Freedom – What's in a Name?

An Analysis of the Construction of the UK Mortgage Market in the Light of the Global Financial Crisis

by

Robin Patrik Klimecki

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Department of Human Resource Management, Cardiff Business School, Cardiff University

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In Memory of my Father,
Friend and Fellow Organisation Researcher
Rüdiger G. Klimecki
1951-2009

‘Planning and control are being attacked as a denial of freedom. Free enterprise and private ownership are declared to be essential of freedom. No society built on other foundations is said to deserve to be called free. The freedom that regulation creates is denounced as unfreedom; the justice, liberty and welfare it offers are decried as a camouflage of slavery.’

Karl Polanyi

Abstract

This thesis offers a detailed analysis of the politics of neoliberalism and financialization in the context of the UK mortgage market. The analysis addresses an often implied but conceptually and empirically neglected feature in the otherwise booming social sciences literature on financial markets and the global financial crisis: how political struggles shape economic space. It does this against the background of the construction of the UK mortgage market which, as opposed to its American counterpart, is still under-researched.

The thesis addresses these shortcomings by engaging the theory of Ernesto Laclau and the associated logics approach of the Essex School of Political Discourse Theory. It provides a detailed genealogical analysis of the transformations in the mortgage market during the three decades leading up to the financial crisis emphasising the significance of hegemonic struggles and ideology in its constitution.
Empirically, the thesis investigates the transformation of the mortgage market from a 'sheltered circuit' dominated by a building society price cartel in the 1970s to a sphere that is increasingly driven by global financial markets.

It is argued that at the heart of these transformations was the neo-liberalist deregulation in the name of the signifier 'freedom' which, in the neoliberalist age, became almost exclusively equated with 'free markets'.
The demutualisations of the 1990s are presented as an outcome of neoliberalist deregulation leading to a fundamental shift of power in the market. In return for improved access to capital markets and powered by ideological discourses, the demutualisation of 10 societies resulted in a massive transfer of mortgage assets to the stock market and contributed significantly to the financialization of mortgages. The struggles and resistance surrounding these events illustrate their contingent nature. However, the proposed re-mutualisation of Northern Rock had been squandered amidst a re-affirmation of neoliberalist ideology centring on the market as the best provider of mortgages.

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Abbreviations

Literature	
E	'Emancipation(s)' Laclau (1996)
LCE	'Logics of Critical Explanation in Social and Political Theory' Glynos and Howarth (2007)
HSS	'Hegemony and Socialist Strategy' Laclau, E. and Mouffe, C. 2001 (2nd ed. [1985])
NR	'New Reflections on the Revolution of our Time' Laclau, E. (1990)
OP	'On Populist Reason' Laclau, E. (2005)
Theoretical Approaches	
PDT	Political Discourse Theory (also referred to as Poststructuralist or Post-Marxist Theory)
Finance	
ABS	Asset Backed Securities
BSA	Building Society Association
CMBS	Commercial Mortgage Backed Security
CMO	Collateralised Mortgage Obligations
CDO	Collateral Debt Obligation
CDS	Credit Default Swap
FSA	Financial Services Authority
GSE	Government Sponsored Enterprise
IMF	International Monetary Fund
MBS	Mortgage Backed Security
PLC	Public Limited Company
RMBS	Residential Mortgage Backed Security
SPE	Special Purpose Entity
SPV	Special Purpose Vehicle

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‘Such crises are, above all, political events; they arise politically, they are constructed politically and they are resolved politically’ (Gamble, 2009a, p. 10).

‘A Critical Social Science has to be a double headed creature, on the one hand directed at ruling ideologies, demystifying their naturalization of the arbitrary, revealing the patterns of domination behind consecrated systems of classification, while, on the other hand, excavating and elaborating the social alternatives embedded in the lived experience and the lived experiments of subaltern communities’ (Burawoy, 2008, p. 31).

Introduction

1. The Story So Far: A View on the Financial Crisis

1.1 Current Development in the Global Financial Crisis

The financial crisis of 2007-8 and the subsequent recession are now widely understood to be the worst economic crisis since the Great Depression and, arguably, the first financial crisis of global reach. Its consequences are still ongoing and, at the time of writing, in October 2011, its future developments and potential repercussions are uncertain and potentially hazardous. Four years after credit dried up in global capital markets and three years after the collapse of Lehman Brothers and AIG which brought the entire banking sector to the verge of collapse, protecting the banks has become, once more, the central issue of economic policy in the wake of the European sovereign debt crisis given their exposure to troubled member states.

A couple of months earlier, the rating agency Standard and Poor’s (which, alongside its peers Moody’s and Fitch Ratings, has been often been accused of having its fair share in the crisis because they did not fully understand the complexity of the mortgage finance products they awarded top ratings to)[1] has downgraded the credit rating of the United States for the first time in its history. This occurrence was surrounded by a bizarre political struggle involving the boycott of higher taxation (as opposed to drastic spending cuts) for the reduction of the national deficit on the side of some republican MPs close to the notorious Tea Party Movement. Global stock markets have become highly volatile and traditional so-called ‘safe havens’ for investment have rapidly diminished amidst these turbulences. Recently, Switzerland placed a cap on the exchange rate of its national currency into Euros as a result of the devastating consequences its status as one of the few remaining safe havens had on its domestic economy. In true neoliberalist fashion, severe austerity measures to cut national budget deficits have been implemented in most Western countries to combat the costs of the meltdown. In the UK this has been adhered to with particular ideological rigour by the Tory-led coalition government, even in the light of a looming renewed recession (not to mention Greece and other southern European countries here). The crisis has moved full circle from a banking crisis into a sovereign debt crisis and back to a banking crisis again. It is now played out with increasing visibility in the global political arena. Economic protectionism, currency wars, the collapse and potential subsequent bail-out of further banks, as well as a renewed global ‘credit crunch’ and ‘double-dip recession’ and even the termination or break-up of the European Union all are not at all unlikely future consequences of these developments. Additionally, national austerity measures carry the threat of growing unemployment, reduced public services and, as the riots in the UK in August 2011 have indicated only too clearly, potential social unrest for years to come.

This thesis aims to make a contribution to how we have come to this stage and how the crisis has so far been resolved politically. It does so, under particular consideration of a sector of the economy that had been one of the most important drivers of growth in the boom years which preceded the

[1] See chapter five of this thesis for more details. For a particularly devastating critique of the role of rating agencies in the financial crisis see Lewis (2010).

meltdown, as well as the epicentre from which the crisis has erupted: the mortgage market.

1.2. Neoliberalism and Finance-Led Growth

As is argued in this thesis, the crisis can be understood as a symptom of neoliberalist expansion and finance-led capital accumulation over the past four decades of which mortgages were an important part.

Neoliberalism has developed as a particular reaction to the perceived failures of 'embedded liberalism', its preceding economic regime. In the crisis environment of the 1970s, embedded liberalism, a regime of mass production/consumption, characterised by a high level of state interventionism based on Keynesian economics, came increasingly under strain. Neoliberalism had already gained pace as the 'Fordist' system of capital accumulation (see Aglietta, 1979; Gramsci, 1971, pp. 277-318) under embedded liberalism reached its limits and the global economy (to varying degrees) entered a period of 'stagflation', a situation where both inflation and unemployment were very high, something that Keynesian economics, the dominant doctrine of the times, was deemed unable to explain. Under Margaret Thatcher in Britain and Ronald Reagan in the US, the neoliberalist project, consisting of a revival and modification of the free market capitalism of the 19th century, aimed at reducing inflation and reanimating capitalist growth. Neoliberalism was subsenquently embraced by the administrations of Bill Clinton and New Labour and, by the turn of the century, had developed into the hegemonic discourse of the West (and arguably, with modifications, increasingly also the East, see Harvey, 2005). Crucial for the philosophy that underpins neoliberalism is a particular understanding of freedom as the highest possible achievement of humanity, an achievement that presupposed 'free markets' as its necessary precondition. Private property, its other central aspiration, can also only be achieved through the workings of free markets. In this sense, free markets are necessary, if not sufficient, for the attainment of freedom and the latter hereby becomes essentially defined as a 'freedom to own' (see e.g. Minford, 1998 and chapter three and five of this thesis). Neoliberalist ideology has propelled the privatisation of state-owned or collective enterprises and the deregulation of markets, particularly financial markets, on an unprecedented scale, driven by a downright hostility towards any form of 'collectivist' organisation (see e.g. Hayek, 1962; for an overview of various strands of neoliberalist theory see Foucault, 2010). In Britain during the 1980s, Thatcher and her backers championed the privatisation of a vast range of public utilities, nationalised industries and council homes in order to create a 'property owning democracy' characterised by private ownership of housing and wide shareholding. This implied, in theory at least, that everyone should be implicated in the day-to-day reproduction of neoliberalist capitalism. These privatisation initiatives were accompanied by the large-scale liberalisation of financial services and markets that, combined with technological advancements and innovations in financial markets themselves, have progressively replaced the Fordist assembly line with what Robert Boyer (2000) of the French Regulation School calls a 'finance-led growth regime'. Hereby, capital became increasingly accumulated through financial channels rather than through trade and commodity production (Krippner, 2005; Arrighi, 2009).

While the ascendancy of finance capital is not per se a new phenomenon (see e.g. Hilferding, 1981 [1910]; Arrighi, 2009), its dominance in the past had been restricted to relatively short time spans at the end of business cycles (Marazzi, 2010) and was, arguably, not as economically, politically and culturally entrenched as it is now (e.g. see various contributions in Erturk et al., 2008 for an assessement of what is 'new' in contemporary finance capitalism). This new form of financial dominance has, in the past decade, increasingly been recognised in the wider social sciences under the label of 'financialization'. The rapidly growing body of work that investigates this phenomenon is heterogeneous and has developed many strands. In its broadest sense, financialization designates fundamental qualitative and quantitative changes that have led to a proliferation of 'financial motives, financial markets, financial actors, and financial institutions (Epstein, 2005, p. 3), hereby enabling all sorts of financial innovation as well as an associated explosion of credit-financed consumption. Under neoliberalist hegemony, financialization was actively politically backed in order to (among other things) revive capitalism and compensate for the decline in industrial production, the continuous erosion of the welfare state and the stagnation of real wages. While one of its central claims to 'intellectual and moral leadership' (Gramsci, 1971, p. 5-23) is the 'democratisation of finance' i.e. the increased access of the wider population to credit and financial claims such as shares (cf. French et al., 2009), it has often been pointed out that financialization has perpetuated and even significantly deepened social inequalities rather than reduced them (e.g. Glyn, 2006; Duménil and Lévy, 2004; 2009).

1.3. The Financialization of Mortgage Finance

Mortgage loans became by far the main target for financialization. Through a financial market innovation called securitization, thousands of claims to income streams from mortgage payments can be pooled and packaged into a financial instrument and sold to capital market investors such as banks, hedge funds and pension funds according to their 'risk appetite'. Securitization is, therefore, concerned with the packaging and sale of (housing) credit[2] . This process contributed to deteriorating lending standards, an explosion in the number and complexity of mortgage products and financial instruments and a continuous colonisation of ever increasing parts of the 'lifeworld' that could provide for such income streams such as the now infamous American subprime market or the buy-to-let segment. Hereby, securitization increasingly mutated from a funding tool for mortgage lending into an object of speculation (Wainwright, 2009). One can therefore speak of a 'financialization of mortgage funding' that turned mortgage markets, which had previously merely provided the funds for house purchase, into profitable drivers of growth in their own right (see Aalbers, 2008).

The above developments had the effect of increasingly connecting homeowners and financial markets and redefining housing as an investment for a range of welfare and consumption needs in the neoliberal era (see Schwartz and Seabrooke, 2009a; 2009b; Smith, 2008). Particularly after 9/11 and the collapse of the dot.com bubble, capital was increasingly channelled into mortgages to revive growth which, in turn, inflated the housing bubble.

[2] Securitization is not confined to mortgages. Essentially anything that can provide a stable income stream can be securitized such as car loans, credit card payments, care homes, student loans, and infrastructural projects (see Hildyard, 2009; Leyshon and Thrift, 2007 and chapter four of this thesis).

This process was propelled by a macro-economic climate of low interest rates, the sheer insatiable appetite of investors for these mortgage products (see Lewis, 2010) and the historical reputation of housing as ‘the safest asset class in history’ (Ishikawa, 2009).

The bubble burst in 2007, after a tremendous boom since the early 1990 (interrupted nonetheless by a number of financial crises such as the tech bubble crash in 2001) which was, to a large part powered by securitization and other new financial instruments such as derivatives (see Willmott, 2010b; Ertürk et al., 2010; 2011). Aptly, the crisis was triggered by mass default rates in the American subprime segment. The opacity and complexity of the financial products based on these subprime loans stopped banks from lending to each other for fear of what sort of ‘toxic’ loans other financial institutions held on their balance sheets.

The short-term funding from capital markets, on which banks increasingly became dependent in the built-up to the financial crisis, dried up which left large numbers of banks in severe difficulties to fund their long-term obligations. After the demise of Lehman Brothers in September of 2008, the financial system was at such a low level that it bordered on the brink of collapse. Governments around the world responded with a plethora of monetarist and Keynesian rescue packages to stabilise the economy and bail out the troubled banks, hereby creating a dangerous precedent for moral hazard, namely the one that most banks are now deemed ‘too big to fail.’ As the European debt crisis rages on, a return to ‘normality’ any time soon appears an increasingly remote possibility.

3. The Role of Building Societies

Following the crisis, the UK government nationalised or part-nationalised a number of banks such as Northern Rock, Bradford & Bingley and Lloyds Banking Group. Northern Rock was sold to Virgin Money in November 2011 but the rest of these banks remain in public ownership to this date.

Notably, some of the banks that experienced severe problems during the ‘crunch’, like Northern Rock, Bradford & Bingley, Alliance & Leicester and the

Halifax were former building societies that converted to bank status in the late 1990s. Building societies are (theoretically) non-profit mutual mortgage institutions that are owned by their members i.e. their savers and mortgage borrowers. Hence, societies rely in principle on an identity of interest between savers and borrowers which other banks (with the exeption of similar models such as cooperative banks and credit unions) do not possess. Therefore, mutuals are not under pressure to deliver shareholder – one of the central features of the logic of financialization.

Building societies have developed out of the friendly societies movement in the second part of the 18th century. As 'creatures of statute' (Marshall et al., 2010, p. 8), societies are restricted by law in key areas of their mortgage funding and lending in a manner that limits their exposure to risk. They have to secure at least 75 per cent of their lending on residential property and 50 per cent of their business has to come from retail depositors. That means that societies are limited as to their ability to borrow from the capital markets to fund their mortgage business. (The larger societies fund typically about 30 per cent of their business through the capital markets and this figure is even significantly less for the smaller ones [Coles, 2008, 27 June].) In other words, building societies are 'safe but boring', a label they could (briefly) turn into their advantage in the wake of the financial crisis after three decades of marginalisation.

The societies dominated the mortgage market until the late 1970s in the form of an interest rate cartel that regularly controlled more than 70 per cent of the market. Under conditions of embedded liberalism, characterised by a cautious approach to risk, societies were protected by the state which made mortgage lending for other financial institutions such as banks very difficult. This changed completely in the wake of the neoliberalist revolution whose market liberalisation and privatisation initiatives made the then even more tightly regulated societies ill-equipped to deal with new competitive pressures. A situation that, so it was hoped, could be corrected by the 1986 Building Societies Act (amended by the 1997 Act) that gave the societies additional powers and also the opportunity demutualise, i.e. to turn into public limited companies. Ten societies demutualised, Northern Rock, Bradford and Bingley as well as Halifax among them, resulting in a massive transfer of mortgage assets to the stock exchange and a major structural shift of power in the mortgage market which, as a result became increasingly driven by global capital flows.

Demutualisation was an attractive option for these societies because (among other reasons that are discussed in chapter six of this thesis), as banks, they had unrestricted access to capital market borrowing, as well as additional commercial advantages. In the wake of their demutualisations, these banks grew rapidly through the newly available funds and powered by benign macroeconomic conditions. Particularly Northern Rock made aggressive use of these new sources of funding with, at the time of its collapse, about 73 per cent of its funds coming from the money markets and 50 per cent from securitization alone (House of Commons Treasury Select Committee, 2008). Northern Rock became one of the first high profile casualties of the crisis when it sought emergency funding from the Bank of England on 13 September 2007 prompting the first (and highly televised) bank run in Britain in ca. 140 years.

The other demutualised building societies that had not previously been taken over by bigger banks such Bradford & Bingley and Alliance and Leicester also perished in the wake of the crisis. Particularly Bradford & Bingley is said to have replicated Northern Rocks business models in terms of an excessive reliance on the capital markets for funding (see chapter six of this thesis). Today, none of these demutualised societies exist anymore while, at the same time, the traditional building societies lived through a spectacular (albeit arguably short-lived) resurgence where ‘boring’ became the new ‘exciting’ as an advert by the Nationwide in 2009 put it. While the sector had to face a number of difficulties and suffered a few casualties (notably, the societies that were affected the worst were those that strayed too far from their traditional core activities, see Michie and Llewelly, 2009), it has proved overall to be relatively resilient (BSA, 2011a). An opportunity for re-mutualisation, however, has been wasted as Northern Rock has been sold to Virgin Money in

November, 2011 at a loss of £400m to the British taxpayer (The Guardian, 2011, 18 November). This opportunity would have arguably been not only immensely beneficial for the future stability of the mortgage sector as a whole (see Oxford Centre for Mutual and Employee-Owned Business Report, 2009, September) but also would have constituted a more generalcounter-hegemonic statement against what can be called, following Bourdieu (2003), the neoliberalist ‘tyranny of the [financial] markets’, a commitment that, despite the devastating impact of the crisis, has not (yet) gathered sufficient political support.

So far so bad …

As the financial crisis is without doubt a ‘crisis of financialization’ (Blackburn, 2008), it is hard to predict what the future holds for the financialized growth model which has become highly entrenched in contemporary capitalism (Serfati, 2008). It is equally difficult to say where we currently stand in relation to neoliberalist hegemony more generally given that one of its central foundations, the advancement of consumer credit in exchange for the surrender of political intervention in the economy, appears to be no longer sustainable (Harvie and Milburn 2011, 4 August). Thus, whether we are currently in a situation at the end of which there will be a fundamental transformation of the current historical bloc as Gamble (2009), with due caution, is inclined to think, only time will tell. What prevails at the moment, however, is arguably a strategy that Gramsci calls ‘transformism’ and Laclau and Mouffe term ‘logic of difference’. This strategy refers to the punctual absorption of certain demands (e.g. in relation to bonus structures in the financial sector for example) in order to preserve the institutional complex as a whole and recuperate the hegemony of neoliberalism (see chapter six of this thesis for how this strategy forms part of a reactionary response to the financial crisis; see section 1.2 of this thesis for a discussion of the concepts of logics of difference/equivalence and transformism).

However, what is certainly also the case is that the present situation provides a privileged opportunity for a critical investigation of these largely taken-for-granted forms of power and for the formulation of alternatives. It is argued here that the theory of Ernesto Laclau is highly useful for such an endeavour for reasons that are discussed in the following.

2. Why Laclau for an Analysis of the Economy and Finance?

The theory of Ernesto Laclau is not exactly easy to apply to empirical contexts in general given its high degree of abstraction and lack of methodological guidelines (see below). The latter problem has been addressed to a considerable degree in recent years but an analysis of the economy, let alone finance, is still challenging, given Laclau's almost complete silence on these matters (this issue is discussed in section two of chapter two of this thesis). Nevertheless, a Laclauian analysis of the economy can be very fruitful if its central ontological claims are 'articulated' together with other, more 'middle range' theories (see *LCE*, particularly chapter six; below in this introduction and section two of chapter two of this thesis for the 'method of articulation' and how a Laclauian framework can be, and has indeed been, combined with other theories such as the French Regulation School).

Laclau's basic ontological premises are: the contingency, discursivity, historicity, power and primacy of the political over the social (Laclau, 1990). (The social here includes the economic sphere which is not to be treated differently in ontological terms.) According to him, every social order is politically instituted and, therefore, contingent and fundamentally contestable. Contrary to deterministic accounts of the economy ranging from orthodox Marxism to the market fundamentalism of neoclassical economics, the theory of Laclau can provide a vocabulary for the critical analysis of domination that is not rooted in essentialist class relations or 'the market' as a quasi-religious institution. In the critical camp, the often totalising and suffocating accounts of Marxist theoreticians that reduce the economy (and by extension its super-structural realms of state and civil society) to capitalism, can be countered with a more nuanced account of economic differences and an emphasis on how economic space is *constructed* (and always resisted) through hegemonic power struggles. According to this view, the economy is first and foremost *political* economy in the fundamental sense of the word (see: Daly, 1999; chapter two of this thesis) and is thus always contingent and essentially contestable. This view, therefore, radically embraces Gamble's claim that crises are constructed and resolved politically without delegating the political to a subordinate status to society or the economy (see particularly section 2.3 of chapter one of this thesis for the concept of the primacy of the political).

Drawing on a Gramscian understanding of hegemony (without, however succumbing to its underlying class reductionism as will become clear in chapter one and two of this thesis), hegemony is at once a theoretical tool for the analysis of contemporary society but also a strategy of the Left to counter relations of oppression. 'Radical democracy', as this strategy is called by Laclau and Mouffe (2001), implies the expansion of a discourse of a multiplicity of demands on the basis of equality (see chapter one and two of this thesis for the concept of radical democracy, particularly section 2.2 of chapter one). Such a stragegy can can be of particular use for a critical analysis of the economy given that the dominance of neoliberalist capitalism tends to obscure and marginalise equally valid non-capitalist alternatives and demands for economic re-organisation (such as the demand to re-mutualise failed banks for example) (cf. Gibson-Graham, 2005).

For Laclau, and following Gramsci (1971), hegemony always comprises cultural, economic and political factors alike and is not confined to one sector of society such as the economy. Every economic order can, therefore, be analysed on the basis of the often neglected 'bigger picture' i.e. how the economy is culturally and politically reproduced or contested within a particular historical formation. Also, Laclau creatively uses the term discourse which, for him, encompasses material as well as symbolic elements alike and thus collapses the distinction of the domains of the material and the ideal, as well as that of subjects and objects (structure and agency in a more conventional sociologist reading). The pervasiveness of claims to the rationality and efficiency of the economy in the discourse of neoliberalism and neoclassical economics can hereby be challenged by contrasting them with a theoretical framework that emphasises the relationality, non-intentionality and the co-constitution of subjects and objects in social and economic relations (for an elaboration of these points see chapter two of this thesis).

Supplementing Laclau with the associated 'logics approach'[3] of Glynos and Howarth (2007) is useful because the latter provides a more empirically oriented account of how social regimes (such as neoliberalism) are instituted, contested, maintained or transformed in the context of social, political and fantasmatic logics (see section three and four of chapter one of this thesis for the 'logics approach'). Apart from the resulting enhanced empirical applicability, this approach also particularly helps to address the alleged 'institutional' (Dreyer Hansen, 2008a) and 'ethical' (Critchley, 2004) deficit in the work of Laclau and reconciles more overtly Laclau's poststructuralism and post-Marxism with the increasing influence of Lacanian psychoanalysis in his later work which Laclau himself, for some reasons, appears to have difficulties to fully acknowledge (see Cederström, 2007; Glynos and Stavrakakis, 2004).

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3. Towards a Strategy for Research

This thesis has developed alongside the unfolding of the crisis as sketched out above in this introduction. I commenced my studies in October 2007, a few weeks after the collapse of Northern Rock. Unavoidably, the above reading of the crisis is selective and its analysis, even within the field of mortgage finance, could have taken many turns.

Given that the application of poststructralist (leave alone Laclauian) theory to the economy is still in its very infancy, the research I conducted has been driven driven by theoretical concerns as well as by a desire to understand the

[3] There is also an entirely unconnected bourgeoning literature on 'institutional logics' in the field of new institutional theory. For an overview see Thorton and Ocasio (1999).

intricacies of the crisis that were unfolding in front of my eyes. The importance of mortgages for the crisis as well as the bull years that preceded it became clear relatively quickly resulting in a plethora of literature on the topic from numerous theoretical perspectives (even though before the fall of 2007 the complex financial products that were being traded at the time, rarely featured in the business press leave alone social sciences literature, with a few notable exceptions [e.g. Pryke and Freeman, 1994; Leyshon and Thrift, 2007; Langley, 2006; Gotham, 2006]).

However, the British mortgage market has hereby often been overlooked in favour of the excesses of the American market, particularly its subprime segment (Wainwright 2009a; 2009b are recent exceptions). However, the mortgage market in the UK is the second most financialized in the world and its transformations in the neoliberal era are far more visible than those in the US that had already an established market for securitization when Reagan came to power (see chapter four of this thesis). In other words, the British context provides an excellent investigative terrain of how markets have been 'made' in the era of neoliberalist hegemony.

The failure of the demutualised societies and the simultaneous resurgence of the mutual model have provided an almost ideal-typical example of what Laclau (1990) refers to as a moment where the contingency of the social and its institutionalisation through political struggles becomes visible. For Laclau, these struggles always involve power in the sense of the exclusion of other equally valid possibilities. Inspired by Michel Foucault's famous statement that history is the history of the present (which corresponds to Laclau's view), a genealogical research strategy gradually emerged that became concerned with referring back to 'the original terrain of violence' through which the present order had been constituted via the exclusion of other, equally valid, alternatives.

This PhD, then, aims to make the following contributions to knowledge: firstly, it provides a detailed genealogical account of the UK mortgage market which has been an under-researched topic. Secondly, it aims to add to existing studies on the financial crisis by providing an account that highlights the constitution of economic and social space through political acts of institution and associated hegemonic power struggles and, thirdly, it provides an in-depth ‘case’ as to how the neoliberalist restructuring of the global interacts with that of the local or national, a process that has been frequently asserted (see particularly Langley, 2008a) but rarely investigated in sufficient detail. The thesis therefore aims to bridge a gap between a detailed analysis of financial instruments and the financialization of the mortgage market (e.g. Morgan, 2010; MacKenzie, 2011; Aalbers, 2008; 2009a; 2009b; Wainwright, 2009a; 2009b), the broader structures, ideologies and trends of neoliberalist expansion (Harvey, 2005; Gamble, 2009a; 2009b) and accounts of power in the poststructuralist political economy (Daly, 2004; 2006; DeGoede, 2003; 2005; 2006; Langley, 2006; 2008a).

The thesis has been guided by the following research questions that have evolved over time:

1. <u>How</u> can the theory of Laclau and PDT be fruitfully conceptualised for an analysis of the economy and finance?

2. <u>How</u> and why has the UK mortgage market been transformed from a protected circuit in the 1970s to a highly financialized and competitive market in 2007 where the mutual model had been increasingly antagonised? What have been the implications of these transformations for the global financial crisis?

3. <u>How</u> have neoliberalist hegemony and financialization been reproduced or contested culturally, politically and economically in the context of the UK mortgage market?

Empirically I have conducted more than twenty interviews with financial experts and collected hundreds of newspaper articles, numerous government and trade body reports and other texts such as historical textbooks and publications by think tanks for the analysis in the chapters 4-7. The methodology and methods used in the thesis are discussed in the following section.

4. Methodology, Methods and Empirical Analysis

4.1 Methodology

The theory of Laclau questions the distinction between ontology (what is) and epistemology (how do we know what we know) which other theoretical traditions take for granted. Meaning is therefore to be used coterminous with the being of objects (see chapter one of this thesis) – not because objects do essentially not exist as, say, a radical constructionist discourse would assert but because every object is constituted by a discourse that mediates its meaning. It is thus that Laclau shifts the focus of discourse analysis from the epistemological to the ontological level as discourse (including its limits) is the most fundamental ontological level that can be experienced (Laclau, 1990). Therefore, the 'method' of a Laclauian analysis, if such a thing exists at all, is couched in its central ontological concepts (Howarth, 2000). Indeed, Laclau himself is firmly against any kind of generalisable 'method', arguing instead, with Paul Feyerabend, 'against method' and for an 'ad hoc contextualised analysis' by the researcher who should decide freely on the respective procedures that he/she deems appropriate for the investigation into the specific phenomenon in question. He makes this argument in order to avoid the 'positivist fallacy' in the social sciences which wrongly assumes that there is 'a world out there' that can be accessed and investigated (via scientific methods) independently of subjective involvement and discursive mediation (Laclau, 1991). There has been, however, a significant advancement of empirical case studies and methodological guidelines mostly in the field of Political Discourse Theory (PDT) based at the University of Essex in recent years (see section three of chapter one of this thesis) but also by other scholars (see e.g. *LCE*, Howarth, 2000; ESRC Research Methods Review Paper, 2009; Phillips and Jorgensen, 2009; Cederström and Spicer, forthcoming; Howarth, Norval and Stavrakakis 2000; Torfing, 1999; Howarth and Torfing, 2005; Glasze, 2007).

These accounts stay true to Laclau's ontological stance and do not advocate a 'one size-fits-all-approach'. A common feature of these methodological translations of Laclauian theory is that they mostly advocate qualitative research methods (apart from very basic quantitative operations such as the counting of signifiers in a text for example) and triangulation in order to evaluate the rich meaning of a particular discourse. Most of these accounts also stress the 'context dependency' of social science research as well as the role of the analyst in constructing the objects under investigation. My own approach towards a Laclauian analysis of the economy is outlined in the above in this introduction as well as, in more detail, in section three of chapter two of this thesis. It identifies key concepts of Laclau (and in the case of chapter seven, Lacanian psychoanalysis) in order to analyse the transformations in the UK mortgage market in line with the overall aim to lay bare contingent acts of political institutionalisation and its associated constitutive power struggles.

Glynos and Howarth's (2007) 'method of articulation' has been useful as a guideline here. According to this 'method', different theoretical frameworks and empirical materials are articulated together in accordance with the central ontological claims of Laclauian theory and with the aim to account for a specific problem under investigation. What social science is concerned with, according to them and following Foucault in this instance, are the problematisations of problems of a society, or in what way problems themselves become problematised (*LCE*, chapter six; Howarth, 2005). In the case of this thesis, a range of different empirical sources and theories based on the central concepts of Laclau and PDT are articulated together in order to investigate how the problem of the financial crisis became problematised in the mainstream discourse. The thesis argues that these problematisations have been mostly concerned with greed and inflated bonuses and the 'repair' or 'fixing' of an otherwise healthy economy. In doing so, these narratives have narrowed the scope for political intervention and the articulation of alternative projects. A crucial task of the researcher is to actively intervene in this process by *naming* the logics and counter-logics that constitute a given social space (see section 4.2 of this chapter for more details on the role of the analyst; see section 3-4 of chapter one of this thesis for an in-depth discussion of logics).

In this thesis, the process of the naming of (counter-) logics takes the form of juxtaposing the logic of financialization with the logic of mutuality against a background of neoliberalist hegemony and ideology that has created a terrain for antagonisms and struggles. A genealogy has hereby emerged as a particularly useful strategy as it combines a critical historical analysis with a creative imagining of alternatives possibilities:

> '… Genealogies act as histories of that present in that they unsettle and undermine the presumptions and orthodoxies of our time. They show how what we often think of as natural or rational is, in fact, historically contingent and more or less random. The genealogist highlights the accidental nature of what currently exists, and, moreover, by doing so, draws attention to possibilities that are excluded by our particular present. The genealogist encourages us to think beyond our world, to imagine new possibilities to search for new freedom and new identities' (Bevir, 1999, p. 356).

The empirical data that I have collected and analysed in the course of my research was carried out in the spirit of this discussion and with the aim to build rich corpus of empirical material that is able to reflect the perspectives of different stakeholders involved in the construction of the mortgage market and provides the means of a critical analysis of this complex process.

4.2 Data Collection and Analysis

The selection and analysis of the data that is used in the thesis has been the result of, firstly, the theoretical perspective deployed and, secondly, the result of the empirical object and problematisations under investigation which is the construction of the mortgage market in the UK in the light of the financial crisis.

As stated above, Laclau himself is rather sceptical (if not downright hostile) to what is commonly understood as research methodology and methods on the grounds of regarding prescriptive procedures for the collection and evaluation of empirical material as being part of the 'positivist fallacy'.

This 'deficit', if one wants to use this term, has now been 'rectified' to some degree by PDT. However, as also indicated above, the latter does not contain a prescriptive and rigid set of rules and procedures for carrying out empirical research since PDT also acknowledge the potential problems inherent in the application of formal-theoretical concepts to concrete contexts. Rather, PDT comprises a number of guidelines – the 'method of articulation' - that allows for a range of different concrete research strategies dependeding on the context and the needs in line with its main theoretical claims. Thus, 'method' is understood here to be linked to the ontological categories of discourse theory. In this sense, PDT shares a resemblance with other discourse theoretical and related approaches that gather a rich range of possible qualitative data to broadly investigate the way that 'versions of society' (including the economy, of course) are produced (see Bryman, 2008)[4].

Most discourse theoretical perspectives, and PDT is not an exeption here, value the a variety of different sources for analysis containing documents, speeches, media reports, interviews and so forth. As such, discourse analysis draws on features of both documentary analysis and conversation analysis, although with a focus on what the content and structure of the discourse conveys. This mixing of different qualitative procedures for data selection and analysis serves as a form of 'trianguation' in which a social phenomenon is

[4] See in this context the discussion on performativity in section three of chapter three of this thesis with respect to how the economy is produced in texts, reports, speech etc.

investigated from a variety of different vantage points.[1] Strictly speaking, a triangulation consists of mixing qualitative and quantitative methods within a research design to enhance the criterion of validity (the extent to wich a concept or measurement adaequately corresponds to the 'real world')[5] but it is used here in a broader sense to designate the combination of different qualitative sources and approaches in order to account for different stakeholders involved in the discourse and, thus, to make the research more representative (see Miller et al., 2004). Similarly, Cederström and Spicer (forthcoming) advocate a triangulation strategy to account for the complexity in meaning and emotion in discourses. As Howarth (2000, p. 140) puts it:

'The various *qualitative methods* used by discourse analysts to generate and collect empirical material share an important set of famility resemblances with historical, ethnographic and anthropological research. Discourse analysts thus gather primary information from a range of possible sources, which include surveys of newspapers, official reports, 'unofficial' reports such as pamphlets, organizational minutes and agendas, personal biographies and media representations such as television documentaries and film...by investigating the structural features of the contexts that limit but do not determine, social and political possibilities. In all these respects, discourse analysts have to be sensitive to the theoretical postulates governing their research practices (original emphasis).'

I have followed this approach throughout my research by selecting a wide range of qualitative data for analysis guided by my theoretical framework and the empirical problematisations under investigation (Howarth, 2005). Hereby, it became important, firstly, to select empirical material that is diverse and heterogeneous to account for the complexity of the construction of the UK mortgage market over time and, secondly, to adaequately represent the two 'stakeholding' logics that are the focus of the thesis: financialization and mutuality. A particular focus of the research has been to give 'a voice' to the logic of mutuality in line with the overall emancipatory aim of my theoretical approach, i.e. the aim of making power-relations visible and accounting for

[5] This, as will become clear in section 1.1 of chapter one of this thesis, cannot apply to a Laclauian analysis, as there the world cannot be accessed without the intermediation of a discourse.

possibilities of social change (Phillips and Jorgensen, 2006). The research data collection was informed by both the need for ‘information gathering’ (see Kvale and Brinkmann, 2009) and the aim to critically examine conflicting narratives.

Access constraints during the financial crisis and the gradual emergence of the historical/genealogical component of the study also contributed to the broadening of the data that had initially started with interviews. The collection and evaluation of this data set is discussed in the following pages.

I have conducted 20 interviews with financial experts (see appendix for the list of interviews), varying from twenty minutes to about 90 minutes in length. I have transcribed half of them (I was not able to record the other half of the interviews due mostly to requests made by the interviewees, in this case extensive notes were taken). The interviewees were either personal contacts or approached because of their function such as, for example, the Director General of the BSA (whose title I have given with his consent). Hereby, a snowballing approach was adopted that led to additional interviews (see Schnell et al. 2000).

Due to the highly volatile situation of the economy at the time, a rather loose conservational style was adopted during the interviews to ensure that the atmosphere was as comfortable as possible for the interviewee and to minimise the potential impact of emotionally unsettling questions as well as to reduce as much as possible the asymmetrical relationship between an interviewer and an interviewee (Bryman, 2008, part three). All participants were informed that they could leave the interview at any time or choose to leave questions unanswered if they wished to do so. The proposal for these interviews was signed and approved by the ethics committee of Cardiff Business School of Cardiff University prior to conducting the interviews themselves.

In addition to the interviews, I have placed a particular focus on the analysis of newspaper articles. This was due to the fact that most of my interviewees, with some exeptions, did often not remember the precise historical circumstances in relation to some of my questions. (Also, in case of the psychoanalytically informed 'fantasmatic logic' that is examined in chapter seven of this thesis, I have particularly relied on accounts in the yellow press as ideology often reveals itself in those 'semi-official' sources according to Glynos and Howarth, 2007, pp. 145-151.) During the course of my research, I have collected over 300 newspaper articles in total, hereby ensuring that the articles are from a wide variety of newspaper sources.

For this purpose, I am grateful to have been able to research older newspaper articles at the newspaper archive of the British Museum, then in Collindale, London. For the same reason, and to obtain additional material such as historical reports in building society publications and older mortgage market publications, I am also grateful to have been given access to research the library of the Building Society Association in Aldwych, London on several occasions.

This empirical material has been further supplemented by other archival data such as particularly government reports and publications by trade bodies and think tanks. Hereby, I have again ensured to select the data consistently from a number of different sources covering a broad political spectrum. I have gathered around fourty of these reports during the course of the PhD. Where needed, I have further added other archival data such as historical textbooks on some occasions and an election manifesto to provide additional depth to the study and substantiate crucial arguments.

All the data collected during the course of my research served the building of an 'archive' (Howarth, 2005, pp. 337 ff.) to account for a rich and multifaceted analyses of the construction of the UK mortgage market since the late 1970s. The method of 'corpus construction', rather than a more mainstream formal sampling process, has hereby proved out to be more appropriate for the purpose of my research. The construction of a 'corpus' means the construction of a collection of text. This procedure consists of a stepwise process of data gathering which involves the selection of data, analysis, and then a renewed selection until a 'saturation point' is met (Bauer and Aarts, 2000).

For Bauer and Aarts (2000), using a grounded theory approach, this saturation point is met when a theory can be constructed inductively out of the data. In my thesis, however, this saturation point was met when the additional data could no longer add anything significant to the analysis of the logics and problematisations under investigation. While, undeniably, a certain arbitrariness needs to be factored into this approach (not out of convenience but due to the nature of this research strategy), the selection of the data and construction of the 'archive' or 'corpus' in my research can nevertheless be justified on the grounds of the diversification of my data collection, the public accountability of my sources, and the consistency in my selection strategy (Howarth, 2005, p. 337).

One thing, however, needs to be added here which concerns the role of the researcher or analyst. As indicated above, it is acknowledged in PDT that the researcher is already politically engaged by carrying out his/her research. By naming logics and counter-logics, it is unavoidable that the researcher actively participates in the construction of the object that he/she analyses (Glynos and Howarth, 2007).

A value-neutral 'scientificism' à la Max Weber is therefore not possible, nor is it desirable. However, the researcher's choices are not completely arbitrary, as Glynos and Howarth, (2007, p. 196) point out:

> '..In *naming* dominant social logics and counter-logics, we engage in a task of rhetorical redescription that foregrounds the contingent and political character of social practices. It does not follow, of course, that objectivity is substituted by a kind of subjectivism in which the analyst's individual preferences become foundational. It only follows that the political analyst is already engaged in a hegemonic struggle, deploying political logics of rhetorical redescription in the very process of characterising and explaining discursive practices. This is what is at

> stake in indentifying and emphasizing one social logi rather than another. This is to say, it involves the linking together of certain discursive features in equivalential chains, thereby making them part of one rather than another logic (original emphasis).'

