention instead on a globalisation story that allowed the crisis to be seen as exogenous – to Britain, to his policy framework, and to the pre-crisis story. Radical policy could therefore be justified on the basis that the post-Lehman economy existed on an entirely different planet to pre-crisis Britain. Just as he had previously adjusted his estimate of the economic cycle to accommodate the narrative, Brown's response to crisis was to reset the narrative to a new day zero, erasing external validity challenges by putting them outside the timeline for his new causal story.

Darling, on the other hand, did not entirely ignore the past but sought to draw a veil over the failure of the old paradigm. In Darling's account, the necessity of policy change did not prove that the old policy had been wrong; rather he insisted these new approaches were provided for, and permissible within, the old policy framework. In Darling's rhetoric, therefore, some considerable effort was made to defend the New Labour record even as key parts of it were being abandoned. Was this simply a rhetorical fig-leaf for a government confronting its own mistakes? Or was it a more substantive kind of ideational hangover? In fact, the next section will show that into 2009, there is little evidence of Labour (and especially Gordon Brown) having come to terms with the failure of the old paradigm even privately; instead they remained profoundly blocked from being able to understand the nature of the problem. The resilient ideas of New Labour's great moderation had some distance yet to run.

### ***2009-10: Narrative fragmentation***

Early 2008 had seen the continuation of narrative retrenchment, with the promise of Britain's "resilience" through tough times as a variation on familiar themes. September and October had been a period of narrative disruption, as both Brown and Darling reacted to the banking crisis with an uneasy combination of continuity and change that left both internal and external validity in disarray. As 2009

approached, it was becoming clear that the old lines were not going to work. As one official recalled:

“[It] became clear through early 2009 that no, it wasn't going to be the case that Britain was going to be resilient. The fact is, we had a bigger financial sector and we were going to suffer the consequences.” (Interview B)

As such, from 2009 to the end of the Labour government in May 2010 both Brown and Darling adopted new stories that did move the narrative away from pre-crisis themes in certain respects. However they did so quite differently from one another. Brown's account of the crisis was an extension of his existing narrative of globalisation. This meant confronting the great tension in his third way economics: the ultimate compatibility of social justice and market freedom. Brown's determination to reconcile these things in his 2009 and 2010 rhetoric represents a last-ditch attempt to make the ideational challenge of the crisis fit a larger story that would leave New Labour's political economy intact. By contrast, Alistair Darling's crisis narrative was simpler and less intellectually tortured, advancing a narrower causal story about the value of government activism in response to economic cycles. Its simplicity was made possible by the abandonment of any pretence at consistency with pre-crash narratives, directly addressing the return of boom and bust and, in the process, letting the old story go.

Brown's post-crash story, which he evolved shortly after Lehman and stuck to closely thereafter, was that this was the “first financial crisis of the global age” (CFR08), and that the difficulties it presented should not be allowed to undermine the long-term benefits of open, free trading economies. This logic was continually expounded in Brown's post-crisis rhetoric, with his November 2008 speech to the Council of Foreign Relations in New York providing a particularly full example. In that address, Brown told his audience that he continued to be “positive about an open, free market, inclusive and sustainable globalisation”, and that the problems currently confronting the advanced economies were “problems that were going

to have to be solved anyway. But problems [that] if solved, can point to an opportunity-rich future". All the events of the crisis, including governments' proactive policy response could, and in Brown's argument should, be folded into a larger story about the teleology of globalisation:

"What I see us doing at the moment, and perhaps it is giving a longer term perspective to the present troubles we face, is that we have got the birth pangs of this new global order. We are having to deal with the problems of them. We are in the transition to what I believe is a more opportunity-rich economy for the future." (ibid.)

A near-identical argument had appeared in another speech in earlier that month, at the CBI annual conference:

"Quite simply: we are making the transition from the old world of sheltered national economies to the new world of a fully open global economy.

And the challenge is for each of us, in the spheres of influence we have, to surmount the risks and insecurities – and manage the teething troubles – of this new global age, while not losing sight of the vastly increased opportunities it brings." (CBI08b)

This is economic long-termism in the extreme; rather than confronting the near-term reality of recession, Brown asks his audience to pan out so far that the entire sweep of economic history becomes visible, and the largest financial crisis in several generations is reduced to "teething troubles".

This 'birth of an era' framing is significant for our understanding of Labour's ideas and narrative in two ways. First, it indicates Brown's continued belief in the ultimate benefits of globalisation, even at a time when global markets were in utter turmoil, with private risk being underwritten or absorbed by governments around the world. The largest possible external validity challenge was once again prompting ideational defiance, at least within the globalisation

theme. In this new framing, the crisis was not a repudiation of Labour's previous thinking about globalisation, but an acceleration of the very processes that had made them the right ideas in the first place; all that had changed was their urgency. The stability theme, meanwhile, was largely dropped, with Brown attempting to compartmentalise pre-crisis stability and post-crisis instability as having nothing to do with each other.

Secondly, by making this a crisis of globalisation rather than of banking, or of the British growth model, Brown was choosing a very particular way of rationalising the policy moves necessary to deal with the implosion of global markets. For Brown, simple mitigation of economic pain, or the cleanup of an economic disaster, was not a sufficiently satisfying or purposeful reason for government to act. Instead, radical policy had to be understood as serving the long-term purposes of globalisation, laying the foundations for a more functional – and a more generally accepted – global era in the future. Just as the great moderation narrative on globalisation had called for political 'evangelists' who could persuade the public that short-term pain would be to their long-term gain, Brown's "crisis of globalisation" narrative was mostly about explaining to the public that all would be well in the long run. Even, or especially, during globalisation's great crisis, the job of political leaders was to emphasise that government intervention was never just for its own (or even for the people's) sake, but for the sake of a broader vision of fully integrated global markets. As he told the Council for Foreign Relations:

"We have now; instead of just muddling through dealing with this crisis – as people think we are doing at the moment – we have got to show people that we are actually making the adjustments in the proper way to this global age." (CFR08)

If the people could only be brought to understand the long-term vision, their short-term pain would apparently become bearable. Just as in the pre-crash globalisation story, aggregate gains in the long run had been emphasised; after

the crisis short-term pain, and its distribution, were very little discussed. The global economy may have imploded, but the ideas had not moved.

Interview evidence on this period again suggests that this was not a question of institutional drag on the narrative, but a direct reflection of the Prime Minister's thinking:

“you can talk about officials doing things, this was a case where there was some work but they really picked up on it very quickly.” (Interview F)

Brown had made concerted efforts, beginning during the summer of 2008, to reflect on and intellectualise the problem. Ultimately though, the ideas he had ultimately drawn on to make sense of the crisis were the same ones that had guided his economic philosophy all along: the evils of protectionism and the importance of leadership as a bulwark against populist backlash. The same official described his thinking as historically grounded:

“he recognised... that the history of the past was that you go into a crisis like this, recessions, and the first thing you get is protectionism. And in this case we had a very very unusual variant of protectionism, which was every domestic banking system was drawing back into itself... that was individual decisions proving to be a collective disaster.” (ibid)

There is no doubt that the 2008 liquidity crisis was global, and that the collapse of market confidence was prompting a flight of capital to assets perceived as safe or familiar. But to call this protectionism is somewhat perverse; this was after all the operation of markets rather than policy. For Brown, or the Treasury as an institution, to see a systemic banking crisis as problematic mainly because it might lead to protectionism speaks volumes about their underlying ideas: even when markets were at their most dysfunctional, the ultimate threat was perceived as coming from policymakers' capacity for overreaction.

This is not to say that the crisis had changed nothing for Brown. In fact he became increasingly willing to say that “economic orthodoxy” had been upended by the disaster, and that ideas once taken for granted had been overturned (Brown, 2010a: xix). This ideational challenge was addressed most directly in his speech at St Paul’s Cathedral in 2009, on the theme of markets and morality, in which he explicitly referenced the seismic impact of the crisis on international thinking about markets and their management:

“I say to you plainly: this old world of the old Washington consensus is over, and what comes in its place is up to us. Instead of a global free market threatening to descend into a global free-for-all, we must reshape our global economic system so that it reflects and respects the values that we celebrate in everyday life. For I believe that the unsupervised globalisation of our financial markets did not only cross national boundaries; it crossed moral boundaries too.” (STPAULS09)

This was an important moment for Brown’s narrative, since it acknowledged the gap between what he had always believed to be the promise of globalisation and what, in 2009, it was actually delivering. Was there a way to still believe in the positive-sum benefits of open markets in that context? Brown wrestled with this question at length:

“Let me put markets in context. They can create unrivalled widening of choices and chances, harnessing self-interest to produce results transcending self-interest. When they work, they will fulfil the promise of Adam Smith that individual gain leads to collective gain, that even when people are pursuing private interests and private wishes they can nevertheless deliver public good.

But as we are discovering to our considerable cost, the problem is that, without transparent rules to guide them, free markets

can reduce all relationships to transactions, all motivations to self-interest...

And we can now see also that markets cannot self-regulate, but they can self-destruct and, again, if untrammelled and unbridled, they can become not just the enemy of the good society; they can become the enemy of the good economy. Markets are in the public interest but they are not synonymous with it.”

The St Paul’s speech is almost a case study in cognitive dissonance; markets are vehicles for turning self-interest into common benefit; yet markets mistakenly promote self-interest above all else. Individual gains should, in principle, sum up to a still greater collective gain, yet in practice markets malfunction and inflict common detriment. How are these things to be reconciled? Brown’s answer was that “markets need morals” – that the challenge of the coming years would be to design an international regulatory framework that mandated and oversaw honest trade. There was little in Brown’s speech to suggest how this might be done, but the implication was that markets must somehow be both entirely open *and* effectively governed. The profit motive was no longer trusted to be a sufficient safeguard against malfeasance and irrationality; only some kind of global oversight would finally harness the positive potential of markets. In which case, what kind of market is left?

In the end, this new causal story could only collapse under the weight of its own contradictions. In policy terms, Brown was left more or less where he began: though international cooperation remained incomplete at best, it was still necessary to “avoid the mistakes of the 1930s and not descend into protectionism” (*ibid*). Since the world was still just beginning its transition to the opportunity-rich future, policy to protect citizens from globalisation should still be subordinated to the long-term protection of globalisation from the polity. It seems that Brown was able to embrace the *idea* of intellectual change: even in 2008 he was arguing that “If we have learnt anything in these last tumultuous and unprecedented months, it is that this is not the time to become prisoners of the old dogmas of the past”

(CBI08b), and in his 2010 book he would argue that “if [the crisis] is to end with a full recovery, we need to learn quickly the lessons of what went so wrong that the global financial system froze, and we need to come to a firm and shared view regarding what we can do to make things right.” (Brown, 2010a: vii). But talking about change is not the same as making it, and the evidence of Brown’s post-crisis narrative is that the lessons he drew were, in the end, fundamentally bounded by the intellectual parameters of his pre-crisis narrative.

As we have seen, Gordon Brown’s narration of the crisis was relentlessly global in scope and as such it played particularly well to an international audience. Domestically, the Prime Minister continued to struggle to communicate with either public or press, for whom his ambitious globalism was failing to resonate. Darling, by contrast, moved on from his poorly-received 2008 budget by developing a more domestically-oriented narrative, within fairly modest boundaries. Darling’s alternative story was simply that Britain was in recession, but would recover, provided government policy was supportive. Specifically, this meant keeping the fiscal taps turned on through the downturn, in the interests of counter-cyclical stimulus (or at least the avoidance of pro-cyclical austerity), ensuring that monetary loosening was backed up by fiscal flexibility.

The vocabulary of this narrative was quite distinct to Darling. Within the speeches in the crisis corpus, there are 99 references to recovery, of which 78 are from speeches by Darling, and 21 from speeches by Brown. Of the 104 references to recovery, 90 are by Darling. And the story emerging from those coded segments was a simple one: that government could and should be a proactive agent of the recovery:

“I want to set out the additional help we will give to people and businesses to get through the recession – and build towards recovery.” (BUD09)

“As long as we continue to support the economy, recovery will be underway in the UK by the turn of the year.” (CONF09a)

“Governments have the ability to act – and I believe the responsibility – to reduce the length and severity of the recession.” (BUD10)

Later in 2009, as the battle lines for the 2010 election became clear, Darling adjusted his language slightly to signal that deficit reduction would become a priority in the medium term, but continued to argue forcefully against premature fiscal tightening:

“Just as we’ve had a clear plan for dealing with the recession, we are now putting in place a clear plan for the recovery.”  
(MH09)

“The choices we make over the next year will be crucial in deciding whether we can foster the recovery and benefit from the global upturn.” (REUT09)

Compared with Brown’s “crisis of globalisation” this is a far simpler framing, based on the rhetorical juxtaposition of recession and recovery. But more importantly, this framing represented a decisive break with the old stability narrative, since by focusing on preparing for the next upturn it essentially resurrected the notion of the boom-bust cycle, acknowledging the bust in order to hold out the promise of the next boom. This framing also abandoned great moderation axioms about the importance of constrained government. Whereas the old stability narrative had claimed that if government were prevented from behaving irresponsibly the business cycle would be eliminated, this new story had activist government seeking to mitigate the reality of the business cycle, devising policy to capture the benefits of the eventual boom. The boom-bust cycle was not only back, it was understood to be the central fact around which economic policy must revolve. Content analysis earlier in the chapter showed that the rhetoric of stability had peaked in Darling’s speeches in 2008, before dropping away in 2009. This qualitative account shows that he did not just stop talking about stability, but had substantively dropped some of the key ideas behind that part of Labour’s causal story. There had been both rhetorical change and an ideational one,

because where Brown's post-crisis rhetoric had de-emphasised the stability story in favour of globalisation, Darling's actively contradicted it.

The other area of change indicated by frequency counts from content analysis was on regulation, where there was a noticeable change of emphasis from competitiveness to financial stability (Fig. 6.10). Darling's speeches are relatively open about pointing the finger at the banking industry, arguing that "the central lesson of the past two years is that too many people simply failed to understand the impact of globalisation and innovation in financial markets" (MH09). An official put it more bluntly:

"we hadn't been monitoring, at all, or regulating well, what the banks were doing. And we all just assumed the banks knew what they were doing. And we were completely wrong."

(Interview F)

Darling's speeches could not go that far, but by 2009 they did come fairly close to an admission of regulatory failure:

"just as the banks need to learn the lessons, governments and regulators do too. No one model of regulation has been successful in insulating a country from the current crisis – and we are not alone in strengthening regulation." (MH09)

This willingness to strengthen regulatory frameworks was a substantive change from Brown's position in 2007-08 that Britain already had a world-leading regulatory framework, and would resist all European attempts to move it beyond its 'light touch' approach. In 2007 Darling had repeated Brownian lines to take by pledging to "argue against restrictions and unnecessary regulation which damage our competitiveness and which are holding back growth in the European economy". By 2010 he had not only become convinced of the need for stronger financial regulation but had incorporated that new thinking into his wider causal story about the merits of proactive government, arguing that "the role of government is now equally critical in regulating the global financial system"

(BUD10). By diverging from the underlying assumptions in the stability theme Darling also found himself able to justify broader policy changes with little cost to the overarching story. Policy and rhetoric were thus much better aligned in Darling's revised narrative than in Brown's selective reliance on the old one.

The distinction between internal and external validity is once again helpful in distinguishing how, and why, Brown and Darling's narration of the crisis diverged as it did. Brown's convoluted attempts to take third-way lessons from the 'first crisis of globalisation' were, in the end, another attempt to salvage the internal validity of his longstanding narrative. While full consistency with the old story was impossible, particularly in respect of boom and bust or financial regulation, Brown was determined to show that New Labour's pro-globalisation political economy had always been based on the right fundamentals, and that the crisis had, if anything, shown them to be ahead of their time. The failure of financial markets had come about not because global markets were inherently unstable, but because Britain had not yet persuaded the rest of the world to join them in regulatory cooperation on a Bretton Woods scale of ambition. But this failure should not invalidate the goal of a fully open, globalised economic system. Viewed in this way New Labour's globalist political economy was not broken, only unrealised.

Darling, on the other hand, had made a clear choice in favour of repairing the perceived external validity of his narrative by choosing a rhetorical strategy much more closely fitted to the external conditions, and largely giving up the attempt to defend Labour's past record. His arguments for active, interventionist fiscal policy, and his overt nods to Keynes, were a conscious step away from the great moderation narrative in which government succeeded mostly by tying its own hands. Darling's horizon was nearer than Brown's; his language was mostly geared to the 2010 general election, not to the verdict of history. But more importantly, his validity trade-off was the opposite of Brown's: external fit over internal consistency. The concluding section of this chapter asks why, in these latter phases, Brown and Darling's validity trade-offs looked so different.

### *Explaining narrative fragmentation: ideas over institutions and interests*

Brown's high-minded globalism was an attempt at reestablishing an internally-logical account of the crisis that could, if viewed through a sufficiently long lens, also be seen as consistent with the essentials of his pre-crisis narrative. If his story about opportunity-rich globalisation did not yet seem to fit the external conditions, that could itself be worked into the causal story – it was in the nature of the transition to full globalisation that things would have to get worse before they got better. The sunlit uplands of global prosperity would eventually be attained, at which point external validity would be proven again; in the meantime, the internal logic of the story was enough to get by on. Darling, by contrast, abandoned any attempt to preserve the old narrative, returning to a more conventional theory of government's role in the management of boom and bust. That is, he prioritised external over internal validity, advancing a new story about recession and recovery that addressed itself to the external context in the immediate term. This last phase can be characterised as narrative fragmentation, with different actors making different trade-offs between internal and external validity. However that very fragmentation ensured that neither kind of validity could be convincingly asserted.

In Chapter 6 it was suggested that New Labour's political economy was, ultimately, a denialist kind of neoliberalism; one which adopted broadly neoliberal assumptions, mobilised mostly neoliberal policy, and yet insisted on its own good faith as something other than neoliberal. This last dimension is often missed in accounts that seek to separate the substantive truth of Labour's political economy from their rhetoric. My account of Labour's crisis shows that, in fact, Labour's attachment to a particular third-way account of themselves is the critical dimension to understanding the limits of their ability to change, even when faced with disaster. Let us return for a moment to Craig Berry's verdict that Labour had operated neoliberal policy agendas without fully embracing a neoliberal ontology. I agree that there is something unsatisfactory in proclaiming New Labour to have

been out-and-out neoliberals – there was plenty in their policy mix, and especially in their account of their political purpose, to suggest they were not comfortable with, and did not see themselves as being, pure free-marketeers. The whole point of the third way was that it rejected both *laissez-faire* and old-fashioned command and control in economic policy. It was supposed to have found a viable middle way, taking the best of both worlds and escaping the worst. However the account of Labour’s crisis laid out in this chapter reveals that in fact Labour were far more wedded to a neoliberal ontology than Gordon Brown was prepared to admit, publicly or indeed privately.

Far from being neoliberal in policy but social democratic in ontology, Labour, and especially Brown, proved capable of altering the policy mix but deeply resistant to ontological reversals. They could get comfortable with the necessity of some drastically leftwing policy moves, from nationalisation of banks to short-selling bans to quantitative easing and neo-Keynesian demand stimulus. But they continued to try to fit those policies into an explanatory framework that made globalisation an opportunity not a threat, that regulated for the good of global markets rather than for the good of citizens, and that continued to equate growth with stability over the (very) long run. Sacrifices could be made on policy, but the overarching project of globalisation had to go on. In the post-crisis period this was prefixed as “inclusive” or “sustainable” globalisation, to signal some distinction between good globalisation and pure unfettered capitalism. But in practice this inclusivity was still aimed mainly at developing economies, not at the domestic inequality that had burgeoned in New Labour’s global era. The thrust of the argument remained defiantly pro-globalisation while more challenging questions about the social distribution of market output and risk, let alone the possibility of inherent instability in capitalist systems, were not addressed.

Why this ontological stubbornness? The evidence of the chapter is not that interests or institutions blocked the way; if they had, surely policy would have been likewise constrained. Powerful interest groups are generally more concerned with what governments do, than with what they think and say. The rise of populism in the last several years shows clearly that powerful lobby seek above

all to influence policy, and are generally content to leave politicians to deploy whatever rhetoric might please the public in the meantime, however provocative. Pandering to the anti-globalisation masses in rhetoric is fine, so long as you remain favourable to business in the actual implementation of policy. New Labour did the opposite, implementing relatively leftwing economic policies in the public interest, while using language that sought to downplay their radicalism, soothe business, and continue selling globalisation to the public.

Institutional continuity is a somewhat more plausible explanation of Labour's ontological non-change, since institutions are important repositories of intellectual frameworks. But institutions are not just academic observers; they are active participants in policymaking, and repositories not just of ideas but of practice. In this period the practice changed rapidly; key institutions of British economic policymaking including the Treasury and Bank of England were placed on a war footing, conceiving and implementing rapid and significant change. These institutions proved remarkably willing to seize the opportunity to lead a period of policy innovation, even at the cost of supposed orthodoxies like the fabled "Treasury view". Officials interviewed for this research mostly presented this as a matter of pragmatism, suggesting that they had simply grasped the scale of the problem and therefore embraced radical solutions, sometimes before their political masters had got there. This may be a somewhat self-serving account, conveniently downplaying the reputational advantage to be gained from being a first-mover in a period of international policy change. The same institutional interests that are served by continuity in normal times may be served by embracing change to build new empires during periods of crisis. In any case, conventional assumptions about institutional conservatism do not fit the empirical reality of what Britain's institutions were doing between 2007 and 2010, and as such they are insufficient to explain Labour's ontological non-change.

Ideas, on the other hand, go to the part of New Labour's crisis that remained change-resistant to the end. The ontology of the third way was the last thing to go, if indeed it went at all. I suggest that the ultimate stickiness of Labour's core political economy was driven by one of the most important ideas of

all: New Labour's idea of itself. Policy could be changed in the name of changing circumstances, and indeed it was. But to explicitly reject a neoliberal ideology as disproven by the crisis would, by definition, have meant admitting that ideology was there in the first place. Labour's neoliberalism was always in denial about itself; to confront its failure would have been to acknowledge its existence, and to admit to the vacuity of third way positioning. This would have implied a deep rethinking of not just policy – which can be done at an intellectual remove – but of self. It would have upended Labour's causal story in the most fundamental way, by revealing that what they had been doing all along was something different than had been claimed. Their ontological non-change in the wake of crisis offers powerful evidence that ideas and narrative come, over time, to exert a cognitive grip on political narrators that goes well beyond rational calculus or institutional defaults. Gordon Brown, who had been more deeply attached to the construction and maintenance of the great moderation narrative than Darling, was consequently more trapped by it after crisis. The concluding chapter will unpack this social psychological dimension in more detail.

## **Part III: Conclusions**

## 8. Conclusions

### **Ideas, confirmation bias and the resilience of fragile narratives<sup>16</sup>**

This concluding chapter pulls together the theoretical and empirical dimensions of this research, asserting a new understanding of economic policy narratives and their relationship to change and continuity. First, it recapitulates the findings of the case study, setting out a typology of the life-cycle of an economic policy narrative, structured around the distinction between internal and external validity. This suggests that over most of the life cycle, internal validity is prioritised over external validity, to the extent that the internal logics of the narrative itself become barriers to both policy change and ideational renewal. Second, some reflections are offered on possible boundary conditions for these findings and their claims to generalisability. Third, the chapter discusses possible future research directions building on this work, on two fronts. The first is a discussion of the inherent fragility of economic policy narratives, based on an analogy with quantitative modeling in financial markets. It is argued that we need to develop a constructivist understanding of how this fragility interacts with the life cycle of narrative to create the surprising resilience of economic policy paradigms. Second, the chapter discusses the scope for a new social psychology of political narrative, which would explore the cognitive mechanisms at work in the life-cycle of economic constructions. This implies rethinking the rationality of policymakers, who are just as prone to well-known cognitive biases as either voters or economists, but whose thinking is still too often (and inadequately) explained in rational materialist terms. Finally, the thesis concludes with some reflections on the ultimate value of a constructivist, narrative-oriented political economy.

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<sup>16</sup> Parts of this chapter were first developed in Alexander Shaw, 2017a

### ***Key findings: the life-cycle of an economic policy narrative***

The empirical study undertaken in this project has served two purposes. First, it renders a more forensic account of New Labour's path from stability to crisis than has generally been available, systematically tracing key themes over the entire thirteen year period of government. Second, the case study develops and demonstrates a new conceptual toolkit based on internal and external validity as distinguishable properties, separating the two key imperatives driving political narratives and analysing them in context and in sequence. The twin categories of internal and external validity highlight different, and often conflicting, dimensions of economic policymaking: on one hand, the desire to be consistent and, on the other hand, the attempt to be (perceived as) objectively right, all under conditions of uncertainty. This new analytical framework therefore permits the researcher to undertake a narrative analysis that transcends the epistemological limitations that often afflict such work, because it is no longer necessary to choose between approaching narratives as either free-standing discursive artefacts or as epiphenomena that sit in contrast to material reality. Both the internal logic of the discourse *and* its external fit with the observable world are acknowledged to matter, but differently and in ways that shift over time.

Identifying the moments in an economic narrative when internal and external validity must be traded off against one another is ultimately about finding the politics in political economy. Such moments are not just about exogenous shock or strategic rhetorical manoeuvres, but the maintenance of political constructions whose self-certainty is both the key to their effectiveness and their fatal flaw. The findings show that "rhetoric versus reality" is an inadequate basis for understanding what economic policy narratives do, because the rhetoric and the reality are always politically entwined. It is intuitively obvious that politicians would like to be seen as both coherent and factually correct. But in a world of uncertainty, such a position is likely to be fleeting; the very narratives that create the coherence tend to diverge from events over time.

The politics of economic policy rest on what happens at moments of tension, when the internal and external validity of a narrative seem to be pulling in opposite directions.

The empirical work in chapters 4 to 7 identified four distinct phases in the evolution of New Labour's economic narrative, each characterised by a different conjunction of internal and external validity (figure 8.1). Understanding these phases separately, but in sequence, enables us to build a more complex picture of the path dependencies involved in economic policy narratives, and the extent to which they do or do not appear responsive to external events. It is immediately apparent that internal validity was the more constant condition, breaking down only in the very final stages of the life cycle and well after the first signs of crisis. When the crisis arrived, the government's concern with internal validity was not overridden by external challenges; instead of discursive change we see a period of uncertainty and contradictory rhetoric, followed by divergent sub-narratives attempting different degrees of continuity with the pre-crisis story.

The picture on external validity is more complicated because it was simultaneously harder to prove and harder to falsify. With the exception of the initial construction phase, every part of the narrative life cycle included moments of external validity challenge – that is, moments at which events did not appear to be fully congruent with the causal story even measured against its own favourite indicators. The impact of such moments on the narrative varied considerably in different phases. The external validity of Labour's narrative evolved from being believed plausible, to believed proven, to a period of unarguable crisis and confusion. At the very end of the life-cycle we see the government finally attempt to repair external validity by making significant policy reversals geared to the new conditions, but stopping short of a third-order paradigm shift. At all times, external validity was contestable and had to be constructed in rhetoric. Internal validity was far more amenable to control. This was the economic uncertainty dilemma in action, and the Labour government's

**Figure 8.1: The narrative life cycle of New Labour's economic policy**

	<b>1. Construction</b> 1997-2000	<b>2. Reinforcement</b> 2000-2008	<b>3. Crisis</b> Aug-Oct 2008	<b>4. Fragmentation</b> Nov 2008 – May 2010
<b>Internal validity</b>	Present	Amplified  Repetition, simplification	Breaks down  Uncertainty and contradictions	Compromised but not abandoned  $3^{\text{rd}}$ order continuity
<b>External validity</b>	Plausible but unproven  No immediate challenges	Believed proven  Challenges assimilated into narrative	Absent or highly doubtful  Challenges undeniable	Restored, if partially, by policy reversals  $1^{\text{st}}/2^{\text{nd}}$ order change

solution across most of the life cycle was to pursue internal validity as a substitute for certainty on the external side.

*i. Construction*

The first phase was narrative construction: very simply the period in which the new government first set out its economic narrative. Internal validity was necessarily strong at this point, because the narrative had been crafted in opposition to set out a political vision with its own internal logics. It could therefore be launched fully formed as soon as the new government assumed office, and there would be no reason for the narrative to be less than fully coherent at this point. In Heclo's terms, the 'puzzling' had been done in preparation for government and the 'powering' could now begin (Heclo, 1974, cited in Hall, 1993: 275). The new narrative duly set itself up against both the outgoing Conservative government and against 'old' Labour leaderships, asserting a vision of the political economy in which macroeconomic stability, fiscal prudence and openness to global markets would deliver a prosperous new era in which investments in social policy need not frighten the markets. As shown in Chapter 4, the underpinning ideas in this narrative were mistrust of governments' tendency to destabilising short-termism, and faith in the capacity of unimpeded markets to generate stable returns, which could then be distributed in the interests of fairness. By making credible commitments to constrain its own discretion, it was argued that government could stimulate market confidence over a longer time-horizon and so create a virtuous circle of stability and growth.

The external validity of these ideas was, at this stage, more a matter of assertion than proof, based on forward-looking claims that if certain policies were pursued, favourable outcomes would follow. As long as nothing happened to immediately upset the plausibility of these claims the narrative could be assumed to fit the external conditions, even in advance of any tangible results. The benign market reaction to early policy changes such as Bank of England independence seemed to indicate that things were going to plan, so the external

validity of the new government's narrative could be given the benefit of the doubt. In the construction phase, as afterwards, what counted was not definitive evidence of external validity, but the absence of serious challenges to the *perceived* external validity of the narrative.

*ii. Reinforcement*

The second phase of the life cycle was characterised by processes of reinforcement. This period can be distinguished from the construction phase because the nature of the government's claim to external validity had undergone a shift; where before the validity of the story had been simply plausible, in the reinforcement phase it was believed proven. New Labour's reinforcement phase began around 2000-01, when better-than-expected growth in 1999 was interpreted as vindication of the government's monetary and fiscal conservatism in the first two years in government. Low headline inflation also fit the causal story, and contributed to a perception that the policy framework was a success, with internal and external narrative validity both strong. From that point on, incoming data were consistently interpreted with a view to underwriting the correctness of the narrative and with it, the correctness of the policies it had launched. For example, Britain's relative strength compared with G7 counterparts after the 2001 terrorist attacks was also credited to policies promoting domestic stability and global openness, while the booming financial sector was perceived as an example of the benefits deregulated global capitalism could offer.