The researcher, therefore, constructs a particular relation among certain elements in the course of his/her research in the process of naming, the outcome of which Glynos and Howarth call 'rhetorical redescription' (see in this context particularly the extensive discussion on discourse and chains of equivalences in chapter one of this thesis). In doing so, the researcher takes sides or discovers previously ignored struggle, in short the analyst's research is political because it becomes him/herself involved in such a struggle. However, he/she does not, and indeed cannot if the research is to be properly conducted, arbitrarily 'invent' the object under investigation on the basis of personal preferences.

My own role in carrying out this research has therefore been no less political in nature. I have actively sought to challenge the hegemonic discourse of neoliberalism and financialization by foregrounding a counter-logic that has been marginalised. Therefore, I have engaged in a process of 'rhetorical redescription' as Glynos and Howarth call it and, hence, my own role cannot be divorced from the results of this study. But, on the other hand, those logics also transcend my particular process of naming them and, while a different researcher would have made different connections and would have constructed different logics and thus reached different conclusions, the underlying struggles that consititute social and economic space are nevertheless 'real' (see also section one of chapter one of this thesis for the theoretical underpinnings of this view).

Returning to the dataset, I will clarify the evaluation of my empirical material in the following. The approach that I have adhered to here treats its various data sources as text (Howarth, 2005). This does not mean that it is merely concerned with speech and writing but that, at a more abstract level, all data that is collected forms part of a 'meaning-given totality' that is a text[6] (see also section one of chapter one in this context). At a more concrete level of analysis, one can distinguish between linguistic and non-linguistic as well as reactive (interviews) and non-reactive (documents) data for specific purposes.

I have used my interview transcripts and extensive interview notes as a starting point for my research with a particular focus on the 'contextualised self-interpretations' of the interviewees (see Glynos and Howarth, 2007). Since a logics approach to empirical research always proceeds through contextualised self-interpretations but, ultimately, moves beyond them[7], these accounts were then successively supplemented with the archival data listed above where needed.

My interview data as well as most of my other empirical sources were coded in order to highlight and identify specific concepts or dimensions in the theoretical framework of Laclau and PDT (cf. Cederström and Spicer, forthcoming; Phillips and Jorgensen, 2006). The coding was an ongoing process that became more diverse and refined over time. Hereby, I used different colours to highlight different coding themes. However, this was not carried out with the aim of generating a large quantifiable dataset for quasi-statistical operations but with the aim of making certain dimensions of Laclau's theory fruitful for economic analysis. The coding process was therefore analytical rather than descriptive or inductive[8] (cf. Schwandt, 1997, p. 16). Hence the guidelines for the categorization and coding of empirical data were directly derived from the theoretical framework of Laclau and PDT (see also Howarth, 2000). This strategy is broadly analogous to a vast amount of research in the social sciences in which researchers identify categories in existing theories and apply them deductively to the data (Lindlof and Taylor, 2002). However, my study has not been a case of mechanical testing but,

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[6] In this sense, one can indeed say with Derrida that 'there is nothing outside the text' (ibid, p. 336).
[7] A PDT analysis moves beyond contextualised self-interpretations because the interpretation of actors is important but not suffiencient to tackle the more ontological questions that this approach is concerned with.
[8] A more stadardised early approach of using computer assisted data analysis proved out to be too rigid for my exploratoy approach.

rather, has involved a constant circular 'dialogue' between data and theory which aimed to avoid the mechanical application of theoretical concepts in favour of unexpected discovery and theory development. The method of coding that I have used is therefore, arguably, more aptly described by the notion of 'circling the text' where writing itself becomes an ongoing process of data collections which, in turn, yields new and unexpected results (St. Pierre, 2002).

I began the process of coding with two categories: 'struggle' and 'affect'. By the end of my analysis, I had identified around 20 distinct categories in relation to central concepts of Laclau and PDT and, to a lesser extent, also Antonio Gramsci. The most important ones and thus the ones most widely used in the thesis are fantasmatic logics and dimensions, the political, power-struggles, antagonism, empty signifier, dislocation, discourse, relation, bricolage, subjectivity, hegemony, common sense, war of position and civil society. These categories subsequently became the analytical backbone of my analysis chapters 4-7.

The research process outlined above has resulted in the following structure of the thesis.

<u>Chapter One</u> is the first of three 'theory chapters'. It gives and in-depth account of the theory of Laclau and PDT supplemented, where appropriate, by two of their major influences: Antonio Gramsci's theory of hegemony and aspects of Lacanian psychoanalysis. Particular emphasis is placed on a thorough account on the most important concepts of the literature and examples are given that relate to the empirical part of this thesis in order to illustrate the theoretical framework.

<u>Chapter Two</u> gives an overview over the challenges and opportunities of a poststructuralist view on the political economy according to Laclau and Political Discourse Theory (PDT). In drawing on literature in the field of poststructuralist political economy and Laclauian theory, the particular contribution that this approach can make to economic analysis is discussed

and contrasted with the doctrine of neoclassical economics (the ‘scientific’ enabler of neoliberalist hegemony) to which it is fundamentally opposed as will be shown.

Chapter Three gives a theoretical overview over the concepts of neoliberalism and financialization and their interrelated nature. The chapter then procedes to investigate three of the most important theoretical approaches to financialization – the Regulation School, British Social Accountants and cultural approaches/financialization of everyday life[9].
These approaches will be then be articulated together with the theory of Laclau and PDT in the later chapters in order to account for the financialization of the mortgage market from a range of perspectives and informed by Laclau’s fundamental ontological insights.

Chapter Four is the first of four ‘empirical chapters’. It characterises the financialization of the UK mortgage market prior to the ‘crunch’. The chapter investigates the ‘social logic’ of mortgage market financialization – how the latter ‘ticks’. It hereby draws on on the Laclau’s notion of discourses as relational complexes and Gramsci’s insight that hegemonies always comprise of cultural, political and economic factors alike. The chapter hereby situates the financialization of the UK mortgage market within the broader relational bloc of neoliberalist hegemony.

Chapter Five is concerned with the ‘conditions of possibility’ of the financialization of the British mortgage market which, in turn, sowed the seeds of the marginalisation of the mutual model. The chapter investigates the transformation of the UK mortgage market in the late 1970s and early 1980s in the context of the rise of neoliberalism. The chapter particularly focuses on the ‘instituting dimension’ of neoliberalism and the associated struggles that shaped the market.

[99] The last approach is not a coherent theory but designates a range of approaches to contemporary finance that emphasise culture and everyday life.

Theoretically, the chapter makes particular use of Laclau's concepts of the primacy of the political and its associated notion of power, the political logic of equivalence and the concept of empty signifiers. Hereby, the processes and struggles that led to the abandonment of the building society price cartel are investigated in detail.

Chapter Six analyses how the institution of the neolibealist 'particular' became increasingly associated with the 'universal' in the course of the 1980s. The chapter investigates the rise of a new 'market logic' that progressively marginalised and eroded the mutual model of mortgage lending and funding in the context of the massive liberalisation of financial services in the 1980s under Thatcher. Also, the chapter deploys Laclau's concept of antagonism and Gramsci's concept of war of position to investigate the struggles that surrounded the demutualisation frenzy of the late 1990s resulting in an enormous transfer of mortgage assets to the stock market which, in turn, significantly contributed to the large scale financialization of mortgages.

Chapter Seven mobilises the Lacanian inspired category of fantasmatic logic to analyse the persistence of the ideology of 'no more bust just boom' that preceded the global financial crisis. It then discusses how this fantasy became modified in order to revive the neoliberalist project in the wake of the financial crisis. In doing so, chapter shows how this fantasy underpins a restorative logic of difference that aims at the preservance of existing relations of power.

Chapter Eight provides a concluding discussion and synthesis of the main theoretical and empirical findings of the thesis and places them within broader theoretical and empirical debates on the financial crisis and economic analysis more generally.

Chapter Nine is the conclusion. It summarises how the research questions outlined on page 26 have been addressed throughout this thesis. Also, the chapter investigates the implications and limitations of the thesis and discusses potential paths for future research.

Some of the empirical material that appears in the chapters one, six and seven of this thesis is also used in the following joint publications that I have been involved in:

Klimecki and Willmott (2009); Klimecki and Willmott, (2010) and Glynos, Klimecki and Willmott (2011). While these publications undoubtedly have influenced my perception of these chapters, their wording and final conceptualisation are my own.

'It is only when the open, unsutured character of the social is fully accepted, when the essentialism of the totality and of the elements is rejected, "hegemony" can come to constitute a fundamental tool for political analysis of the left. These conditions arise originally in the field of what we have termed the 'democratic revolution' but they are only maximized in all their deconstructive effects in the project for a radical democracy, or, in other words, in a form of politics which is founded not upon dogmatic postulation of any 'essence of the social' but, on the contrary, on affirmation of the contingency and ambiguity of every "essence" and of the constitutive character of social division and antagonism' (Laclau and Mouffe, 2001, p. 192-3).

Chapter One: The Theory of Ernesto Laclau and Political Discourse Theory (PDT)

1. Discourse

1.1 The Philosophical Roots of Ernesto Laclau's Theory of Discourse

The theoretical concept of discourse, as well as its limits, initially laid out in *Hegemony and Socialist Strategy* in 1985 with Chantal Mouffe, is centrepiece to Laclau's theoretical framework. For Laclau, discourse is the primary ontological terrain for the constitution of the social. His highly innovative conceptualisation, or even 'creative misapplication' (Howarth, 2004, p. 265) of the category of discourse is rooted in what he calls 'the transcendental turn in modern philosophy' where 'facts' are no longer the primary object of analysis 'but their conditions of possibility' (Laclau, 2007, p. 431).

According to Laclau, during the course of the twentieth century this turn culminates in the development of three main philosophical currents namely analytical philosophy, phenomenology and the poststructuralist critique of structural linguistics. As Laclau remarks, the works of the later Ludwig Wittgenstein, Martin Heidegger, as well as Roland Barthes, Jacques Derrida and Jacques Lacan respectively, in one form or the other, all arrived at some version of discourse theory in the sense that they increasingly put into question a direct and unmediated access to the world ‘as it really is’: ‘In the three cases, there is an initial illusion of immediacy, of a direct access to the things as they are in themselves ... Now, at some point this initial illusion of immediacy dissolves in the three currents ... This means that discursive mediations cease to be merely derivative and become constitutive’ (Laclau, 2005b, p. 1).

This conclusion has a number of far reaching consequences for the theorising of discourse following Laclau. The category of discourse is radically broadened – beyond the traditional understanding of discourse as merely designating speech and writing – to encompassing all aspects of social reality. Society and politics, as Laclau stresses, can be conceptualised as signifying systems that function analogous to the tropological movements of language (Laclau, 1998).

This entails, for Laclau (and Mouffe) that, firstly, what is generally referred to as ‘objectivity’ is a discursive construct and can no longer be thought of as being accessible without discursive intermediation. Hence, all objects within this discourse are ‘meaningful’ to the extent that they are constituted within systems of socially constructed rules. Laclau and Mouffe (2001; 1990) do not deny that objects have a form of extra-discursive presence but argue that outside of a discourse those objects merely have ‘existence’, not ‘being’. The ‘being’ of objects does therefore vary depending which particular discourse constructs their meaning. As they point out, a stone exists outside of social relations but whether it functions as a projectile or an object of aesthetic contemplation can only be determined within a particular discursive totality. Without discursive representation, a stone would not be a ‘stone’ as there would be no means with which to distinguish it from other objects (Laclau and Mouffe, 1990, pp. 97 ff). To give another example, a forest standing in the path of a proposed motorway might represent an obstacle to the implementation of a new road system, an object of special interest for scientists and naturalists, or a symbol of a country’s threatened heritage. Its ‘being’ is therefore determined by various particular ‘system of differences’ that can be called discourses and include the production of ‘subject positions’ with which subjects can identify (Howarth, 2000, p. 102; for the concept of subjectivity see section 1.4 of this chapter).

Further, Laclau and Mouffe demonstrate that the linguistic and extra-linguistic realm can no longer be treated as being distinct. Drawing on an example inspired by Wittgenstein, they argue that building a wall with another bricklayer involves linguistic as well as non-linguistics components: the asking for the bricks and the adding of the latter to the wall are part of the same meaning-giving totality which is neither purely linguistic nor non-linguistic. Both components are internal parts of a discursive configuration. A discursive structure is therefore understood to be material and cannot be subsumed under the idealist pole of an idealism/realism dichotomy. Laclau (2002) states in a discussion with Roy Bhaskar that the term discourse could essentially be replaced by that of practice. However in order to stress the importance of language within a signifying system and to provoke a certain engagement with the concept, he has chosen to retain the term discourse.

1.2 Discourse as a Relational Complex; Logics of Difference and Equivalence

The concept of discourse, which has risen to prominence in the social sciences as part of the so-called ‘linguistic turn’, has developed a plethora of strands in its respective sub-disciplines. How the category of discourse is conceived of and applied, thus, very much depends on the theory that is being used (for an overview of the concept as used in the broader social sciences and with particular reference to the theory of Laclau and Mouffe see Howarth [2000]).

Laclau is following Ferdinand de Saussure’s notion that language is nothing but a series of differences. Therefore, discourse is, for him, an ensemble of differential positions. These differences are relational in the sense that they cannot exist independently of other differences. To understand the term ‘father’ for instance, one has to understand the term ‘son’ and ‘mother’ etc. ‘Father’, like ‘stone’ in the earlier example, can therefore not be isolated from

a relational complex that is a discourse (Laclau, 2007, p. 432). The relational nature of every identity has always been a particular emphasis throughout Laclau's work. In fact, a discourse, as he (2005a, p. 68) puts it, is 'any complex of elements in which *relations* play the constitutive role. This means, that elements do not pre-exist the relational complex but are constituted through it. Thus "relation" and "objectivity" are synonymous.'
Contrary to functionalist conceptualisations of society, however, 'relation' is here not subordinated to 'function' and thus cannot be approached in teleological terms as a relation does not precede its constitutive elements.

According to de Saussure, signifying practices operate as paradigmatic or syntagmatic relations. Language is a system of relations within which its differential units are either substituted or combined respectively. The totality of a linguistic system, then, is the totality of its syntagmatic and paradigmatic relations (de Saussure, 2006). These relations, in the terminology of Laclau and Mouffe, refer to the working of the two logics of difference and equivalence (2001, pp. 127 ff). These logics are signifying logics in the sense that they function akin to de Saussure's paradigmatic and syntagmatic relations of language but in Laclau and Mouffe's political sociology they are also the primary mechanism of the organisation of political and social space. Depending on the context, one logics succeeds to dominate over the other. Laclau himself has, throughout his work, given more conceptual and empirical focus to the logic of equivalence (Griggs and Howarth, 2009). However, the two logics, require each other and are both always present in any given discourse (albeit to varying degrees). A totality can only exist within the tension created by the mutual subversion and contamination of these two logics (Laclau, 2005a pp. 69-70). The degree to which one dominates over the other is important in a certain empirical environment as it points to the measure of populism or institutionalism present in a discursive formation (see below in this section).

The logic of equivalence is associated with the paradigmatic pole of language while the logic of difference is linked to the syntagmatic pole of language, involving the simplification and the complexification of political space respectively:

> We, thus, see that the logic of equivalence is a logic of the simplification of political space, while the logic of difference is a logic of its expansion and increasing complexity. Taking a comparative example from linguistics, we could say that the logic of difference tends to expand the syntagmatic pole of language; the number of positions that can enter into a relation of combination and hence of continuity with one another; while the logic of equivalence expands the paradigmatic pole – that is, the elements that can be substituted for one another – thereby reducing the number of positions which can possibly be combined' (Laclau and Mouffe, 2001, p. 130).

Political relations can thus be broadly analysed on the basis of a two-dimensional matrix (Glynos and Howarth, 2007, p. 144). The logic of equivalence, which in its most accentuated form is the populist discourse (Laclau, 2005a), describes a dimension where different elements enter into a relationship of substitution. These elements are substitutionable or 'equivalential' not in terms of an underlying positive commonality or substance but only by the common negation of something they are not: a common enemy, threat or adversary (for the important concept of social antagonism see section 1.6 of this chapter). Subjects who are interpellated[10] attempt but never fully succeed to cancel out their underlying differences in the face of a more universal oppressor (Howarth, 2000, p. 107)[11]. To give a classic example, a national liberation struggle against an oppressive regime will typically cancel out particular differences of race, gender, locality or class in order to posit a more universal reference point for the identification of the

[10] The concept of interpellation refers to the process by which pre-ideological subjects are literally 'called upon' by an ideology into 'subject positions' (Althusser, 1971). This structural view on subjectivity diametrically opposes the idea of an autonomous originating subject as to be found, among other traditions, in classical and neoclassical economics (see chapter two of this thesis). While influenced by Althusser (see particularly Laclau, 1977 and also Laclau and Mouffe, 2001), Laclau emphasises from *NR* onwards that subjects are only partially constituted by structures (see section four in this chapter).

[11] It must be kept in mind that the formation of chains of equivalences and chains of differences is situated at the ontological level. This means that ontically (at the factual and historical level of existence) the elements may (or may not) share something in common.

oppressed vis-a-vis the oppressor (Glynos and Howarth, 2007, p. 144). In Laclau's social theory of signification, logics of equivalence are associated with the rhetorical trope of 'metonymy' which is often tied to the emergence of a new hegemonic order (see section two of this chapter for the concept of hegemony). Here, certain demands[12] get taken up by (are displaced to) a variety of different sectors of the social in order construct the social into two opposing camps:

> '...we could say that hegemony is basically metonymical: its effects always emerge from a surplus of meaning which results from an operation of displacement (For example, a trade union or a religious organisation may take on organisational functions in a community, which go beyond the traditional practices ascribed to them, and which are combated and resisted by opposing forces' (Laclau and Mouffe, 2001, p. 141)[13].

The logic of difference, then, is a more institutionalist form of discursive structuring which is linked to the combinatory pole of signification. This means that within a setting where the logic of difference dominates demands are dealt with separately in order to preserve the existing institutional configuration and relations of power. The logic of difference can therefore be linked to administration as opposed to contestation. According to Torfing (1999, p.111; see also Glynos and Howarth, 2007, p. 122), the expansion of chains of difference, in the form of co-optation for instance, can be linked to Antonio Gramsci's concept of 'transformism' (Gramsci, 1971, pp. 55-9; 106-14; 129-33; see also section 2.1 of this chapter) which refers to a type of hegemony that is the favoured strategy of the ruling formation in times of economic and/or social crisis. This strategy aims at 'disuniting the masses' in the sense of counteracting and marginalizing antagonistic opposition[14]. A

[12] In Laclau's political sociology demands, not groups are the basic unit of analysis (see also section 3.1 of this chapter for Glynos and Howarth's elaboration on the concepts of political and hegemonic demands.

[13] Hegemony is also sometimes associated with the trope of 'metaphor' (Laclau, 1998). In Laclau's later work, the rhetorical figure of synecdoche, a part representing the whole, becomes central for the functioning of hegemony (Laclau, 2005a, p. 72; see section 1.5 of this thesis).

[14] To be precise, Gramsci's transformism refers to the favoured strategy of the bourgeoisie in times of crisis whereas his other version of hegemony, expansionism, is a populist-type hegemony favoured by the proletariat (see: Torfing 1999, pp. 111-12). While this is a very

political example that has been given in relation to the strategic deployment of the logics of difference is the discourse of 'separate development' at the time of South African Apartheid. Said discourse enforced a system of rule that treated various ethnic and racial groups differently, for example in terms of awarding certain privileges to the demands of particular ethnicities but not others. Following the ancient doctrine of 'divide and rule', this discourse attempted (but ultimately failed) to break down and marginalise a more populist form of opposition which cancelled out the differences between these particularities in order to construct the Apartheid regime as a common, more universal, enemy (Norval, 1996). A more economic example which also appears in this thesis would be way that the current financial crisis is resolved. Here, certain concessions are made in relation to bonuses, the capital adequacy ratio of banks and the future 'ring-fencing' of retail deposits etc by legislators in order to prevent a series of equivalential demands from arising which would otherwise challenge the institutional complex at a more fundamental level (see chapter seven of this thesis for detailed account).

Therefore, a social configuration at any given moment can be, at least in theory, situated along an axis ranging from an extreme form of institutionalized bureaucracy that aims to absorb and channel all demands into the existing social order to a discourse that is almost exclusively defined by the notion of 'us versus them' with the aim to overthrow a regime that is deemed to be oppressive (e.g. the Arab Spring movements in their initial stages).

1.3 The Non-Unity of Discourse and the Centrality of the Signifier

According to Saussure, the linguistic unit of the sign can be split, if only for conceptual reasons, into a signifier and a signified, a word and its associated concept. The relationship between a signifier and a signified, however, is arbitrary and outcome of cultural processes. Thus, there cannot be any a

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useful concept and deployed in chapter seven of this thesis, Gramsci assumes that hegemonic projects are always structured around the essentialist core of a universal class, such as the proletariat or the bourgeoisie (cf. also section 2.1 of this chapter). Following Laclau, this dual typification of hegemony is of course abandoned in this thesis.

priori rules on how differential units within language are combined or substituted.

Transferred to the stage of social relations, it follows that the latter, as signifying processes, also lacks any ordering principle that can be posited a priori. Contrary to Saussure, however, Laclau and Mouffe abandon a strict isomorphic relation between signifier and signified which means that a signifier corresponds to only one concept. As they argue, following scholars such as Barthes and Lacan, the order of the signifier takes primacy over the signified. Indeed, Laclau (2005a, p. 22) emphasises (in a different but related context) that two phenomena are central to contemporary theorising: the unfixity between the relation of the signifier and the signified, and the process of overdetermination by which a particular signifier acts as a point of condensation for a variety of meanings. Whereas both dimensions are always present, the latter phenomenon illuminates particularly the concept of 'floating signifiers', contingent elements that adopt variety of meanings depending on the discursive field to which they are attached (the tree standing in the path of a proposed motorway for instance; or the signifier 'economy' which acquires a different meaning whether it is attached to, say, a neoliberalist, Keynesian or Marxist discourse).

The the presence of empty signifiers, or master signifiers in Lacanian terms, which are signifiers without a signified, or names without corresponding, objects. These names, for example, 'freedom', democracy, 'equality' are *tendentially* empty, meaning that they do not possess a fixed content, indeed their content is always (temporarily and partially) 'taken up' (Miller, 2005) by a particular group or ideology. Such a signifier, as Slavoj Žižek (1989) asserts, only 'retroactively' brings into being what it names. Or, to put it in the words of Laclau, the 'name' becomes 'the ground of the thing' (Laclau, 2006, p. 106). (See in this context particularly section 2.5 of this chapter for a discussion of the concept of empty signifiers).

The unity of a discourse, as Laclau and Mouffe (2001, pp. 105-6) assert, is therefore not one that can be derived from an underlying essence, such as the logical coherence of the components of the said discourse, a transcendental subject that gives meaning to it or an object such as 'the market' (see chapter three and seven of this thesis for how 'the market' servies as crucial ideological reference point in neolibealism). Nor can it be the determination of the superstructure by its economic base, but, drawing on a concept by Michel Foucault, systemacy here is understood to be a 'regularity in dispersion', within which the complex rules of dispersion itself become the governing principle of the unity of a discourse[15]. A discourse is, therefore, conceived of as 'unification' without any form of a fixed apriori presence.

However, despite there being no essence to social processes, Laclau and Mouffe (2001, p. 105) do not completely abandon the notion of 'necessity' in favour of a purely constructionist or 'anarchical' conceptualization of society hence the 'necessity' of empty signifiers (see above and 2.5 in this chapter). This necessity stems from the relational dimension of a discourse whose fragile totality is produced by articulatory practice[16]:

> 'We will call articulation any practice establishing a relation among elements such that their identity is modified as a result of the articulatory practice. The structured totality resulting from the articulatory practice, we will call discourse. The differential positions, insofar as they appear articulated within a discourse, we will call moments. By contrast, we will call elements any difference that is not discursively articulated.'

The non-necessary character of the elements is transformed into a necessary one within a particular discourse, as 'elements' are articulated as 'moments' of its totality. Everything inside a discourse, then, becomes necessary in the

[15] Laclau and Mouffe (2001) have also criticised Foucault's approach on the grounds of an alleged and unwarranted separation of the discursive and non-discursive realm. In fact, the direct influence of Foucault has become rather distant in the later work of Laclau: 'the work of Foucault has had only a very limited influence on my own approach, and I feel towards it only a very qualified sympathy' (Laclau 2000, p. 285). It is also worth mentioning here that Laclau's creative engagement with other scholars such as Foucault, Marx, Althusser etc has, perhaps unavoidably due to its conceptual rigour, often also attracted considerable criticism. (Most notably, the fierce and sometimes ad hominem attacks put forward by some orthodox Marxists, see particularly Geras, 1987 and the reply by Laclau and Mouffe, 1990. For a critique of Laclau's appropriation of the concept of 'regularity in dispersion' see Grossberg, 1996, p. 95).

[16] A concept that is deployed in *HSS* particularly in opposition to the teleology of Hegelian/Marxist dialectics. More generally, it opposed a rationalistic and functionalistic conceptualisation of the social. See also the concept of bricolage in chapter two of this thesis.

sense that changes of the totality, or of its moments, *necessarily* impact upon the relational configuration as a whole. To return to the above example, a change in the status of the term 'father' (such as a changed expectations of its domestic duties) *necessarily* has bearing upon the relational configuration of a discourse on the family and, thus, also affects the term 'mother', 'son' etc. Equally, the economy, contrary to the methodological individualism that is prevalent in mainstream economics, must also be understood as a discursive relational sphere where objects, subjects, language etc cannot be thought of in isolation but are linked together into a complex whole that ultimately is a historical bloc (see chapter two of this thesis; for the concept of 'historical bloc' see below). For example, the widespread emergence of securitization for the funding of mortgages (and other 'debt receivables' such as credit card or student loans) has had widespread relational effects not just for the re-organisation of the economy but also for politics, culture and the wider social sphere, including the interpellation of subjects in the sphere of everyday life (see chapter four of this thesis for how securitization is embedded in the culture, economy and politics of neoliberalism).

1.4 Radical Contingency and the (Im)Possibility of Society

Necessity, however, is always subverted and deformed by its underlying contingency and thus meaning can be stabilized only temporarily and partially. The transition from elements to moments is therefore never complete and discourses are the precarious product of the continuous mutual subversion of necessity and contingency. This mutual subversion is required for social processes, as the assumption of a pure contingency would not 'do the trick' since it would basically leave the notion of necessity unchanged. In the final instance nothing can be referred back to a founding totality but social agents never act in the final instance because every identity is discursively mediated as discussed at the beginning of this chapter.

Analogous to Saussure's notion of signification the social, thus, ultimately purely consists of a series of differences or a 'negative essence'. Signification does happen, as we have seen, otherwise there would be no meaning and no discourse. Meaning, however, remains an incomplete process. Negativity, on the one hand, becomes constitutive of social processes but, due to this very fact, every society must ultimately fail to fully constitute itself since it always remains exposed and vulnerable to the disruptive impact of the former. Within this framework every identity becomes '*partially* constituted' as well as *partially* threatened' (Laclau, 1990, p. 27). One can therefore say that society only takes place through constant failure (see: Stäheli, 2000) and the 'diverse "social orders"' are always 'precarious and ultimately failed attempts to domesticate the field of differences' (Laclau and Mouffe, 2001, p. 95-6). This privileging of tension and disruption at the heart of every social process, which Laclau captures by the name 'the (im)possibility of society', stands in a tradition of thought that emphasises 'radical contingency' as an ontological ground. As Glynos and Howarth (2007, p. 110) note:

> 'Radical contingency opposes empirical contingency's sense of possibility with a sense of *im*possibility: the *constitutive* failure of any objectivity to attain a full identity. Other formulations of radical contingency as an ontological premise include 'lack in the Other' (Lacan) 'structural undecidability' (Derrida) and so on, all of which question the idea of a fully constituted essence of a practice, regime or object, in the name of an irreducible negativity that cannot be reabsorbed.'

To put this in more practical terms, every social formation is therefore scarred by an inherent 'flaw' or 'crack'[17] which may (or may not)[18] reveal itself in moments which Laclau calls dislocations, such as the major crisis of a historical bloc (Glynos and Howarth, 2007, p. 105). As, according to Laclau, every social identity is 'always already dislocated' (Laclau, 1990, p. 39 ff), Howarth (2004, p. 268), proposes therefore to distinguish between an ontological (dislocation 1) and historical (dislocation 2) dimension of this category. While dislocation 1 captures more of the general contradictory and distorted condition of being, dislocation 2 designates a historical '"event of Being" in which the contingency of this world is disclosed, and other options

[17] The indebtness to the Lacanian category of the Real becomes apparent here. Lacanian psychoanalysis in general has become more overtly influential in Laclau's later work albeit it remains debatable how far Laclau is willing to commit himself to certain psychoanalytical categories (see Glynos and Stavrakakis, 2004; Cederström, 2007).
[18] As one of the major achievements of Laclauian theory is a radical break with structural determinism, there can be no certainty as to when, and if at all, such a dislocatory event will occur (see Daly, 2006; see also chapter seven of this thesis)

and choices become possible'[19]. For example, Daly (2006), with foresight, has labelled foreign sovereign debt the dislocation [dislocation1] of contemporary capitalism[20] given its general absurd and bizarre proportions which have no future possibility of ever being fully met (Greece, of course, is a very fitting example here). The current sovereign debt crisis, then, can be seen as its corresponding historical event which, at least to some degree, has opened up the 'terrain for hegemonic struggles about how to heal the rift in the social order' (Torfing, 2004, p. 16).

Throughout this thesis, these different forms of dislocation are used to point a) to the inherent contradictions within social formations such as the contradictions within the financialization (dislocation 1 – see chapter four of this thesis) and b) to emphasis crises resulting from these dislocations as a (potential) contingent starting point for new hegemonic identifications (dislocation 2 – see particularly chapter five and seven of this thesis).

This view therefore emphasises, as opposed to, say, positivist conceptions of society, the contradictions and tensions at the heart of every social practice and crises as the contingent starting point of political practices. Hegemonic projects (see below) can never fully achieve a utopian state of a 'reconciled totality' or 'end of history' (even though the promise to such an ideological state of being is often at the very heart of a hegemonic project – see section four of this chapter) but are always subject to dislocations and a constitutive lack at its core. Hereby, dislocations are not restricted to structural conditions alone but extend to the category of the subject as well.

1.5 Subjectivity

According to Laclau, subjects are also part of a discourse and partially determined by it. As Laclau and Mouffe (1990 p. 101) put it:

[19] In his hitherto latest major work *OPR,* Laclau has introduced yet another more multi-layered form of ontological negativity which he calls heterogeneity.
[20] The category of dislocation is, of course, a broader category and is thus not restricted to the inherent contradictions of capitalism.

> '…it is the discourse which constitutes the subject position of the social agent, and not, therefore the social agent which is the origin – the same system of rules that make the spherical object into a football, makes me a player.'

The social agency of subjects comes into the equation, however, in the form of acts of identification that are the response to the grievances experienced as a result of dislocations. Laclau and Mouffe originally conceive of subjects only in the sense of 'subject positions' in *HSS* and, thus, essentially reduce subjects to 'mere bearers of structures' to use Althusser's well known expression. Slavoj Žižek's (1990) influential critique of subjectivity inspires Laclau to extend his concept of dislocation to structures as well as subjects and, hereby, to fundamentally rethink the dialectic of structure and agency adopting a stance between the two extremes of structural determinism and extreme voluntarism. As a result, this stance is able to problematise the dual character of structure and agency prevalent in mainstream sociology but also other critical traditions such as critical realism (see Willmott, 2005). As Laclau (1990, p. 210-11) points out:

> 'The question of *who or what* transforms social relations is not pertinent. It's not a question of 'someone' or something' producing an effect of transformation or articulation, as if its identity was somehow previous to this effect. Rather, the production of the effect is part of the construction of the identity of the agent producing it. It is because the lack is constitutive that the production of an effect constitutes the identity of the agent generating it.'

In *NR*, Laclau emphasises that subjects are partially freed to identify with different discourses under conditions of dislocation. 'Far from being a moment of the structure', he points out (1990, p. 41), 'the subject is the result of the impossibility of constituting the structure as such' (see also 1.4 of this chapter). Since, following Žižek's Lacanian approach, the subject is also marked by an inherent lack, the latter is practically 'forced' or 'interpellated' to constantly identify anew. Since structures as well as subjects are 'always already dislocated', identification is a continuous process and identities are therefore in a constant flux. As a crisis can never be absolute in the sense of a complete dissolution of structures – even in extreme situations, however, the freedom to identify can also never be entirely complete. It therefore makes sense to distinguish between identity and identification (or between subject positions and political subjectivity – Laclau and Zac [1994]) when referring to the location of subjects within the structure of a discourse and acts of identification (or political acts) as a reaction to dislocatory situations, respectively (see Glynos and Howarth, 2007, pp. 127 ff):

> 'The incorporation of the individual into the symbolic order occurs through acts of *identifications.* The individual is not simply an identity within the structure but is transformed by it into a subject, and this requires acts of identification' (Laclau, 1990, p. 211).

Identity, then, can be located at the level of the social (involving the more or less sedimented content of a discursive formation – see section 2.2 of this chapter) whereas identification is situated at the level of the political involving public contestation and hegemonic struggles over meaning. As Howarth (2000, p. 109) summarises:

> 'This "decentering" [dislocation] of the structure through social processes such as the extension of capitalist relations to new spheres of social life [but not confined to it] shatters already existing identities and interests and literally induces an identity crisis for the subject. It is this "failure" of the structure to confer identity on social agents that "compels" the subject to act. In this sense the subject is not simply *determined* by the structure; nor, however, does it *constitute* the structure. The subject is forced to take decisions – or identify with certain political projects and the structures need to be recreated. It is in the process of this *identification* that political subjectivities are created and formed. Once formed and stabilized, they become those subject positions that turn individuals into social actors with certain characteristics.'

Further, the notion of identification also possesses a deeply fantasmatic dimension (discussed in in more detail in section four of this chapter). The dislocation (or 'lack', in Lacanian terms) at the centre of the subject also leads to attempts on its part to find a culprit for this failure and blame it on an external ‘enemy’. This process points to the presence of antagonistic relations and struggles as the foundation of social and political space.

1.6 Antagonism

The concept of antagonism and antagonistic struggles is central to Laclauian theory highlighting his theoretical indebtness to Marx for whom antagonistic class struggles are the defining characteristics of every historical social configuration, summarised in the famous quote by Marx and Engels (1999, p. 13) that ‘the history of all hitherto existing society is the history of class struggles’.

Contrary to a Marxian understanding of antagonism, however, for Laclau, antagonisms are contingent constructions which are not grounded within a pre-determined location of the economic structure. On the contrary, the very existence of antagonisms indicates that the absence of historical laws and privileged universal agents (Howarth, 2000, p. 105) as antagonisms are a direct response to the dislocation that permeates both structures and subjects. In this sense, what is discussed throughout this chapter with reference to the concept of radical contingency as a constitutive ground, or the (im)possibility of society, is inherently connected to, and revealed in, the discursive presence of social antagonisms. The latter are, therefore, the name for the limits of a discourse or social formation as such:

> ‘Antagonism, far from being an objective relation, is a relation wherein the limits of every objectivity are *shown…* antagonism, as a witness of the impossibility of a final suture, is the “experience” of the limit of the social’ (Laclau and Mouffe, 2001, p. 125).

By introducing the category of dislocation, Laclau acknowledges in his later work that, while every discursive order is always already dislocated, not every dislocation needs to be antagonistically constructed. Antagonisms are therefore a discursive and historical response to conditions of dislocation (Laclau, 2004, pp. 318-319).[21]

As will become clear in section two of this chapter, antagonistic struggles are a requirement of *hegemonic* political relations which always rely on exclusionary practices that involve an element of suppression and force and therefore power (Torfing, 1999; see also below in this section). Every hegemonic discourse requires the exclusion or foreclosure of other possibilities as a constitutive operation and they involve the exercise of power (see section 2 of this chapter). As is pointed out in the discussion of chains of equivalences above, what lies beyond this exclusionary frontier – the identity that is antagonized – is not something which is rejected on positive grounds but because of its status as a common threat or enemy which must be conceived of in purely negative terms (see section 1.2 of this chapter). This is captured by Laclau's notion of 'constitutive outside',[22] a discursive exterior which 'blocks the identity of the inside (and is, nonetheless, the prerequisite for its constitution at the same time)' (Laclau, 1990, p. 17). This operation affects both sides of the antagonistic relation (Laclau 2004, p. 125), hereby creating a situation of 'us versus them' where the enemy or adversary is held responsible for the blockage or failure of an identity while the common opposition to this enemy is what constitutes this identity in the first place. Therefore, considerable time and effort is usually invested into discrediting the enemy (Willmott, 2010b) who nevertheless remains a mere construction of, and an outlet for, one's own failure. As Žižek (1990, p. 251-2) puts it:

> 'It is not the external enemy who is preventing me from achieving identity with myself, but every identity is already in itself blocked, marked by an impossibility, and the external enemy is simply the small piece, the rest of reality upon which we "project" and "externalise" this intrinsic, immanent impossibility.'

[21] While antagonisms tend to be more or less synonymous with limits as such in *HSS,* Laclau's later reworking of the notion of limit as dislocation leads him to conceptualise antagonisms as a particular historical reaction to these dislocations (Laclau, 2004, pp. 318-329).

[22] For a different interpretation of the concept of constitutive outside see Stäheli (2004).

It is thus that ideological narratives often present ‘obstacles’ that, once removed, guarantee a certain ‘fullness-to-come’. Upon actual removal of these obstacles or enemies, the subject encounters its own failure (and not a reconciliation with his/her ‘true self’) and is therefore compelled to identify with a different hegemonic project which offer a solution to the dislocation that permeates both structures and subjects (Laclau, 1990; Žižek, 1990; see also section four of this chapter for the related concept of fantasmatic logics).

In concrete situations social antagonisms show themselves through the production of unstable political frontiers. These invoke stereotypical depictions of friends and enemies, involving a negation of identity in the double sense of a negation of alternative meaning and of subjects who identify with these excluded options. Their presence is revealed in a number of different political constellation that can take the form of open confrontation (e.g. Gramsci’s war of position – see section 2.1 of this thesis) to the successful exclusion or marginalisation of a ‘common enemy’. Likewise, the antagonised force at the other side of the political frontier can react by ‘fighting back’, accepting its fate, resorting to denial, and so forth (see Torfing, 2004; p. 14; Torfing 1999, p. 120-31).

In this thesis the concept of social antagonism is used, firstly, to illustrate how neoliberalism emerged and initially constituted itself as a purely antagonistic reaction to the perceived failures of the preceding regime of embedded liberalism (see chapter five of this thesis). Secondly, the concept is deployed to illuminate the nature of the antagonistic struggles surrounding demutualisation frenzy of the 1990s as a constitutive terrain for the marginalisation of the mutual model and the rise of financialization as the hegemonic force in the British mortgage market.