Over the course of this second phase, as well as repeating the original ideas, the government narrowed and simplified its account of them, allowing for less favourable signals to be either excluded or bent to fit the story. In the stability and prudence themes, what had been a relatively sophisticated analysis of the cyclical weaknesses of the British economy became a far narrower focus on price inflation and headline GDP growth. In the mid-2000s, challenging signals from an overheating housing market were simultaneously excluded from the narrative by a change in the inflation measure, and absorbed within it, by the

repeated assertion that historically low mortgage interest rates were proof of economic stability. In the globalisation part of the narrative, early rhetoric had made clear that while protectionism was to be rejected, this stance must be accompanied by investment in skills to support people in coping with free markets. Over time, however, openness to globalisation was increasingly presented as a freestanding good, and evidence to the contrary received less and less attention. By the late-2000s, external data were less and less relevant to the continued projection of the pro-globalisation narrative; positive signals could be taken as indicating the success of current policy, while challenging developments were interpreted as requiring a redoubled commitment to the government's stated policies. This narrative entrenchment was further reinforced by Labour's efforts to persuade international counterparts, in Europe and in the developing world, that they should emulate Britain's policy frameworks, since the more that the government evangelised for its approach abroad, the more convinced it became of the rightness of that approach at home. In this way, internal validity was consistently prioritised over external.

Strikingly, the government's rhetorical assertiveness in this second phase of the life-cycle was particularly marked when the data presented an external challenge, as when the UK's growth ranking in the G7 dipped before recovering. The standard response to external validity challenges was first to double down on the story and, after the challenge had passed, to frame the blip as an important test passed; proof that the government had been on the right track in the first place. The cycle of encountering and surviving EV challenges appears to have done more to strengthen the perception of external validity than a trouble-free context would have done, because seeing off challenges provided a stronger sense of validation than simply avoiding them. And this cycle would become self-perpetuating; preserving internal validity was the government's answer to everything because it also served to maintain their faith in the narrative's external validity. Favourable economic data was of course held up as proof of external validity, but unfavourable data was also interpreted as showing the importance of staying the course, giving Labour a "heads we win, tails we don't

lose” approach to the economic context. As long as external challenges could be absorbed into the story, the reinforcement phase continued, which in New Labour’s case was as late as mid-2008.

Rhetoric in the reinforcement phase was characterised by repetition of key themes and simplified interpretations of external data. The consequence of these processes was that the narrative was becoming institutionalised as something free-standing of its narrators, with the power to direct their decision-making. By the end of this period the instinct to maintain internal validity was not only dictating what the government could say, but what it could do. The delays in agreeing nationalisation for Northern Rock reflected the extent to which a narrative based on the superiority of private over public ownership was constraining policy in an emergency. There has been a tendency, in post-hoc accounts of the period (Brown, 2010a, 2017; Darling, 2011) to suggest that in late-2007 and early-2008 the government had accepted that a crisis was unfolding, but was choosing to speak the language of stability for fear of provoking panic. The content analysis and interview evidence reported here, however, points more strongly to their having been in denial about the seriousness of the problem up to and including the summer of 2008. The reinforcement phase of the narrative had a surprisingly long tail, for two reasons: Labour still believed in the great moderation as a sound basis for policy, and they had evolved a rhetorical playbook in which all challenges and moments of uncertainty could be dealt with by shoring up the existing story. A dawning awareness of problems “in the American housing market” was not the same as recognizing the flaws in Britain’s own globalised, financialised political economy, and indeed Labour’s insistence on framing the turbulence as a global or an American problem was an exercise in holding the problem at arm’s length from their core ideas and established story.

The evidence of chapters 6 and 7 is that this reinforcement phase, and its pattern of prioritising internal validity in response to external uncertainty, went on for a surprisingly long time. Though Labour’s reinforcement phase began during the long expansion of the 1990s and early 2000s, it did not end until that

expansion was categorically over. Though the signs of trouble were there from at least mid-2007, the dynamics of the reinforcement phase saw the government continuing to interpret the evidence in ways that were supportive, rather than disruptive, of their causal story and its policy prescriptions. As such the narrative acted as a brake on policy change in 2007 and into 2008. Only with the ultimate meltdown of financial markets in September and October 2008 did the external validity challenge finally become too much for the old narrative to digest.

*iii. Crisis*

Taking the tension between external and internal validity as our guide, we can say that a third phase in the narrative life-cycle began in mid-2008, when both internal and external validity came under pressure. The internal integrity of the narrative was first damaged in August 2008 when the two key narrators, Brown and Darling, publicly disagreed on the scale of the expected downturn. At this point there was still enough uncertainty around the nature of the problem to give the government the option of applying its usual tactic of shoring up internal validity. However, this option was rejected by one of the two key narrators (Darling), ensuring that internal validity was compromised anyway. The larger breakdown, occurred in September 2008 when the banking sector meltdown finally provided a problem too far from the predictions of the causal story to be rationalised using familiar tropes. The external challenge posed by the banking crisis was undeniable; the old story simply could not accommodate it. But a new story had yet to be adapted, with Brown and Darling each making speeches that uneasily straddled the line between continuity and change. While policy was evolving rapidly, the government struggled to adapt a narrative in which those policy reversals could make sense without invalidating the arguments of the previous ten years.

Rhetoric in the crisis phase was highly confused, attempting to simultaneously frame the external conditions as totally new and unforeseeable, while also making partial attempts to rationalise them in terms of familiar ideas. For example, Gordon Brown seems to have struggled to determine whether the

financial crisis should be understood as a wholly unprecedented exogenous shock, or as an acceleration in the very processes of globalisation he had long been talking about. Alistair Darling's rhetoric also oscillated between defending Labour's record and setting up potential policy change. The result was that the banking crisis did not only put holes in the external validity of Labour's economic programme, but finally broke the internal coherence of the story. Headline agreement about what vocabulary could be used to name the crisis masked underlying confusion about how that crisis should be substantively understood. Internal validity was therefore absent in the rhetoric of each narrator individually, and further undermined by the disagreements between them. The crisis phase was fairly short, lasting around three months in mid-2008. Its primary consequence was to make the tension between internal and external validity unsustainable, with both ultimately breaking down together.

#### iv. *Fragmentation*

The final phase of the narrative life cycle began in late-2008, when the government attempted to regroup and find a way to narrate the financial crisis. The breakdown of internal validity in the crisis phase had removed the narrative constraints on policymaking, and significant policy reversals did now take place. To a significant extent, the attempt to maintain internal validity had now been dropped, particularly by Alistair Darling whose adoption of recession/recovery framings was in direct contradiction with the old stability theme. Whereas earlier policy changes (like Northern Rock) had been couched in the language of continuity, there was now open acknowledgment of the importance of radical solutions to avoid a depression. However, even radical first- and second-order policy change was not accompanied by a third-order paradigm shift, particularly in the rhetoric of Gordon Brown who remained more deeply attached to the old ideas than his successor.

By 2009 Gordon Brown's speeches had finally begun to acknowledge the paradigm-shaking nature of what had occurred. The price of this acknowledgement was a further sacrifice of internal validity, as the trade-off

between the two imperatives was finally reversed, and the story was allowed to change. For the first time the rhetoric included explicit admissions of error, particularly on financial regulation but also to some extent at the level of principle, as in Brown's admission that "the market seemed intent not on self-correction, but on self-destruction" (2010a: xix). Even then, however, it was impossible for Brown to completely move away from the old narrative, and his rhetoric swung between suggesting that the old ideas had been overturned and renewing his commitment to certain among them, particularly in respect of globalisation's benefits. The old narrative had been compromised but it still could not be entirely abandoned. This final phase therefore represents a period of narrative fragmentation: between narrators, between themes, and between first- and second-order policy and third-order goals. The economic crisis had forced a new balance between the two validities, with external problems finally taking precedence over internal ones. The downside of this tradeoff is that it permitted new policies to come through, but left those policies without a coherent narrative of their own. Even after all, the influence of the pre-crisis story could not be entirely shaken off.

Several findings emerge from this analysis of the narrative life cycle. First, that internal validity is generally much more clear-cut – and much easier to control – than external validity, and it is the primary anchor of the narrative throughout most of the life cycle. Second, that the reinforcement phase is particularly important, setting up the resilience of the story and obscuring its vulnerability to shocks as the focus on internal validity makes the narrative more and more impervious to new evidence. Third (and in contrast to Widmaier, 2016a) there is not a single 'crisis' phase in which events finally and clearly overcome ideas. Instead we observe a surprisingly long reinforcement phase, followed by a two-stage breakdown. In the initial crisis period, mounting external validity challenges begin to break down internal narrative coherence but do not provoke doubt or recalibration so much as confusion, and a partial attempt at continuity, with the result that both kinds of validity fall apart. In the later fragmentation period, the narrative finally breaks down and external validity is to

some extent reprioritised. Yet even this period displays a surprising amount of ideational resilience even after radical policy change, resulting in a disjunction between policy and ideas.

### ***Boundary conditions and generalisability***

The next question is whether the dynamics identified as crucial in the New Labour case have broader significance and, if so, what boundary conditions might be applied to their relevance. This research treats the New Labour government as a critical case, capable of generating new insights about the operation of ideas and narrative more broadly. This is not simply the story of Gordon Brown and his personal limitations (a much overused trope in commentary on New Labour, especially its later years). Rather it is an account of what happens to economic narratives over time, under conditions of both stability and crisis. In keeping with the constructivist epistemology underpinning the project, context and meaning are assigned central importance, but even so the case study points up certain structural properties of economic narratives that clearly have significance beyond the single case.

I suggest that the ideational rigidity displayed by New Labour's leaders was not a personal foible of those individuals but a by-product of the inherent tensions involved in managing economic policy under conditions of uncertainty. Narratives are indispensable tools for the creation of political (and economic) confidence; they create a foundation for policy programmes by advancing a causal story that models, and to some extent creates, the economy. Such narratives become increasingly vulnerable to shocks over time, yet the business of being a political narrator lends itself to continuity more than change, making narratives highly resilient even (or especially) when events seem to go against them. This chapter will suggest that the uncertainty in economics then combines with the psychology of confirmation bias to produce narrative structures that,

over the years, turn from being expressions of their narrators' agency to structures that constrain and confound their creators.

Certain boundary conditions should, however, be considered. The narrative dynamics identified here rely on the presence of sincerely held ideas to which deepening cognitive attachments may accrue. For narrators to endure the discomfort of sticking to positions that are unpopular, or increasingly discredited, requires a level of ideational commitment that is not present in every political project. For every Gordon Brown attempting to intellectualise his way through a paradigm failure, there will be a Boris Johnson prepared to jump ship for any expedient alternative. The narrative life cycle bites on those politicians that genuinely invest in a set of ideas about the economy. Even so, I suggest this condition is fulfilled more often than not, and that there is no reason to suppose the ideationally committed politician is the exception rather than the rule.

It is plausible that the case for ideas and narrative as the source of political continuity, rather than interests or institutions, may be particularly strong in the British context. The combination of majoritarian government and a highly insulated executive branch concentrates decision-making power with a few individuals at the top of government, while the absence of a Washington-style lobbying industry around legislative veto points reduces (though does not remove) the scope for interest capture (Hopkin & Alexander Shaw 2016). This gives the British government unusually broad scope to construct and implement a singular narrative, putting internal validity well within the control of a reasonably organised leadership and perhaps making it more likely that internal validity is protected. It is likely that in the UK context, ideas will be particularly powerful because one need only capture a few minds within the policy elite in order to institute and defend a policy paradigm. Government narratives are well-insulated against change because the same few minds would have to be changed for a shift to happen, and access to the key players once they are in government tends to be limited. Short of a personnel change at the top, there are few entry points into the British system for new ideas, or even for heterodox interpretations of the economic data. Mark Blyth has made a similar suggestion

in regards to Swedish social democracy, arguing that “one may hypothesize... that more hierarchic state structures that concentrate decision-making power essentially institutionalize ideas very quickly, and because of this such states are more likely to exhibit cognitive locking” (Blyth 2001: 24). The narrative life-cycle, and especially the reinforcement phase, might be expected to be shorter and less pronounced in political systems where it is more difficult for a single causal story to predominate. This is, however, only a hypothesis; for example German governments’ attachment to certain ordoliberal ideas does not seem to be much weakened by that country’s more pluralist politics. Further research would be needed to assess the differential power of narrative to constrain narrators in less centralised political systems.

Finally, it might be argued that the problems encountered by New Labour were generated less by inherent tensions in narrating the economy than by the tensions inherent in social democracy under late capitalism – that is, by the incommensurability of the substantive ideas in New Labour’s political economy. Put another way: the stubbornness of the government’s rhetoric might have been driven by their unwillingness to confront the specific dysfunctions of this narrative, rather than implying similar tensions in all narratives. Certainly New Labour had set themselves an ambitious task, claiming to have effected an historic reconciliation between state and market. Could it be that the rise and fall of their causal story reflected a problem unique to left parties who find themselves unable to pursue conventionally leftwing policies in the global era, but who cannot admit as much to the electorate?

It is certainly true that with the arrival of crisis, Labour ran up against some fundamental problems in their account of how the economy was supposed to work. The financial crisis of 2008-09 and the broader economic crisis it triggered, emerged through fault lines in the great moderation that had been there all along. Within the dominant, broadly-neoliberal paradigm that dominated policy thinking in the period before the crisis, it was barely conceivable that there could be a problem of market-wide mispricing of risk, leading to systemic instability and bank failure, followed by contagion into the

real economy and a slump in aggregate demand. According to the ideas of the day, neither the mispricing, nor the systemic risk, nor the aggregate demand problem should have been possible. The narrative was, as it turned out, deeply fragile and yet, as discussed above, the apparent failure of the old paradigm did not lead a decisive ideational shift in post-crisis politics, in Britain or elsewhere.

The simple answer, however, is that New Labour are far from the only government to find that their political economy runs up against difficulties in its fit with the world, and yet be reluctant to change course. Certainly it is not difficult to think of further examples of politicians cleaving to favourite narratives despite highly debatable evidence of their external validity. George Osborne's insistence that austerity would be the key to Britain's recovery persisted even as the projected pickup in growth failed to materialise year after year. The rhetorical battles now raging around Brexit, and its likely impact on the economy, display all the narrative resilience one might wish for, with highly uncertain evidence being interpreted to support favoured positions that show less and less openness to doubt. The next two sections expand on two properties of narrative that combine to create the structural dynamics of the narrative life cycle: on the one hand, the essential fragility of narratives designed to combat uncertainty and, on the other hand, the social psychological processes at work in narration. If we accept that the narrative traps New Labour encountered were a function of the structural tension between these two dimensions, then the theory of the narrative life cycle ought to travel well beyond this critical case.

### ***The fragility of economic narratives***

The New Labour case study exposes a paradox in economic policymaking: that economic ideas, and the narratives in which they are mobilised, are simultaneously vulnerable to shocks and highly resistant to change. That is, they are both fragile and resilient at the same time. Politically speaking, this is a terrible outcome: stubborn wrongness is not a condition to which most

politicians aspire. It also runs counter to the presumptions of most mainstream political science, which credits politicians with a fair grasp of their own best interest. Even where voters are believed to be irrational, politicians are usually presumed to be strategic about noting and adapting to voter's irrational preferences. For a government to adopt a political economy that was, from the start, not obviously in the interests of their core voters, and for them to continue pursuing and defending it after its dramatic failure in practice, was astonishing. The evidence is that in the New Labour case, the stubbornness of the narrative was ideational rather than driven by interests or institutions. But this is theoretically troubling: bringing ideas back in, via a case in which the ideas proved extremely flawed, risks lending weight to the kind of rationalist arguments that treat ideas as the negative space in between rational interests, proving only that governments may be as irrational as voters. As set out in at the beginning of this thesis, the risk for constructivist political economy is that Labour's apparently illogical crisis response sends us straight back to rational-materialist explanatory frameworks, in which Labour can be dismissed as simply having paid the price of believing in a failed construction, when they should have been addressing material realities.

Instead, I want to suggest that New Labour's problem was not that they chose flawed ideas and a dubious narrative over solid facts and rational interests. Rather, the rise and fall of their narrative reveals an unavoidable tension in economic policymaking, between the need for economic certainty and the exposure to risk this creates. The fragility of the New Labour narrative was not just about one set of misguided ideas; it is a property of all economic narratives to some extent. Nassim Taleb (2012) has suggested that there are three classes of object in the world: the fragile, which is vulnerable to shocks; the resilient, which can withstand shocks for a while but still ultimately experiences them as negative; and the 'antifragile', which can actually profit by shocks and disorder. Taleb explicitly criticises the fragility of "narrative knowledge" which he sees as afraid of uncertainty, prone to over-rationalisation of things that should properly be seen as random, and "psychologically comfortable" (2012: 214). Antifragility,

on the other hand, requires a hedged position and a high level of conceptual flexibility – that is, the opposite of a narrative.

Drawing on Taleb's concepts, I suggest the inherent fragility of economic policy narratives can be usefully explored through an analogy with the models used by traders in financial markets. Trading models, and the academic economic models on which they draw, are simplifications of the world that provide actors with a basis on which to act. They are necessarily reductive and selective, making assumptions about the nature of risk, the likely shape of future returns, and the opportunities for investment that those things imply. The problem is that in reducing and simplifying the world, models exclude some things that may turn out to be important, and treat as fixed things that may turn out to be contingent or variable (Derman, 2011). At some point those simplifications, which give the model its internal coherence and integrity, run up against the messiness and unpredictability of the world at large, as when the financial crisis exposed systemic risks that were simply outside the scope of the dominant models at that time (Derman, 2011; Patterson, 2010).

Economic policy narratives operate as qualitative models of the economy and are prone to many of the same weaknesses as their quantitative counterparts. The value of an economic narrative is that it boils down the vast range of possible understandings of the economic conditions into a single story. It reduces complexity, rendering the abstract or technical understandable for both expert and general audiences. But more importantly it provides a working measure of certainty, asserting that (subject to certain assumptions being correct) we can operate on the basis of a particular account of what the economy is doing, what role policy played in getting it there, what policy should be in the future and how things should therefore turn out. Narratives, like formal models, are reductive and selective; they simplify the economic world in order to make policy action possible. Like models therefore, they are vulnerable to shocks that are outside the scope of their core assumptions.

Chapter One argued that economic policy narratives respond to an

uncertainty dilemma, in which policymakers face inherently uncertain conditions but must project political certitude, for the sake of economic confidence and as a basis for policy action. Narratives reduce uncertainty by advancing a persuasive causal story. But both the value and the fragility of an economic narrative are products of its singularity; there is only one version of the economy that will fulfill the terms of the narrative, and many other possible versions that would contravene them. This is of course itself something of a simplification; as Schmidt and Thatcher note, some narratives are broader than others, and may be able to accommodate a range of outcomes within their scope (2013). The underlying tension, however, is unavoidable; in order to be specific enough to provide political stability, an economic narrative must put its eggs in one basket and explicitly or implicitly disavow the alternatives. Once again, analogies with finance are instructive; whereas investors are taught to deal with risk by diversifying the portfolio and so reduce their exposure to any one source of trouble (Markowitz, 1952) politics demands not a portfolio but a single bet. In order to provide certainty, narratives must eschew diversification. So while economic risks may be distributed in the world, they become correlated in the politics of the economy, because the assertion of a particular causal story puts all shocks into a single category tagged “outside the narrative”. It is the discourse, not the economics, that correlates a government’s risk, and because of this narratives, though essential for policy, are an ever-present source of political fragility.

The fragility problem, unfortunately, doesn’t end there. The risk that a singular narrative can be challenged is amplified when the temporal dimension is taken into account. Derman notes that time is a problem for modelling, because “theories and models are attempts to eliminate time and its consequences, to make the world invariant” (2011: 7). A brief thought experiment shows that such attempts should eventually be doomed to failure. Let us assume, for the time being, that economic narratives attempt to provide a correspondence theory of the world – that is, they attempt to be true. (Politicians are not, for the most part, conscious constructivists.) We can further assume that at year zero, they appear

to have succeeded in being so. However, as time moves on and the narrative stands still, the chances of nothing having changed in the world become smaller and smaller. If economic changes are normally distributed, then the probability of events landing on the spot predicted by the narrative become less likely – the trajectory of the economy becomes a fan chart in which the narrative is the central estimate, as commonly seen in forecasts of economic indicators like GDP growth. Time makes the uncertainty larger, so the likelihood of the narrative being wrong, and the scale of the potential wrongness, will increase with each passing year. Alternatively, we might assume that economic events are not normally distributed, and that risk lies mainly in big events in the tails (Taleb, 2008). Even then it is likely we will end up somewhere very different than the trajectory the narrative projects; the fact that economic shocks are random, rather than probabilistic, simply makes it harder to predict when the gap between the narrative and the events will open up. Either way, it is likely that at some point economic events and narratives will be seen to have diverged; because “the longer a theory stays in circulation, the greater the likelihood of underlying conditions shifting to the point where the original model’s empirical claims do not hold up” (Drezner & McNamara, 2013: 160). Economic stories that do not change are, therefore, doomed to blow up. Narrative fragility thus arises out of two things: the inherent tendency of narratives to prioritise certainty over flexibility, and the likelihood that the passage of time will bring changes that render inflexible narratives increasingly likely to be wrong.

Framing the thought experiment in this way might appear to contradict the constructivist stance taken so far in this thesis. The idea that narratives’ biggest problem is poor or decreasing fit with the real economy cuts across a constructivist view of the world in which the economic conditions are primarily a construction, not a material fact. Two points are worth clarifying here. First, the argument is not necessarily that there is an objective, unarguable material context against which narratives are eventually found lacking. The notion of a perfect correspondence theory of the economy is deeply problematic, and the idea that the politics of the economy comes down to a measurable gap between

rhetoric and reality is a largely unsatisfactory way of understanding economic policy. However, it is possible for political narrators to be confronted with events – or with others' constructions of the same events – that are *outside the terms of the existing narrative*. Things do happen, and while some economic changes can be incorporated within the terms of an existing political story, others will be more overtly contradictory to it. There is no inconsistency in arguing that while all economic events gain their political meaning via processes of construction, certain events may be incompatible with the constructions we already have in place. Second, the purpose of this discussion is not to show that narratives are always objectively flawed and will therefore always fail; it is to illustrate the paradox that despite their apparent fragilities, political narratives of the economy often turn out to be extremely resilient in practice.

### ***The social psychology of narrating the economy***

We have established that narratives are inherently vulnerable to shocks but, as New Labour amply demonstrated, they are nonetheless resilient to all but the most incontrovertible evidence of crisis. The evidence of the New Labour case is that this resilience is ideational rather than institutional, or interest-led, in which case the mechanisms by which ideas gain and lose ground with policymakers are of central importance. I suggest that further research could usefully pursue the development of a social psychology of narrative, in order to theorise the effect that narrating the economy has on economic policymakers. This section begins to outline such a research agenda, suggesting that policymakers should not be seen as simply poor rationalists, but as social actors that are prone to familiar cognitive biases that give rise to the surprising resilience of ostensibly fragile narratives.

The most pivotal moment in the narrative life cycle is arguably the transition out of the construction phase, when narrators' confidence in their

causal stories is first cemented. The subsequent reinforcement phase, characterised by repetition of key messages, simplified interpretive processes and the constant revalidation of the policy status quo, is what creates, and constrains, the space in which future crises will be confronted. In 2008, the politics of the banking crisis had to play out on a field already crowded with narrative constructions of how the economy was supposed to work, and for policy change to take place, those constructions had to give way. As we have seen, this process was slow, messy and ultimately incomplete. The resilience of the old narrative can be seen to derive, above all, from the effects of the reinforcement phase, in which years of rhetorical groundwork took the original ideas from creative new politics to institutionalised received wisdom; from being the tools of political agency to structures that bounded agents' choices and cognition. Even in the final, fragmented stages of the narrative life cycle, the old ideas retained considerable power to constrain their narrators' ability to make sense of new conditions.

The empirical case study clearly shows the importance of the reinforcement phase in a narrative's life cycle. We might take this insight further, however, by exploring the specific *processes* that were at work in the reinforcement phase, and during its aftermath. Social psychologists have long been aware of human agents' tendency to confirmation bias, which ensures that new information is not dispassionately added to our calculations but must fight a losing battle with what we already think we know (see Nickerson, 1998 for a tour of this literature). There are several dimensions to the theory of confirmation bias that are relevant here. First is the simple tendency to interpret evidence in ways that are supportive rather than contradictory of existing beliefs, and to respond to ambiguity by sticking with cherished positions. This tendency is not a personality flaw afflicting only those who are bad at weighing new evidence, but a common and recognised outcome of having committed to a position in the first place, as Nickerson explains:

“Once one has taken a position on an issue, one’s primary purpose becomes that of defending or justifying that position....

Regardless of whether one’s treatment of evidence was evenhanded before the stand was taken, it can become highly biased afterward.” (1998: 177)

That is, there is a temporal dimension to confirmation bias: after an initial window of opportunity in which alternative ideas may be given a fair hearing, most actors settle on one particular position and will thereafter be inclined to defend it. This looks a lot like the construction/reinforcement cusp in the narrative life cycle. Nickerson further notes that “bias is especially prevalent in situations that are inherently complex and ambiguous” (ibid: 192-3) in which case economic policymakers must be considered particularly vulnerable to it.

Second, confirmation bias is known to exist not just when the evidence for a position is ambiguous, but even when it is shown to be wrong. Actors show a tendency to “belief perseverance”, wherein a person may be shown that the information on which they based a belief is incorrect, and continue to hold it anyway (Anderson et al, 1980). So strong is this effect that in some circumstances, attempts to invalidate a belief by presenting someone with evidence of its falsity may backfire and actually strengthen the believer’s attachment to it (Nyhan & Reifler 2010). Strikingly, when presented with disproof of their positions, people will try to explain away that new evidence through “the generation of causal explanations or scenarios that continue to imply the correctness of one’s initial beliefs” (Anderson et al, 1980: 1045); that is, by the construction of plausible, if unevidenced, causal stories. The tendency of economic policymakers to resort to internal validity as a cure for external validity problems seems a prime example of belief perseverance in action, as does Labour’s observed tendency to derive *increased* narrative confidence from external validity challenges.

Third, the social psychological literature shows that confirmation bias and belief perseverance are further strengthened when ideas have been mobilised as

rhetoric, because the very act of articulating a belief may deepen a person's attachment to it. Being asked to suggest an explanation for something (i.e. to come up with a causal story) immediately introduces cognitive boundaries such that those who are asked to expound an argument for a given position are found to be more wedded to it later, even when that position has been invalidated by new information (see Nickerson 1998: 203). The initial causal story, even if it was no more than a hypothesis, becomes a "conditional reference frame", which is to say that it has a kind of first-mover advantage over the narrator's thinking, becoming the story to beat from that point forward. This effect comes about because it is extremely difficult to stand outside one's own social constructions, as Moscovici argues:

"Once they have become fixed, these intellectual constellations make us forget that they are our creations, that they have a beginning and will have an end... Individual or social representations make the world what we think it is or what we think it must be." (2008: 16)

To put it another way, confirmation bias is not only a function of the individual cognitive processes of the agent; it is deepest where that agent has publicly committed to the ideas in language, giving them social as well as cognitive power.

The business of constructing, and articulating, economic narratives can therefore be seen as a double bind for policymakers. Narrative constructions solidify ideas into something like an institutional structure, giving them external power over the narrator. And narrating the ideas in rhetoric deepens the narrator's own belief that their ideas must be correct, giving them internal power over the narrator's subsequent thinking. To borrow Vivien Schmidt's (2002) useful distinction and extend it slightly: narratives are both coordinative and communicative discourses, and are prone to confirmation bias on both dimensions. Grube (2016) identified that political rhetoric can be "sticky" when it binds politicians to previously articulated positions, but assumed that it was the public's antenna for hypocrisy that made past rhetoric a constraint. The social

psychology of narrative indicates an alternative explanation: words are sticky because of the psychological impact on the speaker of having publicly committed to a set of ideas. Over time, and through many rhetorical repetitions, the tendency to confirmation bias is likely to increase, making the oldest narratives simultaneously the most fragile in terms of their external fit with events, and the most tenacious in their prioritisation of internal validity.

Political scientists, however, have been slow to apply these concepts to political economy. There are exceptions: for example, Hindmoor and McConnell have suggested in relation to the financial crisis that politicians were blind to the impending crash because “dominant ideational pathways created biases whereby ambiguous and fragmented warning signs tended to be marginalised” (2013: 14). That is, in the absence of certainty politicians tended toward interpretations of the economy that reassured rather than challenged, and that promoted continuity over change. Mark Blyth suggested in 2001 that one of the mechanisms by which ideas shape politics is by the imposition of “cognitive locks”, in which an idea fitted to one context becomes “an ideological mantra... applied regardless of actual conditions”, to the extent that “any other policy outcome [is] impossible” (2001: 22-3). Path-dependency in policymaking is then, according to Blyth, “fundamentally a cognitive phenomenon” (2013b: 208).

Such social-psychological insights are, however, still relatively unusual in political economy, not least because of the continued dominance of rational choice models that take as their starting point the maximising agent of neoclassical economic theory. Daniel Kahneman has noted the gulf between economics and psychology in their basic conceptualisations of human agents:

“My economist colleagues worked in the building next door, but I had not appreciated the profound difference between our intellectual worlds. To a psychologist, it is self-evident that people are neither fully rational nor completely selfish, and that their tastes are anything but stable. Our two disciplines seemed to be studying different species...” (2012: 269)

To the extent that political science has problematised the rational agent assumption by considering the prevalence of bias, attention has been chiefly focused on the irrationality of voters and not their political leaders. For example, recent work on voter preferences has lamented the difficulty of correcting misinformation in voters' minds, noting that it is generally easier to mobilise a misinformed voter who agrees with you than to convert an active voter who does not. Electoral strategies are commonly built around moving voters' feet rather than changing their minds, working with the grain of people's favourite narratives rather than seeking to overturn them (Hochschild & Levine Einstein 2016). Political campaigns that validate voters' existing positions and do not require them to absorb new information are more likely to succeed than those that challenge voters' rationalisations of their views (Achen & Bartels 2006).

Such accounts not only ignore the potential for politicians to be irrational too, but actively exclude it by presuming that politicians are always triangulating around voters' irrationalities. Political science generally assumes politicians to be capable of assessing voter preferences and exploiting their misinformed beliefs; elected officials are the manipulators of voter irrationality, in which case they must be coolly rational themselves. Normative accounts in this vein may deride political actors as weathervanes, capable of selling out any cherished idea in the pursuit of political gain, but they still assume politicians are rational maximisers, if only of electoral gains. The possibility that politicians might cleave to their own cherished beliefs past the point of all reason or utility is outside the scope of such theories.