2. Hegemony

2.1. Hegemony and Marxism

The concept of hegemony is what Laclau is perhaps best known for. It is this concept that, besides the concept of antagonism, most clearly anchors his theoretical framework within the (post) Marxist tradition. As Critchley and Marchart (2004) point out, Laclau's deconstructive reading of Marxism throughout his work does not lead to a complete abandonment of the former but to the strengthening of one of its traits – the Gramscian heritage. The Italian Marxist Antonio Gramsci is the central figure for a contemporary understanding of the concept of hegemony.

Conventionally, the term hegemony is understood in political theory to refer to the dominance of a specific country over others such as that of Britain in the 19th Century and the US and the Soviet Union in the post-World War II era (The Voter, 2011). In a Marxist context, the term first arose in the writings of Georgi Plekhanov and other Russian Marxist such as Lenin, to designate the necessity of the working class to forge political alliances with different heterogeneous groups rather than undertake mere economic struggles to overthrow the Tsarist regime (Anderson, 1976). Gramsci, then, developed Lenin's strategic use of the term into a theoretical concept (hegemony as an emancipatory strategy, however, remains important for Gramsci as well as Laclau within their respective theoretical frameworks).

For Gramsci, hegemony is a type of political relation as well as a substantive achievement[23] (Norval, 2004, p. 156). Gramsci emphasises the importance of the superstructure in Marxist theory in relation to the economic base. For him, hegemony characterises the process by which a group transcends its particular 'economic corporatist' interests and aspires leadership over

[23] One can also draw a distinction between the terms 'hegemony' and 'hegemonic' in this context. According to Torfing (1999, p. 293, footnotes chapter 2), hegemonic practices refer to the intention to dis- and re-articulate social elements in and through antagonistic struggles (this is, of course, already involves a Laclauian notion of hegemony). It is a different matter, however, whether these practices succeed in the construction of hegemony.

subordinate groups within society. Hegemony is exercised not exclusively by the use of coercive power in the Weberian sense of a 'power over' something or someone (Weber, 1980, p. 28). On the contrary, for Gramsci, gaining the ideological consent of the governed is its defining characteristic which implies 'intellectual and moral leadership' (Gramsci, 1971, pp. 182; 269)[24]. Hereby, education plays a central role in the diffusion of hegemonic 'common sense' (Gramsci, 1971, pp. 24-33), where 'organic intellectuals', non-traditional intellectuals who function as the intellectual architects of a hegemonic project, have the role of 'organisers of masses of men' (Gramsci, 1971, p. 12).

A hegemonic project consists of an intricate, contradictory, and contingent alliance of forces within the spheres of the state, the economy and civil society (the latter referring to institutions such as the church, trade unions, schools, the family, the media etc. The dominant configuration of those heterogeneous forces in a given period of time is called a 'historical bloc' (Gramsci, 1971, p. 366). Gramsci tends to identify civil society as the primary ground to convey hegemony (Gramsci, 1971 p.12).

Williams (1960 p. 587) characterizes the hegemony of Gramsci as

> '... a socio-political situation, ... an order in which a certain way of life is dominant, in which one concept of reality is diffused throughout society in all its institutional and private manifestations informing with its spirit all taste, morality, customs, religious and political principles, all social relations, particularly in their intellectual and moral connotation.'

Gramsci affirms the centrality of struggle as a defining feature of Marxist theory. However, struggles are predominantly located at the level of the superstructure in the form of the attempt to persuade social agents of different ideological groupings which he calls a 'war of positions', as opposed to the

[24] Gramsci tends to identify hegemony with consent and the state with coercive power (Howarth 2004). This distinction is collapsed in a Laclauian reading of hegemony. Therefore, according to Laclau, hegemony can imply consent as well as coercive power.

‘frontal attack’ of direct political confrontation (Gramsci, 1971, pp. 238-9). ‘The concept of “war of position”’, Levy and Egan (2003, p. 807) argue,

> ‘employed a military metaphor to suggest how groups challenging hegemonic coalitions from below might avoid a futile frontal assault against entrenched adversaries; rather, the war of position constitutes a longer term strategy, coordinated across multiple bases of power, to gain influence in the cultural institutions of civil society, develop organisational capacity, and to win new allies. As in a game of chess, power lies not just in the playing pieces, but in the configuration of forces, and each set of moves and counter-moves presents fresh possibilities to prise open the seams of a historical bloc.’

Resistance is, therefore, always present within this framework because a historical bloc is never stable but, due to the contradictory and contingent nature of the alliance of forces, always fragile and threatened by competing hegemonic projects. A crisis of the hegemony of a historical bloc which Gramsci calls ‘organic crisis’, is therefore accompanied by the dissolution of its precarious unity which, in turn, creates the possibility for counter-hegemonic forces to seize power (Gramsci, 1971, pp. 210 ff). For Gramsci, as for Laclau, a crisis is thus the contingent possible starting point of a new hegemonic order.

2.2 Three Models of Hegemony in the Theory of Laclau

As Howarth (2004) notes, the theoretical reception of the concept of hegemony by Laclau can be broadly divided into three ideal-typical stages within his work. These reflect his respective engagement with different theoretical problematisation and schools of thought as well as concrete political issues. Each of these stages also contains a radicalisation of the concept of contingency at the end of which the achievement of any form of final suture[25] becomes impossible.

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[25] The concept of suture is elaborated on by Laclau and Mouffe in the notes on chapter two of *HSS* (2001, p. 88, footnote 1) which, given its rare insight into the earlier reception of Lacan by Laclau, is worth quoting in full here:
‘The concept of suture which we will be using frequently, is taken from psychoanalysis. Its explicit formulation is attributed to Jacques-Alain Miller (“Suture elements of the logic of the signifier”, *Screen,* Winter 1977/78, vol. 18, no4, pp. 24-34), although it implicity [sic] operates

The first model in *Politics and Ideology in Marxist Theory (*1977) draws on, and expands, the ideas of Louis Althusser and Gramsci to rework Marxist categories with regard to the advancement of the 'more traditional demands of the socialist working class' (Howarth, 2004, p. 272, footnote 3). The centrality of a class core for the constitution of hegemonic projects in not yet fully deserted within this model.

The second model stems from a deconstructive reading of the concept of hegemony in the Marxist tradition in *HSS* disclosing the last remnants of essentialism in the works of Gramsci and Althusser by predominantly deploying poststructuralist theories of signification and discourse such as those of Derrida Foucault and Lacan (see: above). *HSS* aims to advance the project of radical democracy on the basis of a theory of hegemony that is no longer rooted in any form of economic determination. The outcome, as said before, is not a complete rebuttal of the Marxism tradition, but a radicalisation of the anti-economistic position of Gramsci with the aim to 'reactivate' Marxist categories in a completely non-essentialist way as Laclau and Mouffe (2001,

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in the whole of Lacanian theory. It is used to designate the production of the subject on the basis of the chain of its discourse; that is, of the non-correspondence between the subject and the Other-the symbolic-which prevents the closure of the latter as a full presence. (Hence, the constitution of the unconscious as *edge* operating the junction/division between the subject and the Other.) "Suture names the relation of the subject to the chain of its discourse; we shall see that it figures there as the element which is lacking, in the form of a stand-in. For while there lacking, it is not purely and simply absent. Suture, by extension-the general relation of lack to the structure of which it is an element, inasmuch as it implies the position of a taking-the place of'(Miller, pp. 25-6). This moment of lack is, however, only one aspect. In a second aspect, suture implies a filling in. As Stephen Heath points out, "suture names not just a structure of lack but also an availability of the subject, a certain closure...It is not surprising..., therefore, that Lacan's own use of the term 'suture'...gives it sense of a 'pseudo-identification', defines it as 'function of the imaginary and the symbolic'...The stake is clear: the 'I' is a division but joins all the same, the stand-in is the lack in the structure, but nevertheless simultaneously, the possibility of a coherence, of the *filling* in" (S. Heath, "Notes on Suture", *Screen,* pp. 55-6). It is this double movement that we will attempt to stress in our extension of the concept of suture to the field of politics. Hegemonic practices are suturing insofar as their field of operation is determined by the openness of the social, by the ultimately unfixed character of every signifier. This original lack is precisely what the hegemonic practices try to fill in. A *totally* sutured society would be one where this filling-in would have reached its ultimate consequences and would have therefore, managed to identify itself with the transparency of a closed symbolic order. Such a closure of the social is, as we will see, impossible.'

p. ix) assert in the second edition of the book.[26] The impossibility of ultimately fixing meaning is a central claim to a Laclauian conceptualisation of hegemony. Indeed, the open-texturedness of the field of discursivity is the condition of possibility, and constitutive ground, for hegemonic struggles to occur in the first place. The aim of any hegemonic project is, then, to stabilise and expand a system of meaning around the articulation of nodal points. In this model, hegemonic articulations require the existence of antagonisms and the instability of the frontier dividing them and, thus, the presence of floating signifiers that can be attached to either side of the hegemonic frontier (Howarth, 2004, p. 259).

HSS also becomes a 'manifesto' for a re-positing of the strategy of the left. Politically influenced by the occurrence of the so-called 'new social movements' from the mid-1960s onwards, which were not easily conceivable within a traditional Marxist framework, hegemony is seen as a possible collective strategy for a variety of different and heterogeneous demands[27] (e.g.: feminist, anti-racist, the gay movement, environmentalist etc). It is treated as a means to transform the particular identities of certain demands into a more collective opposition against subordination and inequality by entering into equivalential relations with other struggles on the basis of the diffusion of the egalitarian democratic imaginary.

The logic of equivalence itself, cancelling out differences, becomes the condition of possibility for a democratic articulation of a variety of different heterogeneous struggles. 'Hence', as Laclau and Mouffe (2001, p. 167) put it, 'the project for a radical and plural democracy, *in a primary sense,* is nothing other than the struggle for a maximum autonomisation of spheres on the basis of the generalization of the equivalential-egalitarian logic.' A democratic hegemonic project can only succeed by aiming not only to establish links

[26] Laclau and Mouffe, in their only other collaborative work *Postmarxism Without Apologies* (1990 [1987]), point out that their theoretical endeavour should be understood as being *Post-*Marxist as well as Post-*Marxist.*

[27] For Laclau's political sociology the basic unit of social analysis is a demand, and not a group (Laclau, 2005). Demands can be defined as 'a type of action whose objective is the transformation of a social relation which constructs a subject in a relationship of subordination' (Laclau and Mouffe, 2001, p. 153).

between subordinated groups and expanding the democratic principle of equality into ever increasing sectors of the social alone, but, it must equally construct a more ‘positive’ version of the social in the sense that it must provide for a certain concrete account how the social, as democratically organised, might look like. This space, the space of the universal which is discussed below, is an empty one whose identity cannot be determined a priori. As any given factual positivity of this universality is, thus, contingent and ultimately impossible in the sense shown above, a truly radical democracy must always take into account its own contingency and precariousness. Not the inversion of a particular form of oppression should therefore be the aim of a radical democratic project as this would ultimately lead to another form of oppression. Rather, the very forms of oppression and closure should be inverted as such (Laclau, 1990, pp. 159-174). This relates to what Glynos and Howarth (2007) call the ethical dimension of a practice or regime - as opposed to its ideological dimension - a dimension which is foregrounded if subjects actively affirm the radical contingency of socio-political relations (see section 2.3 of this chapter). In the words of Laclau and Mouffe (2001, p. 190), then, this means that: ‘this moment of tension, of openness, which gives the social its essentially incomplete and precarious character, is what every project for radical democracy should set out to institutionalize’.[28] According to Gibson-Graham (2006) the concept of radical democracy is particularly useful as a strategy to highlight the heterogeneity of economic relations and oppose the hegemonic status of capitalism that falsely claims sole representation of the entire economic sphere. (This monolithic and universalist representation of capitalism hereby obsures other models of economic organisation such as mutuals, see also chapter two of this thesis).

The third model of hegemony, increasingly influenced by psychoanalysis, commences with the response to Žižek’s critique of subjectivity in *New Reflections on the Revolution of Our Times* (Žižek, 1990) by introducing the category of dislocation to both social structures and agents (see section one of this thesis). Later *Emancipation(s)* (1996) continues this endeavour with the

[28] According to Wenman (2003, it is particularly Chantal Mouffe who should, more so than Laclau himself, be credited with the concept of radical democracy.

conceptualisation of empty signifiers, modelled on the Lacanian master signifier, as a prerequisite for the signification of the absent fullness of a hegemonic formation. The complex interaction between a particularism and its incarnation of a universality qua empty signifier, an incarnation that is ultimately contingent and remains tainted by its very particularity, becomes, from *E* onwards, central to Laclau's concept of hegemony (see section 2.5 of this chapter) .

Populism, then, as opposed to how this term is conventionally understood, designates a discursive articulation that aims to divide the social space into two opposing camps. It is conceptualised as a dimension of hegemony that is, to some degree, always present but particularly pronounced when the social space is equivalentially reconstructed in times of organic crises (Laclau, 2005a).

2.3 Hegemony and Anti-Essentialism

This thesis is primarily concerned with engaging insights of the second and third model. It hereby follows Howarth (2004) in emphasizing the continuities rather than discontinuities between these two theoretical stages. Arguably one of the most important achievements of *HSS,* and also of Laclau's work more generally, is the deconstruction of the determination of the superstructure by the economic base in Marxist theory. This move results in a 'de-essentialisation' of the economy and a fundamental reworking of Marxist categories such as antagonism and hegemony (see also above in this chapter). Following Gramsci, hegemony is understood to be politically constructed as well as historically contingent and inherently unstable. Contrary to Gramsci, however, the notion of fundamental classes as ultimately privileged historical agents around which hegemonic projects are constituted is completely abandoned. Thus, for Laclau, the universalisation of particular interests, or demands, as well shall see, is not tied to an essential class core like the proletariat or the bourgeoisie and, therefore, not ultimately rooted in the economy. In fact 'politico-hegemonic articulations retroactively create the interests they claim to represent' (Laclau and Mouffe, 2001 p. xi). Similarly, and contrary to the position taken by Althusser and others (originally formulated by Friedrich Engels), a social formation, therefore, cannot be determined 'in the last instance' by the economy as this would eventually amount to a simple determination and not the overdetermination that Althusser himself postulates.[29] Hence, space of the economy is structured like any other space of society within which the workings of hegemony and antagonistic struggles are constitutive and not derivative. The unity of a hegemonic discourse amounts to a unification of different struggles through articulatory practice that cannot be determined a priori.

2.4 The Primacy of the Political

The contingent acts of institutionalisation that create the space for antagonistic hegemonic struggles are, for Laclau, associated with the logic of 'the political' which for him takes primacy over 'the social'. Following (and supplementing) Derrida's deconstruction, the concept of the political, as understood here, designates a 'decision taken in an undecidable terrain'. It thus refers to the discursive (re)articulation of dislocations and is linked to the contingency and freedom of a collective decision that is not rooted in existing social structures but transcends them (see Stäheli, 2003, p.1). In Laclau's own words the political denotes a collective act:

> '...where the undecidable nature of the alternatives and their nature of the alternatives and their resolution through power relations becomes fully visible...' (Laclau 1990, p. 35).

[29] The concept of overdetermination was originally developed in a scientific way by Sigmund Freud referring, among other things, to the concept that dreams are 'overdetermined' in the sense that they result from a variety of multilayered factors in the psyche of the dreamer which condense into a single image. No single factor can be isolated that accounts for the image in a 'causal' way (Freud, 1999). In its Althusserian reception, overdetermination accounts for the constitution of a level of the superstructure with a certain autonomy and dinstinct effects of its own. It means the 'fusion' of a multiciplicity of contradictions of a social formation 'determining but also determined in one and the same movement, and determined by the various levels and instances of the social formation it animates' (Althusser, 1967, p.4). In re-assessing Althusser's argument Laclau and Mouffe (2001, p. 98) state that the 'concept of overdetermination is constituted in the field of the symbolic, and has no meaning whatsoever outside it. Consequently, the most profound *potential* meaning of Althusser's statement that everything existing in the social is overdetermined, is the assertion that the social constitutes itself as a symbolic order. The symbolic –i.e., overdetermined-character of social relations therefore implies that they lack an ultimate literality which would reduce them to necessary moments of an immanent law.' See also Gibson-Graham (1996) for an elaboration of the concept of overdermination specifically for the sphere of economy (cf. also chapter two of this thesis).

This means that the political, conceptualised as a contingent act of institutionalisation, is constitutive upon the social and, by extension, the economy as part of the wider social sphere. Unlike orthodox Marxism, the political is therefore not confined to a derivative level of the superstructure nor is it, as in neoliberalism, a passive guarantor of free markets which is only invoked in times of crisis (as the lender of last resort, for example).

As becomes clear in the above quote, the operation of the political logic always involves the exercise of power. Not unlike a Foucauldian notion of power, the latter is, for Laclau, also enabling and restraining at the same time. The operation of power involves the repression or marginalization of alternatives (alternative decisions, conducts or beliefs that were once attempted but then discarded or marginalised, as well as the subjects who identify with them – cf. section 1.6 of this chapter for the concept of social antagonism and the notion of a constitutive outside). This process, as discussed earlier, is constitutive upon the very identity that carries out the repression:

> ‘It is in this sense that we assert that all objectivity necessarily presupposes the repression of that which is excluded by its establishment ... Our thesis is that the constitution of a social identity is an act of power and that identity as such *is* power’ (Laclau 1990, p. 31).

Dyrberg (2004) points out that it is useful to distinguish between two different analytical levels of the political in Laclau’s work of which neither is confined to state politics. The first level refers to the notion of the political as elaborated above – the contingent act of institution of a hegemonic order that is a response to dislocation. The second one refers to ‘politics’ in a more narrow sense which designates the concrete ordering of a historical bloc - the particular content that defines a given historical conjuncture. The political, according to Dyrberg (ibid), is a strictly ontological intervention which is distinct from ontical and historical manifestations of political regimes and practices. This dimension is particularly to be found in Laclau’s third model of hegemony which is the elevation of a particularity into the status of an (incomplete) universality (see 2.5 of this thesis below). This implies the repression of equally valid alternatives – other 'historic options that were discarded' (Laclau, 1990, p. 34). The political as a concept is, thus, a mere function of hegemony without a pre-specified content or form. It basically emphasises the institutionalised (and hence contingent) character of every social order as such:

> 'The moment of original institution of the social is the point at which its contingency is *revealed*, since that institution, as we have seen is only possible through the repression that were equally open (ibid, original emphasis).

The notion of the political as devoid of any concrete content or form is important. Claims that Laclau simply inverses the relationship of the economy and political and, thus, essentialises the latter instead of the former (see Dreyer Hansen, 2008b) can therefore be refuted (even though there is arguably a certain 'bias' in Laclau's work towards political processes that needs to be addressed if one is to analyse the economy, or indeed any other social sphere; see chapter two of this thesis). Politics, then, is concerned with the 'actual hegemonic relationship' – the specific particularity that becomes the 'stand- in' for the absent fullness of society (Dyrberg, 2004, p. 244). For example, the way that neoliberalism articulates the relationship between state, economy, and society and the degree of populism and institutionalism (chains of equivalence vs. chains of difference) present at a given point in time is a matter of politics.

Glynos and Howarth (2007) introduce another useful analytical distinction of the category of the political referring to 'political dimensions', 'political logics' and 'political moments' respectively. For them, the political dimension is tied to the public contestation of a practice or regime where subjects challenge existing norms and social relations (*LCE*, p. 112-3; see also the discussion in section 3.1 of this chapter). Political logics refer to the political ordering of a regime or practice (logics of difference vs. logics of equivalence) irrespective of the presence of contestation (see section 3.3 of this chapter). Finally a political moment denotes a heightened awareness of contingency that may result in public contestation (see also Chang and Glynos, 2011).

According to Laclau (1990, p. 33-5), the concept of the political, then, can be juxtaposed with the concept of the social with which it enters into an unstable relationship of mutual contamination or, a continuous relationship of ‘sedimentation’ and ‘reactivation’.

In the course of the routinisation of practices that once were politically institutionalised, the contingent origins of every hegemonic formation become largely forgotten and are mistaken for genuine ontological ‘objectivity’. Laclau (ibid), drawing on Edmund Husserl’s phenomenology here, distinguishes between ‘sedimentation’ - the forgetting of the ‘original acts of violence’ of the power relations that led to the institution of the social involving the repression of alternatives – and ‘reactivation’- a moment, most apparent in times of crisis, where ‘through the emergence of new antagonisms’ the underlying contingency of the social becomes visible. Social relations are therefore linked to sedimentation whereas their political institution is linked to moments of reactivation. As any form of political decision involves power, what is regarded as ‘objectivity’, the being of objected, is nothing but sedimenented power relations whose ‘traces have been erased’ (Laclau, 1990, p. 60). However, the line that separates the social and the political is constantly displaced as neither can fully constitute itself. The social, consisting of sedimented practices of iteration, is continually subverted by acts of political re-composition whereas the political institution of the social takes place against the background of a range of sedimented practices. It is thus that *LCE* speaks of a political *dimension* (see section 3.1 of this chapter), referring to the public contestation of sedimented practices that is, to some degree, always present.

The institutionalisation of a new hegemonic project, then, proceeds from a crisis or dislocation where the social is politically reconstituted and subjects are partially ‘freed’ to identify anew (see, for example, chapter five of this thesis). The ‘sedimented forms of objectivity that make up the social’, however, can, even in times of crisis, never be fully abandoned because every reactivation 'takes place in a determinate situation: that is one in which there is always a relative structuration' (Laclau, 1990, p. 43).

2.5 Universalism and Particularism

As pointed out earlier, Laclau's third model of hegemony is concerned with the (complex and unstable) process by which a particularity assumes the status of the universal. This process is associated with the rhetorical trope of the synecdoche – a part representing the whole (see Laclau, 2005a, p. 72). This trope signifies the process by which a '*particular* social force assumes the representation of a *totality*[30] that is radically incommensurable with it. Incommensurability means here that the social can never be sutured completely (see: footnote 19 in this chapter for the concept of suture) and remains precarious. 'Such a form of "hegemonic universality"' is, according to Laclau and Mouffe, (2001, p. x), 'the only one that a political community can reach.' Similar to the effects of the fragile arrangement of forces that is a hegemonic bloc in a Gramscian sense (see section 2.1 of this chapter), resistance, thus, practically 'lurks' at every corner of the hegemonic formation (Spicer and Böhm, 2007, p. 1671).

Unlike some forms of postmodernism which do away with any notion of universality, resulting merely in a form of value pluralism where no hegemonic articulation is possible[31], the concept of universality is indispensable for Laclau. However, his conceptualisation of universality differs significantly from classical philosophy, or indeed Marxism, in the sense that universality does not have any content of its own – it is empty – and it can therefore appear in various ontical guises depending on the particular discourse in question. Hence, the universal requires the incarnation of a certain particular content or demand (e.g. freedom, order, equality etc). Like Derrida's spectre, as Laclau

[30] The concept of a particularity assuming the status of universality is, for Laclau, identical to the operation of the Lacanian object petit a (Laclau, 2003; 2005a; see also section four of this chapter).

[31] The relation of the particular and the universal is theoretically discussed in *Emancipation(s)* (1996) on the basis of ongoing debates on multiculturalism in the political science. For Laclau, advocates of a pure multiculturalism who do not account for any form of shared universal reference eliminate all politics which, for him, could only result in a form of segregationism or 'self-apardheid' (Laclau, 1990p. 32).

(1996, p. 72; Derrida, 1996) points out, universality 'can exist only through its parasitic attachment to some particular body'. Through a process of struggle, a particularity 'overflows' its own particular content and takes of up the (impossible) task of representing the community as a whole which involves an equivalential operation: 'a certain particular, by making its own particularity the signifying body of a universal representing, comes to occupy – within the system of differences as a whole - a hegemonic role' (Laclau, 1996, p. 102).

This operation is linked to what Laclau refers to as the production of empty signifiers (Laclau, 1996, p. 36-46). The latter are 'pure names', signifiers without a signified (Laclau, 1996, p. 36). These signifiers are 'empty' because they are names that do not have a content of their own but, in their function as nodal points (privileged reference points), act as a 'stand-in' for the 'absent fullness' of the discursive formation by articulating alongside it a chain of equivalence that points to a constitutive outside (Laclau, 1996, pp. 36-46; see also the various discussion in section one of this thesis).

Empty signifiers, therefore, literally construct the 'ground' of a discourse (see Daly, 2006 and section 1.3 of this chapter). They are the 'necessary means of representation for the (impossible) discourse to appear coherent' (Cederström and Spicer, forthcoming). The common opposition to something external, represented by a certain signifier, is thus the central unifying principle of a discourse (Laclau, 1996; Laclau, 2006). To give an example that is used in this thesis, the name 'freedom' for instance, occupies the role of an empty signifier in neoliberalism. The latter has been constitutive upon articulating a heterogeneous set of practices and ideas *as freedom* into an equivalential chain. What freedom means in neoliberalism, e.g. unrestrained competition, private property, and so forth, is not derived from what freedom 'really is' but how it became defined against the preceding regime of embedded liberalism and Keynesian welfarism.[32] Given the magnitude of economic and social transformations this idea of freedom has contributed to advance (for example,

[32] It becomes apparent here that empty signifiers acquire their presence in historical circumstances and are, therefore, only partially empty, as they, to some degree, adopt the historical content of the particular social force that hegenomises it (see section 2.2 of this chapter).

the deregulation of markets, the privatization of public facilities, anti-collectivist policies against unions and so forth), this signifier has literally 'brought into being' what it names (see also section three of chapter two of this thesis for the concept of 'performativity').[33]

More generally, then, signifiers like 'order' or 'freedom', can be primarily grasped as an antagonism of what they are not – a state of perceived 'disorder', 'non-freedom' - and, thus, they are empty in the sense that they do not, qua essence, automatically refer to a certain concept. Empty signifiers are, however, only tendentially empty[34] since they are 'filled' with the content of a particular social force. Thus, in order to structure a hegemonic discourse in a certain way they borrow, to some extent, the content of the particularity that occupies its place. The universal, therefore, always remains 'contaminated by particularity' (Laclau, 2000 p. 51). This dialectical process takes place at the ontological and ontical level and is precisely what structures the horizon of a given hegemonic formation:

> 'The particular has transformed its very partiality in the name of a transcendent universality. That is why its ontological function can never be reduced to its ontic content. But because this ontological function can be present *only* when it is attached to an ontic content, the latter becomes the horizon of all there is – the point at which the ontic and the ontological fuse onto a contingent but indivisible unity' (Laclau, 2005a, p.226).

To return to the above example, 'freedom' in neoliberalism is therefore of a particular colouring (see above and chapter five of this thesis). It acts as a horizon that delimits the historical bloc as a whole in terms of governing its inclusionary and exclusionary practices.

The relationship between the universal and the particular which incarnates it is always a 'failed encounter' as both are never fully congruent and, at some point – the moment of dislocation – the insufficiency of the particularity to

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[33] Cf. in this context also Laclau and Mouffe's discussion of neoliberalism in *HSS* (pp. 171 ff).
[34] As Laclau argues, the longer the expansion of the equivalential chain, the emptier the signifier (Laclau, 2005a).

carry out the ‘filling function’ is revealed and the particular cannot fulfil its universal function any more (see Torfing, 1999, p. 182).

The theoretical concepts discussed so far are in the following supplemented by the associated approach of Political Discourse Theory which, among other influences, draws on, and extends, the ontological premises and central categories of Laclau’s approach.

3. Political Discourse Theory and the Logics Approach

Political Discourse Theory (PDT)[35] has developed out of the writings and initiatives of Laclau at the University of Essex where he founded the Ideology and Discourse Analysis Programme that later led to the creation of the World Network in Ideology and Discourse Analysis[36] and the Centre for Theoretical Studies in the Humanities and Social Sciences[37] to establish his particular brand of poststructuralist/post- Marxist discourse theory. Anchored in, but not confined to, the work and theoretical heritage of Laclau and Mouffe, PDT has produced a significant body of theoretical and empirical research that is sometimes also referred to as the 'Essex School of Political Theory' since the approach originated at the University of Essex and some of its main proponents, often former students of Laclau, are still based there. Standing in this tradition, the 'logics approach' developed by Glynos and Howarth in their important work *LCE* advances further methodological aspects of PDT and develops a distinct explanatory framework for the analysis of social and political processes based on the concept of political, social and fantasmatic logics.

Crucially, besides elaborating a distinct poststructuralist/post-Marxist methodology, the logics approach develops a more 'institutionalist' account of central Laclauian categories (and that of related scholars some of whom have been mentioned earlier).[38]

Based on the central ontological claims discussed earlier such as radical contingency, the structural incompleteness of the social, and its subjects as well as the primacy of the political (see above in section two of this thesis), the

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[35] PDT is sometimes also called 'Poststructuralist Discourse Theory' or Post-Marxist Discourse Theory (cf. Glynos and Howarth, 2008; Howarth, 2010)

[36] See, http://www.essex.ac.uk/idaworld/

[37] See, http://www.essex.ac.uk/centres/Theostud/staff.asp

[38] Those scholars include: Jacques Lacan, Karl Marx, Antonio Gramsci, Louis Althusser, Ferdinand de Saussure, Roland Barthes, Edmund Husserl, Martin Heidegger, Ludwig Wittgenstein, Michel Foucault, Jaques Derrida and Slavoj Žižek.

Glynos and Howarth's logics approach remains firmly rooted in Laclauian theory but also further develops some of the contributions of these scholars in relation to its central ontological claims, most notably the contribution of Lacan (see section four of this chapter).

logics framework provides a critical grammar for an analysis of how social regimes and practices are instituted, contested, maintained, or transformed.

3.1 Four Dimensions of Socio-Political Reality: The Political-Social Axis

According to Glynos and Howarth (*LCE*, chapter four) there are four ontological dimensions, or conditions of (im)possibility, of socio-political reality – the social, political ideological and ethical dimension. All dimensions are always present within a socio-political regime or practice, albeit to varying degrees. A regime can therefore conceptually be understood according to the degree that these respective dimensions are either foregrounded or backgrounded. Socio-political practices as mundane as mortgaging one's home (see chapter four of this thesis) are embedded in broader institutional arrangements here referred to as regimes.[39] The latter are relational social systems, 'discourses' in the terminology of Laclau, which structure an ensemble of social (i.e. sedimented) practices. Those practices, however taken for granted in our daily lives, always arise, and are contested or defended, politically (i.e. hegemonically). Hereby, the dialectical relationship between the political and social as shown above applies as both dimensions are integral part of every practice or regime.[40] The institution of regimes, as discursive formations, always involves the exercise of power in the exclusionary sense discussed earlier. Therefore, certain regimes can, for instance, contain explicit exclusions such as the division between insiders and outsiders (the prevalence of the logic of equivalence) or mechanisms where the excluded are pushed to the margins of the formation (i.e. the mutual model in this thesis). This process reflects how regimes are always defined, to some degree, in antagonistic contrast to other regimes which, in turn, colours the regime's own practice (*LCE*, p. 106). But this also means, as discussed throughout this chapter, that every regime, like every discourse, is marked by

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[39] Other appropriate names would be 'order', system, or 'discursive formation', for example. What accounts for a 'regime' depends on the precise circumstances and contexts and, thus, in turn, under the specific problem under investigation. Hereby, the analyst plays an active part in the 'characterization of a context as a *particular regime' (LCE*, 125-6, original emphasis). Therefore, a regime does not necessarily needs be located, say, at the level of the nation state or at the supra-national level.

[40] In *LCE* the terms 'political or social aspects of a practice or regime', 'political or social practices' or the 'foregrounding of the political or social dimension' are often used interchangeably to denote an emphasis on one dimension or the other.

an outside that partially constitutes it but also destabilises and subverts it at the same time.

The foregrounding of the political dimension of a regime is linked to public contestation and involves the articulation or absorption of political demands. Demands are *political* as understood here if they publically contest ‘the norms of a particular practice or system of practices in the name of a principle or ideal’ (*LCE*, p. 115).[41] Those demands are *radical* if they contest a *fundamental* norm of a practice or regime (ibid, p. 115; p. 230, original emphasis). Political demands can potentially be transformed into *hegemonic* demands which challenge aspects of a practice or regime by successfully generalising its relevance to other institutions and practices (ibid, p. 115-16, original emphasis). Thus, demands can be more or less hegemonic depending on them succeeding in having more or less universal appeal. Political practices, namely the foregrounding of the political dimension, can therefore challenge particular isolated aspects of that regime or fundamentally transform the latter and institute a new hegemonic order (such as in the case of the neoliberalist counter-revolution under Thatcher, for instance, that is discussed in chapter five of this thesis).

Political practices arise from grievances experienced and articulated in situations of dislocation such as organic crises where previously sedimented institutional practices are suddenly disrupted and questioned (see also section 2.3 of this thesis). As pointed out earlier, this can result in the articulation of demands that potentially seek to challenge and/or transform a regime in the name of a principle or ideal (the empty signifier) which involves the construction of political frontiers that divide the social into two antagonistic camps (logics of equivalence). But as the categories of dislocation and the political are tied to contingency and freedom, the outcome of how a dislocatory experience is politically (and socially) resolved is never predetermined, neither in form nor in content. Political practices can therefore

[41] The political character of demands or struggles emphasises that the latter are not confined to demands within parties or the state but aim at the ‘transformation of a relationship of subordination’ more generally (Laclau and Mouffe, 2001, p. 153)

also involve efforts by the dominant hegemonic force to disrupt the construction of such frontiers and deal with demands separately (for example by making certain singular concessions or dealing with particular groups differently) in order not to threaten the hegemonic formation and existing power relations as a whole (see above, particularly section 1.2 of this chapter for a discussion of Laclau and Mouffe's logics of difference and Gramsci's concept of transformism). Thus, the political outcome of an organic crisis can also be the preservation of the existing power bloc albeit usually in a modified form (see chapter seven of this thesis).

In contrast, the foregrounding of the social dimension implies the iterative reproduction of sedimented practices or institutions. These allow for a certain predictability and characterisation of the regime or practice in question. These are the aspects of a regime for which contestation does not arise or is actively prevented from arising in order to keep contestation at bay and preserve the institutional complex. This can be achieved, for example, through pre-emptive attempts to muffle grievances or guide their way through existing institutional channels. An example here would be the Carnival festivities in some parts of Germany which, for centuries, have provided a semi-official outlet for the public to mock the political elite during one week of the year.

On can therefore say that, to the extent that the instituting dimension of a practice or regime is made visible, either through public contestation or the absorption or resolution of the latter, the political dimension is foregrounded. If, on the contrary, contestation does not arise or is pre-emptively prevented from arising, the social dimension is foregrounded (*LCE*, p. 111).

3.2 The Ideological – Ethical Axis

The second ontological axis of socio-political reality is concerned with what can be called the ideological and the ethical dimension of a practice or regime. The foregrounding of the ideological dimension denotes attempts on the side of the subject to cover over the radical contingency that particularly reveals itself in moments of dislocation. Ideological aspects of a practice or regime therefore lead to an active misrecognition of the undecidability of every socio-political reality or, to put it in Lacanian terms, an (ultimately failed) attempt to limit the presence of the real, in order to attribute a certain consistency or rationality to the world. *LCE* follows Althusser in insisting that ideological acts of identification are always present in every social order and, thus, ideology is a fundamental ontological category (*LCE*, p. 118). (The concept of ideological fantasy will be dealt with in more detail in section four of this chapter).

This, however, is not the whole story as there is the possibility of responding *ethically* to radical contingency and dislocatory experiences. This implies their active affirmation and a sense to 'keep things open' and to be aware of the presence of other alternatives. The ethical dimension, which in Lacanian terms can be called 'an ethics of the real' (cf. Zupančič, 2000), is not concerned with ethics in a straightforwardly normative way but with the manner that subjects respond to the constitutive lack at the heart of all reality in the sense of not attempting to conceal or disguise it which, in the theory of Laclau and Mouffe, is connected to the concept of radical democracy (see section 2.2 in this chapter).

The social and political dimension of a practice can find expression alongside the ideological- ethical axis. Political practices can be more or less ideological, for instance, depending on the amount of concealment in relation to their own contingency. This is best illustrated perhaps, by Thatcher's infamous 'there is no alternative'-doctrine (see also chapter five of this thesis). Equally, to the extent that subjects are attentive to the radical contingency in political or social practices, one can speak of the foregrounding of the ethical dimension or, in the terminology of Lacalu and Mouffe, the presence of a 'radically democratic ethos' (*LCE*, p. 123).

The political and social structuring of regimes and practices are illustrated in figures 1 and 2; source: Glynos and Howarth (2007)

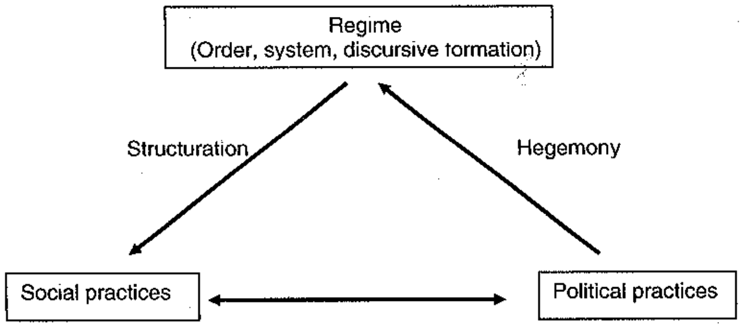

Figure 1

A simplified model of the constitution of a social regime

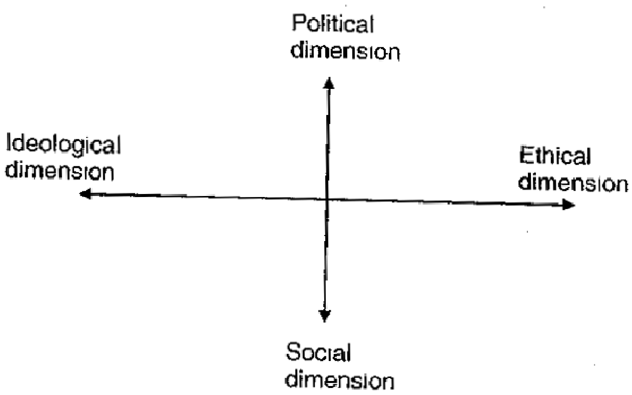

Figure 2

The four ontological dimensions of regimes and practices

These four dimensions of socio-political reality are linked to the operation of three types of different logics that form the basis of the next section – social, political and fantasmatic. These provide a basic explanatory and critical grammar for the functioning and interaction of the various aspects that characterise regimes or practices.

3.3 Logics

The concept of logics is inspired by Laclau who initially refers to social logics as the ‘grammar’ or ‘cluster of rules’ that structure and organise a particular discourse (Laclau, 2000, p. 76). In his later work, he distinguishes between ‘social logics’ and ‘political logics’ which are connected to ‘rule following’ and the ‘institutionalization of the social respectively’ (Laclau, 2005, p. 117). Using these remarks as a starting point, Glynos and Howarth develop a distinct approach where logics become a central category of social and political analysis that explains what makes social practices and regimes both possible and vulnerable at the same time (*LCE*, pp. 133-164).

There are three types of logics within their framework - social, political and fantasmatic. Taken together, they characterise the mechanisms that structure, institutionalise, reproduce, defend, or challenge a regime or practice within a general theory of hegemony. For them, the 'logics of a practice comprises the rules or grammar of the practice as well as the conditions which make the practice both possible and vulnerable' (*LCE*, p. 136).

Logics are not 'laws' in the sense that one can subsume the phenomena under investigation under universal laws or 'causal mechanisms' such as, for example Marx' tendency of the profit rate to fall. Nor are they confined to particular contextualised interpretations as in the hermeneutic tradition, for example. How particular actors interpret their roles and contexts is important but equally important is that logics, like the dimensions that were outlined in the last section are ontological and, thus, logics possess a 'quasi-transcendental' quality which, as Glynos and Howarth put it, 'moves between empirical phenomena, consisting of self-interpretations and practices, and our underlying ontological premises' (*LCE*, p. 164). The latter are, as noted earlier, essentially compatible with those of Laclau.