Social psychology has begun to enter the debate around post-crisis economics, where the failure of the great moderation paradigm opened up a new conversation about the biases of academic experts. For example, a newspaper article by economist Paul DeGrauwe (2009) openly addressed the problem of confirmation bias, noting that "an economic theory can work as a framing device conditioning us to interpret the facts in a way that is consistent with the theory". Kahneman has taken a social-psychological view of economists' attachment to empirically dubious assumptions, putting it down to "theory-

induced blindness: once you have accepted a theory and used it as a tool in your thinking, it is extraordinarily difficult to notice its flaws" (2012: 277). Akerlof and Shiller's *Animal Spirits* suggested that economists' preference for rationalist assumptions was social as much as intellectual, because "focusing exclusively on the rational... leads to an elegant presentation" whereas introducing alternative motivations to the model would "violate the etiquette of textbooks", offending by its inelegance as much as by any perceived flaws of substance (2009: 21). While such commentary has had relatively little impact on the dominant paradigm in the discipline, there is now some recognition that economists, as well as voters, may be prone to cognitive fallacies and subject to social pressures that can constrain or corrupt their thinking.

The case for extending such critiques to economic policymakers is surely self-evident. But once again, it is important to beware a slide back into rational materialism that concludes only that politicians can be as wrong as anyone else. Theories of confirmation bias are themselves often built on rational materialist foundations, because they derive from experiments that construct scenarios in which participants are simply, evidentially, wrong about something. The very notion of a bias or a fallacy implies a departure from fact, implying an ideal state in which all such cognitive error has been overcome. As argued at the outset, the ever-present condition of economic uncertainty makes such a state wholly unrealistic. The ideal-type rationalist has probably never existed, and models which insist on taking such an individual as their microfoundation are inevitably problematic. Applied to politics, there is a risk that a focus on psychological biases contributes only to the denigration of politics, and political narrative, as a domain of misinformation and error.

What, then, can a constructivist do with the theory of confirmation bias? The approach taken by this research is to be interested in, but reasonably forgiving of, the ways in which policymakers' psychology affects their decision-making across the narrative life-cycle. Theories of confirmation bias fit very well with the empirical evidence of New Labour's narrative, but that is not to say we should import a set of assumptions that say Labour were straightforwardly

wrong where they could, and should, have been straightforwardly right. I do not suggest that narrative = bias = error, and that narratives should therefore be done away with. Nor is it helpful to conclude that the tendency to confirmation bias is a failure to live up to an ideal-type rational policymaker. Rather, both narratives and biases are inescapable features of how human beings behave when confronted with uncertainty and complexity. Becoming conscious of this fact in relation to economic policy is useful not least because it offers politicians a prompt to periodically scrutinise their assumptions without waiting for a crisis to force the issue.

### ***The indispensability of narrative in economic policy***

This thesis began with the conviction that narrative is central to economic policy, but that it has been generally under-theorised by political economists. The evidence presented here shows not only that narrative matters, but that it does so in often surprising ways. Government narratives, being a form of discursive action, embody the constructive potential of ideas at the beginning of a political project, but after that all the evidence points to narrative being the servant of continuity, not change. This continuity-bias increases the longer a government is in office, because the narrative becomes both a hill to be defended against all incursions, and the filter through which external signals are perceived in the first place. A narrative of the economy is a political construction that then repels further constructivism. We already know that interests (or at least perceived interests) can exert causal power in the political economy, and that institutions of many sorts introduce a status-quo preference into policymaking that is not easily disrupted. Deepening attachment to a particular set of ideas – *and to the idea that those ideas are right* – imposes the ultimate barrier to a government's changing course once a political project has passed from the construction phase to the reinforcement phase of its life-cycle. Crisis and fragmentation must eventually follow, but even they are shaped and constrained by the narrative that went before.

During his time as Prime Minister, Tony Blair would sometimes be challenged by members of his own party about whether his third way narrative had outlived its usefulness. Having won gigantic parliamentary majorities, and facing an extremely weak Conservative opposition, surely Labour could now afford to be braver about asserting recognisably leftwing positions? Surely the rhetoric of the third way had been a means to an end, and could now be safely discarded to give voice to a more full-blooded socialism? Blair's favourite response on such occasions was "it's worse than you think: I really do believe it" (CONF01b).<sup>17</sup> The centrist politics of New Labour was not only a means of beating the electoral arithmetic of 1990s Britain by capturing swing voters in Basildon or Hove, nor was the rhetoric of the third way a smokescreen for their true positions. Rather this was a narrative in which a set of ideational commitments, including a distinctive political economy, were being devised and deployed. Explaining the evolution of that political economy need not mean uncovering hidden interests and assigning them causal primacy; instead, we must confront the fact that the language of "no more boom and bust" was far more than 'mere' rhetoric. It's worse than we thought; they really did believe it.

This research therefore supports a conclusion that has, in one sense, been available all along: that New Labour's economic narrative, both in its pre-crisis certainty and its post-crisis resilience, was exactly what it claimed to be. The rhetoric of the third way, and its embrace of great moderation economics, were not sustained for 13 years in government and through a global financial crisis by the machinations of interest groups or the tendency of institutions to blindly preserve the status quo. They were sustained by the sense of purpose in New Labour's political story, and by the ideational rigidity this story generated in its narrators. The rhetoric was, for the most part, seriously connected to ideas; the ideas themselves were sincerely held and increasingly inflexible. This is not to say that political strategy was absent – far from it – but over the years that strategy came to operate within an Overton window of Labour's own creation,

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<sup>17</sup> Blair would later repeat the same line in relation to foreign policy on Iraq (see Bower, 2016; Vickers, 2011) where again he was in the position of defending intransigence.

based less on electoral strategy or the economic conditions than on the internal logic of the narrative itself.

The financial crisis, when it arrived, was not only a material challenge to the economics of the great moderation, but a natural test of the sincerity of New Labour's stated beliefs, since it provided the perfect opportunity for a narrative change had the government wanted to make one. The fact that the opportunity was not seized, and indeed was actively resisted, is strongly indicative of the power of ideas. The crisis generated a tension between maintaining external validity and internal coherence in Labour's economic narrative, but this tension was not the catalyst for ideational change: instead it resulted in an uneasy combination of policy change at the first- and second-order and dogged continuity in the government's third-order goals and account of itself. This continuity was particularly pronounced in the rhetoric of Gordon Brown, whose attachment to the pre-crisis narrative was strongest.

There is a tendency in much of the commentary on New Labour to suggest that Gordon Brown's intransigence was simply a personality flaw, and to some extent that may have been true. But this is a shallow read of complex politics. Brown is hardly the first politician to display stubbornness in his convictions, or a tin ear for criticism. The fact that Brown's narrative problems were in keeping with his perceived personal shortcomings should not be interpreted a reason to dismiss the case as particular to Brown, but as a prompt to ask what other common human foibles might be worth theorising in politics. I suggest it is time to finally throw out the shopworn caricature of the hyper-rational homo-economicus, and replace it with something closer real-world political agents who, even when seeking to further a particular set of interests, or to succeed in a given institutional context, still feel compelled to come up with a narrative account that makes sense of their political choices, for the public and for themselves. Politicians, for the most part, do not just want to be seen to be in the right – they also need to believe they are doing the right thing. Narratives address uncertainty in the world, but also in the individual. And because policymakers are human, there is only a brief window of opportunity in which a

new causal story can be moulded, before it succumbs to the psychology of confirmation bias and belief perseverance.

Ignoring these social psychological dimensions in favour of a blunt conception of rationality/irrationality has left political science poorly equipped to interpret real-world cases in which the politics of economic policy deviates from the apparently rational. In a world of post-truth politics and populist movements, this will no longer do; the need to understand narrative not just as politics malfunctioning, but as essential to the political process, is more pressing than ever. We need a theory of economic policymaking that places actors in their proper context, recognising that they must confront an unenviable set of problems: perpetual uncertainty, the pressure to support economic confidence and the march of political time. Ideas are the only available signposts through this maze, but the narratives they generate quickly solidify into new obstacles. This dilemma cannot be resolved by simply getting a better narrative that fits more straightforwardly with the facts, because even deciding which facts matter is an interpretive process in which narrative constructions must be deployed. Following Colin Hay and Mark Blyth in particular, I have suggested that while there is such a thing as the material economy, we can only get at it via the processes of social construction that give economic phenomena their political meaning. Narratives are therefore indispensable and yet irretrievably problematic.

JK Galbraith argued that “The rule of ideas is only powerful in a world that does not change. Ideas are inherently conservative. They yield not to the attack of other ideas but... to the massive onslaught of circumstance with which they cannot contend” (1999: 17). I take a slightly different view. Governments’ ideas are indeed conservative, but they become so over time, by their institutionalisation as narratives. They yield to circumstance that they cannot *narrate*, which is a function of their internal logics as much as the scale of the external problem. The world inevitably changes, but ideas retain their power because they retain the ability to constrain their narrators and to set the boundaries of the politically possible. Given that background, theories of ideas in

economic policy should not only ask how new paradigms emerge, but how old ideas decay – or do not – in the face of events. The narrative life-cycle militates against an ideal-type process of paradigm change in which new thinking wins the battle of ideas; instead, change is forced to happen gradually, messily and partially as the keepers of old narrative cling to the last evidence of its validity. In the end, while interests and institutions can be disrupted by an exogenous crisis, the life-cycle of New Labour's political economy shows that there is nothing so politically intractable as a sincerely-held idea.

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## **Part IV: Methodology**

## **M1: Content analysis and interview methodologies**

This supplementary chapter provides a full accounting of the methodological choices made in the process of compiling the primary data for this thesis. Two primary research methods were used: content analysis of speeches by New Labour actors, and interviews with individuals who were involved with the New Labour government at some point. For each of these methods the following commentary sets out details of: research objectives; methodology design processes including pilot studies (in particular, the choice of a content analysis software and an interview approach); data collection and sampling; operational methodology, and some reflections on the limitations of each method, including ethical considerations.

Some methodological detail has already been explained in chapters 4-7, which reported and analysed the results of the primary research within a broader qualitative-historical account of New Labour's economic narrative. However, the methodological elements in those chapters are far from being a full account, providing only the information necessary to enable the reader to understand the selection of data being presented. The empirical chapters are necessarily long and detailed, to the extent that elaborating more fully on methodology within the main thesis would have made them unwieldy. Long sections on methods might also have been distracting if read alongside the analytical content. Dealing with methodology in a dedicated chapter in this way avoids crowding out the analysis in the main thesis; moreover it allows proper space for reflection on the methodological decisions made in the course of the research. As such the reporting of methodology in a dedicated chapter, rather than in the body of the thesis, should not be taken to imply its relegation to a second-order issue. Rather, the chapter is written with the intention that academic transparency is better served by giving methodological questions their due attention in a separate discussion.

## **Content analysis**

### *Research objectives*

A major challenge of the New Labour case study, which spanned a 13-year period in government, was how to tackle “the narrative” at a suitably forensic level without being buried under an avalanche of often very repetitive political verbiage. As noted in chapter 3, a great advantage of taking political language seriously is that there is no shortage of data; words are the medium in which politics and policy are conducted, and in the digital age most of those words survive on the record. The challenge, for the researcher, is to sift that mass of evidence in a systematic way, without simply imposing one’s own categories and finding only what one set out to find in the first place. There was particular reason to fear confirmation bias in the empirical part of this study, because I would be commencing the research with – indeed motivated by – the pre-existing impression that certain things had been said by New Labour over the years, and that they were significant in certain ways. There was therefore a need to stress-test my preconceptions about New Labour rhetoric by introducing an element of automation to the analysis that might throw up negative findings if rhetorics I had thought were common or important turned out, in fact, not to be so.

Content analysis (CA) offered a means of processing large volumes of data toward a particular research question, and hopefully of augmenting the possibilities offered by a purely qualitative-historical approach to primary sources. In particular, CA raised the prospect of being able to say more about rhetorical patterns *over time* than would be possible in a purely qualitative-historical treatment of the sources, if only because the sheer number of speeches that could be ‘read’ by content analysis software would be greater than what a single researcher could mentally process, or even realistically read, in the time available. The temporal dimension was critical to the research, which was centrally interested in observing and explaining narrative continuity

and change over time. Yet it was precisely this temporal dimension that would be most difficult to address using purely qualitative methods. An early pilot using Budget Statements to look at “stability” as a theme (Alexander, 2012) involved weeks of reading and notation, and it was quickly evident that keeping straight the subtle differences between different years’ statements would be very difficult; this with a population only 14 speeches. Resulting conclusions about the evolution of rhetoric over time would be vulnerable both on a small-n basis (only one speech per year places a heavy burden of representativeness on that speech) and because of the sheer difficulty of retaining a mental overview of what rhetorical changes had been made, and when. Content analysis, if properly specified, would in theory enable me to expand the population of rhetoric under analysis and to extract more robust findings from it.

Of course content analysis software is not an analyst but a tool, and it can only produce the results it is tasked for; processing power is no substitute for research design. In particular, CA software cannot draw conclusions about meaning: it may take observations about what is said and when, but it remains for the researcher to interpret those observations and determine their significance, if any. There was therefore a degree of caution attached to my use of CA, which did not aspire to push at some of the more cutting-edge applications of the technology (e.g. Hopkins & King, 2010; Schonhardt-Bailey 2014) or to load too much analytical weight on the outputs of the analysis, particularly in regards to causation. This was partly pragmatic – there were only so many degrees of freedom available within this single-case study – but also reflected epistemological reservations about the quantification of rhetorical data. Content analysis in political science has sometimes been used to analyse political texts “not as discourses to be understood and interpreted but as data in the form of words” (Laver et al, 2003: 311). However, to adopt such methodologies would be fundamentally at odds with the constructivist, narrative-oriented research framework pursued here. Words are not numbers; they are carriers of meaning, and while recording their incidence can point up

patterns for further investigation, it can also mislead if the importance of those linguistic patterns is mis-specified from the start. In this I concur with Krippendorff's judgment that "ultimately, all reading of texts is qualitative, even when certain characteristics of a text are later converted into numbers" (2013: 22). I wanted content analysis to take me through the rhetorical data in a relatively systematic way; I did not seek to achieve statistical detachment from the data in a way that relieved me of the problem of meaning or the complexity of context. The identification of rhetorical patterns would be a spur to qualitative reading, albeit selective reading; it could not be a substitute for it.

The objectives of the content analysis exercise were therefore deliberately descriptive rather than inferential. The aim was not to generate free-standing statistical inferences about positive causal relationships between language and key variables in a way that would satisfy the precepts of King, Keohane & Verba's (1994) model of qualitative inquiry. It was simply to identify patterns that could then be qualitatively interrogated. Specifically, the aims of the content analysis exercises conducted for this project were:

1. to observe the incidence of language in key thematic categories over time, as a means of:
  - a. testing preconceptions about the existence and centrality of certain themes in the New Labour narrative (e.g. "no more boom and bust"), and
  - b. ascertaining whether, and when, the frequency of this language of interest changed over time; and
2. to facilitate qualitative analysis of speeches by:
  - a. extracting sub-categories of language from within the larger population (e.g. all names for the financial crisis), and
  - b. providing an easy reference framework for extracting language on relevant themes while retaining the ability to view thematic keywords in context.

This second objective draws on Kelle (1997) who suggests that concerns about the erasure of meaning by computerised content analysis should not detract from its potential as a tool for organising textual data.

### *Software selection and pilot studies*

The choice of software for the content analysis work was shaped by these research objectives. Two main alternatives were considered: Alceste and QDA Miner/Wordstat. In each case, an exploratory pilot exercise was conducted using only budget statements, as a means of exploring what the software could do, and its fit with the research objectives of the project.

Alceste is an exploratory content analysis programme based on the co-occurrence of units within a body of text. As such it is a particularly powerful tool of inductive analysis, when it is simply provided with textual material and asked to perform context-blind correspondence analysis on the words therein. It is capable of distilling themes and categories in a population of texts, and for mapping the relatedness of those categories, with relatively little input from the researcher. Set against descriptive variables (e.g. political partisanship, gender) this can be a means of generating compelling evidence of the relationship between characteristics of a text and the use of language therein. For example, Cheryl Schonhardt-Bailey (2008) has used Alceste to analyse partisan differences in Congressional speech around abortion, where the programme's ability to categorise language patterns was particularly valuable in creating a structured picture of the different rhetorical styles at work. However, this inductive approach to content analysis is less useful – at least initially – as a means of narrowing down a body of text to its most relevant components, which requires the deductive imposition of categories that direct the analysis. While this could certainly be attempted as a second-round of analysis in Alceste, perhaps based on the categories generated by the inductive first round, this is a roundabout way of arriving at the population of

language of most interest, and has the potential to fragment rather than focusing the researcher's understanding of texts.

The pilot exercise for this research involved preparing and processing the fourteen Budget statements from the New Labour period, out of which Alceste generated a “rapport détaillé” with the results of its correspondence analysis. This process identified six categories of language within the budget speeches, grouping keywords together based on their likelihood of appearing in proximity in the texts. These did not, however, prove particularly revealing for the purposes of a narrative analysis. The categories revealed a certain predictability in the language of budget statements: one group, for example, was dominated by the language of tax policy (tax, duty, relief\*, rate, exempt) and another by the language of public sector financial projections (debt, deficit, cautious, project\*). The existence of such themes in budget statements is, however, neither surprising nor very enlightening. In a more comparative framework (comparing the budgets of different parties, or across very different time periods, for example) Alceste's categorisations would have more potential to surprise, but since this research is interested in within-case variance of a more subtle kind, the categorisation process proved a blunt tool. Alceste was therefore ruled out as a method for this project.

QDA Miner (and its quantitative sister programme, Wordstat) is a text analysis tool. It is relatively theory-neutral, facilitating a variety of options for text processing without committing the researcher to a particular school of content analysis. Compared with Alceste it operates mostly deductively, and is most powerful as a means of implementing coding frameworks designed by the researcher. Codes can be applied automatically (via keyword and text retrieval functions) or manually according to the researcher's judgment. Likewise, the results can be analysed quantitatively, in relation to researcher-specified variables, or qualitatively, via the keywords-in-context function.

Once again a pilot exercise was conducted based on budget speeches, coded for key vocabulary such as stability. This was a mostly exploratory pilot

to establish how to create a project in the software and to identify which of its functions would be most useful. The deductive structure of QDA miner appeared well suited to producing the frequency counts and keyword-in-context tables that would fulfil the two main objectives of the research; it was therefore selected as the software for the full content analysis.

### *Sampling and data gathering: Main corpus*

The main content analysis exercise was a longitudinal analysis of four rhetorical themes over time. It was therefore necessary to construct a corpus of speeches that would facilitate comparisons across years. For this reason the corpus focused on set-piece economic policy speeches by the Chancellor of the Exchequer, rather than including speeches that represented an irregular or one-off intervention on economic policy matters. For balance, the aim was to include speeches that had been made to a variety of audiences, making it less likely that the presence of coded language in the four themes might reflect the nature of a statement, rather than the broader narrative of the government. Comparisons across audience types might also be revealing of the thinking behind the narrative.

The original intention was to include six speeches per year, across three audience types: Budget and Pre-Budget statements addressing a general and Parliamentary audience; Mansion House and CBI conference speeches for a business and finance audience, and the Labour Party Conference and Trades Union Congress speeches addressing a leftwing constituency. In practice, it was not possible to compile a full set of TUC speeches: those for 1997-1999 could not be located, and the 2001 speech had been cancelled because of the September 11 terrorist attacks. As a result the TUC speech was dropped. A good alternative set-piece speech to leftwing audiences could not be identified, leaving five speeches per year in the main corpus, with comparisons

on the audience variable weighted to take this discrepancy into account. Table M1.3 itemises the speeches included in the main corpus.

Speeches in the main corpus were mostly sourced from HM Treasury's archived website, held by the National Archives at:

<http://webarchive.nationalarchives.gov.uk/20100407010813/http://www.hm-treasury.gov.uk/home.htm>

The exceptions were: the 1997 Budget statement which was found on the PRnewswire website; the 2008 Mansion House speech, found as an embargoed press copy via Google; and Gordon Brown's speeches to the 2008 and 2009 CBI Conferences, which were included in an edited volume of his speeches (Brown, 2010b) and on the UKpol.co.uk website, which is a privately curated collection of British political speeches. Brown's speech to the 2009 CBI Dinner was transcribed from a youtube video, making it the only one in the corpus to be analysed as-spoken rather than as-written; however the unlikelihood of Gordon Brown ad-libbing during speeches meant that this discrepancy was not believed to be significant enough to disrupt the content analysis. Finally, the government web archive's link to Brown's 2000 speech to the CBI Conference was misdirecting to the 1999 speech; the correct statement was found reproduced in full on the website of the Local Government Chronicle. While the official Treasury web archive is obviously the most definitive source for speech materials, the alternatives were deemed to be sufficiently reliable as to justify inclusion. As such the main corpus is believed to be a full and faithful record of Labour's rhetoric in the set-piece speeches selected for analysis.

#### *Sampling and data gathering: Crisis corpus*

As set out in Chapter 6, a second corpus of speeches was constructed to facilitate closer analysis of the evolution of the narrative after the crisis. A key

element of this phase of the research was the comparison between Gordon Brown, as Prime Minister, and Chancellor of the Exchequer Alistair Darling, being the two post-crisis narrators of Labour's economic policy after the crash. This necessitated a move away from set piece speeches only, because the Prime Minister's speeches on the economy were fewer and more ad-hoc than those of the Chancellor. As such, one-off and keynote speeches had to be considered for inclusion. This introduced the possibility of some bias in the sample because it was harder to control for the nature of the audience; however this risk was considered acceptable because the Prime Minister's words are, of themselves, likely to address a broader audience than the Chancellor's. It is therefore fairly safe to assume that non-set piece Prime Ministerial speeches are nonetheless representative of his overall message, as opposed to being tailored to a niche audience. Corpus selection here focused primarily on achieving balance between the two speakers, as well as a good spread of material across the time period. In practice it was possible to achieve good coverage not only of general-audience speeches, but of speeches to business audiences by both speakers, since the job of speaking to the CBI, which had been done entirely by Brown in the pre-crisis period, was split between Brown and Darling after 2007. Both also addressed the annual Labour Party conference, and with speeches in the crisis period being necessarily focused on the economy, their inclusion ensured good coverage of the economic policy language used by both speakers in front of a leftwing audience. The crisis corpus was therefore well balanced on the audience variable as well as the speaker variable.

Table M1.4 itemises the speeches in the crisis corpus. Some Prime Ministerial speeches were available on the archived No.10 website, though this was a less complete record than the HM Treasury archive. Others were sourced via the Labour Party website, [ukpol.co.uk](http://ukpol.co.uk) and through [britishpoliticalspeech.org](http://britishpoliticalspeech.org), which contains an archive of British political rhetoric curated by Dr Alan Finlayson of UEA and Dr Judy Atkins of Swansea University.

As in the main corpus, these sources were deemed reliable and the texts analysed are assumed to be an accurate record of the government's rhetoric.

### *Text preparation and variables*

Text preparation of the corpus speeches was deliberately minimal, reflecting a desire to leave the material as close to its original state as possible. There was no attempt to standardise spellings (e.g. across UK and US English verb endings) nor to clean up the way numbers are presented (billion/billions, £/pounds). Had the aim been to run a more inductive, quantitative coding process, this might have been necessary: for example, combining “globalisation” and “globalization” as a single word would produce more meaningful frequency counts than leaving them as two apparently separate text units. But since the aim was to deductively code for categories containing groups of pre-specified keywords, this could be dealt with via the coding framework, which could simply group both spellings under the same code. I therefore judged it best to leave the original texts alone as far as possible, to avoid interfering in ways that could themselves produce inconsistencies.

Text preparation was therefore limited to:

- the removal of special characters as required by QDA Miner, specifically brackets [ ] { }
- Removal of hyphens, which QDA Miner cannot process. These were replaced with spaces, so “long-term” became “long term” etc.
- Replacing the % symbol with “per cent” throughout
- Removal of extraneous text that is not part of the body of the speech (e.g. where the speaker begins with a “thank you very much” to the person introducing him).

Subheadings in the speeches were also removed. These were mostly a feature of budget and PBR statements in the late 1990s, and were removed because their usage was inconsistent over time. While the subheadings could be qualitatively interesting (for example, they often pointed up stability as a key

theme in speeches), their inclusion would have skewed frequency counts for key words towards the earlier speeches, simply because the later ones dropped the subheadings as part of their format. Removing these allowed for a straight comparison of the content, rather than the structure, of speeches.

The speeches were not proof-read before being uploaded to QDA Miner, creating the possibility that frequency counts for keywords could be affected by typing errors in the original texts. However for reasons of efficiency, proof-reading every speech in detail would simply not have been possible. Given the nature of the raw material, which will have been subject to proof-reading before its clearance for publication by the relevant government departments, the risk of errors was presumed to be low enough to be acceptable.

The structure of QDA Miner is such that each document under analysis must be assigned to a 'case' unit within the programme. In this instance, each document was treated as a separate case in its own right. Analysis can then be conducted on a case-only basis, or according to programmed variables, which are constructed by tagging each case with relevant properties. This facilitates both descriptive analysis in the form of crosstabs for frequency by variable. The following variables were constructed for the purposes of the analysis: speaker, year, speechdate, audience type (parliament/business/party) and speech type (Budget; PBR; Mansion House; CBI; Conference).

As discussed in Chapters 4 and 5, the speech materials were coded for the presence of four rhetorical themes, each of which was known to be important to Labour's economic policy framework. These were: macroeconomic stability (mainly monetary policy), fiscal prudence, globalisation and financial sector regulation. The first three were important because they encompassed the ideational core of New Labour's political economy; the fourth mattered because it captured the application of those ideas to the sector that would prove most central to the 2008 crisis. This was, therefore, a deductive exercise in extracting relevant text against pre-

determined thematic categories, combined with a longitudinal exercise in observing change or continuity within those categories. In order for this to be successful it was vital that the categories be consistently applied. This could have been achieved in one of two ways: manual coding, in which a coder reads the text and assigns codes to segments that meet pre-specified criteria, or automated coding based on pre-determined keywords. The latter approach was selected as more efficient and as offering a high degree of transparency while removing the problem of inter-coder reliability. While it risked missing language that could be considered relevant to the themes, but which did not contain the right keywords, it had the great advantage of simplicity whilst retaining the potential to capture themes effectively, provided the keywords were well enough specified to make the codes a good proxy for the concepts of interest.

The coding framework (Figure M1.1) arranged the four themes as ‘categories’ in QDA miner. Beneath each category was a set of codes built on groups of related keywords. By coding on two levels in this way, keywords in each category could be either combined or held separate to allow more granular analysis of the coded rhetoric – for example by distinguishing between references to stability, and references to boom and bust. In most cases lemmatisation (i.e. asterisked word stems) was necessary to capture variations on a common root: for example “globalis\*” captured globalisation, globalised etc. A separate stem for “globaliz\*” captured any instances where the American spelling had been used. The programme was asked to retrieve full sentences containing each keyword; these were briefly reviewed before being coded automatically using the “code all segments” function. If a keyword tended to bring up irrelevant segments, the code would be redesigned: for example, the lemmatized stem \*stab\* did not only capture

**Figure M1.1: Four themes coding framework**

<b>CATEGORIES</b>	<b>CODES</b>	<b>KEYWORDS</b>
MACROSTABILITY	Stability	STAB*, INSTAB*, DESTAB*, RESTAB*, UNSTAB*
	Boom and bust	BOOM_AND_BUST, BOOM_BUST, STOP_GO
PRUDENCE	Prudence	PRUD*, IMPRUD*
	Fiscal rules	FISCAL_RULE*, GOLDEN_RULE*, SUSTAINABLE_INVESTMENT_RULE*
GLOBALISATION	Globalisation	GLOBALIS*, GLOBALIZ*
	Global Economy	GLOBAL_ECONOM*, WORLD_ECONOM*
FINANCIAL REGULATION	Regulation	REGULAT*, DEREGULAT*
	Financial Services	FINANCIAL_SERVICE*
	City of London	CITY_OF_LONDON

different prefixes and verb endings for ‘stability’ and ‘stabilise’, but also returned hits for irrelevant words such as ‘establish’. The code was therefore redesigned to look for different stability prefixes separately. This avoided the need to manually sift retrieved segments for relevance, which would have undermined the goal of applying codes automatically in order to avoid coder judgment calls that could have become a source of inconsistency.

The unit of analysis was specified as sentences rather than paragraphs, for manageability. Coded segments were highlighted in QDA Miner, allowing for analysis against variables and keyword-in-context searches. They were also extracted and saved in Excel files, thereby generating a complete archive of relevant language on each theme, with the project variables attached. These tables would prove an invaluable resource for the compilation of the qualitative historical account in chapters 4-7. For example, every reference to prudence in the corpus could be viewed in a list, with information on the speeches in which they had appeared, facilitating conclusions about when themed language was being used, whether individual speeches were particularly driving frequency counts for particular keywords, and so on.

#### *Coding for sub-themes*

In certain areas it was desirable to break down the language within a thematic code, to achieve a more granular picture of the rhetoric being used. This could be done in two ways. The first was to report the keywords in each code separately, for example by distinguishing between “stability” and “boom and bust” in the macrostability theme. This was a simple question of deciding how to present the outputs of the automatic coding process. A second method, however, was to apply a second round of manual coding to thematically coded segments, effectively treating language in a theme as a new population of words to be re-coded. This was done for two of the four themes, prudence and financial regulation, where it was deemed that headline frequencies could not of themselves fully illuminate the ideas at work in those areas.

Figure M1.2 explains the coding frameworks devised for these manual exercises. For prudence, the purpose of the exercise was to determine whether the meaning of this language had altered over time, and especially when the juxtaposition of prudence with “purpose” had evolved. For financial regulation, I wanted to distinguish between different justifications of regulatory policy, particularly city competitiveness versus financial stability. These research objectives derived from a qualitative reading of the coded segments, which had generated an impression that the language had shifted in certain ways over time. The subcodes exercise was intended to test that qualitative conclusion and help establish its validity.

**Figure M1.2: Coding framework for prudence and financial regulation subcodes**

Prudence segments coded into one of four mutually exclusive and exhaustive categories:

- PURPOSE – uses word ‘purpose’ or puts emphasis on positive impacts of public spending
- RESPONSIBILITY – emphasises fiscal restraint and/or observing/meeting the fiscal rules
- BOTH – displays both logics
- NEITHER – all remaining segments

Financial regulation segments coded into one of four mutually exclusive and exhaustive categories:

- FINANCIAL STABILITY – emphasises stability case for regulation
- COMPETITIVENESS – emphasises competitiveness in context of regulatory policy
- BOTH – displays both logics
- NEITHER – all remaining segments

It should be acknowledged that manual coding of this kind, even based on a prescribed coding framework, requires a degree of judgment on the part of the coder. In a large-n study with more overtly quantitative aspirations, it would be necessary to validate the coding by the use of multiple coders. However for this project, the application of qualitatively-assessed subcodes was done only by me, assigning segments to one of several categories (including, in each case, a residual category to achieve exhaustiveness). Since the aim was to test the robustness of a qualitative reading of the raw texts, I judged that this approach was valid. While my application of the coding framework by a single coder could be subject to challenge, it is no more so than any qualitative interpretation, and had the advantage of being transparent in its parameters and relatively systematic. As such I judged it would generally strengthen the qualitative historical account emerging from the thematic case study.