The three different logics can be associated with the foregrounding and backgrounding of the four different ontological dimensions. Social logics assist with characterising *what* a practice or regime is; its sedimented content. Political logics show *how* it is contested and defended. Those two logics are tied to the foregrounding/backgrounding of the social and political dimension respectively. Finally, fantasmatic logics generate reasons for *why* practices are maintained or transformed and are associated with the ideological or ethical dimension. All logics mutually implicate each other and are necessary components of a critical account of a problematised phenomenon (*LCE*, p. 103 ff; original emphasis).

Social logics furnish the vocabulary to characterise a regime or practice as an ensemble of sedimented rules that govern a discourse. The logic of financialization, for example, consists of a number of different rules, or 'sub-logics' such as leverage, risk, credit, commodification, increased accumulation of capital through financial channels and so forth. Taken together, they account for an assemblage that can be called the logic of financialization (see chapter four and six of this thesis).

Crucially, social logics are at the most 'ontical' of the three logics in the sense that they are inseparable from the historical context in which they operate (see also chapter four of this thesis) but, qua rule, they cannot be fully reduced to this context either. All the ontological categories elaborated upon above equally apply to social logics (discursivity, the presence of antagonisms, the general theory of hegemony etc). Thus, the concept of social logics allows for a certain cross-contextual investigation as well. As Laclau and Mouffe observe (2001, p. 142 quoted in *LCE*, p. 140), 'social logics … acquire their meanings in precise conjunctural and relational contexts where they will be always be limited by other, frequently contradictory – logics.'

In sum, social logics account for the 'patterning' of a regime or practice which characterises how it 'ticks' and how it interacts with other, often antagonistic, logics (e.g. the antagonistic relationship between mutuality and financialization that is investigated in this thesis).

Political logics refer to the logic of equivalences and differences that are discussed in section 1.2 of this chapter. They are concerned with how a social space is constructed at any given moment in time and are tied to the foregrounding of the political dimensions of a regime or practice or its active suppression. To briefly summarise, while logics of equivalence construct political frontiers in order to oppose a common enemy or threat, logics of difference aim to absorb potential contestation into the existing social order in a transformist way. Therefore, they account for the political struggles that institute, contest, or defend social regimes and practices. Hereby, political logics account for the *dynamics* of social change by highlighting how the logic of difference prevails over the logic of equivalence and vice versa (*LCE*, pp. 141-45; original emphasis).

Neoliberalism, for example, emerged under Thatcher as an antagonistic reaction to the perceived failures of Keynesian. It drew support from many sectors of society by uniting a variety of heterogeneous demands. Hereby, the logic of equivalence clearly dominated the logic of difference. In contrast, the period preceding the financial crisis where neoliberalism and financialized growth were largely officially established (particularly during the 'roaring noughties'), was characterised by the prevalence of the logic of difference. During this time their political origins were largely sedimented and contestation (e.g. anti-globalisation movements, environmentalist protests etc) was largely dealt with through existing institutional channels.

Political logics can be combined with fantasmatic logics (see below) in the sense that the latter can provide the force and speed for change, but also support the resilience of an existing regime or practice. As the concept of fantasmatic logics ties in with an established tradition in political theory that explores processes of ideological fantasy, it is investigated in this broader context and in some depth in the next section.

4. Ideological Fantasy

In PDT, the concept of fantasmatic logics is deployed to develop a version of ideology critique that combines poststructuralist and psychoanalytic thinking and draws on an established critical tradition which links ideology and the critique thereof to the operation of fantasy (e.g. Žižek, 1989, 1997; Glynos, 2001; 2008; Glynos and Stavrakakis, 2008; Stavrakakis 1999; Daly 1999, 2004). Here, the Lacanian category of fantasy points to the affective dimension of a hegemonic (ideological) regime or practice by stressing the role of subjectivity, desire, and enjoyment (*jouissance*). A fantasmatic logic, therefore, draws attention to why subjects identify with certain contingent hegemonic discourses and not others - the reason why subjects are ‘gripped’ by a particular regime or practice (Glynos, 2001). While an ideological fantasy can appear in many historical guises, the latter is predominantly an ontological category which is tied to the foregrounding of the ideological dimension of a regime or practice as discussed above. Fantasy, therefore, refers not so much to the concrete, normative content of a specific regime or practice but to the more formal ‘*mode* of the subject’s enactment with these norms’. Fantasy, thus, can be understood as ‘a way of mediating the subject’s relation to the norms and ideals that govern a social or political practice (Glynos and Stavrakakis, 2008, p. 10).

The ideological component of fantasy involves an obfuscation of the ultimate impossibility of every social order. Ideology is understood not to reside in ‘false consciousness’ in the sense of a misrecognition of the true essence of society - such as the misrecognition of economic classes as structuring principle of social relations in orthodox Marxism - ‘but precisely the opposite, the non-recognition of the precarious character of any positivity, of the impossiblility of any ultimate suture’ (Laclau, 1990, p. 92).[42] On the contrary, it is fantasy that gives consistency to a discursive formation and partially covers over the lack in the structure and well as the subject.

Fantasy is, therefore, not a dream-like construction to escape reality[43] but it involves a narrative that supports and structures the reality of our social relations as such by trying to offer an escape from the traumatic experience that is the ‘real’. In Lacanian psychoanalysis the ‘real’ and ‘reality’ are conceptually to be distinguished. The real, an increasingly important concept in the later work of Lacan, which Žižek (1989) describes as a ‘traumatic real kernel’, refers to a pre-discursive leftover that resists all attempts of symbolisation. It can surface only as a disruption of the symbolic and

[42] Laclau himself seems to be more at ease with the conventional term ideology as he, despite increasingly affirming the influence of Lacan in his later work, does not explicitly use the terms fantasy or enjoyment.
[43] That is precisely why ‘ideology at its purest’ is to be found in the seemingly neutral reference to mere ‘utility’ such as national differences in toilets (Žižek, 1997)

imaginary order. Reality, on the contrary, is a symbolic and imaginary construction aimed at domesticating the disruptive effects of the real which is nevertheless bound to fail (here, the parallels to Laclau's (im)possibility of society become apparent). The category of the real points to the lack in the big Other (the symbolic order of discourse) as well as the lack in the subject (see also section one of this chapter). This refers in essence a lack of what Lacan calls *jouissance,* a pre-symbolic enjoyment that is sacrificed upon the entry into the big Other in the formative stages of a subject's identity (Lacan's famous mirror stages). Fantasy, then, is the attempt to eliminate the lack in the Other by promising to recapture the lost enjoyment which, however, must remain impossible since the subject cannot return to a time before language and 'the symbolic law'.

It is the identification with a master signifier in the big Other (the realm of discourse and language) that stimulates desire (It is the identification with the signifier 'freedom' in neo-liberalism, for instance, that retroactively constitutes its desiring subjects). Desire, however, is the desire of the big Other which, like the subject, is also structured around a central lack. Fantasy literally teaches the subject how to desire while simultaneously concealing the desire of the big Other.

As Žižek remarks (1989, p. 118; original emphasis): 'Fantasy appears then as "*Che Vuoi?"* to the unbearable enigma of the desire of the Other, of the lack in the Other; but it is at the same time fantasy itself which, so to speak, provides the co-ordinates of our desire – which constructs the frame enabling us to desire something. The usual definition of fantasy ("an imagined scenario representing the realization of desire") is therefore somewhat misleading, or at least ambiguous: in the fantasy-scene the desire is not fulfilled, "satisfied" but constituted (given its objects, and so on) – *through fantasy we learn "how to desire*."'

Fantasy structures the subject's belief about the recapture of the sacrificed enjoyment in staging a relationship between the subject-as-lack and an impossible object; the Lacanian object petit *a*. The object remains impossible as it constitutes the subject as desiring. Thus, desire must remain 'dissatisfied' as the subject of desire can never encounter its truly desirous object (Glynos, 2001, p.201). According to Žižek (1997, p. 13), the object petit *a* paradoxically always emerges as already being lost. Fantasmatic narrativisation, then, aims at resolving this deadlock by artificially positing the object petit a as first given and then lost which, in turn, sets in motion the endless but impossible search for the sacrificed *jouissance* represented by the 'lost' object*.* The object petit *a* can, for example, emerge in the form of utopian political projects that are embedded in imaginary promises of a future state which will not be hindered by the loss of *jouissance.* Glynos and Stavrakakis (2008, p. 261) describe, for example, the imagined return to a utopian era of 'prudent capitalism' devoid of any form of impure 'contamination' such greed and corruption (see chapter seven of this thesis). While a certain amount of *jouissance* of the body, as it is called by Lacan, can actually be obtained in the political context through the staging of national celebratory rituals for example, this form of *jouissance* remains partial and momentary.[44] In an often quoted passage Lacan points out that '"That's not it" is the very cry by which the *jouissance* obtained is distinguished from the *jouissance* expected' (Lacan, 1998, p. 111). Thus, these utopian political projects cannot deliver on their promise of providing for an absolute fullness and, therefore, merely reproduce desire and this very utopian promise of fullness inscribed in fantasy. That is why fantasy possesses a certain masochistic quality and often is experienced as suffering. This also explains why subjects frequently submit themselves to conditions of subordination (see the initial quote in chapter eight of this thesis).

Fantasy, as understood here, is thus the 'glue' (Glynos, 2001) that holds the ideology of a hegemonic formation together by simultaneously constituting its subjects as desiring and promising the desire's (impossible) satisfaction. However, since coming too close to the realization of one's desire is an encounter with the real which is experienced as traumatic, fantasy relies on the re-/ staging of a scenario that keeps the subject at a critical distance vis-a-vis the fantasmatic object. As Daly (1999, p. 221-2) remarks: 'The supreme

[44] This is sometimes also called jouissance$_2$ which is staged in fantasy and accounts for a 'false' and 'domesticated' real (Stavrakakis, 1999, p. 49)

“promise” of ideology is that it will realize a fully reconciled social order and deliver us absolutely from the Real’ ... In this regard, all ideology is structured in terms of eluding a direct (and unbearable) encounter with the Real through a certain re-staging in which such an encounter is made to appear resolvable.’

This re-staging often involves the form of the construction of an ‘other’ that denies access to, or has stolen, the lost/impossible enjoyment (cf. also section 1.6 for the concept of social antagonism). Hence, a fantasmatic logic often takes the form of a promise of a ‘fullness-to-come’ once an obstacle is removed or a certain villain, responsible for the theft of the primordial *jouissance,* is identified/punished. Indeed, according to *LCE*, every utopian fantasy seems to produce the need for a scapegoat to supplement its beatific dimension of a reconciled fullness with its horrific side of violence upon which this vision is founded[45] (Stavrakakis, 1999; see also Willmott, 2010b). Scapegoating provides the possibility of enjoyment because it offers the false promise of snatching away the *jouissance* from the imaginary thief who is believed to have stolen it. In the context of the financial crisis of 2007-9, scapegoating a few CEO’s such as RBS’s Fred Goodwin and Northern Rock’s Adam Applegarth precisely provided the form of *jouissance* pointed out here. Moreover it even constitutes, or at least reaffirms, the very status of the larger public as subordinates, as the perceived victory of having pressured a few CEO’s of banks to hand back their annual bonus, for example, leaves the systemic nature of the system of existing power relations largely intact (see chapter seven of this thesis).

More generally, then, Žižek (1997, p. 29) summarises these processes as follows:

> ‘It is therefore crucial to bear in mind the radical ambiguity of fantasy within an ideological space: fantasy works both ways, it simultaneously *closes the actual span of choices (*fantasy renders and sustains the structure of the forced choice, it tells us how we are to choose if we are to maintain the freedom of

[45] A prototypical scapegoat in the work of Slavoj Žižek is the figure of the Jew. The concrete embodiment of such a scapegoat varies but always refers to a similar mechanism.

> choice-that is, it bridges the gap between the formal symbolic frame of choices and social reality by preventing the choice which, although formally allowed, would, if in fact made, ruin the system) and *maintains the false opening,* the idea that the excluded choice might have happened, and does not actually take place only on account of contingent circumstances.'

The 'offer to be rejected' which would in fact ruin the system in the above example is, in fact, foreclosed by the fleeting enjoyment derived from scapegoating a few 'greedy bankers' as this pushes more systemic reforms of the financial system to the margins of public debate. Such an ideological move, however, can seldom be acknowledged in official public discourse. Ideological fantasy, therefore, often relies on the censorship of its own ideological foundations (see Žižek, 1997). It is thus that the very foundations of social fantasy, such as the scapegoat that aims to steal our enjoyment, often reveals itself in semi-official sources such as the yellow press (Glynos and Howarth, 2007; Glynos, 2008).

A fantasmatic logic, therefore, aims to capture these practice that regulate the subject's economy of enjoyment in order to conceal contingency. Fantasmatic logics can either foreground the social dimension of a practice at the expenses of its political dimension thus contributing to the sedimentation of social relations, or, on the other hand, give support to political change processes. Hence, as briefly indicated above, fantasy can either make a practice more resistant to change or account for the speed and impact of its institutionalisation. As Glynos and Howarth (2007, p. 147) point out:

> 'If the function of fantasy in social practices is implicitly to reinforce the natural character of their elements or to actively prevent the emergence of the political dimension, then we could say that he function of fantasy in political practices is to give them *direction* and *energy,* what we earlier referred to as their vector (...) In addition, during the institution of a new social practice or regime, there are invariably political practices that actively seek to naturalize a newly emerging social structure or regime by backgrounding its political dimension through decision, institutionalization and other means. This entails

marginalizing whatever contestatory aspects remain from the struggle to institute the new social structure.'

Ideological fantasies are, therefore, the link that binds subjects (for example, the everyday subjects of saving and borrowing discussed in chapter four of this thesis) to certain regimes or practices via the promise of covering over the radical contingency at the heart of every experience. Contrarily, a response to contingency that foregrounds what *LCE* calls the 'ethical' dimension designates a continuous effort to resist the totalising attempts of a particular fantasy in the sense of keeping the possibility of other alternatives open. In the theory of Laclau and Mouffe, this means to construct a hegemony where equality itself becomes the governing principle for the expansion of the chain of equivalence. While antagonism can never be done without, 'common enemies' can hereby be transformed into 'common adversaries' whose views, while they are opposed, can be seen as equally valid (Mouffe, 1993).

Conclusion

This chapter gives an overview of the theory of Ernesto Laclau, including some of his Gramscian and Lacanian influences, and PDT. It places an emphasis on covering a broad range of central theoretical concepts due to their interrelatedness and a general consideration of making the approach as accessible as possible without having to compromise too much of its complexity and depth. On certain occasions, the historical evolution of some of these concepts throughout the body of work of Laclau is investigated so as to better locate them within, or distinguish them from, other theoretical traditions such as linguistics, poststructuralism, psychoanalysis and, most importantly, its Marxist heritage. The theoretical discussions are supplemented with empirical examples which predominantly relate to the findings of this thesis.

Section one of this chapter is particularly concerned with elaborating Laclau's particular version of discourse theory which emphasises the relationality and the materiality of discourse and conceptualises social and political processes as signifying practices. The section discusses the general importance of ontology in relation to the radical contingency of every social formation against the background of which Laclau's central theoretical categories and problematisations are elaborated. Particularly, the concepts of chains of equivalence/difference, dislocation, antagonism and subjectivity are investigated under consideration of their theoretical interrelatedness, their conceptual development, and also their empirical applicability.

The second section examines in depth the centrepiece of Laclau's theory which is the concept of hegemony. Its first part discusses the theoretical reception of hegemony by Antonio Gramsci who is most closely associated with the concept and has been immensely influential on Laclau. Gramsci's approach to hegemony is, on occasions, used in this thesis in its own right, most notably with respect to the category of 'war of position' in chapter five, albeit in the non-essentialist way advocated by Laclau. The section further discusses the theoretical trajectory of the concept of hegemony in the work of Laclau with respect to his engagement with different schools of thought and his continuous effort to deconstruct all kinds of essentialism particularly the 'economism'[46] of the Marxist tradition. In this sense, the further discussions of this section illuminate a range of theoretical categories such as the political, power, empty signifiers and Laclau's reformulation of the relationship between the particular and the universal which point to the contingency and political construction of every hegemonic order. Additionally, section two outlines Laclau and Mouffe's notion of radical democracy as a contemporary strategy of the lefts, a strategy, as it is argued in this thesis, that can (and should) be extended to the economy.[47]

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[46] See also chapter two of this thesis for further discussions on the deconstruction of economism in poststructuralist political economy.

[47] See particularly also Gibson-Graham (2006) who first called for the extension of the concept of radical democracy to the economic sphere.

Section three complements Laclau's often very abstract insights with a version of PDT – the logics approach by Jason Glynos and David Howarth. This framework allows for a more empirically oriented and 'institutionalist' reading of Laclau's theory and that of related scholars. By conceptualising four basic ontological features of social regimes and practices, connected to the operation of three types of associated logics, social, political, and fantasmatic, Laclau's central ontological claims and theoretical categories can arguably be more effectively mobilised for the concrete analysis of social formation. One of Glynos and Howarth's central aims – the furnishing of a critical theoretical account of how regimes and practices are instituted, contested, maintained or transformed forms the basis of the genealogy chapters in this thesis. Their notion of fantasmatic logics, then, is discussed in the broader context of contemporary psychoanalytically inflected studies of political ideologies such as those of Slavoj Žižek in section four of this chapter. The main purpose of this section is to provide an account for the operation of ideological fantasy as an instrument of obfuscating contingency and the subjugation of subjects to ideological regimes and conditions of domination. This section principally aims to show how, through mechanisms such as the projection and diffusion of horrific and beatific fantasmatic narratives, scapegoating and transgression, regimes and practices resist transformation via the category of the subject. The insights generated in this section are particularly deployed for purposes of investigating the resilience of neoliberalism and financialization in the light of the financial crisis in chapter seven of this thesis.

The next chapter is concerned with mobilising the theoretical edifice of Laclau and PDT for an analysis of the economy - an undertaking that, as said before, has been largely neglected so far. Supplemented by previous research on poststructuralism and economy, a poststructuralist political economy according to Laclau is juxtaposed with the paradigm of neoclassical economics that has been instrumental in legitimising neoliberalist hegemony. It is argued that, despite various difficulties, a Laclauian poststructuralist political economy challenges the fundamental axioms and scientific guise of contemporary mainstream economics. This challenging of the established orthodoxy in economics, carries the promise of contributing to exposing the hegemony of neoliberalism and financialization, underpinned and normalised by such claims as to ‘scientificy’, as contingent and politically constructed.

> ‘We have moved from the metaphysical realm to the metaphorical: that is to say, we have moved away from the idea that economic “truth” is discovered and towards the idea that it is made’ (Daly, 1991, p. 93).

> ‘Today we must renew the tradition that emerged in the nineteenth century in the scientific field, which refuses to leave the world to the blind forces of economics and seeks to extend to the entire social world the values of the scientific universe …’ (Bourdieu, 2003, p. 12).

Chapter Two: What is Economy?

Introduction

The identity or ‘nature’ of the economy is subject to a wide variety of (competing) discourses, or ‘economic representations’, within academia and everyday life (Ruccio, 2008). The economic representation that became hegemonic during the second half of the 20th century, relegating almost all other representations of the economy to the margins of public discourse, is the neoclassical economic paradigm which is based on the assumptions of efficient markets, statistical modelling, economic forecasting and the figure of the homo economicus. Its claim to ‘scientificity’ has underpinned and legitimated the rise of neoliberalism and contributed to the depoliticisation of financial markets and practices by constructing markets as spheres beyond public contestation and political intervention (see DeGoede, 2003; Froud et al., 2010). In the universe of neoclassical economics, the economy, from which power and politics are entirely absent, is exclusively populated by rational actors whose individualistic and socially atomistic ‘economic choices’ ultimately contribute to the greater good. Hereby, ‘the market mechanism’ becomes the ultimate judge of economic activity as it punishes ‘inefficiency’ and favours choices that lead to economic prosperity and wealth. Even in the arbitrage theory of financial economics that presupposes the existence of market anomalies (which are opportunities for hedging and speculation, see MacKenzie, 2005 in footnote 51 of this chapter), those inefficiencies are only temporary since, on a fundamental level, markets tend towards a general equilibrium (Fama, 1970). Indeed, one response to the financial crisis appears to be 'more of the same' as financial economics becomes more closely aligned with (neo-classical) macroeconomics in order to provide the former with more 'scientific legitimacy'.[48]In the broader context of neoliberalist hegemony, the 'free market', then, becomes the necessary condition of possibility for freedom and (a property owning) democracy (Fukuyama, 1992; see particularly also chapters three and five of this thesis for the concept of freedom in relation to neoliberalism).

This chapter attempts to mobilise a poststructuralist political economy framework based on the central insights of Ernesto Laclau and PDT as well as other sympathetic approaches in order to emphasise the primacy of the political and the contingency of every economic formation. In this sense, the chapter challenges the market fundamentalism of contemporary economics as well as the 'economism' of other approaches such as orthodox Marxism. The first section outlines the central theoretical claims of neoclassical economics and discusses its political alliance with neoliberalist hegemony. While *HSS* was first published in 1985 and has been very influential for the deconstruction of economic essentialism in Marxism, the application of Laclau and Mouffe's theoretical framework to the economy (as well as the development of a poststructuralist political economy more broadly) is a relatively recent phenomenon. This delay has in part been due by the almost complete theoretical silence on the part of Laclau and Mouffe on the sphere of the economy. Section two investigates some of the difficulties of using Laclau for economic analysis and stresses the need for supplementary middle-range theorising (see also Glynos and Howarth, 2007). Lastly, section three identifies key concepts of a poststructuralist political economy based on PDT and Laclau, and asks how these concepts can be fruitfully deployed for concrete empirical analysis.

[48] This information has been given to me by one of my interviewee who has extensive knowledge in the field (interview 6).

1. Representing Economy: The Hegemony of Neoclassical Economics

1.1 A World of its Own: Neoclassical Economics' Theoretical Foundations

Neoclassical economics is a meta-theoretical framework which consists of a revival and development of the so-called classical economics by David Ricardo, Adam Smith, John Stuart Mill and others.[49] Together with (Neo-) Keynesian economics, it forms the so-called 'neoclassic synthesis' that dominates the field of contemporary economics (Clark, 1998). According to Krugman (2009), however, the latter half of the 20th century is characterised by a retreat from the original Keynesianism in economics (even within mainstream New Keynesianism) which had been the 'representation' of the economy that had been dominant in the post-Great Depression era (see chapter six of this thesis) towards the strengthening of the neoclassical paradigm which emphasises the efficiency of markets, the rationality of market participants and a limited role of state intervention (the latter predominantly assigned to [independent] central banks). John Maynard Keynes himself stressed the importance of trust and confidence in relation to the functioning of the economy by alluding to his famous 'animal spirits' (Keynes, 1936; see also: Akerlof and Shiller, 2009). He thus factored a certain irrationality and uncertainty into his economic analysis. The New Keynesians, however, with a few exceptions, mostly accept the notion that investors and consumers act rationally and markets usually 'get it right', albeit subscribing to a far more extensive role of the state.[50] Keynes's idea of financial markets as

[49] Some commentators would also call Karl Marx a classical economist because of his theoretical indebtedness to Adam Smith and Ricardo (see e.g. Weintraub, 2002). However, as Daly (2004, p. 7) points out, Marx has highlighted that social relations and power imbalances are constitutive of the economic sphere (see particularly Marx, 1976), as opposed to the (tendential) economic idealism of Adam Smith's 'Invisible Hand', for example, that precisely seeks to eradicate those relations from the economy.

[50] Fullbrook (2005) remarks that this representation of Keynes accounts for a 'vulgar distortion' of his original ideas akin to a 'Henry Miller novel without sex and profanity' (p. 4):

> 'Led by Paul Samuelson in the US and John Hicks in the UK, they [mathematical economists] set about mathematizing Keyne's theory. Or, more accurately, a part of his theory. They left out all those bits that were inconsistent with the neoclassical axioms

a ‘casino’ therefore became replaced by the ‘efficient market hypothesis’, an ideological belief in the ‘market mechanism’, which refers to the assumption that all markets are ultimately efficient and tend towards equilibrium. Consequently, deviations are arbitrary and, thus, prices on traded assets always reflect all available information (see: Fama, 1970).[51] In that sense, the famous phrase coined by Milton Friedman (and attributed to Richard Nixon) that ‘we’re all Keynesians now’ must indeed read ‘we’re all neoclassicals now, even the Keynesians’ (Weintraub, 2002).

According to the neoclassic paradigm, economics should be conceived of as a science that resembles the natural sciences more closely than other social sciences or the humanities (a claim that, on occasions, has led to accusations of ‘physics envy’). ‘Positive economics’, as Friedman, a central architect of the neoclassic revolution and important organic intellectual of neoliberalism, (1966, p. 4), puts it:

> ‘… is, in principle independent of any particular ethical position or normative judgement … Its task is to provide a system of generalizations that can be used to make correct predictions about the consequences of any change in circumstances. Its performance is to be judged by the precisions, scope, and conformity with experience of the predictions it yields. In short, positive economics is, or can be, an objective science in precisely the same sense as any of the physical sciences.’

This notion of economics echoes its decoupling from the social sciences and humanities from the end of the 19th century onwards (Svetlova, 2008, p. 9).[52]

… This bowdlerised version of Keynes, called “Keynesianism”, soon became standard fare in undergraduate courses. Even graduate students were discouraged from reading the primary text. With this co-optation of Keynes’ reputation and with the real Keynes out of the way and Veblen and all the other free spirits forgotten, the road was now clear to establish a neoclassical tyranny’ (ibid).

[51] There are, however, theoretical variations on the efficient market paradigm. For example, in neoclassical finance theory, these arbitrary deviations from ‘real’ prices are arbitrage opportunities for the savvy trader which makes finance theory, in contrast to neo-classic economics, rather more a theory of ‘sharks’ than a theory of the traditional homo economicus (Ross, quoted in MacKenzie, 2005).

[52] The economic paradigm that is hegemonic in the wider social sciences, by contrast, and which directly opposes the formalism of neoclassical economics, is the ‘substantialism’ developed by Karl Polanyi and later the New Economic Sociology of scholars such as Mark

As a freestanding academic discipline, economics makes it its business to advance standardised criteria for an objective assessment of economic life which serve to measure, describe, explain and predict ‘real’ economic activity. In order to do so, it devises methodological tools that aim at, paraphrasing Laclau’s statement in section 1.1 of chapter one of this thesis, ‘an unmediated access to the economy “as it really is”’. In doing so, the neoclassic paradigm, firmly grounded within a positivist conceptualisation of science and based on what is known as ‘methodological individualism’, has a number of far-reaching consequences for the dominant representation of economic reality.

Where the social sciences explicitly deal with the question of structure and agency, economics presupposes a certain form of agency – the homo economicus or ‘rational man’ – whose actions and motivations are constructed to be beyond the scope of inquiry of economics as a science. Coupled with the scarcity principle – economic resources are understood to be scarce and all economic actions are geared toward the reduction of scarcity – economics presupposes a rational choice under said conditions of scarcity as a field of inquiry. The choice of the economic agent is seen to be dependent on preferences (for example certain needs ranked according to urgency), the actual scarcity of resources (for example budgets, costs and prices) and on the presence of alternatives. Every preference is attributed with a certain utility on the basis of which preferences can be ranked. The economic agent is then understood to choose one (and only one) among the number of available alternatives, namely the one that aims at maximal utility under the given circumstances.

Granovetter. For substantialists, markets are a specifically modern form of economic organisation that have been established via the increasing ‘disembeddedness’ of the economy from the social institutions they were once embedded in, such as the family or the community: ‘Instead of the economic system being embedded in social relations, these relationships were now embedded in the economic system’ (Polanyi quoted in Stäheli (2008a, p. 295). While Polanyi’s notion of the economy as the outcome of an ‘instituted process’ (Polanyi, 1954) is followed here, the dichotomy between society and economy is problematised (see below). For an overview over the formalism/substantialism debate see Wilk (1996, p. 1-26) and Stäheli (2008a).

The central methodological principle of economics (and economics is perhaps best understood as a set of methodological assumptions) is the aforementioned methodological individualism. The latter argues that every collective phenomenon can be solely deduced from the actions of individuals. These actions, however, are understood to be socially atomistic. This means that the relational and social context between individuals is considered to be irrelevant for economic analysis: the homo economicus chooses between alternatives, makes decisions according to rational principles and operates, conceptually isolated from other economic agents, within a social vacuum which is the marketplace.

The dominance and persistence of methodological individualism in economics can be traced back historically to the importance of Liberalism in philosophy and political economy in England in the 18th century. Based on the utilitarianism philosophy of John Stuart Mill and Jeremy Bentham among others, liberalism contains the notion that, firstly, the morality of actions can exclusively be judged according to the principle of utility and that, secondly, subjects can be conceptualised as free and autonomous. The Marginalist School and the Austrian School, such as William Stanley Jevons, Carl Menger and also Joseph Schumpeter have later elaborated and legitimised the concept of methodological individualism with particular respect to the discipline of economics (Svetlova, 2008, pp. 9-11).

1.2 A Match Made in Heaven: Neoclassical Economics and Neoliberalism

The ascendancy and success of neoclassical economics has been, to a large part, the result of a mutually beneficial symbiosis with the neoliberalist project (see chapter three for the concept of neoliberalism). Keynesian macro-economics, dominant from the post-war years until the 1970s, was increasingly seen to be unable to revive capitalist growth during a period of crisis because it favoured a ‘mixed system’ rather than a ‘purely capitalist’ one (Bresser-Perreira, 2010, p. 15). Additionally, the ‘historical-deductive method’ used by Keynes was regarded to be incompatible with the exclusively mathematical and ‘formalist’ stance adopted by neo-classical economics which supposedly made economics ‘truly scientific’. This representation of economics as a ‘pure science’ was, alongside the collapse of Iron Curtain in 1989, central for the institutionalisation and legitimisation of neoliberalism (ibid). Since neoliberalism emerged chiefly as a response to the perceived failures of Keynesian macroeconomics which were deemed to be incapable of explaining both a period of stalled economic growth and high inflation at the same time (see chapter five of this thesis for the rise of neoliberalism), neoclassical economics became integral part of the neoliberalist hegemony and played an important role in its legitimisation.

To secure the continuation and success of neoliberalism, the USA, as the new post-world war superpower, actively groomed an exclusive elite of neoclassical academics as well as business and military leaders. They were trained in academic strongholds of neoclassical economics such as Chicago, which promoted and diffused neoliberal ideology, underpinned by neoclassical ‘scientificity’, throughout the world. Due to its very high level of formalism, however, the world, as Fullbrook (2005, p. 5) points out, had to be shaped according neoclassical principles and not vice versa:

> ‘Given that it [neoclassical economics] was impossible to escape its autism without de-formalizing and thereby losing its treasured illusion that economists are kissing-cousins of physicists, why not demand that the real world change so as to conform to the imaginary world of neoclassical economics. This is how neoliberalism came and continues to be’.

If not entirely succeeding in accurately depicting economic reality or shaping the latter according to its own image, neoclassical economics has certainly succeeded in projecting an ideological fantasy of the economy. This ideological fantasy is centred on ‘the market’ and the ‘rational man’ which has interpellated subjects across the social spectrum in various ways. The economy – equated entirely with the market place - has hereby emerged as a sphere that can be fully controlled and mastered which, in turn, has helped to suppress political contestation and participation. The dislocations in the wake of the crisis – the Lacanian traumatic encounter with the real – has arguably so far only led to a re-affirmation of a particular version of this fantasy via the identification of scapegoats and individual mistakes (see particularly chapter seven of this thesis).

The theoretical assumptions underpinning a poststructuralist/PDT reading of the economy, then, directly challenge the central claims of neoclassical economics as will be shown. It is argued here that a poststructuralist take on the political economy provides the conceptual tools for a deconstruction of the economic essentialism inherent in neo-classical, orthodox Marxist and other representations of the economy. Poststructuralist political economy can therefore be understood as a statement against ‘economism’ - i.e. economic reductionism - and ‘de-politicisation’ (see DeGoede, 2003; 2004; 2005; 2006).

In this sense, a Marxist political economy within which the political moment is subordinated to, and determined by, economic structures (if only in the last instance, according to some interpretations), must, of course, also be rejected (see Laclau and Mouffe, 2001 and the discussions in chapter one of this thesis). The primacy of the political and the associated contingency of every social formation moves, therefore, to the forefront of every economic analysis. Also, the economy can no longer be regarded as being exclusively populated by rational and, with regard to their economic decision-making, socially isolated agents as the latter are partially constituted by discursive structures. One thus also has to take into account the relational structures, affects and acts of identification that govern economic agents and practices.

In the following, I will firstly point to the challenges of using the work of Laclau and Mouffe for an analysis of the economy in section 2.3 of this chapter. I will then elaborate how a poststructuralist economy with reference to Laclau and Mouffe and PDT can be conceptualised.

2. Laclau and Mouffe and the Spectre of Economism

The theoretical development of a poststructuralist take on the political economy is a relatively recent phenomenon whose advent, ironically, was considerably delayed by the distinct accomplishments of *Hegemony and Socialist Strategy* in 1985*.* As Stäheli (2008a; 2008b) points out, the initial reluctance of the poststructuralist tradition to accommodate an analysis of the economy (let alone finance) can be read as being part of the very success story of poststructuralism itself. He argues that the economy became almost a quarantined space of scholarly investigation after the effective deconstruction of what Laclau and Mouffe in the influential *HSS* (p. 75) call the 'last redoubt of essentialism' of the Marxist tradition; which itself is the economy. While the deconstruction of economic determinism in *HSS* laid bare the primacy of the political (see chapter one of this thesis), this came at the cost of leaving the economy theoretically untouched, arguably for fear of accidentally resorting to a form of economism once again. This reluctance, however, initially resulted in a range of unintended consequences:

> 'Because the economy was classified as a site of substantialism, essentialism and causal determinism, it had not become the subject of a discourse analysis or deconstructive reading of its own for a long time. This development is fatal for a number of reasons. Firstly, the analysis of the economic remains committed to precisely those 'essentialist' perspectives that are so heavily criticized; secondly, in a number of poststructuralist analyses this results in a "politicistic" asymetry which reduces the economic to the political; [and] thirdly, the premature rejection or even demonisation of the economic frequently overlooks the immanent heterogeneity of economic practices and discourses' (Stäheli, 2008a, p. 298; own translation).

It is therefore not entirely surprising that the first major work to develop a distinct poststructuralist political economy framework specifically accused *Hegemony and Socialist Strategy* of conserving the economy and capitalism as a fixed and homogeneous space via means of theoretical silence: J.K. Gibson-Graham's *The End of Capitalism (as we knew it),* published in 1996, is chiefly concerned with 'the immanent heterogeneity of economic practices and discourses'.[53]

The very fear of the 'spectre of economism'[54] might also help to explain the almost complete absence of concrete economic analysis in the work of Laclau (and Mouffe). While Laclau can certainly be accused of theoretical silence on the sphere of the economy bar a few comments scattered throughout his work,[55] his intentions with regard to how the latter should be theoretically conceived are always clear. In fact, in a recent interview (Glynos and Stavrakakis 2010, p. 232), Laclau points out that perhaps the most important lesson of the financial crisis – caused by the 'politics of deregulation which was at the core of the neoliberalist project' – is that '… the idea of the economy as a unified space, dominated by its own endogenous logic, has experienced an ultimate collapse, which is now more visible than ever before.'

As Torfing (1999, p. 38) confirms, the all-pervading dimension of the political in Laclauian theory is incompatible with essentialist conceptions of the economy (see also section 2. 4 of this thesis). According to this view, then, a mode of production, for instance, cannot function as the structural foundation of society (such as in Marxism), since it is always a historical and contingent product (Laclau, 2006a, p. 110).

However, Laclau's pre-occupation with the political as well as the ontological, rather than the ontical, poses additional problems that need to be addressed. Ontologically speaking, the economy is, like every other sphere of society, the result of a historically specific hegemonic bloc. Any concrete economic order (e.g. Fordism, finance-led accumulation etc)[56] is to be situated predominantly

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[53] A position, however, that was considerably revised in their later work *A Postcapitalist Politics* (2006).
[54] Gibson-Graham (1996, p. 29; footnote 10) point out that this spectre can never be completely banned, nor would this be desirable, as 'anti-essentialism is a motive rather than an achievement and even as a motive it cannot exist as a universal value or unmitigated good…' Therefore, 'essentialising anti-essentialism' is a poor substitute for the original essentialism that one is trying combat in the first place.
[55] Most notably, a brief historical analysis of contemporary capitalism via the adaptation of Scott Lasch's and John Urry's notion of 'disorganised capitalism' in *NR* (pp. 41-60).
[56] See chapter three of this thesis for more details.

at the ontical level and does, therefore, not warrant too much specific treatment in the Laclauian theoretical universe. Hence, the latter's 'operationalization' for concrete economic is difficult and must, arguably, assume a more experimental and provisional character at this stage (cf. also Gibson-Graham, 1996). PDT has recently started to engage more thoroughly with issues of political economy[57] (see e.g. Griggs and Howarth, 2009; Howarth, 2010), mirroring its greater commitment to ontical and methodological concerns, but there is still much work to be done. What appears to be a promising way forward is to conceptualise the economy itself as a hegemonic arena where competing struggles are fought out, an idea already present but not developed in *HSS* (Laclau and Mouffe, 2001, p. 77; Howarth, 2010). In this sense, and following *LCE* (p. 136), different 'market logics' (or, more broadly, logics of the economy) such as mutuality and financialization, can be identified. These logics frequently compete and limit one another, each trying (but ultimately failing) to represent the economy in its totality. To recapitulate, logics are politically institutionalised and none takes ontological primacy over the others.

Here, following Scherrer (1995), Laclau's theoretical insight is best used as a meta-framework on the basis of which more concrete middle-range theorising and empirical investigations can take place (see Betramsen et al, 1991; Scherrer, 1995; Griggs and Howarth, 2009; Howarth, 2010, Glynos and Howarth, 2007). Thus, for the purpose of this thesis, different theories of financialization are therefore analysed in chapter three which are then put to use for an analysis of the British mortgage markets based on the general insights of Laclau and PDT.

What needs to be discussed in this section as a final point is the relationship of the political and the economic. According to Stäheli (2008a, p. 298), a Laclauian take on the economy carries the danger of a 'politicistic inversal' of economism which amounts to the equally undesirable 'reduction of the

[57] There have also been earlier, highly theoretical, attempts to combine Laclau with more economically oriented theories particularly Regulation Theory (see Bertramsen et al, 1991; Scherrer, 1995).

economic to the political'. In addition, Daly (2006, p. 178) points out that post-Marxism and poststructuralism have tended to ignore the mutual contamination of the economic and the political. Also, the way the former has influenced the latter in a given conjuncture, as well as the way the political itself becomes economised has hitherto been overlooked.