#### *Coding for crisis names*

As set out in Chapter 6, a final content analysis exercise was designed to focus specifically on the language the government used to name the financial crisis over the period 2007-10. The coding was thus directed to a specific question: when had the government acknowledged the economic crisis problem, and in what language? Placed in its broader context, this piece of CA spoke to the question of how external validity challenges arise and are acknowledged, by asking when and how the crisis, as an EV challenge, was conceptualised and communicated in rhetoric. This required the identification of a specific sub-set of rhetorical material that dealt directly with the crisis as an object.

Automatic coding based on keywords would not have been suitable here, since the research question is inductive and descriptive: simply, what language was used and when? Specifying keywords deductively would have pre-judged the results. Instead, as with the thematic subcodes, the approach

was to manually code for relevant language based on a set of pre-determined parameters. The coding framework (Figure M1.3) specified that only segments containing a noun-form descriptor would be coded, excluding more broadly descriptive passages. For example, “these difficult times” would be coded, but a general discussion of productivity challenges would not. As with the thematic subcoding exercises, this manual approach to coding introduces a degree of researcher judgment and is therefore less automatically reliable than a keyword-based coding frame. However, seen as a structured form of qualitative analysis, it can be considered perfectly valid for the purposes of extracting relevant language, and allows for more systematic treatment of a medium-sized body of material than might be achieved through purely qualitative methods.

**Figure M1.3: Crisis names coding framework**

Looking for descriptors of the economic conditions - names for crisis - not just general discussion of economic problems.

In relation to the contemporary conditions in the UK:

- All sentences containing the word crisis
- Any references to economic difficulties, problems, turbulence or similar
- Any references to recession, depression, downturn, bust, slump, crash or the downswing of the present economic cycle

Do not code:

- Text units referring to past conditions or future recovery, unless they also meet one of the other coding criteria
- References to the downturn in other countries, unless they also refer, directly or indirectly, to conditions in the UK

### *Limitations and ethical considerations*

There are few if any ethical dilemmas pertaining to content analysis of political speeches. The material under examination is already in the public domain, and can be treated as an official record of the positions of the government at the time. Content analysis of this material is simply a technique for mining the historical archive; the challenges attending this kind of work are more methodological than ethical.

There are some important limitations of the corpus as constructed for this project. The most significant is the fact that the source material was generated by just two narrators, Brown and Darling, limiting the number of degrees of freedom in the analysis and placing a high burden of significance on the language used by those two people. This limitation is compounded by the fact that the time periods of most comparative interest – pre- and post-crisis – coincided almost exactly with the transition from Brown to Darling as Chancellor. Separating what was a rhetorical or ideational difference between the two speakers, and what was a response to the changed economic context, was therefore challenging. A pre-crisis comparison between different speakers could not meaningfully be achieved, because in the period 1997-2007 Gordon Brown was effectively the sole voice of New Labour's economic policy. As Prime Minister, Tony Blair's interventions on economic questions were notoriously few. The pre-crisis corpus is therefore entirely composed of speeches by Gordon Brown. The only alternative spokespeople in that period would have been junior Treasury ministers, who would have been operating at all times under Brown's authority and therefore could not be considered a serious alternative to the Brown narrative. The Brown-Darling comparison, on the other hand, is meaningful because both were at the forefront of conceiving, and narrating, Labour's crisis response.

Given these empirical realities, I judged it best to work with the best, most relevant, material rather than to construct larger corpuses out of weaker material in the name of balance. The coincidental timing of the crisis and the change of leadership was dealt with through the dual design of the content analysis exercises, one focused on the time dimension (main corpus), and the other on comparing post-crisis narratives between speakers (crisis corpus). Had the purpose of the content analysis been to generate evidence of strong statistical relationships between causal variables, the skew to Brown's rhetoric might have been a fundamental barrier to meaningful inference. However, the research objectives did not specify this kind of hard inference, looking instead for patterns and co-occurrences that could serve as a prompt to semi-structured qualitative investigation. The question was therefore how to work sensibly around the peculiarities of the case, rather than to control for them in the statistical sense. The presentation of the CA findings in Chapter 6, and their subsequent exploration in the historical account in Chapter 7, represent a pragmatic approach to the material that treats the QDA outputs as preliminary indications to be picked up through qualitative methods including interviews and historical interpretation. This methodological pluralism, it is suggested, achieves a more meaningfully balanced set of outputs than would have come from an attempt to construct a more statistically perfect (but less empirically meaningful) corpus of speeches.

### ***Semi-structured elite interviews***

#### *Research objectives and scope*

From the beginning of the project, it was envisaged that interviews would, if possible, be used as a secondary research method to supplement the main case study, adding "depth and richness" (Stroh, 2000: 202) to the account generated through historical and content analysis of primary sources. Since the object of analysis was the government's narrative, as embodied in public-

domain speeches, the first avenue of inquiry was to interpret that speech material directly, including via content analysis. However, interview evidence had the potential to provide a valuable second layer of interpretation, supplementing, or perhaps challenging, my initial conclusions by providing post-hoc accounts of the development of that narrative, as recalled by individuals who were involved with the New Labour government at the time. David Richards' useful article on elite interviewing particularly recommends incorporating interviews as a secondary method in this way, because "if the political scientist can combine the information gained from elite interviews with other sources of data, such a combination produces a powerful research package" (1996: 204).

The objectives for the interviews were:

1. to explore key actors' general perceptions of the role of narrative in New Labour's economic policymaking;
2. to stress-test emerging conclusions about the development of New Labour's narrative, and its relationship to policy; and
3. to explore certain key episodes in depth, particularly relating to the events of the crisis period.

I was particularly mindful of Richards' advice that "by their very nature, elite interviewees provide a subjective account of an event or issue [and] should not be conducted with a view to establishing 'the truth', in a crude, positivist manner" (*ibid*: 200). The purpose of the interviews was not to get the final word on what was 'really' happening behind the rhetoric, but to take further observations that could be set alongside the content analysis and qualitative readings of the material to build a fuller picture. Interviews were not expected to provide a proverbial smoking gun – indeed to expect this would be to reinstate the "rhetoric versus reality" framings that this research has explicitly disavowed. Rather, the interviews were intended to create opportunities to road-test my impressions of the case, to give alternative

explanations a fair hearing, and perhaps to point up new directions I had not yet considered.

Given these objectives, and in line with Richards' advice that interviewing is "probably most productive in the latter stages" of a project (*ibid*: 201), it was intended that the interviews should mostly take place after the content analysis had been conducted. However, this ideal sequencing had to be balanced against the fact that approaches to potential interviewees would sometimes have to be made opportunistically, and that the passage of time would tend to erode interviewees' recall of the events in question, such that any long delay might lead to weaker data. There was therefore a balance to be struck between waiting until interviews could be leveraged for maximum explanatory insight, and seizing opportunities for interviews in a timely manner.

### *Sample selection and limitations*

The target population for interviewees was the set of individuals who had been directly involved, at a high level, with both the coordination and the communication of New Labour's key economic messages in government. In an ideal world this would include politicians themselves, plus senior advisers and civil servants who had worked closely with the main narrators of New Labour economics. For interviewees' accounts to meaningfully contribute to the research, they would need to be able to speak with authority about the decision-making processes behind the public narrative; that is, they would need to have been high-ranking officials and advisers. Interview quality would need to be prioritised over quantity in the sample, because a few well-connected interviewees would add greater value than a large population of more junior people who had observed the key narrators at a greater remove. An effective sample would, however, need to facilitate differentiated insights across certain key variables, namely time (i.e. the pre- and post-crisis periods);

and narrator (i.e. the teams around both Brown and Darling). Even a small sample would need to strive for balance on these dimensions in order to fulfill the research objectives.

Securing interviews was expected to be challenging, given the seniority of the people involved, the fact that we would be discussing relatively recent events that might still be politically sensitive, and the fact that some of those targeted were still actively involved in politics or policy. Even those who had left the policy world for the private or third sectors could be expected to be cautious about speaking about their previous jobs, either because they might wish to reenter the political sphere at some point, or out of concern to maintain a reputation for professional discretion and perhaps to preserve relationships with other key players. Former and serving civil servants could be expected to be particularly sensitive about the appearance of discretion, while politicians might be both inaccessible and cautious. Political advisers would, it was hoped, be more naturally comfortable with discussing sensitive or controversial matters.

Against these challenges I had certain advantages: in particular, the fact that I had previously been a civil servant, including at HM Treasury in the period 2003-07. This background helped to establish my credentials as a 'sensible' person who understood how policymaking worked, and who would be mindful of the sensitivities attending officials' participation in academic research. My background also offered a practical advantage in that I already knew who many of the key players had been, and could quite easily draw up an initial wish-list of interviewees. I planned to make initial approaches under my own initiative to the most-likely candidates, and then rely on snowball sampling to develop the interview programme. The strategy would involve asking respondents to suggest further contacts and, with their permission, name-dropping those who had already spoken to me as a means of establishing the respectability of the research.

The first two interviews were conducted in 2012, towards the beginning of the project and somewhat earlier than would ideally have been the case. However both were classic example of the value of an opportunistic approach to securing interviewees. In the first case, the subject was speaking at a public event at which I was able to approach them in person. I introduced myself as a former official, briefly explained the research and asked if they would be willing to be interviewed, to which they agreed. Because the subject was both very senior and very candid, this encounter yielded a high-quality interview and a good set of suggestions for potential contacts. The subject kindly agreed that I could use their name in future approaches to interviewees, which was enormously helpful in reassuring others that I could be trusted (and indeed in getting their attention in the first place). In the second instance, a journalist who was a guest at an LSE event took an interest in the research, and offered to put me in touch with a former political adviser who might be willing to be interviewed. Once again, this person agreed to speak and was happy for their name to be used in future approaches, which was useful both in establishing that senior people were cooperating with the project and, perhaps, in provoking others to contribute, in the interests of balancing what might have been a somewhat partisan account from that adviser. Not all approaches were successful; some people agreed in principle but could not be pinned down in practice; others did not respond to requests. However, the interviews that went ahead were all extremely valuable, generating a significant amount of new data even allowing for the limitations of the sample. In the end, interviews were conducted with seven people, all very senior officials or advisers to the New Labour government. Though small, this sample did achieve the desired coverage across time and narrators. It captured the full period of government 1997-2010, and included people who had worked for both Brown and Darling.

Approaches to politicians were, unfortunately, unsuccessful, despite attempts to pursue interview requests through channels including senior academics and policy contacts. However this did at least enable the interview

strategy to concentrate specifically on gleaning insights from civil servants and advisers who might have a greater degree of detachment from the narrative itself. While an opportunity to interview Brown or Darling would obviously have been valuable in many ways, their answers would by definition have represented a continuation of the narrative rather than a commentary on it. Politicians' reflections on the narrative were also available by other means, since both Brown and Darling had published memoirs of their time in government with dedicated reflections on the economic crisis. Officials, on the other hand, could be asked to reflect on Labour's economic story as third parties and to offer observations about the processes at work behind the narrative, rather than restating or developing the rhetoric that had been the outcome of those processes. As such their interviews represented genuinely new contributions to the evidence base on the topic, and added value to the research in a way that political interviews would not.

### *Interview methodology*

Interviews were conducted between 2012 and early 2014. Initial approaches to potential subjects were usually made by email, which would give a brief outline of the planned research and my credentials, and make the request for an interview. These emails were kept as short as possible, since I knew that the working culture of policymakers favoured brevity and directness over the more expansive style characteristic of academics. The essential elements of those initial emails were: one or two lines on the research topic; a reference to my background as a Treasury official; my affiliation to the LSE; the names of any former interviewees or other contacts who had recommended I approach this person, or whose involvement might reassure them; and a nod to the fact that the interviews would be attributable only by agreement. Each of these matters was dealt with as succinctly as possible. For example, I would make clear that I was conscious of the importance of anonymity and that I would be happy to discuss suitable terms, but would not generally propose those terms

in detail in the first email. If the initial email approach was successful in getting agreement-in-principle to an interview, I could go into more detail in subsequent communications.

After initial agreement was secured, interviewees would be provided with an information pack setting out the purpose of the research, a short researcher biography, and some outline information on matters we might expect to discuss. Interviewees were not given prior sight of precise questions, but some advance notice of the topics I wanted to cover was requested by some of the interviewees, and this was generally perceived as helpful. I would also make clear, by email, that with their permission I would like to tape-record interviews for the purposes of accurate transcription, giving the interviewee the opportunity to object in advance of the interview if they wished, and creating a written record of the fact that this had been drawn to their attention. Consent for tape recording was also verbally confirmed at the beginning of each interview, before the dictaphone was switched on.

Interviews generally lasted between 30-45 minutes. Regarding the content of interviews, I followed Richards' guidance on elite interview technique, in which "the norm is not to use a questionnaire... but to adopt a semi-structured approach, using an aide memoir that can be referred to as the interview develops" (1996: 201). I would generally begin with a general discussion of the person's role during the New Labour years, both to break the ice and to mentally take them back to the period of interest. After that, the topics covered were somewhat tailored to the knowledge and specific role of each interviewee, but would include a general discussion of the role of narrative in economic policymaking, some reflections on Labour's key messages, and then targeted questions around events or policies of particular interest. Follow-up questions would sometimes have to be improvised to delve deeper into interesting answers; less important questions sometimes had to be dropped in the interests of time. The flexibility inherent in semi-structured interviewing proved generally very effective at gleaning wide-

ranging insights from each subject. After each interview a follow-up email would be sent to thank the person for their participation.

### *Ethical considerations*

The single most important issue for securing, and successfully conducting, these interviews was the question of anonymity for interviewees. It was clear from the outset that without the promise of anonymity, either people would be unwilling to speak to me or they would feel unable to be frank during the interviews. Since the research objective was explicitly to get behind the scenes of the policymaking process, and to critically examine the public narrative, interviews that could not go further than public lines-to-take would be of very little value. There might have been some scope to agree attributable quotes with individual interviewees, some of whom were more relaxed about speaking publicly than others. However this would have left an even smaller pool of unnamed interviewees, possibly making it easier to infer their identities. As a result I decided to take a consistent approach to the presentation of interview material that would guarantee maximum anonymity and, hopefully, maximum frankness in the subjects.

My approach is therefore as follows:

- Quoted interview material attributed only in generic terms to “senior official/adviser”, with in-text references to (Interview A) etc.
- Interview tapes to be held confidential and used only for transcription purposes.
- Interview transcripts to be anonymised and held confidential. Transcripts will not be placed in the public domain or circulated further.

- The list of interviewees may be discussed with my academic supervisor and with the examiners of this thesis but will not be placed on the record.

The anonymisation of elite interviews is not an uncommon strategy in the social sciences, but it does require careful justification from an ethical point of view, since it goes against the general movement towards open data. In an ideal world, interview transcripts would become part of the general stock of knowledge, enabling others to replicate or challenge the findings of this project, or to draw on the primary data in their own research. In practice, however, this is simply not possible when dealing with policy elites on matters of contemporary interest. If the interview material could only be gathered on an open-data basis, it would not have been gathered at all; cooperation and anonymity went hand in hand. As such my withholding of the primary data, and the unattributed use of interview quotes in this thesis and related publications, is a valid and necessary compromise.

Another ethically sensitive dimension of elite interviewing – at least in respect of British policymakers – is judging the appropriate balance of formality and informality in the way the interview programme is conducted. In many research contexts, the correct approach would be to standardise the terms on which subjects agree to be interviewed, and to secure clear written consents as far as possible. For example, best practice might be to ask all interviewees to sign a pro-forma agreement on tape recording, attribution and the expected uses of the interview material. However, in the context of this project, such formality would have been off-putting and would have compromised my ability to secure access to the people I wanted to talk to. The senior civil servants I interviewed were, in some respects, only too happy to speak. They found the topic interesting, and seemed to actively enjoy discussing the politics of New Labour and the interaction between narrative and policymaking. Provided they could be persuaded to speak in the first place, they made for well-informed, candid and thoughtful interviewees. However, they were also highly sensitive to anything that looked like a formal process

rather than a discussion between individuals. Perhaps ironically for professional bureaucrats, most were more reassured by an informal arrangement that allowed them to participate as individuals, rather than as representatives of an institution. Formal processes would have meant putting their professional 'hats' back on, and applying greater caution than was otherwise the case. AS such, the tone needed to be professional but somewhat informal and tailored to each interviewee's particular circumstances (e.g. whether they were still serving officials).

Given that context, I decided against written consent forms and used a combination of email communications and verbal confirmation to agree our terms of engagement. This was by no means an attempt to fudge the issue: it was essential that the terms were understood on both sides, that consent was genuinely present with no attempt at constructive ambiguity. But the manner in which these points were agreed was part and parcel of establishing rapport and trust. If I felt that an interviewee was unhappy with the situation I gave them the chance to decline the interview on the day. One subject did initially baulk at tape recording, which nearly caused the interview to be aborted. Thankfully they were persuaded to change their mind, based on the fact that other colleagues had agreed to be recorded and that I was able to assure them the tapes would be treated confidentially. Requiring a signature on a consent form would likely have pushed that person to a hard 'no'. In the end, a clear but non-legalistic process for agreeing terms with interviewees struck the appropriate balance between professionalism and pragmatism.

**Table M1.4: Speeches included in the Main corpus**

Year	Speech	Date	Speaker	Speech reference
1997	Mansion House speech	12 June 1997	Gordon Brown	MH97
	Budget statement	2 July 1997	Gordon Brown	BUD97
	Chancellor's speech to the Labour Party conference	29 September 1997	Gordon Brown	CONF97
	Speech to the Confederation of British Industry annual conference	10 November 1997	Gordon Brown	CBI97
	Pre-Budget Report statement	25 November 1997	Gordon Brown	PBR97
1998	Budget statement	17 March 1998	Gordon Brown	BUD98
	Mansion House speech	11 June 1998	Gordon Brown	MH98
	Chancellor's speech to the Labour Party conference	28 September 1998	Gordon Brown	CONF98
	Speech to the Confederation of British Industry annual conference	2 November 1998	Gordon Brown	CBI98
	Pre-Budget Report statement	3 November 1998	Gordon Brown	PBR98
1999	Budget statement	9 March 1999	Gordon Brown	BUD99
	Mansion House speech	10 June 1999	Gordon Brown	MH99
	Chancellor's speech to the Labour Party conference	27 September 1999	Gordon Brown	CONF99
	Speech to the Confederation of British Industry annual conference	1 November 1999	Gordon Brown	CBI99
	Pre-Budget Report statement	9 November 1999	Gordon Brown	PBR99
2000	Budget statement	21 March 2000	Gordon Brown	BUD00
	Mansion House speech	15 June 2000	Gordon Brown	MH00

	Chancellor's speech to the Labour Party conference	25 September 2000	Gordon Brown	CONF00
	Speech to the Confederation of British Industry annual conference	6 November 2000	Gordon Brown	CBI00
	Pre-Budget Report statement	8 November 2000	Gordon Brown	PBR00
2001	Budget statement	7 March 2001	Gordon Brown	BUD01
	Mansion House speech	20 June 2001	Gordon Brown	MH01
	Chancellor's speech to the Labour Party conference	1 October 2001	Gordon Brown	CONF01
	Speech to the Confederation of British Industry annual conference	5 November 2001	Gordon Brown	CBI01
	Pre-Budget Report statement	27 November 2001	Gordon Brown	PBR01
2002	Budget statement	17 April 2002	Gordon Brown	BUD02
	Mansion House speech	26 June 2002	Gordon Brown	MH02
	Chancellor's speech to the Labour Party conference	30 September 2002	Gordon Brown	CONF02
	Speech to the Confederation of British Industry annual conference	25 November 2002	Gordon Brown	CBI02
	Pre-Budget Report statement	27 November 2002	Gordon Brown	PBR02
2003	Budget statement	9 April 2003	Gordon Brown	BUD03
	Mansion House speech	18 June 2003	Gordon Brown	MH03
	Chancellor's speech to the Labour Party conference	29 September 2003	Gordon Brown	CONF03
	Speech to the Confederation of British Industry annual conference	18 November 2003	Gordon Brown	CBI03
	Pre-Budget Report statement	10 December 2003	Gordon Brown	PBR03
2004	Budget statement	17 March 2004	Gordon Brown	BUD04

	Mansion House speech	16 June 2004	Gordon Brown	MH04
	Chancellor's speech to the Labour Party conference	27 September 2004	Gordon Brown	CONF04
	Speech to the Confederation of British Industry annual conference	9 November 2004	Gordon Brown	CBI04
	Pre-Budget Report statement	4 December 2004	Gordon Brown	PBR04
2005	Budget statement	16 March 2005	Gordon Brown	BUD05
	Mansion House speech	22 June 2005	Gordon Brown	MH05
	Chancellor's speech to the Labour Party conference	26 September 2006	Gordon Brown	CONF05
	Speech to the Confederation of British Industry annual conference	28 November 2005	Gordon Brown	CBI05
	Pre-Budget Report statement	5 December 2005	Gordon Brown	PBR05
2006	Budget statement	22 March 2006	Gordon Brown	BUD06
	Mansion House speech	21 June 2006	Gordon Brown	MH06
	Chancellor's speech to the Labour Party conference	25 September 2006	Gordon Brown	CONF06
	Speech to the Confederation of British Industry annual conference	28 November 2006	Gordon Brown	CBI06b
	Pre-Budget Report statement	6 December 2006	Gordon Brown	PBR06
2007	Budget statement	21 March 2007	Gordon Brown	BUD07
	Mansion House speech	20 June 2007	Gordon Brown	MH07
	Chancellor's speech to the Labour Party conference	23 September 2007	Alistair Darling	CONF07a
	Pre-Budget Report statement	9 October 2007	Alistair Darling	PBR07
	Speech to the Confederation of British Industry annual conference	27 November 2007	Alistair Darling	CBI07b

2008	Budget statement	12 March 2008	Alistair Darling	BUD08
	Mansion House speech	18 June 2008	Alistair Darling	MH08
	Chancellor's speech to the Labour Party conference	22 September 2008	Alistair Darling	CONF08a
	Speech to the Confederation of British Industry annual conference	24 November 2008	Gordon Brown	CBI08b
	Pre-Budget Report statement	24 November 2008	Alistair Darling	PBR08
2009	Budget statement	22 April 2009	Alistair Darling	BUD09
	Mansion House speech	17 June 2009	Alistair Darling	MH09
	Chancellor's speech to the Labour Party conference	28 September 2009	Alistair Darling	CONF09a
	Speech to the Confederation of British Industry annual conference	23 November 2009	Gordon Brown	CBI09b
	Pre-Budget Report statement	9 December 2009	Alistair Darling	PBR09
2010	Budget statement	24 March 2010	Alistair Darling	BUD10

**Table M1.5: Speeches included in the Crisis corpus**

Year	Speech	Date	Speaker name	Speech reference
2007	Chancellor's speech to Labour Party Conference	23 September 2007	Alistair Darling	CONF07a
	Leader's speech to Labour Party Conference	24 September 2007	Gordon Brown	CONF07b
	Speech at Reuters	1 October 2007	Gordon Brown	REUT07
	Pre-Budget Report statement	9 October 2007	Alistair Darling	PBR07
	Chancellor's speech to the Confederation of British Industry annual conference	27 November 2007	Alistair Darling	CBI07b
	Prime Minister's speech to the Confederation of British Industry annual conference	29 November 2007	Gordon Brown	CBI07c
2008	Speech on business priorities for a 'Global Europe'	14 January 2008	Gordon Brown	GE08
	Budget statement	12 March 2008	Alistair Darling	BUD08
	Speech to the Confederation of British Industry annual dinner	20 May 2008	Alistair Darling	CBI08a
	Mansion House speech	18 June 2008	Alistair Darling	MH08
	Chancellor's speech to Labour Party Conference	22 September 2008	Alistair Darling	CONF08a
	Leader's speech to Labour Party Conference	23 September 2008	Gordon Brown	CONF08b
	Speech on the global economy at Reuters	14 October 2008	Gordon Brown	REUT08
	Speech to the Council of Foreign Relations in New York	14 November 2008	Gordon Brown	CFR08
	Pre-Budget Report statement	24 November 2008	Alistair Darling	PBR08
	Speech to CBI Annual Conference	24 November 2008	Gordon Brown	CBI08b
2009	Speech at the Foreign Press Association in London	26 January 2009	Gordon Brown	FPA09

	Speech at St Paul's Cathedral	31 March 2009	Gordon Brown	STPAULS09
	Budget statement	22 April 2009	Alistair Darling	BUD09
	Speech to CBI Annual Dinner	20 May 2009	Gordon Brown	CBI09a
	Mansion House speech	17 June 2009	Alistair Darling	MH09
	Chancellor's speech to Labour Party Conference	28 September 2009	Alistair Darling	CONF09a
	Leader's speech to Labour Party Conference	29 September 2009	Brown	CONF09b
	Speech at Reuters	21 October 2009	Darling	REUTERS09
	Speech to CBI Annual Conference	23 November 2009	Brown	CBI09b
	Pre-Budget Report statement	9 December 2009	Darling	PBR09
	2010 Speech to the Progressive Governance Conference	19 February 2010	Brown	PG10
2010	Budget statement	24 March 2010	Darling	BUD10

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**Index of speeches cited in the text**

In-text reference	Speaker	Speech	Date of original delivery
<b>BUD97</b>	Gordon Brown	Budget statement	2 July 1997
<b>BUD03</b>	Gordon Brown	Budget statement	9 April 2003
<b>BUD04</b>	Gordon Brown	Budget statement	17 March 2004
<b>BUD05</b>	Gordon Brown	Budget statement	16 March 2005
<b>BUD06</b>	Gordon Brown	Budget statement	22 March 2006
<b>BUD07</b>	Gordon Brown	Budget statement	21 March 2007
<b>BUD08</b>	Alistair Darling	Budget statement	12 March 2008
<b>BUD09</b>	Alistair Darling	Budget statement	22 April 2009
<b>BUD10</b>	Alistair Darling	Budget statement	24 March 2010
<b>CBI97</b>	Gordon Brown	Speech to the Confederation of British Industry Annual Conference	10 November 1997
<b>CBI98</b>	Gordon Brown	Speech to the Confederation of British Industry Annual Conference	2 November 1998
<b>CBI02</b>	Gordon Brown	Speech to the Confederation of British Industry Annual Conference	25 November 2002
<b>CBI04</b>	Gordon Brown	Speech to the Confederation of British Industry Annual Conference	9 November 2004
<b>CBI05</b>	Gordon Brown	Speech to the Confederation of British Industry Annual Conference	28 November 2005
<b>CBI06a</b>	Gordon Brown	Speech to the Confederation of British Industry Annual Dinner	5 June 2006
<b>CBI06b</b>	Gordon Brown	Speech to the Confederation of British Industry Annual Conference	28 November 2006
<b>CBI08b</b>	Gordon Brown	Speech to the Confederation of British Industry Annual Conference	24 November 2008
<b>CBI09a</b>	Gordon Brown	Speech to the Confederation of British Industry Annual Dinner	20 May 2009

<b>CFR99</b>	Gordon Brown	Speech at the Council of Foreign Relations in New York	16 September 1999
<b>CFR08</b>	Gordon Brown	Speech at the Council of Foreign Relations in New York	14 November 2008
<b>CITY06</b>	Ed Balls	Speech at the City of London Corporation Dinner	25 October 2006
<b>CONF97</b>	Gordon Brown	Chancellor's speech to the Labour Party Conference	29 September 1997
<b>CONF98</b>	Gordon Brown	Chancellor's speech to the Labour Party Conference	28 September 1998
<b>CONF99</b>	Gordon Brown	Chancellor's speech to the Labour Party Conference	27 September 1999
<b>CONF01b</b>	Tony Blair	Leader's speech to the Labour Party Conference	2 October 2001
<b>CONF03</b>	Gordon Brown	Chancellor's speech to the Labour Party Conference	29 September 2003
<b>CONF05b</b>	Tony Blair	Leader's speech to the Labour Party Conference	27 September 2005
<b>CONF08a</b>	Alistair Darling	Chancellor's speech to the Labour Party Conference	22 September 2008
<b>CONF08b</b>	Gordon Brown	Leader's speech to the Labour Party Conference	23 September 2008
<b>CONF09a</b>	Alistair Darling	Chancellor's speech to the Labour Party Conference	28 September 2009
<b>FPA09</b>	Gordon Brown	Speech at the Foreign Press Association in London	26 January 2009
<b>IoD08</b>	Gordon Brown	Speech to the Institute of Directors	20 April 2008
<b>MAIS08</b>	Alistair Darling	The Mais Lecture on 'Maintaining stability in a global economy' given at the Cass Business School, London	29 October 2008
<b>MH97</b>	Gordon Brown	Mansion House speech	12 June 1997
<b>MH98</b>	Gordon Brown	Mansion House speech	11 June 1998
<b>MH02</b>	Gordon Brown	Mansion House speech	26 June 2002
<b>MH03</b>	Gordon Brown	Mansion House speech	18 June 2003
<b>MH04</b>	Gordon Brown	Mansion House speech	16 June 2004
<b>MH05</b>	Gordon Brown	Mansion House speech	22 June 2005
<b>MH06</b>	Gordon Brown	Mansion House speech	21 June 2006
<b>MH07</b>	Gordon Brown	Mansion House speech	20 June 2007

<b>MH08</b>	Alistair Darling	Mansion House speech	18 June 2008
<b>MH09</b>	Alistair Darling	Mansion House speech	17 June 2009
<b>PBR97</b>	Gordon Brown	Pre-Budget Report statement	25 November 1997
<b>PBR01</b>	Gordon Brown	Pre-Budget Report statement	27 November 2001
<b>PBR02</b>	Gordon Brown	Pre-Budget Report statement	27 November 2002
<b>PBR03</b>	Gordon Brown	Pre-Budget Report statement	10 December 2003
<b>PBR04</b>	Gordon Brown	Pre-Budget Report statement	4 December 2004
<b>PBR06</b>	Gordon Brown	Pre-Budget Report statement	6 December 2006
<b>REUT07</b>	Gordon Brown	Speech on the Global Economy at the Reuters Building	1 October 2007
<b>REUT09</b>	Alistair Darling	Speech on 'A case for growth' at Reuters, Canary Wharf	21 October 2009
<b>STPAUL09</b>	Gordon Brown	Speech at St Paul's Cathedral	31 March 2009