However, a point of clarification is in order at this point in relation to the concept of the political, as discussed in section 2.4 of chapter one of this thesis. It is argued here that misunderstandings can be avoided by clearly conceptually distinguishing between the political and politics. The political is an ontological and instituting *dimension* of the social and has no content of its own. It can, thus, qua its very nature, not be contaminated by the economic whose content is primarily located at the ontical level. However, the present neoliberalist conjuncture can indeed be characterised as one where *politics* become economised in the sense that in neoliberalism, the economy determines the important political parameters. Politics are, therefore, viewed through the lens of the market in the neoliberal universe (Foucault, 2010). It is against this background that the more recent attempts of Slavoj Žižek to re-introduce class at the level of the ontological 'infrastructure' must be refuted.[58]

Thus, as much as Laclau and Mouffe have succeeded in 'de-economizing the political', the challenge still largely remains to 're-politicize the economy' (see Gibson-Graham, 2006, pp. 54-57; 212). This thesis aims to contribute to this endeavour. Hereby, the small but growing literature on poststructuralism and political economy can offer further insights. Even though the existing literature is still in its infancy and far from homogeneous, a number of keystones can be identified that can serve as guidelines for empirical and theoretical analysis. These are discussed in the next sections.

[58] A heated exchange, not least concerning the ontological status of capitalism and economic class relations lies at the heart of Laclau's theoretical parting with Slavoj Žižek (see Laclau, 2005a, pp. 232-9; 261-2; 267-8; Laclau, 2006; Žižek, 2006a; 2006b; Butler et al., 2000).

3. Towards a Poststructuralist Political Economy

3.1 Markets as Contingent Acts of Creation

A poststructuralist economy, as understood here, must be fully discursive in the Laclauian sense of the term – the reasons for this are given in chapter one of this thesis. The internal composition and components of economies and markets can therefore not be pre-given and static but must be conceived of as relational, historical and in constant flux. Hence, every economic order is always essentially prone to political contestation and transformation.

The very ‘material structures’ of markets such as prices, costs, capital credit, profit, assets, financial instruments etc. are, according to a poststructuralist understanding, discursively constituted and enacted on a daily basis. In this sense (economic) discourses can be considered ‘performative’ in the way that a discourse essentially ‘brings about what it names’ (DeGoede, 2005, p. 7; DeGoede, 2003). Performativity, as used here, is therefore not confined to the performativity of economics (see e.g. Callon, 1998; MacKenzie, 2004; 2006; MacKenzie and Millo, 2003; MacKenzie Muniesa and Siu, 2007; also see chapter three of this thesis).[59] Rather, it designates that discourses mediate and constitute reality at the same time. Hence, economic space is not the outcome of a ‘transcendental rationality’, as both orthodox Marxism and neoclassical economics assert, but resides in daily practices of reporting, accounting, calculating, buying, selling, speaking, advertising and so forth and is constantly made and re-made in a ‘struggle over meaning’. The reality of the marketplace, therefore, cannot be separated from how it is interpreted and represented, and these representations are always connected to the dimension of the political and the exercise of power (see particularly section 1.4 of chapter one of this thesis). Hereby, resistance is central to how the economic sphere is shaped and represented, and strategies of dissent can help to upset the sedimented practices of established hegemonic order (see Langley, 2008a; also consider in this context the introduction of free ATM machines by the Nationwide against the initial reluctance of banks, for

[59] Indeed, Froud et al. (2010) argue that the assumption of the performativity of economics implies a rationalistic view that does not adequately describe the non-rational character of economic and financial practices.

example, or the resistance to demutualisation as discussed in chapter six of this thesis).[60]

Hence, the economy is, as Karl Polanyi (1954) puts it, 'an instituted process', and, as such, a contingent (and continuous) construction that emerges historically. Therefore it does not follow a pre-inscribed historical teleology such as the one in Marx's historical stagism for instance.

Consider in this context, for example, the instructive case of the strawberry auction market in Fontaines-en-Sologne in France (Garcia-Papet, 2007). In this account, the reader witnesses how a 'perfect market', with dynamics of competition that outwardly resemble the neoclassical ideal type, is literally constructed from scratch. This 'micro-example' hereby illuminates the origins and mechanics of market on a more general level. Notably, despite its well-functioning economic rules of competition, the way this market is assembled and maintained is entirely social and political (as opposed to purely economic) in nature. Its 'governing rules and grammar', as Glynos and Howarth would call it (see below), have to be constantly reinforced. The organising principle of a 'perfect market' which this case exemplifies is therefore not the working of an 'invisible hand', a 'general equilibrium', or a 'market mechanism' etc but a social and political construction.

<u>3.2 Putting the Concept of the Political to Work for the Economy</u>

Laclau's concept of the political as discussed in section 2.4 of chapter one (and elaborated by Glynos and Howarth in section three of this thesis) can be of much help to illuminated the creative acts of institution within which markets are created.[61] What Daly (2006) calls a 'radical political economy' (and what is here called poststructuralist political economy) involves therefore an acknowledgement of the ontological category of the political as a founding principle and a focus on struggles and power-relations as a constitutive terrain. This notion requires the discursivity of the economy because only a

[60] The presence of resistance is, of course, most apparent in times of crisis and 'reactivation' (Laclau 1990, p. 34; see also section 2.4 of chapter one of this thesis).
[61] For a detailed example see chapter five and chapter six of this thesis

discursive, and therefore contingent (as opposed to transcendental), economy can be essentially prone to subversion and re-composition and, thus, be decidedly political in nature for reasons discussed in the last chapter. Therefore, a poststructuralist political economy does not aim to represent its 'true' nature (how the economy 'really is'). On the contrary, it takes its own impossibility as a starting point and acknowledges that the economic sphere is essentially a political and social construct.

To reiterate, power is not ultimately grounded in class relations but involves a set of exclusionary processes and antagonistic struggles which are constitutive and at the same time represent the limit of all (economic) objectivity. A hegemonic discourse stabilises itself through the exclusion or marginalisation of other possibilities (e.g. the marginalisation of the mutual logic in the UK mortgage market since the 1970s). Through practices of sedimentation and normalisation a discourse aims to legitimise its particular content as universal. Yet this stabilisation and universalisation, despite the best efforts of a discourse to eliminate its contingent foundations, can only be partial and temporary, given its underlying dislocation and (im)possibililty (see chapter one of this thesis). Thus, every economic representation is essentially vulnerable to subversion, contestation and potential transformation not least because of the destabilising effects of what it has excluded and from the perspective of which the present hegemony can be challenged. The excluded (Laclau and Zac, 1994 p. 34) 'manages to emerge even if through a remote derivative: this is the moment of dislocation' (see also Peterson, 2006; Torfing, 1999, and chapter five of this thesis). What 'haunts' economic discourses are therefore the residues of their own contingency, heterogeneity and power, particularly in times of perceived crises when subjects are 'called upon' to identify anew with a different discourse (Gibson-Graham, 1996, chapter 10; DeGoede, 2005, p. 124; see also more generally Derrida, 2006).

'Reactivating' what is foreclosed or marginalised in an economic discourse, therefore, becomes a core component of economic analysis from a poststructuralist point of view. Crucial for this is an acknowledgement of economic diversity that takes into account the plurality and heterogeneity of economic practices (see Gibson-Graham, 1996, 2006), or to put it in Laclauian terms, a notion of the economy as a social field 'criss-crossed with antagonisms' (*HSS*, p. 153). As Gibson-Graham (1996, 2006) note, the economy is often reduced to capitalism (particularly in Marxist accounts) which obscures the presence of a myriad of economic practices that are not capitalist (i.e. not concerned with the appropriation of surplus value) such as unpaid work, cooperatives, mutuals etc. As Willmott (2005, p. 770) points out, analysing Laclau and Mouffe's notion of the economy:

> 'For Laclau and Mouffe … "the space of the economy is structured as a political space" … This means that "interests" are socially organized and identified rather than conceived as "external force" that is given by the occupation of positions. Through a fundamentally political process of identification, people are understood to attribute interests to themselves and others. There is, then, no "external force" requiring certain people … to maximize profit or to suffer if they fail to fulfil this requirement.'

Gibson-Graham (2006), then, while not denying that capitalist values dominate the economic sphere, point to the emancipatory potential of alternative kinds of economic organisation and argue for the extension of the concept of radical democracy to the economy. (See also Glynos 2008 for a psychoanalytical interpretation of their notion of 'community economy'. Here, Glynos argues that such alternative forms of are potentially associated with a different (and less ideological) form of *jouissance*; see section 2.2 of chapter one of this thesis for the concept of radical democracy.)

Neoliberalism, for example, has not achieved its hegemonic status through an intrinsic quality that makes superior to other forms of economic organisation but rather, it has become dominant through the exercise of power involving the de-legitimization or collapse of alternatives and concrete historical struggles the 'reactivation' of which can serve as a stepping stone to challenge and contest neoliberal hegemony.[62]

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[62] The process of demutualisation is a concrete example here with the re-mutualisation of failed banks being a potential first step of a counter-hegemonic strategy (see chapters six and seven of this thesis).

A general analytical strategy for a poststructuralist analysis of the political economy emerges, then, that, according to DeGoede (2006, p. 5-6), is concerned with,

> 'how certain meanings are fixed at the expenses of others, how certain representations dominate alternatives, how the limits of political discourses are constituted, go to the heart of poststructuralist politics'.

The concept of ideological fantasy, as discussed in section four of the previous chapter, is a useful tool to supplement these insights with an appreciation of a 'libidinal political economy' which accounts for how an economy coordinates desire and *why* subjects are mobilised with reference to certain signifiers and not others.

3.3 Economy and Fantasy

As pointed out earlier, subjects and discourse always engage in ideological strategies to cover over their dislocations which, as discussed in section four of the previous chapter, is driven and maintained by acts of fantasmatic identification. In the neoliberalist symbolic universe, for example, such attempts often include reference to the fantasmatic object of 'free markets' which is essentially considered to be a form 'universal cure' for the human condition as such (see for example the opening quote by Friedrich von Hayek in chapter five of this thesis). It has been observed in this context that markets often assume a deity-like status in neoliberalism (DeGoede, 2005; see also chapter seven of this thesis).[63] Hence, an immediate reaction to the financial crisis was the proposal to create new markets as remedies to the dislocations the latter had created in the first place (Knorr-Cetina, 2009).

In the neoliberalist imaginary – underpinned and legitimised by neoclassical economics – markets are represented as the guarantors of individual freedom

[63] From this point of view, it is not surprising that a range of investigations into the economy from Max Weber (2001) seminal work to Giorgio Agamben's (2011) most recent output are concerned with a connection between religion and economy.

and justice in the sense that markets are seen to be the most efficient way to allocate resources and, hence, are considered to be effectively beneficial for all (see Peterson, 2006). The particular version of this narrative which immediately preceded the financial crisis even claimed that, due to new financial instruments and other developments, markets had been made even more efficient. This fantasmatic narrative essentially announced the end of all boom and bust cycles, thereby tacitly implying the continuous and virtually indefinite rise of asset prices such as housing (see part one of chapter seven of this thesis for a detailed discussion of this ideological fantasy). What cannot be acknowledged in this discourse are its own internal dislocations: the way that neoliberalism itself is grounded in, and constituted by, power (Daly, 2006). (Žižek (1997) calls this the 'obscene foundation' of a discourse and Laclau (1990) 'the terrain of the original violence' that becomes sedimented and naturalised over time (see also chapter one of this thesis for a detailed discussion of the concept of the political).

It thus becomes clear from the above observations that the economy must also be understood as deeply infused with ideological fantasy. A poststructuralist political economy, as pointed out earlier, is therefore also always a 'libidinal political economy' in the sense that it contains an appreciation of the unconscious dynamics that constitute desiring economic subjects in relation to the objects, norms and contents of a practice or regime (cf. Gammon and Palan, 2006). This appreciation of the libidinal dynamics of the economy involves a focus on subjectivity, fantasy and enjoyment that explains why subjects are 'gripped' by a discourse and how they are hereby involved in its (contradictory) reproduction. These modes of engagement often involve beatific and horrific components and acts of transgression on the side of the subject that perpetuate the status quo (see section four of chapter one and chapter seven of this thesis). As Howarth (2010, p. 12) notes, the economy is always fuelled by myths and collective imaginaries (e.g. the 'fantasy of the law of the market') which are integral to the various practices the economy seeks to institutionalise or reproduce.

To return to an above example, neoliberalism based on the perceived ‘scientificity’ of neoclassical economics and the ideological belief in the market as ultimate remedy arguable contains what Žižek calls an ‘ideological move par excellence: the notion that reality needs to appear to be ‘found, not produced’ (1992, p. 32; cf. in this context the above mentioned quote by Milton Friedman in section 1.1 of this chapter).

The beatific utopian promise of Neoliberalism, then, containing the right to private property, justice and freedom through the market (with ‘consumer choice’ being a central manifestation of this freedom) can be contrasted with one of its horrific dimensions: the looting of shops for designer goods by underprivileged youths during the riots in the UK in August 2011. The individualised scapegoating and quick prosecution of those who ‘unbelievably turned against their own communities’ is hereby portrayed as a betrayal of (neo)liberal democratic values by certain politicians and in the press, rather than being the outcome of systemic dislocations that neoliberalism itself has generated, of its own ‘obscene’ foundations so to speak. The riots themselves appear hereby more like an act of transgression which has been (so far) essentially in line with, and serves to reproduce, rather than transform, the neoliberal universe. In this universe, as DeCock et al. (2011, p. 11) point out, ‘the fantasy of the law of the market’ becomes the ‘“impassable horizon of our time” in its purest form’ (see also chapter seven of this thesis). (The emerging Occupy Wall Street movement might (or might not) have a more transformational or ‘ethical’ impact in the future.)

An additional feature of poststructuralist political economy is that it contests the apparently ‘rational’ and ‘scientific’ hegemonic axioms of ‘methodological individualism’ and ‘homo economicus’ by emphasising the relational (discursive) nature of every identity and the co-production of subjects and objects (see section one of chapter one of this thesis).

3.4 Relationality and Irrationality in Poststructrualist Political Economy

As discussed in chapter one of this thesis, the concept of discourse can be used interchangeably with that of relation. Emphasising the relational dimension of economic practices – a relation that (partially) constitutes subjects and objects alike – stands in direct opposition to the social atomism and perceived rationality of the homo economicus which is to be found in the discourse of neoclassical economics (and also the neoliberalist project more broadly). The concept of discourse as relation, then, has a number of far-reaching consequences for the conceptualisation of a poststructuralist political economy.

Firstly, economic subjects cannot be thought of as autonomous entities and rational individuals or agents, as subjects are always partly located within a discursive structure. An economic order, therefore, always comprises a complex configuration of 'words, people and things' DeCock et al (2010, p. 181).[64]

Secondly, this totality cannot be rational (be it in the form of the rational market or the pre-given interests of a fundamental economic class) because this relational totality cannot be subordinated to function (see section 1.1 of chapter one of this thesis for more details on the concept of discourse). Rationality is always the rationality of a particular historical discourse and, hence, a contingent rationality. And, thirdly, economic practices cannot be reduced to 'the economic' *per se* (as if was a sphere somehow divorced from the rest of society) but must be situated within a historical bloc which always comprises economic, cultural and political factors alike.

The methodological individualism of neoliberalist economics which implies that economic subjects act in social and cultural isolation and independently from the materiality of their surroundings, must, therefore, be abandoned. Economic subjects and practices should rather, like social practices more generally, be situated within the terrain of logics which frequently enter into antagonistic relationships with other logics that render them both vulnerable and possible at the same time. The concept of a 'market logic' in *LCE* (p.

[64] Actor Network Theory (ANT) also stresses this dimension of relation. For a general introduction see Latour (2005); for markets see Callon, 1998; for an overview of various relational approaches to the economy see Svetlova, 2008, pp. 71 ff.

136), is a useful indicator how processes and practices such as financialization or mutuality can be (idealtypically) conceptualised:

> 'In abstract terms, we can say that a particular market comprises a particular set of subject positions … (borrowers and lenders, investors and issuers of securities etc) objects … (e.g. financial products, mortgages etc) and a system of relations and meanings connecting subjects and objects as well as certain institutional parameter (such as a well-functioning legal system)'.[65]

What is crucial here is that a market logic is not confined to 'the market' in a narrow sense but is 'non-topographical'. Such logics always transcend the boundaries between 'state, economy and society' and must therefore be analysed within the broader parameters of a given hegemony (a task that is carried out in relation to financialization in chapter four of this thesis). Following a Laclauian interpretation of Gramsci, Bertramsen et al. (1991, p. 18) point out, that the lines that demarcate the separation of state, economy and society are essentially indistinct. Every social configuration is, thus, to be conceived of as an 'open-ended relational totality in which non-unified institutional orders of state, economy and society are articulated'. They continue by clarifying that:

> 'First, when arguing that the social configuration is a *relational totality of ununified* institutional order, we intend to show that the lines of demarcation between state, economy and society are blurred. Second, the relational totality is defined as *open-ended* because it is constantly subverted by a constitutive outside which prevents its closure. Third, asserting that the institutional orders of state, economy and society are *articulated* emphasizes that their interrelations cannot be conceived in terms of causal determination' (ibid, original emphasis).

The concept of methodological individualism, therefore, can arguably be more fruitfully replaced by that of 'methodological' or, in our case, 'ontological' 'relationism' (cf. Svetlova, 2008, pp. 138 ff), as part of a more general strategy

[65] See in this context for example Langley (2006) for an account of how financial meaning, practices, objects and subjects are co-produced by a relational discourse in relation to securitization.

to refute an 'atomism' in the social sciences that conceives of the world as consisting of discrete events, facts and causes (*LCE*, p. 104). The economy, as well as the social more generally, is therefore overdetermined[66] by a variety of factors and forces and not reducible to isolated events, mechanisms or motives (cf. Gibson-Graham, 1996). According to this view, then, an analysis of the economy and its crises does not imply to look for their 'causes' but rather consists of a critical investigation into their meaning and dislocatory effects.

An economic agent of subject is therefore more akin to what the structuralist anthropologist Claude Lévi-Strauss has called a 'bricoleur' (a concept that has on a number of occasions been used to describe financial practices – see e.g. Engelen et al. (2010; 2011; Hildyard, 2009; chapter four of this thesis – and which is compatible with Laclau's notion of discourse). The bricoleur, according to Lévi-Strauss (1966, p. 17),

> 'is adept at performing a large number of diverse tasks; but unlike the engineer, he does not subordinate each of them to the availability of raw materials and tools conceived and procured for the purpose of the project. His universe of instruments is closed and the rules of his game are always to make to do with 'whatever is at hand', that is to say with a set of tools and materials which is always finite and is also heterogeneous because what it contains bears no relation to the current project, or indeed to any particular project, but is the contingent result of all the occasions there have been to renew or enrich the stock or to maintain it with the remains of previous constructions or destructions.'

Rationality, then, is always context-dependent as the bricoleur, in working with 'what is at hand', acts *within* a particular discourse or horizon which provides 'a set of tools and materials which is always finite and is also heterogeneous' (ibid; see also Engelen et. al. 2010; 2011 and chapter four of this thesis for the application of the concept of bricolage to financial instruments). Rationality is always limited to a *particular* discourse as the latter confers meaning onto

[66] For the concept of overdetermination see footnote 23 of chapter one of this thesis

subjects and objects. Subjects choose the discourses they identify with but, according to approach advocated here, this choice is political and ideological rather than a 'formally rational' (in a Weberian sense) and fully transparent act of individual preferences as neoclassical economics claims.

An analysis and critique of the political economy through a poststructuralist lens is therefore concerned with its political acts of institution, exclusionary mechanisms of power and relationality as well as the ideological fantasies through which they are reproduced. As Howarth (2010, p. 10) summarises this position:

> 'Regimes of accumulation are themselves the sites of political struggle at both the molecular and molar levels. Both their political instigation, which always involves power and exclusion, as well as the precise linkages that are established between the different components of a specific economic logic, are the product of hegemonic struggles that connect contingent entities in only partially complete systems. Accumulation regimes are thus heterogeneous systems of rules, practices, and strategies that are constantly vulnerable to dislocations and crises.'

Conclusion

This chapter outlines a poststructuralist political economy according to Laclau and PDT. It aims to challenge the neoclassical representation of the economy as a political terrain populated by rational agents where social relations are absent and the economy is reduced to the marketplace (but also the economism of orthodox Marxism). Instead, a poststructuralist political economy as understood here, emphasises the primacy of the political, power, the workings of ideological fantasy, the relationality of the economic sphere and the irrationality of economic actors. It furnishes a vocabulary for economic analysis that is 'critical' and 'emancipatory', in the sense of emphasising the contingent institutionalisation of every sedimented economic order and the existence of alternative forms of organisation. The chapter particularly highlights the heterogeneity of the economic sphere where different (and often antagonistic) hegemonic forces (or logics) compete for hegemonic status. Hereby, a general research strategy emerges that aims at the ‘reactivation’ of foreclosed possibilities as potential counter-hegemonic possibilities.

The first section of the chapter investigates the philosophical underpinnings of neoclassical economics and its political symbiosis with the neoliberalist project. Section two discusses a number of difficulties for the deployment of Laclauian theory for an analysis of the economy. It concludes that such an analysis is most fruitfully deployed by mobilising other, more middle-range, theories which are then articulated alongside the central ontological insights of Laclau and PDT. The third section, then, aims to identify such theoretical keystones supplemented by other sympathetic approaches.

The next chapter is concerned with a discussion of a number of such ‘middle-range’ theories of financialization and neoliberalisation. Firstly, the following chapter outlines the key components of the neoliberalist hegemonic regime. It then elaborates the three most important approaches towards financialization and clarifies the relationship between neoliberalism and financialization. These theories are then used for the empirical analysis in the chapters five to seven of this thesis alongside the central theoretical premises discussed in the chapters 1-2.

‘Increasingly freed from the regulatory constraints and barriers that hitherto had confined its field of action, financial activity could flourish as never before, eventually everywhere. A wave of innovations occurred in financial services to produce … new kinds of financial markets based upon securitization, derivatives, and all manner of futures trading. Neo-liberalization has meant, in short, the financialization of everything’ (Harvey, 2005, p. 33).

‘”… the next act of the financial drama may well start on Wall Street”’ (Boyer, 2000 p. 142).

Chapter Three: What is Financialization?

Introduction

This thesis conceives of financialzation as a market logic of neoliberalist hegemony[67] (cf. Harvey, 2005; Gamble, 2009a; Kotz, 2008)[68]. Neoliberalism consists of a revival and modification of the free market ideology and politics of the 19th century,[69] underpinned and legitimated by neoclassical economics (see chapter two of this thesis). In the neoliberalist universe, individual freedom and private property rights are seen to be the highest attainable goals of humanity. Free markets are necessary, if not altogether sufficient, for their protection (see Harvey, 2005). Neoliberalism became dominant in the wake of the perceived failures of Keynesian state interventionism during the stagflation crisis of the 1970s. At the forefront of this this attack by

[67] As such, it is, of course, not exclusively confined to the terrain of the market but, in line with the theoretical approach advocated here, always comprises economic, cultural as well as political elements (see chapter one and two of this thesis and below).
[68] For a different view, see Montgomerie and Williams (2009)
[69] Neoliberalism can be further traced back to the emergence of liberalism in the 17th and 18th Centuries where the combined power of the clergy and aristocracy over the economy and politics was increasingly contested. Liberalism has also spawned many different strands. For example, the political liberalism known in the US is precisely the opposite of the market liberalism of neoliberalist ideology, as it is associated with the political left which favours market interventionism.

neoliberalist hegemony was the doctrine of monetarism,[70] also know as the 'supply side economics', associated with Milton Freedman and Alan Walters. Behind this attack, however, was a broader critique of state interventionism and any form of collectivist organisation. (It is therefore not surprising that the building society model has been significantly marginalised under conditions of neoliberalist hegemony ((Gamble, 2001).) Central to the project of neoliberalism has been a particular understanding of freedom that has exercised a strong ideological allure. Freedom, as understood here, presupposed 'free markets' as its necessary condition of possibility. Contrary to the laissez-faire capitalism of the 19th century, the state is not entirely absent, but has to reinforce this order on a continuous basis. The market,[71] hereby becomes the organising principle of the integral state, and not vice versa. By the 1990s, neoliberalism had become formally sanctioned by the so-called Washington Consensus.[72]

The deregulation of markets, particularly financial markets, in the name of neoliberalism, has implied a major restructuring of the economy of most major capitalist states (including China)[73] which has led to the prioritisation of finance capital over productive capital and the emergence of a finance-based system of growth. What in the following is discussed as financialization has its origins, therefore, in neoliberalist deregulation and ideology (see Kotz, 2008). Neoliberalism (albeit perhaps crumbling) has become 'common sense' and informs a range sedimented practices of everyday life (Harvey, 2005; see also chapter four of this thesis). It has provided, to use the Gramscian expression, 'moral leadership' partly on the basis of offering certain solutions to problems of financial exclusion (Thrift and Tickell cited in French et al., 2008).

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[70] It is highly questionable, however, as to whether there has ever been 'pure' monetarism (Johnson, 1991; Crouch, 2009. Nevertheless, deviations from the monetarist rulebook have been very difficult to acknowledge openly (Kaletsky, 2010; Crouch, 2009).

[71] The 'efficient market paradigm' of neoclassical economics, thus, implies a certain 'vulgarisation' of original neoliberalist theory such as that of Hayek.

[72] Washington Consensus is a term first used by the economist John Williamson to designate specific free market policy prescriptions for developing countries to be promoted by the following institutions based in Washington D.C. (which had been established under the Bretton Woods order): The International Monetary Fund (IMF), the World Bank and the US Treasury Department (Williamson, 1999). The term later became synonymous with neo-liberalist policies more generally.

[73] Neoliberalism has been a global phenomenon with only a few exceptions among major countries, but its national characteristics vary (Steger and Roy, 2010; Harvey, 2005).

The following chapter provides an overview over the concept of financialization in the context of the structural economic changes that have occurred in the neoliberalist era. The chapter begins with a general introduction to the concept before it then discusses three of the most important theoretical approaches to financialization – the French Regulation School, the British Social Accountants, as well as cultural approaches to finance and the financialization of everyday life. Neoliberalism and financialization, in the context of the UK mortgage market, are further investigated empirically in the analysis chapters 4-7.

1. Structural Shifts of Capital Accumulation: Introducing Financialization

Financialization is a relatively new concept in the social sciences which has not yet received as much theoretical and empirical prominence as the related and overlapping concepts such as globalisation and neoliberalism. Particularly in the light of the ongoing financial crisis, however, its explanatory potential for contemporary capitalist development is increasingly being recognised across the social sciences. This has resulted in a variety of different usages and theoretical approaches.

In very broad terms, the concept of financialization is used to describe fundamental shifts in the relations of power between society, the economy and financial markets (Heires and Noelke, 2009). The financial crisis of 2007- must, therefore, be understood in the light of broader shifts which comprise a wide variety of heterogeneous developments. These shifts, understood here to be the outcome of neoliberal deregulation, have fundamentally affected the strategies of financial and non-financial actors in the contemporary economy. As Krippner (2004, p. 174) puts it in the perhaps most well-known definition of the concept:

> 'I define financialization as a pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production'

While this definition captures the quantitative expansion of financialization, the latter arguably also consists of a qualitative change in the motives and interests of market participants towards prioritising financial means of generating profits and the rise of financial motives and people (Epstein, 2001). Within its relatively young history, the concept of financialization has been used to account for a range of diverse phenomena ranging from the rise of the shareholder value ideology (see below) to contemporary practices of branding (Willmott, 2010a). Stockhammer (2009, p. 2) summarises a range of these phenomena as follows:

> 'The notion of financialization covers a wide range of phenomena: the deregulation of the financial sector and the proliferation of new financial instruments, the liberalization of international capital flows and increasing instability on foreign exchange markets, a shift to market-based financial systems, the emergence of institutional investors as major players on financial markets and the boom (and bust) on asset markets, shareholder value orientation and changes in corporate governance (of non-financial business), increased access to credit by previously 'underbanked' groups or changes in the level of (real) interest rates. Financialization has also been used to highlight changes of psychological and ideological structures'.[74]

The underlying thread in all these accounts can be summarized as a shift away from traditional forms of mediation (the funding of productive investment through savings) towards trading shares, bonds and derivatives in secondary markets. This leads to prioritizing a finance-led strategy of capital accumulation as opposed to pursuing growth or market share (Montgomerie, 2006).

[74] For a general overview over the concept of fiancialization see: Ertürk et al. (2008a); Krippner (2005) and French et al. (2008).

The next section follows French et al. (2008) in discussing the above transformation with reference to three of the most important[75] approaches towards financialization: The French Regulation School, The British Social Accountants, cultural perspectives on finance and the fiancialization of daily life.

2. Approaching Financialization: Three Perspectives

2.1. Regulation Theory

Broadly speaking, the French Regulation School develops theoretical accounts of what they call different economic growth models. These growth models, such as the Fordist model of accumulation, operate by (more or less) stabilising a certain process of capital accumulation within a given historical conjuncture over a longer period of time. Two theoretical concepts are crucial for Regulation School theorist: these are 'accumulation regime' and 'mode of regulation'. The accumulation regime designates a productive system that follows a certain economic growth path linked to specific technological trajectory. The mode of regulation consists of an institutional framework which stabilises and gives coherence to capital accumulation (Grahl and Teague, 2000). These institutional forms and social relations that define a regime of capitalist accumulation are, however, seen to be ultimately contradictory and unstable (the Marxist heritage becomes apparent here).[76] Any accumulation regime has therefore only a limited lifespan.

'Fordism'[77] is seen as the last fully-fletched capitalist regime where the Fordist mode of regulation stabilised the capital accumulation process over a longer period of time in the advanced capitalist economies during the post-war years. For Regulationists, Fordism essentially refers to an economic growth model within which the Fordist assembly line under Taylorist principles is central to

[75] There are, of course, other interesting approaches towards financialization. See for example Marazzi (2010) and Fumagalli & Mezzadra (2010) for a post-autonomist assessment.
[76] Indeed, Lipietz (1987) refers to the Regulation School as the 'Rebel Sons of Althusser'.
[77] It must be noted here, that the term Fordism was first used in a systematic fashion by Gramsci (1971, pp. 277-318).

capital accumulation. Key for economic expansion under Fordism was the growth of wages. Thus, wage compromise (organised labour) was embedded within an assembly of institutions between governments, trade unions and the management of companies which mediated a system of mass production and mass consumption. A negotiated institutional framework of nationally administered credit, the welfare state, macro-economic 'Keynesian' demand management and control over financial markets (referred to as the regime of 'embedded liberalism' in chapter five of this thesis) was therefore based on a shared objective to deliver economic growth and make capital accumulation stable and predictable for market participants (Lipietz, 1987).

The crisis of Fordism and the rise of neo-liberalism, during the late 1960s and 1970s (Aglietta, 1979; see also chapter five of this thesis) prompted the Regulation School theorists to search for its successor. During the past 20 years, it thus contributed a research programme in the search for a post-Fordist regime characterised by both economic as well as social cohesion over a longer period of time (Grahl and Teague, 2000).[78] A number of different potential successors to Fordism such as 'Toyotism' or 'Knowledge Based Economy' were identified at specific points in time but have failed to produce coherent regimes (Boyer, 2000). During the last decade, the increasing dominance of finance and its implication for new macro-economic trends has become a strong focus of some of the Regulation School theorists (Aglietta, 1998, 2000; Aglietta and Breton, 2001, Aglietta and Reberioux, 2005). For these Regulationists, financial markets are at the heart of changing institutional formations that potentially point towards the stabilisation of a new growth regime termed 'Finance-Led Growth Regime' (Boyer, 2000) which is built around a 'market based financial system' (Aglietta and Reberioux, 2001). However, accounts of this new growth regime are, as of yet, best understood as 'ideal type' theorisations, rather than describing a fully coherent and stable regime of accumulation.

[78] However, Jessop (1990) points out that the Regulation School is wrongly solely equated with a research agenda centred on Fordism/Postfordism. This article also contains an excellent overview over the classical position of the various strands of the Regulation School. For another useful overview, see Boyer (1990).

Regulationists argue that the liberalisation of finance in the neo-liberal period has affected the role of the state in the economy, the role of central bank's economic policy, labour markets as well as firm governance and household savings patterns. According to them, this has resulted in changed institutional configurations with profound macro-economic effects. In his seminal article '*Is a Finance-led Growth Regime a Viable Alternative to Fordism',* Boyer (2000) sketches out the key institutional parameters for a growth regime within which 'the financial system would now occupy the central place previously held by wage compromise' (ibid, p.18). Rather than wages being the central driver of economic expansion, as it was under the Fordist regime, financial market investments are now increasingly generating new channels of accumulation, even under conditions of falling wages. Boyer argues that finance affects all institutional forms. The emerging configuration that facilitates finance-led accumulation includes the rise of shareholder value maximization as central strategy for the firm, signalling a shift of competition from product markets to financial markets. This shift increases investment of household savings in equity markets via pension funds or direct equity holdings, a flexible labour market, a favourable system of taxation and a change of central bank policy towards prioritising the regulation of financial bubbles rather than product market inflation.

Similarly, Aglietta and colleagues (Aglietta and Breton, 2001; Aglietta and Reberioux, 2005) view the growing dominance of financial markets under conditions of financial deregulation and technological advances since the 1970s as a shift from a bank-based financial system (the Rhenish model) towards a marked-based financial system (the Anglo-Saxon model) that is developing new forms of institutions which can lead into a new growth regime. Within this institutional framework, firm, household and state behaviour are increasingly driven by the imperatives of financial markets, which, at its most crucial level, include a central reassessment of risk and its distribution throughout the entire economic system. Thus, from a Regulation School perspective, the current financial crisis has not been particularly hard to predict. As Aglietta and Breton (2001, p. 434) already put it at the beginning of the noughties:

> ‘Growing financial liberalization has profoundly changed the connections between finance and the rest of the economy and, as a consequence, the economy is vulnerable to nineteenth-century-like investment booms and busts. Critical to the emerging pattern of business cycles is asset price inflation, rather than inflation in the goods markets. Likewise, downturns can now result from the deterioration of confidence in the equity market, rather than being necessarily triggered by a recessive shift in monetary policy. In these new dynamics, the interaction between speculative bubbles in asset markets, rapid credit growth, over-investment and financial imbalances becomes all-important.’

However the financial crisis has changed (and is still currently changing) the institutional configurations and parameters for capital accumulation (for example, the continuing unavailability of credit). Therefore, according to Aglietta (2008), the possibility exists that, for the first time in modern history, world growth becomes shifted to the East. A future regime of accumulation might therefore be driven by countries such as China and India.

2.2 The British Social Accountants

The British Social accountants, mainly based at the University of Manchester, on the other hand, are not concerned with identifying a more or less stable and coherent successor to the Fordist accumulation regime. Rather, they account for a dynamic model of the role of financialization and its limitations that takes place against the background of conjunctural changes and the ‘continuous reinvention’ of market players such as banks (Froud et al., 2000; Froud et al., 2002; Froud et al. 2006; Ertürk et al., 2008a; Williams, 2000; Engelen et al., 2010; 2011). For them, the question concerning financialization is what distinguished the present phase of finance from previous ones, such as the early 20th century phase of finance-capitalism defined by the figure of the rentier, the Keynesian ‘coupon clipper’, who, at the time, was largely depicted as a social parasite. As Ertürk et al. (2008b) point out, this notion stands in stark contrast of the connotations attached to its contemporary equivalent, the figure of the shareholder.

The earlier work of the British social accountants focuses on the emergence of shareholder value maximization as corporate strategy. Herby shareholder value as corporate governance is problematised as a 'policy issue' (Williams, 2000, p. 6) rather than an intrinsically economic feature. The rise of shareholder value is seen to be symptomatic of a broader shift within contemporary capitalism which points to the importance of capital markets for forms of competition within the economy. This shift relates to capital labour and product markets alike. According to Williams (ibid), financialization restructures the hierarchies and re-directs the objectives of the firm, as additional competition now increasingly takes place within capital markets and every stock market listed company must now meet the same standards of financial performance.

Shareholder value seeks to maximise profit by aligning the interest of managers with that of the owners of the company. As corporate governance, shareholder value, then, becomes the primary objective of management; above growth, market share, the employees of a company and even consumers (ibid). Hereby the concept of shareholder value allows for a multiplication of services and discourses[79] surrounding the measuring and enhancing of shareholder return. Financial consultants are, thus, able to sell a variety of different and competing metrics to measure the shareholder value generated by companies, in playing heavily on the 'quasi-religious element of shareholder fundamentalism' (Froud et al. 2000, p. 85). Shareholder value does not necessarily become realised through enhanced performance and a generic increase in dividends, but typically through stock price appreciation based on secondary shares trading (this, of course, presupposes a favourable economic climate).

More generally, it is worth noting that the concept of shareholder value remains slippery and vague – a buzzword (or 'signifier' in our terminology) – that encompasses a variety of different and potentially contradictory

[79] The term discourse is here, of course, not used in a Laclauian sense.

meanings. Moreover, its meaning has also mutated over time. Ertürk et al. (2008a) point out that, at the beginning of the 1990s, shareholders emphasised a stream of value creation from corporate strategy. At the end of the 2000s, however, institutional investors and capital market players were operating under the concept of 'value crystallization' where value is delivered by the appreciation of shares resulting from the next immediate strategic move (Ertürk et al., 2008a, p. 2-3), making corporate strategy even more short-term.

According to Froud et al. (2002) and Ertürk et al. (2008a), shareholder value for corporate governance spearheaded a shift from a productionist type of capitalism towards what the British Social Accountants term the 'coupon pool capitalism'. Under productionist capitalism, the capital markets remain non-dynamic intermediaries between household savings and productionist companies, or between companies and those firms who hold a stake in it such as banks. Under the most basic type of productionist system, corporations issue coupons (contractual financial obligations such as shares and bonds) in order to raise funds. Funds invested in the company for productive purposes are then distributed back through the coupon pool in the forms of dividends and interests. Thus, a productionist system, differing in its motives and dynamics from the coupon pool system, always exists alongside the latter. However, their contemporary interaction within which productionism plays an increasingly subordinated role contributes to tensions and instabilities within the economy (see Froud et al., 2002). Coupon pool capitalism, then, fundamentally alters the intermediatory role of capital markets. It has developed out of the boom years of the 1950s and 1960s where the growth of pensions was increasingly invested in company shares by stockbrokers and where homeownership (and thus the potential of homes to become financial assets) increased significantly (Ertürk et al., 2008a). Under coupon pool capitalism, 'the financial markets are no longer simple intermediaries between household savers and investing firms but act dynamically to shape the behaviour of both firms and household' (Froud et al., 2002). The secondary market issues coupons which, from the 1990s onwards, increasingly also included financial derivatives and securitized assets. These became more and more important as a regulator of firm and household behaviour (see also particularly chapter four of this thesis for secondary mortgage markets). Households became increasingly forced to channel their retirement savings (and also their borrowing debt, see Langley (2008a)) into the stock market. Conversely, firms now have to react to the imperatives of capital market which increasingly drive household behaviour. Hereby, the composition of the coupon pool becomes dependent on a variety of different capital flows that are no longer connected to any form of productive investment.

> ‘Financial motives and measures of success are increasingly privileged as firms struggle to meet targets. The coupon pool becomes an active source of imperatives and constraints which structure what every firm and household should do. The management of non-complying and underperforming firms is removed by the operation of a “market in corporate control” whose arbiters are the fund managers who invest in household savings’ (Froud et al., 2002, p. 86).

This reshaping of household behaviour has, according to the British Social Accountants, also triggered new inequalities with only less than half of the households in the USA and the UK being able to save enough to provide for old age. Furthermore, economic sectors (including housing and mortgages), have limits for growth, or, as seen in the American subprime market, cannot grow at such an exorbitant speed without resulting in severely deteriorating standards. Therefore, the expansion of coupon pool capitalism resembles a giant Ponzi Scheme where capital gains do not rely on an ‘activity base’ any more but on the appreciation of shares (or financial assets more generally) (Froud et al., 2002). The coupon pool should consequently be seen in a dynamic conjunctural context whose latest phase, dominated by the expansion of the secondary mortgage market via securitization and an explosion in derivatives trading (see also chapter four of this thesis), has come to an end. However, this does not necessarily mean an end to the dominance of capital markets, but merely the start of a new phase within the ‘continuous innovation of banks and stock market’ (Ertürk et al., 2008a, p. 10).

While there are a variety of differences between the Regulation School and the British Social Accountants, mainly in terms of the desirability or feasibility of a market system that is purely finance-led, there are also points of convergence. As Montgomerie (2006) notes, at this level of abstraction, what financialization means for these two views on financialization is a matter of theoretical precepts. These perspectives are not incompatible but differ in respect as to how financialization is conceptually grasped and which aspects of its logic are emphasised. Both schools identify financialization as the driving force of contemporary capitalist expansion with a particular focus on the changing role of households within the economy, as well as the effects of shareholder value maximization on macro-economic governance. Both emphasise that financialization intensifies capitalist contradictions and inequalities. Thus, as Aglietta (2000, p. 146-7) points out:

> 'Both approaches have a common background. They deny that finance is neutral and that shareholders' claims on a firm's value generating process are the direct outcome of a "natural order" of property rights. On the contrary, they contend that capital markets strongly shape corporate behaviour with definite real effects'.

A third and rapidly growing strand of research asserts that financialization is, at least in substantial part, rooted and reproduced in the cultural realms of everyday life and/or subject to various processes of performativity.[80]

2.3 Cultural Approaches and the Financialization of Everyday Life

Drawing inspiration from the so-called 'cultural turn' in the social sciences in the 1990s, a cultural economy approach acknowledges the importance of discourses and rhetorics in constituting finance and the economy.

For example, a number of scholars have looked at the way that economics is in itself a driver of economic 'facts' and, hence, is performative upon the very economic and financial processes it seeks to describe (e.g. Callon, 1998;

[80] For an overview of some of the cultural research on finance, see DuGay and Pryke (2007). For a more general introduction to a cultural economy approach see Amin and Thrift (2004) and DuGay and Pryke (2002).

MacKenzie, 2004; 2006; MacKenzie and Millo, 2003). Thus, the growing legitimization of certain financial models, for instance, such as the Black-Scholes option pricing model, can be seen to directly constitute option prices themselves (McKenzie and Millo, 2003). Michel Callon (1998, p. 30) stresses that economics brings about what it claims to merely observe. He asserts that 'the economy is embedded not in society but in economics'. However, this is never a clear-cut process as economics can also have counter-perfomative tendencies (MacKenzie, 2006).[81] By broadening the concept of performativity for economic and financial analysis, others have tried to identify additional discourses that 'perform' the economy such as discourses of marketing or accounting for example (Davis, 2006).

These examples illustrate how, contrary to the rational market ideal of neo-classic economics, the economy is mediated and constituted by cultural factors such as discourses (see also chapter two of this thesis, particularly section 3.1 for the concept of performativity). Zaloom (2006), for example, shows the impact of cultural resources such as architecture on financial trading and Knorr Cetina and Preda (2005) highlight the interwoven nature of technology and human agency in financial markets. To use another influential example, Nigel Thrift (2001), using the case of the New Economy, illustrates how the financialization of the latter was constituted by a variety of discourses which were propelled by what he calls the 'cultural circuit of capital'. This circuit consists of a number of different stakeholders that defined the identity of the New Economy in predominantly financial terms. These stakeholders are the business school, the media, the specialist financial press, management consultants and managers. They disseminated a particular type of knowledge about the economy to business elites which, in turn, created a framework of rules for the functioning of the New Economy. This allowed for many of the key innovations of the New Economy to be predominantly financially orientated, such as a growth of IPO's and venture funds for technology

[81] This conceptualisation of performativity is not entirely without its problems because it attributes, via the notion of the performativity of economics, a certain mathematical rationality to economic behaviour (see also Engelen et al., 2010). This thesis, therefore, follows a more ontological understanding of performativity which is compatible with Laclau's notion of discourse (see the discussion in section 3.1 of chapter two of this thesis).

companies for example. Thrift argues that finance, rather than internet technology per se, became the central ‘passion’ of the New Economy because its ‘formatting discourses’, disseminated by the cultural circuit of capital, were framed predominantly around the financial interest generated by the cultural circuit of capital.

It must be noted here that cultural approaches to finance and financialization often accentuate the cultural at the expenses of the political. There are, however, hybrid forms that argue for a ‘cultural political economy’. These approaches combine an analysis of cultural processes with more traditional political economy issues, such as power and inequality (see Langley, 2004; Best, 2009), which is also the strategy favoured in this thesis.

In more general terms, then, a cultural perspective on finance consists of a variety of different approaches which focus on how cultural resources and practices confer meaning upon the economy and how the latter is brought into being by so-called ‘agencements’, assemblages of actors, technology, discourses and other resources that constitute and make up the economic and financial space (Pryke and DuGay, 2007). Zaloom (2006, p. 177) illustrates this agenda, using the example of a study of financial traders in Chicago:

> ‘Shifting the market from its location in the bodies and voices of traders to the quiet blinking of a trading screen creates a new order of formal rationality based on digital representations. Yet traders inevitably develop profit taking strategies that bring the social and the cultural materials back into the rationalized market, producing a cultured structure that organizes everyday life and labour in the futures market.’

Further, it is argued that the economy and finance (including their forms of subjectivity) are also increasingly constituted in the cultural sphere of everyday life. This approach is known as ‘the financialization of daily life’ (Langley, 2004; 2006; 2008a; Martin, 2002). The work of Langley, for example, focuses on how the interaction between global financial flows and saving and borrowing patterns of everyday life have mutually transformed each other within the neoliberal era. For him, the power of the global financial architecture rests on the restructuring of the general savings and borrowing patterns of the population that are increasingly connected to the financial markets. For example, mortgage borrowing, while remaining local in nature, becomes part of, and dependent on, the movements of global capital flows as mortgages become more and more funded through the financial markets via financial instruments such as mortgage backed securities and collateralized mortgage obligations (Langley, 2006; 2008; see also chapter four of this thesis for an in-depth analysis of securitization).

This process progressively affected more and more areas at the intersection of economy and civil society, such as credit card debts, student loans, music royalties etc (see also chapter four of this thesis). Central to this process is the re-definition of financial agency and subjectivity under the expansion of neoliberalist capitalism. This re-definition, according to Langley (2008a; see also Knights, 1997), leads to the emergence of ‘everyday financial (or leveraged) investors’ whose fate increasingly becomes tied to the stock market and whose houses become leveraged objects of speculation (Langley, 2008a). Subjects become enticed by the promises of finance to ‘think like capitalists’ (Martin 2002, p. 9-10). For Martin (ibid, p. 3) there is therefore a current ‘invitation to live by finance, where finance presents itself ... as a means for the acquisition of the self ... as a proposal for how to get ahead’. (See chapter four of this thesis for more details on everyday financial subjects and the financialization of everyday life in the context of the mortgage market.)

Conclusion

This chapter discusses the concept of financialzation against the broader background of the neoliberalist restructuring of the economy over the last four decades. It firstly introduces the concept and then discusses three of its most important theoretical approaches. While these three perspectives of financialization differ significantly, they are not mutually exclusive and can complement each other in crucial areas. As such, they emphasise different (and sometimes contradictory) developments within the same historical bloc of neoliberalism. Following Aalbers (2008), the financialization of the mortgage market includes elements of all three approaches. Those are: firstly the institutional restructuring of the market as highlighted by the Regulation School, secondly securitization and secondary market trading as well as shareholder value maximisation emphasised by the 'coupon pool approach' of the British Social Accountants, and, thirdly, the emergence of new forms of subjectivity and cultural developments in finance as theorised by the cultural approaches towards financialization. These interconnected processes, theorised against the background of Laclau's theoretical framework and aided by the logics approach of Glynos and Howarth (2007), are put to use in the chapters five to seven of this thesis. The next c is concerned with the an analysis of the financialization of the UK mortgage market prior to the financial crisis with reference to the cultural, political and economic factors of neoliberalist hegemony that have underpinned it.

> ‘The largest single business in the UK is the letting of property, it accounts for 7.9 per cent of total GDP or nearly £100 billion annually. Over the last decade in particular the nation has been collectively gripped by property fever, from city investment funds chasing the latest hot commercial property assets, to lone investors hoping to get rich quick by buying up run down terraced houses in the North of England. The newspapers devote acres of coverage to the subject and the TV schedules are filled to bursting with the latest twist on how to make a fortune out of property. Accounts are legion of those who have already made a fortune from property, and those who hesitated in the face of ever increasing prices, scold themselves for missing “such a sure thing” as the ranks of the Sunday Times ‘rich “list” are swelled by the latest property multi-millionaires’ (Hamilton, 2005, p. 5).

> ‘The securitisation of suburbia is … both embodied through the assembly of everyday subjectivities and embedded in interactions between financiers and calculative technologies in interconnected networks’ (Langley, 2006, p. 297).

Chapter Four: Mortgage Market Financialization in the UK and the Financial Crisis

Introduction

From the mass default of the American subprime mortgages, to borrowers who had been sold mortgages they could not afford, to the high profile collapse of the former mutual building society and specialist mortgage lender Northern Rock that prompted the first, and highly televised, bank run in Britain in over 100 years, mortgages were at the heart of the financial crisis. Their financialization, i.e. the reengineering of mortgage loans into liquid tradable assets, also catapulted them into the driver’s seat of the financialized expansion of capitalism that preceded the meltdown. Mortgage market financialization turned the formally local or national business of home loans into one of the most, if not the most, profitable capital market. This, in turn, with a few blips and exceptions, significantly contributed to a phase of unprecedented prosperity over the past 20 years or so. It also contributed to the inflation of the housing bubble and an unsustainable construction boom in a range in countries as diverse as Spain, Ireland, Dubai and the US. As described in the first of the initial quotes, this bubble was embedded in an ideological fantasy of ever appreciating house prices and the notion that every form of property could be turned into a commercial opportunity essentially without risk (see also chapter seven of this thesis). The collapse of this bubble is now widely felt both in terms of its effect on homeownership volumes and depressed housing markets, as well as in terms of the loss of a motor for growth.

Given the material and symbolic importance of mortgages within neoliberalism in the form of the centrality of homeownership for a ‘property owning democracy’ and the increased importance of housing for consumption and welfare needs as well as the aforementioned centrality of housing for finacialized growth and the banking sector, one might as well speak of the loss of the central motor for neoliberalism more generally.

This chapter therefore situates the financialization of the mortgage market at the heart of the historical bloc of neoliberalist hegemony. The chapter is concerned with what Glynos and Howarth (2007) call the ‘social logic of a practice’ (see chapter one of this thesis) which refers to the sedimented ‘grammar’ that makes a practice both possible and vulnerable to dislocations. While predominantly focusing on the ‘ontical’ dimension of this practice, and thus necessarily being to some degree descriptive, the present chapter also particularly emphasises the relational and discursive nature of mortgage market financialization within neoliberalism. It shows that financialization takes place within, and is mediated by, a relational totality that is a hegemonic bloc. As the latter, following Gramsci, consists of cultural, political and economic components alike, the chapter emphasises how the financialization of mortgages is not solely an economic phenomenon but ‘permeates all walks of life’ by showing how it is deeply woven into in the collective cultural and ideological fabric of the nation – for example in the form of football terrace chants and television programmes.

Section two of this chapter points out that the central technology of financialization – securitization – is not *per se* a rational or efficient financial instrument as is often claimed but 'bricolaged' and inherently unstable (or 'dislocated' in the vocabulary of Laclau).[82] The chapter also emphasises that the technology of securitization and the financialziation of mortgages is reliant upon the interpellation of new forms of financial subjectivity (see also chapter three of this thesis). Hence, securitization and financialization are not the outcome of a process of natural market evolution (cf. chapter two of this thesis) but politically institutionalized and, therefore, contingent and potentially reversible (ibid).

While there has been a plethora of analysis on the US subprime market and its 'excess', the British mortgage market is considerably under-researched in terms of a comprehensive account of the financialization of mortgages and the crisis, even though the two systems of mortgage lending and funding differ in a number of crucial respects (a notable exception is Wainwright; 2009a; 2009b). In order to fill this gap, this chapter is concerned with illuminating the particularities of British mortgage lending and funding for which the American market serves as an important point of comparison.

[82] As pointed out in section 1.4 of chapter one of this thesis, subjects as well as objects and practices are 'always already dislocated'. Such dislocations can reveal themselves in moments of dislocations such as crises but also, more subtly, in distortions, contradicitions and metaphors (Laclau and Mouffe, 2001; Cederström and Spicer, forthcoming).

1. Contextualising Mortgage Market Financialization

1.1 The Global Financial Crisis and the Financialization of Mortgages

In spite of the recent developments in neoliberalism, as touched upon in the introduction, which increasingly threaten the universalist status of the neoliberalist particular, logics of neoliberalism and financialization are still deeply ingrained in our everyday practices such as consumer borrowing, saving and spending (albeit, it seems, in an progressively deteriorating way). It is therefore useful to analyse how precisely these various practices, here represented by practices of mortgage lending and funding, have become, and continue to be, financialized. This is useful not only in order to make sense of the financial crisis and the conjuncture that preceded it, but also to understand how the latter is politically and ideologically resolved and in terms of its impact upon the post-crisis state of neoliberalist capitalism (some important developments that have emerged from the crisis are investigated in chapter seven of this thesis).

The financialization of mortgage markets is highly symptomatic of these processes. Over the past decades, formerly local circuits of mortgage lending and funding have been connected to the capital markets in unprecedented ways. This has not only given capital markets more power over mortgage lending but also increasingly made the formerly more or less separate spheres of financial markets and housing more interdependent (as demonstrated by the 'crunch' itself). Thus, something as mundane and 'everyday' as mortgages, exemplified in the figure of the now almost infamous 'subprime borrower',[83] has become one of the key signifiers of the 'excesses' of the pre-crisis global hegemonic conjuncture (for the political notion of excess see chapter seven of this thesis).

[83] A subprime borrower is a borrower with a poor credit history. The ever expanding 'search for yield' prior to the meltdown made particularly the American subprime market a highly lucrative target the expansion of mortgage lending. As is well documented, mass defaults in this segment triggered the financial crisis (see also chapter seven of this thesis).

According to Aalbers (2009a), the financialization of mortgages facilitated the inflation of the housing bubble in a number of countries. Hereby, the housing bubble formed an important part of what George Soros (2009) calls the 'superbubble' of the last 25 years. This superbubble, for which the financial crisis marked the tipping point, consisted of a long term trend towards credit creation and leveraged transactions based on the deregulation and globalisation of, as well as innovations in, financial markets (see also section three of this chapter and chapter six of this thesis).

'Debt receivables', of which mortgages were by far the most important ones, became a highly profitable target for financial engineering from the late 1990s onwards. The increased relevance of the sphere of housing within financial markets created a 'spillover effect' to other economic sectors (Sassen 2009) as confidence in the markets waned and liquidity[84] started to dry up from August 2007 onwards. This, subsequently, almost brought the entire financial banking system to the brink of collapse. At the heart of these processes was a financial market innovation named securitization which provided the 'novel offering' that historically tends to precede a speculative mania and subsequent financial crash (Kindleberger and Aliber, 2005). Securitization allowed for mortgages to be treated as financial assets and be bought and sold in the secondary market. The securitization of mortgages means that a large number of income streams generated from mortgage repayments such as principal and interest are pooled together and sold to capital market investors (see section two of this chapter for details on securitization and other financial products).

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[84] Generally, the term liquidity is used to designate markets with standardised prices populated by willing buyers and sellers who are able to exchange assets without causing strong fluctuations in prices. Liquid markets are regarded as 'safe' and desirable for investors. Contrarily, illiquid markets are regarded as dangerous and to be approached with great caution. As Langley (2010) points out, the precise meaning of liquidity, however, is subject to heated debate 'and much of its appeal may well arise from its multiple uses and applications'. For him, liquidity is essentially a signifier that is to a certain degree performative upon the context to which is it applied. Markets named liquid, such as the subprime mortgage market prior to the crisis, acquire a dynamic on their own from which withdrawing is not easy for market participants. Correspondingly, labelling the same market 'illiquid' has significantly contributed to the closing of the latter in the wake of the 'credit crunch'.

The following quote by an interviewee illustrates the bascis of how securitisaton works in a banker's terminology (Interview eleven):

> 'You have got different ways of doing it but in essence, you select a pool of mortgages, you transfer them into a special purpose vehicle … it can be on- or offshore … and then you actually ask for people to subscribe funding to create the mortgage backed security and those invested by the mortgage backed security and that's how they fund the SPV…'

As financial innovation was spurred to ever increasing heights by the 'search for yield' in the years up to 2007, these securitized mortgages were 'packaged up' in financial instruments which, at times, became so complex that few people understood them leave alone analysed them properly. As a HM Treasury Select Committee Report (2008, p. 38) on the failed UK banks reasoned:

> 'We note that risk and complexity within the banking sector has increased dramatically over the last twenty years. The widespread – but sometimes misguided – belief that risk was being dispersed and "managed" led many banks to increase the complexity of their operations and their overall risk exposure. This was manifestly a false premise. Indeed one of the factors that is key to understanding the banking crisis is that some forms of securitisation, far from mitigating risk, actually obscured it.'

In the course of the unravelling of the 'credit crunch' in 2007, essentially a crisis of confidence over the amount of 'bad debt' held by other financial institutions (Ertürk et al., 2008a)[85], the issuing of securitized products by lenders deteriorated dramatically and subsequently dried up almost completely as market players became suspicious of the extent of these 'toxic' loans on other institutions' balance sheets. This, in turn, pushed the rates for capital market borrowing such as LIBOR[86] to unprecedented heights and

[85] A similar fear is observable in the summer of 2011 which was sparked by a concern over the state of the global economy. As of August 2011, a renewed freezing of international debt markets is not an unlikely possibility (The Guardian, 2011a, 20 August).

[86] LIBOR stands for London Interbank Offer Rate and is the rate at which banks borrow funds from each other in London. It does not necessarily reflect the movement of the Bank of

virtually collapsed interbank lending. The secondary mortgage market has only cautiously been re-opened in 2009 in the UK (Patterson and Plehn, 2009) and its future size and shape remains unclear. Debates on the future of mortgages are politically highly sensitive and subject to intense power-struggles and lobbying involving a range of different actors and institutions (CML, 2009; CML, 2010a; 2010b).

Even though the British mortgage market is not primarily associated with the 'excesses' that dominated subprime mortgage lending in the US and mortgage assets were mostly sound, the increased level of securitization volumes and wholesale market funding[87] for mortgage lending left it structurally vulnerable to a crisis of confidence. While the deterioration of the US mortgage market resulted from the underestimation of credit risk[88] of subprime borrowers, either through ignorance or deliberate fraudulent misconduct[89], problems in the UK mortgage market were the outcome of its dependence on liquidity in the capital markets (see section two of this thesis).

1.2. Transforming the Mortgage Market

The financialization of mortgages via new financial instruments was embedded in, and a driver of, the transformation of formerly local and politically sheltered mortgage circuits into a global market. These developments also have been highly symptomatic of the expansion of neoliberalist capitalism during the last decades with its tendency towards

England base rate (as was particularly pronounced during the financial crisis). LIBOR is the major benchmark for short-term capital market interest rates globally. It is used in many market transactions including mortgage agreements. It also functions as an indicator for the health of capital markets (see bbalibor.com)

[87] The term wholesale funding is used here in a broad sense to refer to funding through capital markets. Some commentators distinguish between wholesale funding and securitization (Boléat and Coles, 1987).

[88] Credit risk is the risk of a lender or investor that a borrower or issuer of a security does not repay his/her loan in a timely manner or defaults on his/her debt (see e.g. thefreedictionary.com, 2011).

[89] At the beginning of September 2011, US authorities in the form of the US Federal Housing Agency (FHFA) which is overseeing the remains of the failed mortgage companies Fannie Mae and Freddie Mac, is preparing to sue more than a dozen big banks, including Goldman Sachs, Bank of America, JP Morgan and Deutsche Bank on the grounds of alleged abusive mortgage lending and foreclosure practices to subprime borrowers during the boom years. This follows a number of other lawsuits that banks already have had to face on similar grounds (The Guardian, 2011, 2 September).

capital accumulation through financial patterns and the associated shift from 'bank based' towards 'market-led' financing (see chapter three of this thesis).

Hereby, housing became a cornerstone of the neoliberalist agenda to privatise, individualise and financialize. This entailed a local and global, as well as qualitative and quantitative, restructuring of what Langley (2008a) identifies as changes of discreet but overlapping networks of everyday saving and borrowing away from networks of thrift towards new networks of investment and credit. It is argued throughout this thesis that these transformations relied on a number of processes of exclusion and marginalisation of which the mutual model is an important example. The changes in mortgage lending and funding have been inherently political in nature and are embedded in the three broader trends that are discussed in chapter three of this thesis. Those are: firstly, the restructuring of institutional patterns for capital accumulation (Regulation School), secondly, the rise of coupon pool capitalism, particularly the securitization of mortgage portfolios and the rise of shareholder value capitalism (British Social Accountants), and thirdly, cultural transformations and the 'hailing' of new forms of subjectivity (cultural economy and the fiancialization of everyday life).

Taken together, these transformations have contributed to the constitution of a neoliberal ethico-political configuration that attributes to finance an apparent scientific rationality and an increasing authority over economic and social relations. An authority, however, that is inherently precarious and frequently contested (see DeGoede, 2004; 2005). As finance expanded into ever increasing domains of 'the lifeworld'[90] (see Leyshon and Thrift, 2007), new forms financial subjectivities became constituted. These were often associated with the re-making of mundane practices such as mortgage borrowing, which are required to increasingly self-manage financial risk and become more and more entangled with, and vulnerable to, the developments and imperatives of financial markets (Martin, 2002; Langley, 2008a; Knights,

[90] In the theory of Jürgen Habermas (1984; 1987), the concept of the 'colonization of the lifeworld' designates the intrusion of the cultural sphere by instrumental rationality and market forces.

1997). It is argued here that, in the light of the theoretical discussions of chapter one and particularly two of this thesis, (mortgage) financialization is not a process that is endemic to 'the market' but 'cuts across social topographies' in the sense that it points to the way how economy, state and civil society are organised as a relational whole within historical bloc of neoliberalism, to use the terminology of Gramsci here. Also, the hegemonic status of (mortgage) financialization illuminates how our present (albeit perhaps increasingly crumbling and contested) cultural consensus is organised around leveraged consumption, financed through financial assets such as housing.

This interrelatedness is illustrated by the way that the expansion of homeownership (on which mortgage market financialization ultimately relies) was facilitated by emotionally charged, and politically laboured, narratives constructing homeowners as 'responsible individuals' in opposition to renters (Smith, 2008; Christie et al., 2008). Politically this was part of an extensive welfare trade-off during the Clinton and Bush presidencies in the US as well as under New Labour in the UK (Glyn, 2006; Willmott, 2011; Watson, 2009a) in line with the continuous re-affirmation of the neoliberalist promise 'towards a further major extension of Britain's asset holding, property owning democracy' (Gordon Brown, 2005; cited in: Smith, 2008, p. 522). The identification of everyday leveraged financial subjects (Langley, 2006; 2007; 2008a) with this ideological discourse had profound material consequences. As Aalbers (2008, p. 151) puts it:

> 'The expansion of the mortgage market is not just meant to increase homeownership but it is also intended as a means to further the neo-liberal agenda of private property, firms and growing profits. In this process, homeowners also become more dependent on financial markets. Old arrangements of social rights have been replaced and continue to be replaced by new arrangements in which social rights and guarantees are transferred from the state to financial markets.'

The increasing dependency of homeowners on financial markets constituted the sphere of housing, at least in part, as a sphere of finance. Finance, thus, became to a considerable extent enacted and performed within the cultural realms of everyday life but, complimentarily, the latter also became increasingly driven by, and sensitive to, the fluctuations and cycles of capital markets. The ‘state of the market’, therefore, impacted in an increasingly unmediated way upon the discourses of homeownership and mortgages. Metro, for example titles in October 2010 that the ‘homeownership dream is “over” for the young’ (Metro, 2010), as down payments (the initial upfront sum on the mortgage due) become unaffordable for the majority of first time buyers in the wake of crisis.[91] A future transformation of homeownership discourse seems therefore not an unlikely outcome of the current situation since the conditions for mortgage credit availability, particularly for first time buyers, have deteriorated significantly.

Economically, the housing boom, which preceded the financial crisis, benefited from a benign macro-economic climate within which capital flows were increasingly channelled into housing. This development was facilitated by the cutting of interest rates of the American Federal Reserve Bank to re-stimulate economic growth after the bursting of the dot-com bubble and 9/11 at the beginning of the last decade (Gamble, 2009a; 2009b; Engelen et al., 2010; 2011). The securitization of mortgages became the primary vehicle for the expansion of mortgage lending and the housing boom. In the US, securitization was originally a governmental, or quasi-governmental ‘invention’ by the so-called ‘government sponsored enterprises’ named Freddie Mac and Fannie Mae and Ginnie Mae (GSE’s) (Gotham, 2006).[92] The latter became modified and mass marketed for private investors in the 1980s by the investment bank Solomon Brothers (Lewis, 1989). The government in the UK, while not directly intervening in the constitution of the secondary mortgage market, nevertheless also supported the expansion of securitization as a funding mechanism (see e.g. DETR, 2000).

[91] The typical down payment for first time buyers in July 2011 was 33 per cent of the home loan (The Guardian, 2011b, 20 August).
[92] Freddie Mac and Fannie Mae were placed into federal conservatorship in September 2008, a week before the collapse of Lehmann Brothers.

Low global interest rates and high volumes of liquidity provided by countries such as China and India, who had built up current account surpluses, stimulated rising asset prices such as housing which created the bubble. Countries such as the US and the UK contributed to this development by keeping real short-term interest rates low prompting a ‘hunt for yield’ on the side of financial market investors under conditions of increased financial market competition (Barell and Davis, 2008). This spurred an explosion of financial innovation of all sorts (such as CDOs, credit derivatives, subprime lending etc) as well as the expansion of highly leveraged financial market transactions and consumer credit.

These processes are inseparable from innovations in financial markets. While the conjuncture of financialization and the ‘speculative mania’ (Kindleberger and Aliber, 2005) that led up to the bursting of the dot-com bubble in 2000-01 was driven by a bubble in equities and corporate bonds of internet companies (see MacDonald, 2009), the central innovation which inflated the housing bubble in the conjuncture prior to the ‘credit crunch’ was financialization. Hence, this financial market innovation is discussed in detail in the next section.

2. Securitization and the Secondary Mortgage Market

2.1 The Financialization of Homes and the Creation of a Market for Mortgage Backed Securities

Securitization was at the heart of the financialization of mortgages and the housing bubble because it facilitated the process of connecting local or national mortgage lending to global capital markets. ‘Because securitization increasingly connects the mortgage market to the stock market’ as Aalbers (2009a, p. 402; 2008, p. 154) points out, ‘securitization embodies the financialization of the mortgage market’. Hereby, securitization, in conjunction with certain derivatives, became the defining ‘coupons’[93] around which the pre-crisis conjuncture[94] of financialization was structured. Every loan that produces a steady cash flow can be securitized and thus generate a regular income for the investors in these securities. For example, residential and commercial mortgages, care homes, credit card debt, car loans, corporate debt, gas pipeline contracts, infrastructural projects in third world countries, music royalties and even the amount of beer drunk in a pub have all been securitized in the past (Hildyard, 2009; Leyshon and Thrift, 2007).

Mortgages became, by far, the most important market for securitization and thus also became an important driving force of the restructuring of capital accumulation towards the financialized growth model that is discussed in chapter three of this thesis. Securitization delivered growth both directly through rising house prices and indirectly through second or third mortgages secured against the home – so-called equity release mortgages – which, in turn, boosted private consumption (see section three of this chapter). Following Aalbers (2008; 2009a; 2009b), the financialization of housing implies that houses, as well as homeowners, become financially exploitable (through the risk-based pricing of mortgages and credit scoring).[95] The condition of possibility for this to happen involved a dual movement of capital transfer whereby, firstly, capital became channelled away from the industrial circuit to the housing sector to deliver growth which started in the post-war years (cf. Bourdieu, 2005) and, secondly, the increasing transfer of capital

[93] See the discussion on ‘coupon pool capitalism’ in chapter three of this thesis.
[94] Following Engelen et al. (2010; 2011) and Ertürk et al. (2008a), a financial conjuncture is used in a rather narrow sense here, designating a period of about six years which are typically defined by a particular financial coupon (see also the discussion below in this sub-section).
[95] Credit scoring and risk-based pricing are technologies that enable the constitution of homeowners as financial subjects and therefore contribute to the financialization of everyday life (see chapter three of this thesis). Home loans traded in the secondary market are classified by risk profiles, because risk determines their selling price (risk-based pricing). Mortgage borrowers are therefore classified according to the risk that they pose to both lenders and investors. Hereby, credit scoring uses available information to determine whether borrowers are *able* but also *willing* to pay back the loan such as occupation, length of employment, bank account data etc. (Aalbers, 2008, p. 155 ff). The years preceding the meltdown have witnessed a continuous erosion of existing lending criteria in the search for higher returns to the point that, as noted earlier, mortgages were sold to subprime borrowers in the US in the knowledge that they could not afford to repay the loan (see also section three of this chapter for various higher-yielding customised mortgage products based on risk-based pricing).

from the housing circuit to financial markets for the funding of mortgages. Additionally, capital was channelled back through the 'coupon pool' in the form of dividends to deliver value to shareholders. Listed companies such as banks, including demutualised building societies, had therefore considerable pressure from shareholders to increase their mortgage portfolios which, in turn, could be best achieved through increasing securitization volumes.

The combination of these developments transformed mortgage financing from mere facilitators of house purchase to markets in their own right. In turn, they became concerned with 'making money' for themselves. This, consequently, replaced the traditional model of mortgage finance to a significant extent. Fees from structuring mortgage backed securities, for instance, became more important for banks than the 'spread' between the interest paid to retail depositors and the interest received from mortgage borrowers in the traditional model of mortgage funding (see Willmott, 2011). As mortgages became increasingly funded and priced through the markets, the latter developed into the main drivers of mortgage lending. Banks and other lenders which favoured this model thus became dependent on the liquidity in the money markets for the funding of their ongoing mortgage business. This lack of liquidity was the main reason for the difficulties of British mortgages lenders during the crisis, whose problems did not stem primarily from the quality of their home loans or the complexity of their securitization products (as opposed to US lenders). Since a large number of its securitizations was what is called 'plain vanilla' securitizations, most of their underlying loans performed well during the 'crunch'[96] and severe losses were specific to particular lenders, rather than the market as a whole. However, problems resulted from a 'structural vulnerability' caused by a shift of retail deposit funding to having to raise relatively short-term funds from the money markets and a dependency on leverage investors (CML, 2010a; 2010b; CML 2009). This dependency on capital markets for mortgage funding, however, was a direct consequence of the expansion of mortgage securitization. While retail deposit funding was still

[96] 'Vanilla products' are relatively 'straightforward' securitizations that contain high quality mortgages from a relatively homogeneous pool of mortgages. These are often contrasted by practitioners with more complex products such as CDOs (HM Treasury Select Committee, 2009, p. 36; CML, 2009; for CDOs see the next section of this chapter).

vital, deposits grew too slow in relation to mortgage debt (reflecting the low national savings rate) in order to be sufficient to satisfy mortgage demand.[97] In contrast, securitization exploded in the years between 2000 and 2007. Securitizations, backed by residential mortgages (RMBS – see the next section of this chapter) and covered bonds[98] outstanding in 2007, stood at £257 billion amounting to 21 per cent of the mortgage stock (CML, 2010).[99] The financial crisis, therefore, is a '*crisis of securitization'* more generally which is not confined to the opacity and predatory nature of the American sub-prime market since securitization 'represents innovation whose outcome include frozen markets, failed and bailed banks and blocked credit' (Engelen et al., 2010, p. 34).

Given the potential of securitization to boost mortgage lending as well as consumer spending and the overall political significance of mortgages and housing (see section three of this thesis), it is unsurprising that a market for securitization was actively politically supported and institutionalised. This is particularly the case in the US with its distinct federal legal-institutional system that has favoured securitization as a means of allocating financial flows across the different housing circuits of the USA (Gotham, 2006). As mentioned above, securitization was practically 'invented' by the GSE's who then provided quasi-governmental guarantees which institutionalised, standardised and legitimized the secondary market. (While the 'non-agency' sector, associated with the most 'toxic' mortgage loans, grew rapidly prior to the 'crunch', the GSEs continued to guarantee the majority of mortgages issued in the US [IFSL Research, 2010]). This allowed mortgage banks to compete with savings institutions and created the largest and most developed

[97] The most extreme example for this lending model of a bank in the UK was Northern Rock. By the summer of 2007, only 23 per cent of its liabilities were in the form of retail deposits (Shin, 2009, p. 102).

[98] Covered bonds are mortgage funding instruments which are similar to securitization but give investors a dual claim to the pool of mortgages as well as to the issuing lender. They are typically kept on the balance sheet of the originating institution. Covered bonds only amount to a small fraction of mortgage funding in Britain prior to the crisis (as opposed to especially Germany) but, because they are considered to be a safer alternative to securitization, they are currently on the rise and backed by government officials and investors (CML, 2009; 2010).

[99] The exposure of US lenders on securitization and wholesale funding was, and still is, considerably higher than that of its British counterparts but was also better politically protected during the financial crisis (ibid).

market for mortgage backed securities in the world, where, by the late 1980s, almost 70 per cent of new mortgages were securitised (Murphy, 1996). The US government was also instrumental in developing its sub-prime mortgage market. It did so indirectly through legislatory changes that created the condition of possibility for banks to distribute credit to previously redlined fractions of the population (such as the Community Reinvestment Act enacted by the democratic Carter Administration [CRA]; see Willmott, 2011 and Gamble, 2009) and directly by explicitly allowing the GSEs to guarantee subprime loans from the mid-1990's onwards (Ishikawa, 2009). The problem therefore was not, as in previous systems of mortgage provision (cf. chapter six of this thesis), 'exclusionary redlining' but 'exploitative greenlining' (Newman and Wyly cited in Langley, 2008a, p. 163).

The British securitization market did not result from direct government intervention and does not enjoy the same amount of protection by the state.[100] Nevertheless, the market in the UK was the outcome of neoliberalist deregulation commenced under the Thatcher administration, especially the 'Big Bang' financial services deregulation of 1986 (see chapter six and seven of this thesis for a detailed account). The adaption of securitization to the UK context also stemmed from a political process of market institutionalization involving struggles and lobbying by a variety of actors and institutions including new lenders, investment banks, trade bodies, law firms and city advisers and government agencies (see Wainwright, 2009a; 2009b). Britain's sub-prime market, for example, was actively lobbied for and legitimised by trade bodies such as the Council of Mortgage Lenders which has resulted in a more general acceptance of consumer credit in civil society (Burton et al., 2004; see also Munro, et al., 2005).[101]

Despite these inherently political origins, financial economists and practitioners tended to regard securitization as the natural outcome of a

[100] For example, securitization has not been granted the same amount of political support as in the US in the wake of the financial crisis (such as government guarantees of securitized assets, CML, 2010a.

[101] Subprime lending in the UK, while significantly growing before the crisis, was generally a much smaller sector in the UK than in the US and has not played a decisive factor in the financial crisis (HM Treasury Report, 2008a; 2008b).

process of ‘market evolution’ as well as a means to effectively transfer credit risk to ‘sophisticated investors’: ‘Securitization’, as Sir Tom McKillop summarises the widely held expectations regarding its benefits,

> ‘was seen as a stabilising influence in the financial system … This was distributing risk. This was making the whole system more stable.’ (HM Treasury Select Committee, 2009, p. 32)

While this view is now subject to a number of qualifications after the meltdown, securitization is still intensely and successfully lobbied for by the mortgage industry on the grounds that it is regarded as an essentially unproblematic and indispensable funding tool that, if carried out diligently and monitored properly, can be completely isolated from ‘excesses’ such as those in American subprime lending (CML, 2009; CML, 2010a; 2010b; see also IMF, 2009).

Given the sheer size of securitization markets, the worldwide annual value of gross securitizations issuance was $3854 billion in 2007 (International Financial Services London, 2010). Because of their tremendous importance for consumption on which the hegemonic consensus of neoliberalism ultimately relies, securitization markets have acquired a status of ‘necessity’ within neoliberalist discourse. It has been recognized ‘on both sides of the Atlantic’, as Ingram (2009, p. 4-5) notes, that the availability and affordability of consumer credit are inextricably linked to the functioning of secondary markets for consumer debt. As only securitization guarantees the trading of large enough quantities of this debt, the reopening of those markets becomes politically imperative. For example, the US Treasury Secretary Tim Geithner emphasised in a key note speech on 10 February 2009 on Barack Obama’s Financial Strategy Plan that

> ‘[i]n our financial system, 40 per cent of consumer lending has historically been available because people buy loans, put them together and sell them. Because this vital source of lending has frozen up, no financial recovery plan will be

> successful unless it helps restart securitization markets for sound loans made to consumers and businesses – large and small' (quoted in Ingram, 2009, p. 5).

However, despite its tremendous importance for neoliberalist growth that becomes apparent in the above quote, securitization is arguably far from being a 'rational technology', but can be more appropriately described as a product of bricolage that has been in constant flux since its emergence. What had been designed as a funding tool for mortgage loans had, by 2007, also acquired the character of a highly profitable target of speculation including the deliberate obfuscation of risk and regulatory arbitrage. Securitization was used, for example, to circumvent the capital adequacy ratios for banks set by internationally agreed banking rules known as the Basle I and Basle II Accords. Basle I and the more flexible Basle II Accord required banks to hold a certain amount of capital reserves against a 'risk-weighted' loan. (It is worth pointing out that mortgages carried a particularly low risk-weighting in the lead-up to the financial crisis.) Banks could circumvent these requirements by moving securitized assets 'off-balance sheet' and hereby freeing up capital for other use (see Hildyard, 2009, 29 ff).

In 'working with what is at hand' (see section 3.3 of chapter two of this thesis for the definition of bricolage), the creators of these securities did therefore respond to the circumstances and challenges (legal, political, macro-economic etc.) of the particular conjuncture that preceded the 'crunch', rather than purposefully and rationally designing instruments for effective risk transfer. Financial innovation, as Engelen et al. (2010, p. 55) point out,

> 'is contingent, resourceful, and context-dependent, because bricolage in each new conjuncture reconstructs a world that escapes all rationalistic schemas … If we look back at the past conjuncture, the process of innovation could be defined holistically as a kind of supply-side bricolage to escape demand constraints through devising products … which connect the most mundane

transaction [such as mortgage borrowing] to wholesale markets in the "capitalisation of everything"'.[102]

What remains to be seen is how the current financial conjuncture will be defined and how financial bricoleurs respond to the new Basle III framework that is currently in the making (see Engelen et al., 2011).

Given the extreme importance of securitization for the 'capitalisation of almost everything' and its impact on the financial crisis, it is discussed in more detail in the next sub-section.

2.2. Securitization and Collateralized Debt Obligations

Securitization is the process by which formerly illiquid assets are transformed into tradable securities that can be bought and sold by investors in the secondary market.[103] Hereby, the repayments on a loan such as a house are made into debt securities. Securitization is basically a form of financing mechanism (but became increasingly also an object of speculation as described above) in which assets are refinanced in the capital markets via the issuance of securities. Alongside derivatives which are financial coupons such as options, futures or swaps whose value is 'derived' from an underlying asset, securitization has significantly extended the neoliberalist tendency to commodify and contributed to the 'financialization of almost everything' (ibid; Harvey, 2005, p. 33).[104]

The general term for the securities backed by pools of assets such as those listed above is asset backed securities (ABS). If the securitization is backed by mortgages, the most important class of asset backed securities, the coupons are called mortgage backed securities (MBS), residential mortgage

[102] The 'capitalisation of everything' refers to Leyshon and Thrift's (2007) article which is also separately cited in this chapter.
[103] Unless specifically stated, the details on securitization and Collateralized Debt Obligations (CDO's) are taken from the following five sources: (Criado and van Raxtel, 2008; Willmott, 2011a; Wainwright, 2009a; 2009b and Ishikawa, 2009; see also Sumerlin and Katzowitz, 2007 for an assessment of the opacity and complexity of CDOs that came to light early in the crisis).

backed securities in the case of residential home loans (RMBS) or commercial mortgage backed securities (CMBS) if the mortgages are made to corporations. The European RMBS market was driven by the UK making it the second most financialized mortgage market in the world with 57 per cent of total European securitization issuances coming from the UK in 2006 (European Mortgage Federation, 2007). Its record RMBS issuances of £139 billion in the same year was, however, dwarfed, by $10 trillion mortgage backed securities outstanding in the US in 2007 (Deutsche Bank, 2008).

The process of securitization involves the pooling of mortgages or other assets and the subsequent sale to investors of claims to principal and interest backed by these pools. Hereby the investors share the risk associated with the securities such as credit risk and prepayment risk.[105] In the case of RMBS, the claims to the future repayments of residential mortgages are structured into standardised and tradable financial instruments. It is by no means uncommon that a single mortgage securitization contains hundreds of millions of pounds worth of mortgages. Either banks, in cooperation with lawyers, carry out this structuring process 'in house', or the mortgages are transferred from their originating institutions to investment banks for the structuring process. Mortgages can be of prime or subprime status or a combination of both (a factor that contributed to the 'spillover effect' mentioned above as large defaults on subprime mortgages 'contaminated' the sound mortgages together with which they were bundled up. The assets are then sold to a specifically created company called Special Purpose Vehicle (SPV)[106] or Special Purpose Entity (SPE), either in an actual sale or in the form of a sale of the credit risk alone via the use of a derivative called credit default swaps (CDS).[107] The underlying assets remain with the SPV which

[105] Prepayment risk is the risk of the investor that the mortgages are redeemed too early by the borrower thereby reducing his/her income in the form of interest payments.
[106] The SPV typically has charitable trust status and is located offshore. This arrangement has considerable tax advantages (Wainwright, 2010).
[107] CDS have also featured prominently in the financial crisis in relation to the American subprime segment. They are basically a form of insurance taken out against the default of debt instruments. In order to purchase this insurance one does not need to be in possession of the asset against the default of which one is insured (e.g. RMBS, CDOs [see below] corporate bonds, sovereign bonds etc). Thus, CDSs can be used to hedge against, or bet on, the default on these bonds. Professional insurers, of which AIG, the insurance corporation

then issues securities backed by the underlying pool of mortgages (such as RMBS or CMBS) to capital market investors which gives them the right to the 'receivables' from the mortgages.

Securitization is linked to the so-called 'originate-to-distribute' model which, predominantly in the US, replaced the traditional approach of lending institutions such as savings and loans associations or building societies of originating mortgages and holding them to maturity, the so-called 'originate-and-hold' model.[108] Under this new model, the lender transfers the securitization 'off balance sheet' which frees up capital for other use. The payment derived from the sale of principal and interest can then be used to leverage further loans and so forth in a virtually endless cycle.[109] Since the financial crisis, this model has often been criticised for the deterioration of lending standards, particularly in the American subprime market, as the originating institutions lose the incentives to apply strict criteria for the

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that was one of the largest insurers of derivatives and which collapsed in September of 2008, was the most high profile casualty, extensively insured allegedly bullet-proof mortgage bonds that almost exclusively carried AAA ratings (the highest ratings given to the most 'trustworthy' borrowers). A small number of traders made handsome profits in the wake of the meltdown by being the counterparty to these deals and thereby betting on the bonds to default (Lewis, 2010; Lanchester, 2010; Ishikawa, 2009). In this context it has been observed that

> 'it's bad enough that these subprime mortgage pools that banks, investment banks, insurance companies, hedge funds and others bought were over-rated and ended up falling precipitously in value as foreclosures mounted on the underlying mortgages in the pools. What's even worse, however, is that speculators sold and bought trillions of dollars of insurance that these pools would, or wouldn't default. The sellers of this insurance (AIG is one example) are getting killed as defaults continue to rise with no end in sight' (Gilani, 2008).

Recent problems in the Eurozone are also said to be further amplified by traders using CDSs to hedge against/speculate on sovereign default (Delatte et al., 2010). See also Morgan (2010) for the role of credit default swaps in the financial crisis.

[108] The 'originate-to-distribute' model was not dominant in the British context. As Shin (2009, p. 105) points out in his analysis of Northern Rock:

> 'Unlike the U.S. securitization process where the special purpose entities are considered separate from the bank that makes the loans (that is, as off-balance-sheet vehicles), the accounting rules that Northern Rock operated under meant that the special purpose entities were consolidated on Northern Rock's main balance sheet. In this respect, the rapid growth of Northern Rock's balance sheet reflects the accounting regime, along with the flow of new loans originated.'

[109] Unsurprisingly, the leverage ratio of banks, the ratio between assets and equity, became very high. According to some measures, it stood at over 30:1 for most investment banks (Seeking Alpha, 2008, 25 September).

High leverage is often considered to be one of the main factors that have contributed to the meltdown. The typical multiple by which a bank's equity was leveraged was 50: 1 (Financial Times, 2011, 8 September).

assessment of credit risk, since the latter is passed on to investors alongside the profits.

Securitized mortgage assets were very attractive to a number of different types of institutional investors because mortgages are historically considered to be the 'safest asset class in history', yet more profitable than sovereign or corporate bonds (see also below for CDOs). Rising house prices meant that even if occasional defaults did occur, the house could be repossessed and re-sold at a higher price. Risk was considered to be further mitigated because the process of securitisation typically involves their structuring into two or more different 'tranches' each with distinct profiles of 'risk and return'. Different investors can, therefore, purchase the tranches that correspond to their 'risk appetite'. For example, pension funds are likely to purchase less risky and lower yielding AAA rated tranches, whereas hedge funds tend to invest in riskier B rated tranches with higher returns.[110] The securitization of assets into different tranches, typically carried out by an investment bank, is known as the 'waterfall structure' among practitioners.[111] The rationale behind this structure is that in the case of early redemption of the mortgages (e.g. in times of low interest rates) or a 'credit event', such as a mass default,[112] the riskier 'junior tranches' (in theory) absorb all the losses whereas the less risky 'senior tranches' are repaid first.

The process of tranching can be taken even further with the aim to enhance the overall credit quality of the pool of assets involved and to make them even more attractive to investors. CDOs are inextricably linked to the American subprime market. These instruments are called Collateralized Debt Obligations (CDOs) or, if the CDO is backed by mortgages, Collateralized Mortgage Obligations (CMOs). CDOs and CMO that involve the 'repackaging' or 're-securitization' of lower ranked and more risky so-called 'subordinate' or 'mezzanine' tranches of various pools of securitized assets (mortgages) into

[110] See Ishikawa (2009, p. 353-4) for an overview of the ratings used by the different agencies.
[111] See Wainwright (2009; 2010)
[112] The technique of tranching was initially devised to mitigate prepayment risk as every investing institution would roughly know at what time its tranche would be redeemed. Credit risk only became a concern much later (MacKenzie, 2011).

new securities. Those are then, again, structured into different tranches and sold to different investors according to their risk profile. Like the initial securitization, this can also take the form of an actual sale of the underlying assets of a transfer of the credit risk alone – so-called synthetic CDOs (whose issuers were most severely hit in the downturn as they had to compensate for the losses incurred on the securities). The 'trick' with CDOs/CMOs is that in a process often referred to as 'financial alchemy' the formerly risky assets are turned into a new security whose senior tranche carries an AAA rating. The agencies awarded these rating because the correlation between those assets in the CDO/CMO is considered to be lower than that in the various original securitizations on which it is based. In other words, the risk associated with the underlying assets was considered to be 'diversified away'. Additionally, they were handsomely rewarded by the investment banks such as Goldman Sachs who structured the CDOs (Criado and van Rixtel, 2008; Wainwright, 2009a; 2009b, Ishikawa, 2009; Sumerlin and Katzovitz, 2007; for an account of the downturn in the American CDO/CMO Market see particularly Willmott, 2011). CDOs were also a lot more lucrative than corporate or sovereign bonds with the same rating. It was common, for example, for AAA-rated tranches of CDOs to offer spreads (returns) between 15 and 60 basis points (1.5 per cent and 6 per cent respectively) over Libor whereas the spreads of sovereign bonds or the relatively few corporate bonds with AAA ratings would often be below Libor. CDO trading exploded in the decade leading up to the meltdown. In 2006 alone, asset backed CDOs totalling $307.7 billion were issued (MacKenzie, 2011). The process of re-securitization could be repeated again this time using tranches of CDOs for the repackaging which created so-called CDO cubes, or even CDO squares in some instances. Also, different CDOs sometimes owned tranches of other CDOs and vice versa (a further attempt at risk diversification) creating a circular flow of credit money that additionally contributed to their complexity and opacity. As in normal securitizations, CDOs could be combined with other derivatives such as credit default swaps and currency swaps (Criado and van Rixtel, 2008; MacKenzie, 2011). CDOs were particularly affected by problems in the American subprime segment. Mass defaults in this market meant that entire CDOs, including their senior tranches and not just the junior tranches or 'equity cushion' (which is meant to function as a buffer), became affected. The bizarre and arbitrary nature of how these instruments were constructed and rated becomes apparent if one considers how they were massively downgraded in the wake of the financial crisis, despite their alleged sophistication at diversifying and transferring risk. To give one example, it appears that Moody's downgraded one 'super-senior' tranche of a CMO given an AAA rating in April 2008 to a rating of B2 (considerably below investment grade) in November of the same year (MacKenzie cited in Willmott, 2011, p. 252). Sumerlin and Katzovitz (2007, p. 13) comment on the state of the CDO market at the point when market panic first set in in 2007:

> 'Today, there is more than a trillion dollars of CDO exposure sitting in the markets. Who exactly owns these securities is a mystery – one hears about European banks and Japanese retail investors. But given the size, the answer is probably everyone; either directly or indirectly through their ownership of financial stocks or pension funds. Institutional investors should have known better.'

CMOs/CDOs did not have the same significance for mortgage funding in the UK, but these products were rapidly growing. Also, the international nature of secondary mortgage markets meant that international and domestic investors who acquired US sub-prime securitizations also purchased UK MBSs for re-securitization into CMOs which exposed many UK financial institutions to US credit risk (Wainwright, 2009a; 2009b; HM Treasury Report 2008a; 2008b). Securitization and the financial crisis hereby became truly global phenomena.

These economic developments were part and parcel of a broader shift towards what can be called the 'liquidation of homes' in the neoliberalist era. The following sections investigate its cultural and political implications.

To make the above explained processes of residential mortgage backed securities better understandable, Figure 3, below, illustrates a simplified (!) structure of an RMBS transaction.

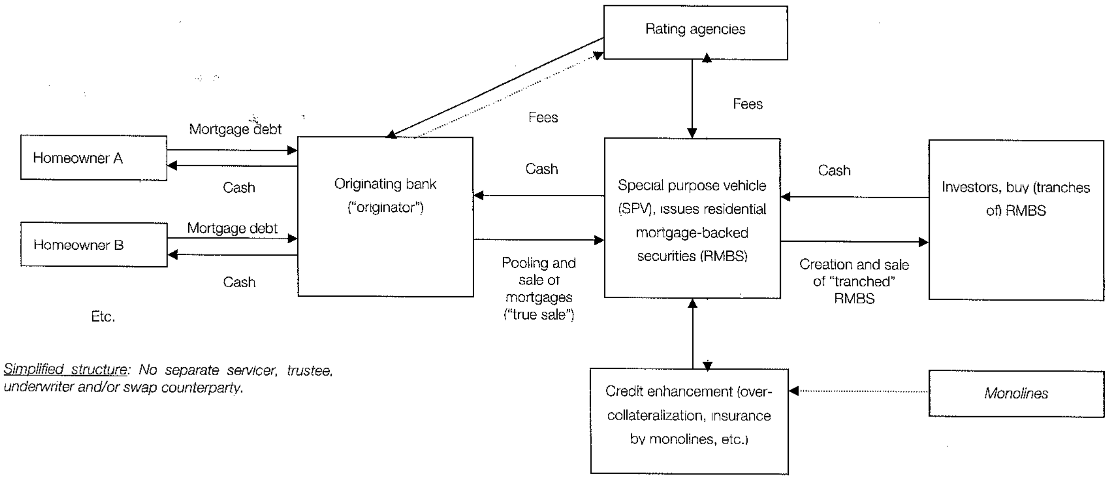

Figure 3

A simplified structure of an RMBS transaction

Source: Criado and van Rixtel (2008)

3. Liquid Homes

The sense that something as illiquid as real estate can be rendered liquid and tradable on capital markets is perhaps best captured by the launch of Euromoney's financial magazine *Liquid Real Estate* in March 2007 (Christophers, 2010, p.100). Announcing the launch at a time when cracks in the housing bubble were already beginning to show (see also section 1.1 of chapter seven of this thesis), Euromoney presented real estate as an asset class of ever-increasing profitability and, thus, as a natural target for sophisticated money market investors of all sorts and risk profiles (Euromoney, 2007, 6 March). (Problems in the US subprime market were known at least since the final months of 2006 when the ABX index, the index tracking the value of subprime credit default swaps, started to rise as defaults and write off's in this market began to increase significantly (Gamble, 2009a).)

In the neoliberalist era, housing became transformed from a catalyst for wealth generated in production (see section three of this chapter for the concepts of productionism and Fordism) to an object of wealth creation in its own right. Housing, thus, became increasingly connected to, and interwoven with, the materialities, symbolics and fantasies of financial markets in 'liberal residential economies' such as the UK and the US (Schwartz and Seabrook, 2009a; 2009b).[113] The value of the average home increased from a figure of about £3500 to one around £185.000 from 1965 to 2005. Leaving aside severe dips in house prices such the housing market recession of the early 1990s, this amounts to an annual increase of more than 10 per cent (CML and CIH, 2005). By 2007, houses in Greater London were nine times the average salary (London Councils, 2007).

Deeply structured in the ideology of 'no more boom and bust' – a widely shared fantasmatic belief that business cycles had eventually been broken for good, or at least considerably softened, house price appreciation was more or less taken for granted (see chapter seven of this thesis for a more detailed analysis of this fantasy). Housing, typically the largest asset in a household portfolio, featured prominently within this imaginary. It did so because the demand for RMBSs and CDOs traded in secondary markets inflated the housing bubble. Also, driven by virtue of the expansion and intensification of this process, housing increasingly became an object of financial speculation for the leveraged everyday investor. It becomes apparent here that this new form of everyday homeowners-as-investor subject position is intrinsically linked to the materialities of the new financial instruments discussed in the previous section. The financialization of everyday life is therefore an illustrative example of how subjects and objects are produced by the same discourse, i.e. how new subject positions have developed alongside the evolution of the financial instruments discussed in the previous section (cf. the second opening quote by Langley; see also chapter one and two of this thesis for Laclau's notion of subjectivity).

[113] Housing and mortgage markets differ significantly among countries, for example in terms of their homeownership rates, volumes of securitized mortgage portfolios or other mortgage funding instruments such as covered bonds, the level of mortgage debt, loan-to-value ratios (LTV ratios) and default rates. It has therefore been suggested, analogous to, but not necessarily corresponding directly to, the concept of 'Varieties of Capitalism' (Hall and Soskice, 2001) to speak of 'Varieties of Residential Capitalism' (Schwartz and Seabrook, 2009a; 2009b).

The trend of homeowner-cum-investor particularly manifested itself in the explosion of the buy-to-let market segment - the purchase of a property to be let for money – which, in the UK in 2006 grew by 46 per cent. At the time, this market outperformed the entire mortgage market as a whole, representing nine per cent of the value of all mortgage balances (The Guardian, 2007, 14 February). The buy-to-let market, only created in the mid-1990s but arguably the strongest motor of mortgage market financialization until the summer of 2007, is also already deeply inscribed in the cultural fabric of the UK, visible, of all things, in the form of a football terrace chant. Lleyshon and French (2009, p. 1) report that Manchester City supporters from the early 2000s chanted the line 'We all live in a Robbie Fowler House' to the tune of The Beatles' 'Yellow Submarine' in tribute to Robbie Fowler during his spell at Manchester City. They did this when he became known for the possession of an extensive property portfolio after the Sunday Times 'rich list' had listed him as the third richest player in Britain. Fowler had used his significant income generated from football to acquire a string of properties with the value of the houses making up a considerable part of his net worth. Additionally, those houses were occupied by private tenants generating a further income stream and making him the most famous (buy-to-let) landlord in the country.

The same notion of 'leveraging one's home for profit' also manifested itself in the increase of equity release and innovative mortgage products such as over-mortgaging (e.g. the infamous 125 per cent mortgage of Northern Rock), offset and current account mortgages, flexible mortgages such as self-certification and interest only mortgages. These mortgage products were tailored to individual financial and consumption needs with an emphasis on mortgages as investment and 'freedom and choice' (Langley, 2008a; see also Smith, 2006 below). For example, offset and current account mortgages are common in the UK. Here, existing savings are set against mortgage debt. Thus, the interest payable on the mortgage is reduced by the amount held in the savings account (see thisismoney.co.uk, accessed 2010). To give another example, interest only mortgages means that mortgagees only pay interest for an initial period, the so-called 'teaser rates'. As Langley (2008a, p. 198) puts it:

> 'Underpinning many of these new mortgage products is the assumption that house prices will rise creating equity for the leveraged investor who can "cash out this equity" in order to meet future and rising repayments.'

So-called equity release schemes became particularly significant in this respect. Equity release means the leveraging of additional credit to fund provision for old age or consumer spending for which the equity in an existing house serves as collateral. It comes in the form of equity loans, second or third mortgages leveraged against the home, or equity lines of credit, a form of revolving credit scheme where mortgagees can borrow up to a fixed sum depending on the appraised value of the house as well as the amount outstanding on the existing mortgage (Federal Reserve Board, 2010). To borrow against housing, traditionally considered to be the 'safest asset class in history' (Ishikawa, 2009), was thought to be as good as risk free in the pre-crunch world (as noted earlier, even in the event of a default on repayments, rising house prices meant that repossessions could be turned into a profit by lenders). Additionally, similar to first mortgages, the default risk of equity release mortgages can be passed on to third parties via securitization (see below). Thus, equity withdrawal became a profitable investment in the years prior to the financial crisis not least because of considerable government support, particularly in the US where these schemes have been promoted extensively since the 1990s (Forrester, 1994) and consumer expenditure became the driving force of GDP growth (Stockhammer, 2004). On this point, the European Mortgage Association (2009, p. 1) remarks that:

> '... the present financial crisis ... was driven by the US Federal Reserve policy of providing markets with abundant liquidity at lowest rates, coupled with an inadequate remuneration of risk and an extensive equity release practice in order to boost consumption.'

While this trend was not as pronounced (and not as actively backed by the state) in the UK, mortgage equity withdrawal was subsidised by the government and became of growing importance to support consumer spending and as part of a welfare trade-off. Equity withdrawal increased every quarter from the early 2000s onwards until the financial crisis and stood at £14.57 billion in the last quarter of 2006[114] or 6.7 per cent of post-tax income (Bank of England, 2007).[115] The financialization of housing, thus, also became the most significant part of the broader trend of the financialization of consumption, emphasising the socio-political importance of household spending and borrowing for economic reproduction (see: Montgomery, 2006; 2007; 2009; Langley, 2008a; 2008b). In 2007, the amount of consumer debt in the UK exceeded GDP in Britain for the first time (Grant Thornton, 2007, 23 August).

More generally, then, and following Smith (2008), housing became a cornerstone of the ethico-politics of neo-liberalism promoted on the platform of 'freedom and choice' (p. 530). This 'freedom' however is of a particular (neo-liberalist) colouring (as discussed in chapter three and five of this thesis) and its meaning for homeownership discourses became increasingly shaped by finance. Homeownership, thus, became not so much represented as a way of trading high outlays in working life against low cost of living in old age any more, but increasingly as an 'active resource' (ibid) for a broad range of welfare needs and consumption desires. This discourse has created what Smith (ibid) calls 'a hybrid of money and materials' which fundamentally altered the symbolic character as well as the materiality of homes and mortgages:

> 'The UK model is a financial market model whose rationale is to blur the boundary between (fixed) capital and (fluid) money ... This is what gives rise to a complex, politically charged, and ethically challenging entanglements

[114] A figure that, however, remains small compared to the $1.1 trillion equity mortgages outstanding in the US in 2006 (Heilpern et al., 2009, p. 102).

[115] The tables have turned completely since the second quarter of 2008. Homeowners use the low interest rates (The Bank of England Base Rate remains, and presumably will remain for sometime, at 0.5 per cent) to repay existing mortgages. The cumulative net injection of equity into housing has reached 24.2 billion since the second quarter of 2008 in October 2010. The decreased in house prices and the tightening of credit conditions, as well as a generally more cautious attitude to spending, have made mortgage equity withdrawals less attractive (The Guardian, 1 October 2010). In fact, to use a particularly striking example, mortgage equity withdrawal stood negatively at: - £ 6.2 billion or -2.5 per cent of post-tax income in the second quarter of 2010 (Bank of England, 2010).

between the materiality of housing, the meaning of home, and the mobilisation of money (the flow of cash and credit and credit in market societies)' (ibid, pp. 520-1).

The notion of homes as financial assets became deeply embedded within the cultural sphere and diffused through what in the previous chapter has called 'cultural circuit of capital'[116] (Thrift, 2001).

For example, there was a plethora of TV programmes, websites, books and newspaper columns that advised on how to best turn one's home into a financial advantage with particular emphasis on the buy-to-let market but also in terms of home improvement programmes that emphasised fabric and price rather than living space. In TV shows such as *Location, Location, Location* in the UK, owner occupiers are always represented as potential sellers (often coupled with a considerable dose of glamour) whose aspirations for individual freedom and consumption becomes tied to the materiality of rising house prices as, for example, equity release through remortgaging can be used to further improve the house in the latest fashion (Langley, 2008, p. 198). The cultural notion of homes as assets persists even in the post-crisis world where the average first time buyer can no longer afford a home. Consider, for instance, in the light of the current budget cuts and subdued housing market, this rather bizarre recent example from *Location, Location, Location*: Here, Claire, a student and millionaire (by virtue of legal compensation), searches a property in central London (*Location, Location, Location,* 2010*,* 15 September):

> 'Claire is looking for a place with good investment potential, three bedrooms and an easy 20 minute commute to the University campus. She wants to be on the exclusive South Bank, in a place with a bit of buzz about it and easy access to shops, restaurants and bars. She has an ideal budget of £1.7 million but can go considerably higher for the right investment.'

[116] See also section 2.3 of chapter three for a more detailed discussion of the concept of 'cultural circuit of capital'.

These practices economic and cultural practices have taken place against a politics of homeowership ideology that is arguably even more pronounced in the UK than in the US.

4. The Politics of Homeownership

A prerequisite of the financialization of housing and mortgages is the political (and affective) significance of homeownership and the housing market in the UK. As a recent post in an internet finance blog puts it:

> 'Home Ownership has been an emotive and important political issue in the UK. Not for nothing do we have the phrase "An Englishman's home is his castle"' (mortgageguideuk, 2010).

The notion that an Englishman's home is his castle has not always translated into a shared political understanding as is the case now. It is only since the 1979 elections that there is a broader cross-party consensus on promoting homeownership with Labour traditionally having prioritized the expansion of council estates (see chapter five of this thesis for more historical details; even Ed Miliband, for example, recently acknowledged the sale of council houses under Thatcher as essentially beneficial).

In the neoliberalist age, homeownership and increasingly also house prices as a generator of income have become important political tools to foster consent and mobilise support at election times. The volume of securitized home loans is considerably higher than any other form of credit provided to households such as car loans, student loans, credit cards loans, overdraft facilities etc. According to Willmott (2011), therefore, the property market has become highly politically sensitive. Thus, when property values rise, people feel richer – this is then reflected in the growing popularity of governing politicians. On the contrary, when property values fall, such as in the current period that has seen an ‘unwelcome return of widespread negative equity’[117] (Parnell, 2009, p. 1), politicians are likely to be held responsible. (It is said, for example, that John Major, among other reasons, paid the electoral price for the housing market crash and recession of the early 1990s when he lost the 1997 election to the Blair administration.)

Property, both in the form of homes as well as the form of financial assets is also likely to be an object of considerable emotional investment, making housing an important part of the so-called ‘libidinal political economy’ (see section 3.3 of chapter two and chapter one of this thesis for the psychoanlytical approach that is used in this thesis). This can become particularly apparent at times of rapid house price inflation where emotions such as excitement at the possibility of owning property, desperation to move, anxieties and fears about a location or being priced out of the market are more visible than at times of relative market stability (Christie et al, 2005). Since emotional investment can drive or hinder social change (Glynos and Howarth, 2007), it is unsurprising that housing and politics are inextricably linked. However, this is arguably rather an issue of political construction in the neoliberalist universe rather than an intrinsic characteristic of homeownership as such (cf. Gurney, 2007).

As already noted, the promotion of homeownership has always been a central element to Tory policy. When Thatcher came to power in 1979, homeownership rates experienced a strong push in line with the neo-liberal principles of a ‘property owning democracy’ and the notion of the market as the most efficient and fair provider of goods and services. The Conservatives introduced the Right-to-Buy initiatives, a policy that strongly featured in their election campaign, which gave council tenants the right to buy their property at a considerable discount, adding about 2.3 million homes to the private market in the UK by the end of 2004. This policy is estimated to have increased homeownership rates by 10 per cent until they peaked at 71 per cent in 2003 (Williams, 2007; see also chapter five of this thesis for more

[117] Negative equity means that the value of an asset such as a house is less than the outstanding balance on the loan secured against this asset.

details on Thachter's privatisation initiatives including the Right-to-Buy). The ideological seeds of this policy, according to Houghton (2008, p. 43), had already been planted during the post-war years where the political focus increasingly became shifted away from housing as a 'shared common good' with an active stake by the state, towards the promotion of individual homeownership at any cost. The neo-liberalist revolution under the Thatcher administration, then, took this development to the extreme:

> 'The most powerful demonstration of housing policy as a means to deliver ideological ends was Margaret Thatcher's 'Right to Buy'. More than any other policy, it expressed the resurgent New Right's belief in the liberating power of the market and the failure of state planning. In the first great privatization of the era, council tenants were able to purchase their homes from the local authority with significant discounts, freeing them from what Thatcher saw as the deadening grip of municipal landlordism and creating a new cadre of housing consumers' (ibid).

The Right-to-Buy initiative was the first among a number of extensive policies to increase homeownership and deregulate the housing market under Thatcher (and was continued by John Major). These political measures involved the deregulation of the mortgage market (as discussed in chapter five and six of this thesis), subsidies for homeowners and the transfer of council housing out of the jurisdictions of local authorities to the private market which resulted in a substantial weakening of 'the role of the state as a housing provider and asserted homeownership as a necessary condition of economic independence and citizenship' (ibid, p. 44).

After a relatively lukewarm first reception (Williams, 2007) the housing policies inherited from the Conservatives were continued by New Labour as becomes evident by the quote taken from Gordon Brown in section one of this chapter.

New Labour accepted, and in some cases furthered, the mortgage market deregulation commenced under the Conservatives. They invested in council housing only on the basis of local councils ceding control and easing planning restrictions to encourage private house building. In line with neo-liberalist principles, the notion prevailed that sustainable and affordable homes can, and indeed should, be provided by the market (Houghton, 2008).

What was fundamentally different under New Labour was that homeownership became centrepiece of a larger welfare trade-off to shift welfare provision on to the individual to compensate for the erosion of the traditional welfare state. This objective was protected by a 'rentier friendly' monetary policy of low inflation and interest rates[118].

By the 2000s it became a widespread assumption that the government was not only responsible for providing affordable *accommodation* for everyone (as the common perception in the 1970s where the government subsidised private homeownership for the middle classes and council tenancies for the lower classes) but to a) provide *private homeownership* for everyone and b) ensure rising house prices that would generate continuous flows of wealth from the property as investment to its owners (Watson, 2009a; see also chapter seven for the ideological fantasy preceding the financial crisis which included a widely shared belief in the continuous and uninterrupted rise in house prices).
The conditions of possibility for these various intertwined developments from the late 1970s onwards are discussed in the next chapter.

Conclusion

This chapter situates the logic of mortgage market financialization within the broader relational context of neoliberalist hegemony in the light of the financial crisis. The financial innovation that drove capital accumulation and growth in the pre-crisis conjuncture – securitization – is hereby discussed with reference to the material transformations in mortgage lending and funding, the cultural

[118] House prices were not part of the Consumer Price Index (CPI) at the time which is the government's preferred measure of inflation.

redefinition of housing as an investment, the politics of homeownership and the emergence of new everyday leveraged investor subjectivities. Section one gives a brief overview over these various processes in the lead-up to the financial meltdown. Section two, then, investigates the mechanics and ‘excesses’ of securitization in some detail. Hereby, the chapter points to the political origins of securitization and its continuing relevance for growth in the neoliberalist age. Securitization is not conceived of as an efficient and rational instrument for funding and risk transfer, but as an outcome of a process of discursive bricolage.

Section three investigates the increased importance of housing as investment and the associated emergence of homeowners as speculators. The section discusses a number of the consequences stemming from these developments such as the explosion in the number of customised mortgage products (which often reveal a decline in lending standards) and the rise of associated practices that allow for the leveraging of homes for profit such as the emergence of the buy-to-let market and the rise of equity release schemes. The chapter also shows how notions associated with the ‘liquidation of homes’ are deeply embedded within civil society.

Section three discusses homeownership as an important part of the rise of securitization and neoliberalist hegemony more generally. Here, homeownership ideology is conceived of as a neoliberalist strategy to foster electoral support rather than an intrinsic characteristic of people ‘to own property’. The section briefly looks at the politics of homeownership under Thatcher before concluding that these politics were, in principle, perpetuated or even deepened by New Labour.

The next chapter investigates the political acts of institution that made these developments possible. Chapter five examines the rise of neoliberalist hegemony and the associated struggles that rang in the beginning of the marginalisation of the mutual model that had been dominant in the market until the late 1970 and the associated rise of the financialization of homes and mortgages.

'We have progressively abandoned that freedom in economic affairs without which personal and political freedom has never existed in the past … It is necessary in the first instance that the parties in the market should be free to sell and buy at any price at which they can find a partner to the transaction, and that anybody should be free to sell and buy at any price at which they can find a partner to the transaction, and that anybody should be free to produce, sell and buy that may be produced or sold at all' (Hayek, 1962, p. 10; p. 27).

'Suppose somebody is confronted with a deep anomic situation - what would be required would be the introduction of an order, the concrete content of which would become quite secondary' (Laclau and Zac 1994, p. 15).

Chapter Five: Neoliberalism on the Rise

Introduction

This chapter traces the current financial crisis back to how its preceding major organic crisis, the 'stagflation-crisis' of the 1970s, was discursively framed and politically resolved. The turbulences and dislocations of these years resulted in the rise of neo-liberalism as a particular reaction that became a dominant hegemonic force by successfully repressing alternative projects and hereby representing its contingent origins as necessary.

Despite, or perhaps better, because of its internal contradictions and ambiguities, the neo-liberalist project exercised a strong ideological allure in its formative years – perhaps best summed up by Thatcher's infamous phrase 'there is no alternative [to her monetarist policies]'.[119] Neoliberalism, thus, initially delivered this fantasmatic '"enigma plus promise" that accounts for a common *identification without (yet) a common identity*' (Glynos and Howarth,

[119] According to Laclau and particularly also Chantal Mouffe, this is, of course, an ideological statement par excellence as their theoretical edifice presupposes that there are 'always alternatives' (see Contu, 2002, p. 160).

2007, p. 130; see also section four in chapter one of this thesis). The neoliberalist project emerged as a populist political discourse,[120] which linked together various heterogeneous demands in a chain of equivalence and produced an empty signifier with which a large number of different sectors of society, including especially the aspiring lower classes could identify (Interview 10). This empty signifier – 'freedom' – succeeded in promising, as Laclau and Zac put it in the second opening quote, 'an order' (in the face of a perceived 'non-order')[121] during the major dislocation of the 1970s, while the counter-discourses of the left failed to provide an 'ideological grip' (Glynos, 2001) for mass support.

Neoliberalism, on the contrary, successfully established a 'common sense'. Hereby, think tanks were of vital importance by diffusing neoliberalist ideology and discrediting as well as marginalising opposition (Desai, 1994).[122]

Andrew Gamble (2009a, p. 68) recalls the rise and subsequent 'becoming common sense' and subsequent sedimentation of neoliberalism as follows:

> 'It already seems a while since the glad, confident morning of neo-liberalism, and the emergence of neo-liberal as the new common sense. It had a hard fight against the 'embedded liberalism' of the Keynesian era, the combination of international institutions, such as fixed exchange rates and domestic policies, such as full employment, high welfare spending and management of demand which underpinned the great post–war boom of the 150s and 1960s. But once neo-liberalism got into its stride it became a formidable discourse,

[120] It is worth recapitulating here that the Laclauian understanding of populism is connected to the expansion of equivalential chains that divide the social into two camps (see Laclau, 2005). In contrast, Stuart Hall and Colleagues have used the term 'authoritarian populism' in a more 'conventional' sense here (see for example: Hall, 1988b).
[121] See also section 2.5 of chapter one of this thesis
[122] As Desai (1994, p. 59) puts it in relation to Thatcherism:

> 'The think tanks and their theories were central to the Thatcherite project. They provided it with a critique of the welfare state consensus which seemed coherent and intellectually respectable … Their philosophy also contained a vision of future Britain which, despite its philistine simplicities, did inspire a critical, if small, group of key people. Moreover, the think tanks did crucial spade-work in preparing numerous well worked-out proposals for reform which the more committed among the Thatcherite ministers could implement.'

See also section 2.3 of this chapter for the role of the Institute for Economic Affairs in the context of the building society price cartel.

and dominated debate, forcing most other discourses to the margins, particularly in the Anglosphere but also more broadly. Its success owed much to its reinvention of economic liberalism both as a form of political economy and as a political ideology. Like any discourse, it was never monolithic and developed many strands, but by the end of the century it was not just a hegemonic ideology but a largely unchallenged one.'

It is argued here that neoliberalism was not simply superimposed on Western societies in a 'top-down' fashion (by the administrations of Thatcher and Ronald Reagan, for example, even though they played an important role)[123] but the result of a plethora of metonymical hegemonic operations which unified a multitude of different struggles to 'become state' in a Gramscian sense.

A detailed analysis of the changes of the mortgage market in the UK in the late 1970s and early 1980s[124] sheds light on the type of struggles that preceded the institutionalisation of neoliberalist hegemony. What is striking about the case of the UK mortgage market is its transformation from a heavily politically protected market dominated by a price cartel to one of the most deregulated markets in Britain in less than a decade.

Hereby, mortgages became highly symptomatic of more general processes of neoliberalisation and financialization. The breakdown of the building society price cartel and the deregulation of mortgages also exemplify how subjects were successfully mobilised politically in the name of the neoliberalist signifier 'freedom'. The transformation of mortgage lending and funding therefore provides a particularly illuminating example of how the demand 'freedom' became taken up, by a variety of different sectors of the economy and society in the course of the ascendancy of neoliberalism).

[123] Political parties and 'strategically placed agents' are, of course, important for the diffusion and legimtimation of hegemony. Contrary to Gramsci (1971), however, those components are curiously neglected in Laclau's body of work (see also Griggs and Howarth, 2009).
[124] The 1980s and 1990s are examined in the next chapter

In line with the central aim of this thesis of providing a genealogy of the political in the context of the UK mortgage market, this chapter takes the organic crisis of the 1970s as a starting point of the political institutionalisation of the neoliberalist regime in accordance with Laclau and Mouffe's (2001) claim that hegemony is always a *contingent* and *particular* reaction to a crisis (rather than being intrinsically or teleologically necessary or rational).

This chapter is particularly concerned with providing an empirical grounding of Laclau's concept of the political, or what Glynos and Howarth (2007) term the 'foregrounding of the political dimension' (see section 2.4 and 2.5 and section three of chapter one of this thesis). The argument of the chapter proceeds in two stages: The first part investigates the rise of neoliberalist hegemony on a national scale by using central theoretical concepts of Laclau and PDT. The second part is concerned with the particular political struggles that eventually transformed the mortgage market in the name of neoliberalist ideology.

The first part of section one investigates how the neoliberalist particular became elevated into the status of the universal as a reaction to the 'disorder' that was the organic crisis of the 1970s. The latter hereby culminated in a political moment of public contestation where the political dimension of the neoliberalist regime became foregrounded and visible. The crisis therefore marked a 'moment of antagonism' (Laclau, 1990, p. 35) in which the sedimented status quo of embedded liberalism, Keynesian economics, welfarism, as well as the political post-war consensus were publicly challenged and, ultimately, profoundly transformed. Also, this section explores how the signifier freedom became hegemonised by the neoliberalist particular resulting in a widespread acceptance of the importance of a free and unregulated economy as necessary precondition of a non-totalitarian society consisting of 'free' property owning individuals (see the opening quote by Hayek; section one of chapter three of this thesis and section 1.4 of this chapter for the concept of freedom in neoliberalism).

The second section, then, looks at how the institutionalisation of neoliberalism created a terrain for political struggles that eventually resulted in the fundamental transformation of mortgage lending and funding in accordance with neoliberalist ideology. It hereby ivestigates, at the meso-level of the mortgage market, how struggles precede and constitute the institutionalisation of a hegemonic regime and therefore render it contingent (see *LCE*, p. 106).

The price cartel that had previously dominated the mortgage lending market and had also been a big player in the personal savings market became a nodal point of condensation for a range of unfulfilled demands that were articulated alongside the demand of 'freedom to compete' which acted as a stand-in for all of them (see Laclau, 2005a and chapter one for the concept of empty signifier). The cartel's abolishment, in conjunction with the regulatory liberalisation of the market, created the condition of possibility for the marginalisation of the mutual logic and the financialization of mortgages.

1. The Demise of Embedded Liberalism and the Rise of Neoliberalism

1.1 Capitalism Contained: Embedded Liberalism and the Post-War Years

Like neo-liberalism, its preceding international regime, 'embedded liberalism', also was a political (and antagonistic) response to the particular conditions of its time. It surfaced as the outcome of political struggles responding to the dislocations of the Great Depression of the 1930s and World War II (Blyth, 2002).[125]

[125] According to Andrew Gamble (2009b, p.452), the way in which the Great Depression was perceived and framed *as crisis* also marked an epistemological shift in terms of how the signifier 'crisis' was approached more generally, in the sense of what actually constitutes a crisis. From that point on, as Gamble argues, a crisis not only designated the breaking point of the boom within an economic cycle leading to a downturn, but also progressively included the structural (e.g. financial, organisational, political and ideological) obstacles to recovery. In that broader sense, crisis came to be discursively constructed as a predominantly political and social event. This was characterised by the struggles of different groups for the right to define the nature and resolution of the crisis at the end of which stands a more or less profound institutional transformation. He remarks that the crisis of 2007-, without its future consequences being clear, in all likelihood accounts for such a structural crisis (see also the introduction of this thesis).

The term embedded liberalism designates the dominant international financial system among Western countries in operation from World War II until the 1970s. Its ideological underpinning postulated the ‘embedding’ of capitalist expansion within a multitude of social and political constraints (as noted on in section 1.2 of chapter two of this thesis, embedded liberalism therefore favored a ‘mixed system’ rather than a purely capitalistic one). Nevertheless this system or regime was still profoundly committed to capitalist values. It operated under the Breton Woods agreement of pegged exchange rates that used the US Dollar as a reserve currency. The regime was managed by a number of newly founded institutions such as the World Bank, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD). (In the neo-liberalist age, these institutions subsequently became central to the global diffusion of neo-liberalist ideology by imposing disciplinary measures on financially distressed countries such as Britain in 1976 ; see e.g. Peet, 2003 and below.)

On the one hand, embedded liberalism was based on the belief in free trade and economic liberalism as a facilitator of peace. On the other hand, the aftermath of the Great Depression, the latter being chiefly attributed to monopolistic practices of large corporations and trusts, irresponsible banks and those dubbed by Keynes as ‘coupon clippers’ (the rich rentier class), saw the rising legitimation of government interventionism which became prevalent alongside, or even instead of, market mechanisms in line with the ‘demand side’ monetary and fiscal policies of Keynes. Interventionism was seen to be appropriate to ensure economic growth, the welfare state and full employment in order to stimulate consumption as well as cushioning the effects of the economic cycle.

Within this overall framework, risk was seen to be best contained by syndicates (such as the building society price cartel) and nationalised industries. In a number of countries central industries such as coal, steel, and automobiles were owned by the state[126] and state-led corporate planning was widely in use (see: Harvey, 2005 p. 10-11; Blyth, 2002; Krasner, 1983). This system privileged a 'productionist' or 'Fordist' system of capital accumulation within which finance capital was placed under major constraints and remained a 'facilitator of other firms' economic growth' rather than, as in a more financialized economy, 'a growth industry in its own right (Engelen, 2003, p.1367; see also chapter three of this thesis). For example, one legislatory response to the 1929 stock market crash was the Glass-Steagall Act of 1933 which separated investment and commercial banking activities in an attempt to curb the speculative activity of commercial banks in the stock market. (A renewed separation of retail and wholesale banking is often postulated in the wake of the current financial crisis as Glass Steagall was repealed in 1999; see e.g. McSweeney, (2009).[127] However, no country has implemented anything like this so far – in Britain, the Vickers Report stopped short of recommending a Glass-Steagall-type legislation, opting instead for the less drastic future 'ring-fencing' of retail deposits from investment banking; see also chapter seven of this thesis)

The Fordist system of accumulation delivered a period of unprecedented economic growth and stability via wage compromise which was based on productivity gains of the Fordist assembly line under Taylorist principles of organisation[128] (Aglietta, 2001; Gramsci, 1971, p. 277-316; see also chapter three of this thesis for the concepts of Fordism and productionism). Politically, the system rested on a temporary hegemonic consensus of various conflicting ideological positions. In Britain, the Right suppressed their most extreme reactionary and market-liberalist fractions and the Left agreed to cooperate within the re-negotiated framework of Western capitalism (see Hall, 1988a p.36). In the most developed capitalist countries of the West, embedded liberalism delivered high economic growth coupled with rising living standards,

[126] Prior to 1979, the UK had one of the largest publically owned industrial sectors in Europe (Cook, 1998).
[127] Before Glass Steagall was repealed, it had been heavily lobbied against (and was also circumvented) by the banking industry, with the Clinton Administration of the 1990s increasingly turning a blind eye to infringements (see MacDonald, 2009).
[128] In Fordism workers are paid relatively high wages in order to enable them to afford its mass produced goods.

low inflation and low unemployment during the boom years of 1950s and 1960s. However, it came increasingly under strain during the late 1960s and 1970s which eventually led to a major 'organic crisis' that paved the way for the rise of the neo-liberalist revolution.

The ensuing brief analysis in section 1.2 discusses the dislocations of postwar-embedded liberalism[129] that culminated in the stagflation crisis of the 1970s. In following Glyn (2006) and others, it predominantly emphasises the latter's economic and political aspects at the expenses of the cultural dimension due to space constraints.[130]

1.2 'Stagflation': The Dislocations of Embedded Liberalism

The high employment brought about by the boom years of the 1950s and 1960s strengthened union membership and the bargaining power of unions. Collective bargaining had become well-protected by labour laws in Europe and unions were now in the position to increasingly challenge capitalist demands. These developments resulted in growing wages and a squeeze on profitability as well as rising industrial conflict.[131]

Additionally, increased global demand in raw materials, food and energy, particularly the sharp rise in the price for oil, contributed to growing inflationary pressures while productivity growth started to slow down from the mid-1970s onwards as the Fordist assembly line exhausted its productivity gains. Differences in inflation rates between countries together with different impacts of the rise in commodity prices and diverging growth in productivity led to payment imbalances which increasingly undermined the pegged exchange

[129] See also Laclau and Mouffe's analysis of the so-called new social movements who situate their emergence within the dislocations created by the embedded liberalism of the 1950s and 1960s.

[130] The factors listed here are not exhaustive, of course, as, according to the view followed here, crises (as well as social formations more generally) are always overdetermined and relational and not the result of clearly isolatable causal mechanisms; see the theoretical discussions in chapter one and two of this thesis).

[131] Strikes, as a particular manifestation of the strengthened positions of unions, became especially common in France, Italy and the UK. In the UK, the average number of annual working days lost was 7 million during the late 1970s and early 1980s. That compares to 0.5 million in the early 21st century (workinglives.org, 2010). However, working days lost due to strike have been generally on the rise since 2007.

rate system of the Bretton Woods agreement (see Glyn, 2006). Further, increased international competition also threatened pegged exchange rates. Finance capital became more powerful and mobile with the rise of institutional funds and other financial innovations. Where speculation was previously something that was carried out largely by individuals, these funds started to pool savings and investments on a far larger scale (Authers, 2010). Hereby, increased capital mobility undermined more and more the pegged exchange rate system which was eventually brought down by a series of speculative attacks carried out during the early 1970s (Obstfeld and Rogoff 1995).

The United States pulled out of the Bretton Woods Accord under Nixon in 1971 and Britain and other industrial nations soon followed. This resulted in chaotically floating exchange rates and monetary disorder. The steep rise of oil prices determined by the Organisation of Petroleum Exporting Countries (OPEC), the primary supplier of oil for the global market, in addition to its politically motivated embargo of oil against certain countries, suppressed economic growth and increased inflation. Furthermore, the American government's involvement in the Vietnam War and social uprisings in France and Italy during the late 1960s - the latter triggered by the decline of major industries under Fordist principles - threatened the social stability of the hegemonic post-war consensus and further contributed to inflationary pressures (Aglietta, 2008).

Britain, in line with the global conditions of the times, underwent a period of severe 'stagflation' during the 1970s, a situation within which both unemployment and inflation were very high. This situation was often used by free market advocates to directly discredit Keynesian economics that seemed unable to account for the simultaneous rise of inflation and unemployment. Inflation averaged 13% a year during the 1970s and peaked at 25% in 1975 (Bank of England, accessed 2010). Unemployment increased in the mid-1970s, before levelling off at around 1.5 (5 per cent) in the late 1970s. In the recession of the 1980s, it peaked at over 3 million (just under 12%) before eventually declining (Leaker, 2009). The low productivity growth in Britain commencing in the late 1960s coupled with frequent labour unrest was often seen as something endemic to Britain and came to be known under the name of 'British disease'. Rolls Royce, the pinnacle of British manufacturing, went bankrupt in 1971 and was nationalised by the then Labour government. Britain experienced a secondary banking crisis at the beginning of the 1970s after a brief period of relaxed credit conditions. In 1976, a sustained run on Sterling, a loss of confidence in the British economy by the international markets and external pressure by the IMF and the United States led the British government to seek an emergency loan from the IMF in 1976 and harsh conditions were placed on Britain for obtaining the loan (Harmon, 1997). While the bailout by the IMF was against the domestic policies and ideology of the then Labour government of Callaghan, Gamble (1988) argues that much of the replacement of Keynesian economics by monetarist doctrines was actually carried out by the Labour government between 1974 and 1976 in responding to the crisis and the conditions placed upon Britain by the IMF.

By the end of the 1970s, which culminated in the infamous 'winter of discontent', Britain had entered a period of not only economic but organic crisis (in a Gramscian sense) where the ruling political economic and cultural alliances disintegrated and the search for new alliances began (see e.g. Hall, 1988b; Simon, 1982).[132] The winter of discontent marked a tipping point – a *political moment* of public contestation (see section 1.5 of chapter one of this thesis) - which eventually resulted in the 're-composition of the dislocated structure' around new signs and nodal points (see Laclau, 1990, p. 40). The winter of discontent refers to the events of January/February 1979 when the Labour government's agreement with unions to control pay increases collapsed into a series of harsh industrial disputes involving many lower paid service sector workers. These events were cunningly exploited by the right-wing discourse in the press which framed the strikes as a complete state of anarchy stemming from the economic mismanagement of the Labour government (Thomas, 2004). The horrific dimension of the emerging fantasy that subsequently propelled the neoliberalist revolution is aptly captured in a

[132] A situation where subjects are literally compelled to engage in acts of identification (*LCE,* p. 129; see also section 1.4 of this thesis for Laclau's concept of subjectivity).

book of one of Thatcher's economic advisers, Patrick Minford, who sums up the winter of discontents as the time when '…graves went undug and rubbish piled up in the streets' (Minford 1998, p. 85).

1.3 Antagonism and Chains of Equivalence: Neoliberalism on the Rise

As pointed out earlier, the crisis of the 1970s was successfully attributed to the inadequacy of Keynesian demand-side economics to account for a period of stalled growth coupled with very high inflation and the perceived economic and political ineptitude of the Labour government. Together with a lack of political support for alternatives of the left (see Hall, 1988b; Gamble, 1985; 1988; 2009a), neoliberalism under Thatcher (and Reagan) drew support from large sectors of society resulting in the elevation of the neoliberalist particular into the status of the universal:

'Volcker[133] and Thatcher, as Harvey (2005, p. 2) comments, 'both plucked from the shadows of relative obscurity a particular doctrine that went under the name of "neoliberalism" and transformed it into the central guiding principle of economic thought and management'.

An important factor for the success of neoliberalist discourse during its formative years was its articulation alongside neo-conservative values both in Britain and the US.[134] As Gamble (1985) observes, Thatcher fused neoliberalism with more traditional demands of the Conservative party such as a strengthening of family values, law and order, national defence etc.

In the terminology of Laclau, such an operation can be regarded as the expansion of a chain of equivalence (or populism) which aims at dividing the social space into two opposing camps. As discussed in chapter one of this thesis, the combination of the underlying demands of this chain are heterogeneous and contingent. (For example, there is no apriori 'necessity' to articulate the signifier of 'law and order' alongside that of 'free markets'; in the

[133] Reagan re-appointed the [monestarist] Paul Volcker as Chairman of the Federal Reserve Bank in 1983.
[134] For neo-conservativism in the neoliberalist context see also: Steger and Roy (2010, p. 22)

case of the transformation of the building society price cartel (see below), even traditional demands from the left were articulated alongside neoliberalist demands)Hence, these discourses are solely united by the common opposition to an external enemy. Indeed, it has been frequently observed that particularly Thatcher's first term was characterised mostly by an antagonistic[135] and ideological reaction to the alleged failures of embedded liberalism. Bringing down inflation at any cost (through monetarist rather than fiscal measures, such as the control of the money supply and the reduction of the national deficit) aside, Thatcher's overall political, economic and social programme lacked internal unity and coherence and was thus, to a large extent, defined and constructed by its 'obstacles' (Hall, 1988b; Gamble, 1985; 1988; Minford, 1998, chapters three and four; for the constitutiveness of such obstacles that prevent the presence of a full and reconciled identity but are nevertheless constitutive of it see particularly section 1.4 and four of chapter one of this thesis). As Torfing (1999, p. 35) puts it:

> 'The national mood was certainly an important precondition for Thatcher's entry onto the political stage; nevertheless the Thatcher government initially lacked a coherent programme of economic reform to show that it could tackle the economy more successfully than the former Labour administration. Thus, Thatcher's electoral victory was first and foremost a result of the fact that she had won the ideological battle for the hearts and minds of the British people…'

The emergence and rise of Thatcherism and neoliberalist hegemony is therefore a particularly illuminating example for how 'the institution of a particular regime … is always defined in opposition to a contested regime … and this oppositional contrast colours the regimes practices' (*LCE,* p. 106)*.*

1.4 Freedom: What's in a Name?

The empty signifier which partially unified (and still unifies) the neoliberalist regime via pointing to a constitutive outside (see section 2.5 of chapter one of

[135] This antagonistic response points to the political (and thus contingent) character at the heart of the rise of neoliberalism: ''it is only in … antagonistic relation to other projects that the contingency of particular acts of institution is shown, and it is this contingency that gives them their political character' (Laclau and Zac, 1994, p. 4).

this thesis) can be called 'freedom'. The noun 'freedom' or the adjective 'free' appear inflationary in some of the major works of neoliberalist thinkers (see e.g. Hayek 1962; Friedman 1962; for an overview of the early main strands of neoliberalist thought and their relation to freedom see Foucault, 2010). Indeed, Michel Foucault suggests that neoliberalism should be analysed and problematised as a 'technology of freedom' (see Gertenbach, 2010, p. 14).

In the most well-known work of the most important organic intellectual of neoliberalism, Friedrich von Hayek's *The Road to Serfdom 1962,* 'freedom' functions purely as an antidote to its antagonised negative inversal which is 'serfdom'. Freedom hereby becomes the name for the 'universal cure' against any form of organisation or regime that is conceived to be 'unfree' and oppressive.

These forms stretch from the horrors of Fascism and Stalinism as well as the perceived omnipresent 'socialist threat' to any form of collectivist organisation of the economy, more than minimalist interventionism on the part of the state[136] and the exercise of democratic control of the population. Freedom, as Hayek points out, becomes the 'ultimate value and not democracy' (ibid, chapter four). As the first of the two opening quotations of this chapter (which is taken from Hayek's book) illustrates, this type of freedom, as he understands it, presupposes, 'in the first instance', economic freedom. Unrestricted market exchange, thus, becomes the necessary ontological precondition of the free and autonomous individuals that all of humanity should aspire to:

> 'The gradual transformation of a rigidly organised hierarchic system into one where men gained the opportunity of knowing and choosing between different forms of life, is closely associated with the growth of [free] commerce' (ibid p. 11).

[136] While Hayek does not advocate a return to the *laissez faire* capitalism of the 19th century, the role of the state should be reduced to the enforcement of a free economy.

Freedom, however, also became a highly contested signifier in the context of the rise of neoliberalism. Its emptiness is exposed by the competing hegemonic projects and associated 'market logics' that aim to fill it with meaning: 'Freedom', as Patrick Minford (1998, p. 2) asserts, 'is a "pro" word with good connotations. So it has been appropriated to advocate its opposite: The regulation of people's lives for their own good.' Contrarily, Karl Polanyi in *The Great Transformation* coming from a perspective of the left, lamented the hegemonisation of freedom by the neoliberalist particular, often referring directly to Hayek. According to Polanyi (who wrote the book as early as 1944), it had become increasingly difficult to articulate an alternative version to the notion freedom as conceived of in neoliberalism which 'degenerates into a mere advocacy of free enterprise':

> 'Planning and control are being attacked as a denial of freedom. Free enterprise and private ownership are declared to be essentials of freedom. No society built on other foundations is said to deserve to be called free. The freedom that regulation creates is denounced as unfreedom; the justice, liberty and welfare it offers are decried as a camouflage of slavery' (cited in Harvey, 2005, p. 37; this is insightful statement is also the opening quote of the thesis).

The following analysis illustrates how this particular version of freedom created a terrain for political struggles in the UK mortgage market of the late 1970s to early 1980s. At the end of this period neoliberalism emerged victorious leading to the deregulation of the market and the breakdown of the building society price cartel, paving the way, in turn, for the financialization of mortgages.

2. Transforming the Mortgage Market: Struggles, Deregulation and Neoliberalisation in the British Context

2.1 Building Societies: A Brief History

Until the 1980s, the mortgage market was a heavily regulated 'sheltered circuit' (Revell, 1979) dominated by building societies which are governed by separate legislation and, at the time, were also separately regulated.

Building Societies sprang from the Friendly Society Movement of the late 17th century which spread rapidly after 1750. Friendly societies were mutual associations that offered a form of protection for the working classes in the increasingly industrialised environment of the time. These associations pooled the savings of its members to provide for the event of sickness, infirmary, or for immediate necessities arising on the death of a member or his [sic] wife. At the end of the 18th century it was estimated that there were about 7.000 of these societies which acquitted a certain form of legal protection and encouragement by the Friendly Societies Act of 1793. Other mutual institutions with similar purposes were also formed. The idea of forming building societies or clubs for the provision of houses followed from these efforts at mutual protection and improvement.[137] The first known building society was established in (or about) 1775 in Birmingham. It was called the Ketley's Building Society because its meetings were at the Golden Cross Inn of which Richard Ketley was Landlord (see Ashworth, 1980, p. 1-2).

Originally, building societies were 'terminating societies' which were wound up after the last home was built. The fundamental concept behind a building society was that each member would contribute a regular subscription to a fund, which would then be used to finance the purchase or building of a house to be allocated to a specific member. All members would continue to pay their subscription until houses had been acquired for them all, at which point the society would terminate (Drake, 1989). Terminating societies were organised as fundamentally democratic institutions, all its members were on equal footing and each member had one vote. The funds which building societies

[137] Credit unions also have their roots in this movement (Dayson, 2002).

could lend to its members were taken from a pool of the same funds that those members had invested in (Talbot, 2009).

It was from this basis as terminating societies that permanent societies would later evolve. In order to accelerate the provision of housing, societies started to offer interest payments to people who were pledging their savings with them and simultaneously charged interest from their borrowers in order to cover the cost of funds. The movement rapidly spread across Britain but their operations remained predominantly local (a feature that more or less persists until today).

The first society with a permanent constitution was established in 1845. The 1874 Act established a recognisable and prudential regime, restricting sources of funding and monitoring borrowing. Building societies now became financial intermediaries between borrower members and investing members. It remained, however, an organisational model that was underpinned by member relations and based on members' funds and loans. As Talbot (2007, p. 7) points out, at a fundamental level this legal approach did not change until the Societies Act 1986. At the level of governance, a lot was determined by the size, membership and wealth of individual societies.

In 1890, there were 2795 building societies operating in the UK. In 1895 the number of building societies had reached its peak at 3642, and after this time the number decreased continually. In 1935 there were fewer than 1000 societies in existence and by then end of 1987 their number had decreased to 187 (Drake, 1989). (Today, the number of building societies has further shrunk to a mere 47 at the time of writing).

Building societies predominantly provided housing for the wealthier strata of the working class and owner occupation became an important status symbol within the latter. One can therefore say that the origins of the 'homeownership ideology' in Britain lay indeed with the mutual movement (Saunders, 1990). However, building societies were different to banks in that they were guided by the Victorian virtues of thrift and self-help in order to promote and facilitate homeownership, as opposed to banks who sought to make profits from lending (see Wainwright, 2009, p. 115). Building societies are therefore not traditionally 'capitalist' institutions in the sense of being institutions geared towards the maximisation of surplus value (cf. Gibson-Graham, 1995). To what extent 'mutual values', if they indeed have ever existed in a 'pure form',[138] have, however, progressively been eroded in an increasingly competitive and financialized market is, of course, debatable; see particularly chapter six of this thesis in this context).

Until World War I, housing was still mostly a privilege of the rich. However, building societies were a decisive factor in the expansion of homeownership and the institutionalisation of the mortgage market.

2.2 The Evolution of the UK Mortgage Market and the Building Society Price Cartel

Before World War I, less than ten per cent of the population were estimated to be owner occupiers. Up until the 19th century the overwhelming majority of mortgage contracts were mostly arranged locally by solicitors between landowners and rich landlords (Merret, 1979). After World War II, homeownership as well as council houses rose drastically and by the 1960s 44 per cent of households were owner occupiers and 25 per cent were council tenants. These two trends reflected the two major, and often politically conflictual, ideological positions towards housing provision by the two major British parties. Labour traditionally favoured the extension of council housing and the Conservatives promoted homeownership in line with a commitment towards individual property ownership. These contrary ideological positions on housing were often marginalised by the opposed administrations during the

[138] Interestingly, an erosion of 'traditional' mutual values is already observable within the establishment of permanent societies, as these facilitated the emergence of a large membership base. This resulted in the development of managerial control at the expenses of member control. By the 1930s, virtually all societies were management controlled (see Talbot, 2009, p. 7 ff). It makes sense, therefore, to conceive of mutual values antagonistically in this context, i.e. in the sense of what they are not in a given historical period of time (see chapter one of this thesis). This is because extensive studies of the building society sector show that there is no real agreement as to what these values 'really are' on the side of their members and directors (see e.g. Dayson, 2002). This insight has been confirmed by my own interviews (particularly Interview four and five). As the director of one society put it: 'People know that building societies are different but they don't really know what it is…' (Interview four).

post-war years depending whether Labour or Conservatives were in power. In sum, this period witnessed a relative expansion of council tenancies as opposed to private homeownership. During the later post-war years, however, the position of Labour against mass homeownership was slowly eroded to the point that in the 1980s, after Thatcher's victory in the general elections, for the first time, Labour agreed on a policy aimed at the reduction of council tenants (ibid).

The mortgage market itself was up until the 1980s almost synonymous with building societies. Societies were the main source of mortgage lending as they were the only specialist mortgage providers. They were also a dominant player in the savings market in the United Kingdom.

At that time the societies operated under the 1962 Building Societies Act which restricted their activities to mostly mortgage lending and retail saving. The big societies were effectively able to run a cartel, exempted from investigation under the Restrictive Practices Act. This cartel became an important tool of macro-economic policy in the inflationary environment of the 1970s. As homeownership grew, societies became also increasingly politically important as governments tended to profit from low interest rates on mortgages (which were 'recommended' by the cartel (see below)). Low interest rates were frequently seen to be a powerful instrument to gain votes at election times. It has been reported that on a number of occasions, the building society cartel was given a donation by a party (both Labour and Tories) in order to keep the interest rate below the politically sensitive number of ten per cent (Boléat and Coles, 1987).

The cartel, as the favoured model of mortgage provision of the time, benefited from a sympathetic tax regime and legal restrictions on the interest bearing liabilities of banks and finance houses under the Supplementary Special Deposit Scheme, also known as the 'corset'. The latter was introduced in 1973 to control bank lending after a period of accelerating credit growth in the private sector (and early free market experiment under the conservative government of the early 1970s). The corset required banks and finance houses to place special deposits with the Bank of England if their growth in interest bearing liabilities exceeded certain limits. This made the banks reluctant to expand as they were effectively penalised for doing so.

The only other noteworthy providers of mortgage finance were thus insurance companies and local authorities. Banks only provided a limited amount of finance often through bridging loans when households temporarily needed to fund two homes. Insurance companies gradually withdrew from the market as they favoured other portfolio options and public expenditure constraints introduced during the 1970s effectively terminated local authority lending. The dominance of the building societies in the mortgage market, however, was not due to their mutual values per se (see footnote 130 above), but reflected issues of macro-economic policy and their particular characteristic relation to other potential lenders such as banks. The societies were seen to be the most stable, and hence the best, way to engage in mortgage lending in line with the cautious approach towards risk of the time (Boléat and Coles, 1987).

The two other favourable tax schemes were a tax deduction on savings accounts, an arrangement with the Inland Revenue dating from the 1890s, and a corporation tax which all mutuals paid at a lower rate than commercial organisations. These measures were justified on the grounds that the latter could set shareholder dividends against tax (Stephens, 2007). Furthermore, the shares[139] and deposits of building societies were excluded from the government's control of the money supply, and their mortgage lending from credit control (Boddy, 1980, p. 85). Within the climate of the volatile interest rates of the 1970s, the cartel was seen by the government as a way to sell its anti-inflationary fiscal (as opposed to monetarist) policies particularly as mortgage interest payments at the time contributed to the Retail Price Index (Stephens, 2007).

[139] Shares are here to be understood literally in the sense of owning a part of the organisation in the form of certain types of savings accounts. Before the rise of what know is known as 'shareholder value', some investors (savers) in building societies were often referred to as 'shareholders' (see e.g. Boléat, 1986).

This privileged political, economic and cultural position allowed for the extraordinary dominance of building societies in the mortgage lending market. During 1973-79 the building societies' annual share of mortgage lending was on average 83 per cent and peaked at a near monopoly status of 96 per cent in 1977 and 1978. It only fell below 70 per cent once during that time (Stephens, 1993). The societies formed a government sanctioned interest rate cartel which allowed the council of the Building Society Association (BSA) - its trade body - to recommend both the interest for borrowing (mortgages) and lending (shares and deposits). This practice was developed in the 1930s as a reaction to the imminent financial collapse of some societies due to extremely intensified competition and low demand in the wake of the economic climate of the Great Depression. The council of the association began to recommend interest rates in 1939 which remained relatively stable during the 1950s and 1960s. The economic climate of volatile general interest rates of the 1970s saw frequent changes of interest rates of mortgages recommended by the council. Some of them were not followed by larger societies. This volatile climate resulted in a 'Memorandum of Agreement' between the building societies and the government in 1973, enforced by the Joint Advisory Committee (JAC). This memorandum tied the cartel more closely to the supervision of the government and included a commitment by the twenty largest societies to support recommendations made by the council. Thus, the power of the recommended rate system grew even further during the 1970s as the cartel was actively encouraged by government policy during this time, given a preoccupation of the government of keeping mortgage rates down (for the reasons mentioned above) (Boléat, 1986).

The cartel operated in two different ways on interest rates: It allowed the BSA to recommend the general level of interest rates (mortgages and shares) compared to the rates offered by competing institutions, but also the margins between lending and borrowing rates. This means that the BSA council estimated the appropriate level of mortgage lending against which it set the share rate to attract the necessary investors by adding the cost for management, taxation, and reserves. Interest rates were usually kept as low as possible and operated below a 'market clearing rate' at which supply equals demand and the market for loans is ‘cleared’. Societies generally used variable mortgage rates to balance fluctuations in general interest rates (Boddy, 1980).

At the end of the 1970s, the Building society cartel effectively operated as an oligopoly within which more than 50 per cent of the total assets were concentrated in the hands of the 5 largest societies: the Halifax, Abbey National, Nationwide, Leeds Permanent and the Woolwich. The sector had undergone considerable consolidation and over the past decade mainly in the form of merger the number of societies had declined from 504 in 1969 to 326 building societies in 1978, 228 of which were members of the BSA (Gough and Taylor, 1978).

As already indicated, the traditional view on the cartel was that a cartel protects a stable lending and savings environment in attempting to minimise the impact of general interest rates on lending and saving. Furthermore, the cartel was deemed to be superior to the mechanisms of the market to reconcile the interests of borrowers and lender, and also allowed a certain convenience and predictability in not having to adjust mortgage rates on a frequent basis. However, the cartel suffered from its own dislocations which rendered it particularly vulnerable to the neoliberalist counter-revolution.

The societies did not generally compete against each other on price but on advertising and branch networks. The lack of competition among the societies and with other lenders had allowed the societies to be particularly selective in granting loans and allocating funds below the market clearing rate. These were deemed to be beneficial for lower income households as it kept the interest of mortgage rates as low as possible. It also enabled societies to set conditions on loans and carefully select borrowers and property (Boddy, 1980). As a result, however, savings rates were at uncompetitive levels and reduced the inflow of savings. Thus, the societies were running down their liquidity provisions or rationed their mortgages which could lead to queues, sometimes for several months. This was known by the expression of ‘mortgage feast and famine’ (Buckle and Thompson, 1992). It has been pointed out that mortgage demand had exceeded supply by the early 1950s and there had probably been a shortage of mortgages for most of the 1970s following the brief house price surge of the 1972-73 (The Times, 1983a).

The considerable amount of resistance that manifested itself against the building society price cartel was supported by the ‘upwardly mobile’ social strata which pushed for a boost in housing supply and the provision of consumer credit. Furthermore, banks and other institutions increasingly lobbied for their entry into the mortgage market and developments in international financial markets exerted more and more pressure on the protected circuit of mortgage lending in the UK. Additionally, council tenants pushed for the sale of their council homes. These struggles will be looked at in more detail in the next section. It will be shown how the transformation of the UK mortgage market was a crucial element of the neoliberal counter-revolution.

2.3 In the Name of Freedom: Contesting the Cartel

As indicated in the last sub-section, the cartelised structure of mortgage lending in the UK created its own dislocations. By the 1970s virtually all discussion of mortgage lending and its institutions were a formulated as a critique of the cartel (Ball, 1990).[140] Hereby, traditional leftist demands to more equality, transparency, social justice, as well as commercial pressure from domestic and foreign banks eager to enter the profitable home loans market and popular support for an increase in homeownership volumes, all gradually ‘articulated their grievances publicly as demands’ (*LCE,* 122). It becomes apparent in this context, how the transformation of the sedimented status quo proceeds through ‘radical political demands’ that ‘publicly contest the norms of

[140] Building Societies have always been contested on various grounds. For example, in his predecessor to ‘1984’, ‘Coming Up For Air’ (2000 [1939]), George Orwell, as early as 1939, depicts building societies as quasi-totalitarian institutions, a ‘swindle’, that lures people into buying something they do not need. This resonates with the broader assertion of some Marxist writers that the extension of homeownership in the 20th century was deliberately fostered by the capitalist class to align the interest of the working class with the interests of the bourgeoisie (e.g. Cockburn, 1977).

a particular practice or system of practises in the name of a principle or ideal' (*LCE*, p. 115 ff; see also section 1.5 of chapter one of this thesis).[141]

The breakdown of the cartel and the deregulation of the mortgage market, of course, resonated perfectly with Thatcher's neo-liberalist agenda of 'the restoration of competition and personal responsibility for effort and reward, the image of the overtaxed individual, enervated by welfare coddling, his initiative sapped by handouts by the state' (Hall, 1979, p. 17).

From a more general vantage point, the cartel came increasingly under pressure during the late 1970s and early 1980s after the emergence of a number of corporate scandals in relation to fraud and the corruption of managers in some of the smaller societies. Barnes (1984), a left-wing critique, describes the existence of mutual values itself as a 'myth'. He points discriminatory practices against women, blacks, the elderly, homosexuals and certain geographical areas (predominantly the inner cities). Additionally, Barnes showes that the practices of mortgage feast and famine systematically disadvantage the poor in terms of access to mortgage finance. Coupled with a discretionary management style and a self-perpetuating board of directors, he concludes, the cartel leads to nothing other than 'posh offices and poor housing' (p. 6). As the Times (1983b) reports, the building societies finally showed their 'true colours' in the 1970s by only wanting to lend for the purchase of "respectable homes" in "respectable locations"'.

Market participants and free market advocates had long complained about the favourable tax regime for building societies and its monopolistic practices in the 1970s and independent investigations had, on occasion, challenged the practices of the cartel before but without recommending its abolition. The National Board for Prices and Incomes investigated the setting of interest rates by the cartel in as early as 1966. It reasoned that the cartel 'tends to lead to the determination of margins between the investment and mortgage

[141] 'Freedom to compete' also develops into a *hegemonic* demand according to *LCE* (p. 16) as it successfully generalises its relevance to other sectors and institutions (see e.g. chapter six of this thesis).

rates that are sufficient to allow the least efficient societies to survive and, at the same time, to give generous margins to the more efficient societies' (National Board for Prices and Incomes, 1966).

The Right thus saw the building societies as (Labour) government controlled 'self-perpetuating oligarchies without direct control from lenders or borrowers' (Seldon, 1979, p. 8). Drawing inspiration and legitimacy from the neoliberalist intellectuals such as Friedrich von Hayek, Milton Friedman, Keith Joseph, and other free market advocates, it was argued that market mechanisms and competition would *per se* provide for a more efficient and fairer way of allocating mortgages and, on these grounds, free markets are, by their very nature, generally better equipped to produce superior forms of market organisation (see also the first introductory quote by Hayek and the discussion in section 1.3 of this chapter). As Talbot (2009, p. 14 ff) points out, inspired by the general sentiment of neoliberalism, scholars gradually produced a judicial-economic theoretical framework that would justify a 'free market remedy' against everything that appeared to be controlled by management (as opposed to shareholders) such as building societies.

Arthur Seldon (1979), himself a major intellectual of the Thatcherite era and co-founder of the right-wing think tank 'Institute for Economic Affairs', stressed the general superiority of the private enterprise from schools to health provision as opposed to the false ideology of non-for profit organisations (which was the general status of building societies at the time). According to Seldon, building societies should be put, not least for their own sake, under more direct 'market control'. The supply of mortgages would then automatically be stabilized by market forces' (ibid p. 9). His recommendations for a reform of the mutual sector are worth quoting in full (not least because they identify a change of rhetoric and language as a key strategy for reform):

'1. replace the image of 'social service' or a 'movement' by that of efficiency;
2. replace the emphasis on "non-profit making" by readiness to meet competition;

3. emphasise personal service-and in particular abandon the 25 per cent rule or other limits on mortgages;
4. arouse the interest of millions of tenants in house ownership;
5. root out all forms of high-handedness
6. employ more of their reserves to finance homes;
7. campaign for more freedom of manoeuvre under the law;
8. exchange trustee status for more effective means of attracting savings'

(Seldon, 1979, p. 10)

The 'Committee to Review the Functioning of Financial Institutions' commenced under Labour PM Harold Wilson also judged building societies on the grounds of a lack of competitiveness and efficiency, albeit in less overly ideological terms (Committee to Review the Functioning of Financial Institutions, 1980). It argued that pressure to set competitive rates would encourage better administrative efficiency and the cutting of costs. The rise of the mortgage rate to market clearing rate levels induced by competition would also benefit the inflow of savings going into the mortgage circuit. It further argued that the 'building society interest rate cartel provided doubtful benefits and, by encouraging non-price competition, is wasteful of resources' (p. 112).

<u>2.4 A Piece of the Action: The Arrival of the Banks</u>

Major pressure on the cartel also increasingly came from the banks at the end of the 1970s which had traditionally felt disadvantaged by the favourable tax status of the cartel, as well as the restrictions placed upon them by the corset. At this time some of them were 'experimenting' more and more with home loans with the clear intention of moving into mortgages once the restrictions of the corset were removed (The Financial Times, 1979). At the same time, competition within the consumer finance market intensified and American banks pushed aggressively into the British consumer finance market, particularly into an earlier version of what is now infamously known as the 'subprime' mortgage market. Citigroup, for instance, which owned a large portfolio of first and second mortgages in the United States, announced in 1979 that it would take over the mortgage business which building societies frowned upon such as second homes, shorter leases or older properties, as well as to ‘top up’ loans by building societies that were lower than desired. Other banks and household finance corporations had already started to invest significantly in the lucrative British home loans market (The Economist, 1979a). Lloyds was the first British clearing bank to have made a clear move into mortgages, concentrating, at first, on lending over £25.000 to homeowners which building societies rarely ever did. The appetite for mortgages from the banks, which had been overtaken by the building societies in size, was clearly growing. While the banks had concentrated on lobbying against tax advantages and the corset in the past, they now became more confident in moving into the home loans sector even without equal tax treatment by planning to use non-interest bearing accounts for the funding of mortgages (The Economist, 1979b). This confidence reflected the sentiment that a demand for an increase in the supply of mortgages was strong among the general population. This demand was, in part, pushed by the government and the inflationary environment of the 1970s and in part created by the expansion of the building society movement itself, which now became increasingly unable to service this surge in demand - given its rigid legal framework and lending standards. As the Times (1983b) puts it:

> ‘A combination of soaring inflation and government legislation pushed more and more young people into the homeowning market. Gone were the days when a young couple would save for years to buy a new house when they married. Today’s young wanted a home now - and they were not prepared to wait for it‘.

2.5 ‘Home Loan Battles’: The Advent of Thatcher and the End of the Cartel

The Thatcher government came to power in May 1979, replacing the previous Labour government of James Callaghan that had left the housing market in a crippled state, mainly caused by the stagflation crisis and global turbulences of that time (Short, 1982). Thatcher mobilised support within civil society not least by putting a strong emphasis on increasing homeownership and housing credit in line with the neo-liberalist core values of strong property rights and economic freedom. The Conservative Party Manifesto of (1979) promised to create a ‘property owning democracy’ chiefly by increasing home ownership. It stated that:

> ‘To most people ownership means first and foremost a home of their own (...) mortgage rates have risen steeply because of the Government’s financial mismanagement. Our plans for cutting government spending and borrowing will lower them’.

The manifesto also promised what came to be known as the ‘right-to-buy initiative’ which forced councils to sell council homes to their tenants at a significant discount of up to 50 per cent in some cases. This dramatically increased homeownership over the 1980s. This policy had begun as a grassroots movement of a few Tory-controlled councils that started sales drives to their own tenants in the 1970s. This then fed through to the national party and became a central strategy for the general election. After 1979, the pressure from council home tenants became so strong that Labour had to abandon its traditional policy of a strong commitment to state housing (Saunders, 1990; see also above).

According to Short (1982), owner-occupation was central to the neo-liberalist ideological stance of the Thatcher administration. A home of your own encouraged independence while the attack on council housing with its allegedly huge subsidies freed both a waste of resources and reduced unacceptable state control. As he puts it (ibid p. 64):

> ‘The concept of liberating the council house tenancy almost took on a religious fervour within the Tory rank and file. There was a belief that housing market forces left to themselves could find the right solution. The basic housing tenets of Conservative policies were: owner-occupation is good; the housing crisis is over; the public housing sector is over–subsidized and the private rented sector can be revived. These became the main goals of the new Conservative party and they were mediated by previous policy proposals and the available legislative measures.’

Owner-occupation was therefore one of the central mechanisms of the creation of consent within the hegemonic neo-liberalist formation. Homeownership became rooted and sediment within civil society, perceived to be an intrinsic ‘natural desire’ of humans (Saunders, 1990, Chapter 2).

Following the coming to power of the Conservatives, the days of the building society cartel were numbered. While technically in operation until 1983, it lost much of its significance through a variety of measures taken soon after the Conservatives took over the rule of government. The abolishment of foreign exchange controls and the abandonment of the ‘corset’ in 1980 caused the banks to aggressively expand into the mortgage market. The struggles at the heart of this expansion were entitled ‘home loan battles’ by the Times (1983a). Banks, with huge funds available for mortgage finance, were willing to lend up to 100 per cent of the house price. In 1980s, the increase in the market share of banks was 6 per cent and at one point banks originated every third new mortgage in 1980 (The Times 1983a). However, the ‘home loan battle’ was far from decided at that point with banks retreating from mortgages in 1982 due to falling interest rates. While fundamental changes had taken place from 1979 onwards in the building society sector and the societies diversified into new areas such as cheque books and consumer credit, they were still regarded as the primary mortgage market authority (The Times, 1983b). This perception, however, had dramatically changed by the end of the 1980s.

The deregulation of the UK mortgage market was not a conscious policy like the ‘right-to-buy initiative’ but a contingent, if welcomed, outcome of the government’s neo-liberalist ideological stance (Stephens, 2007). One of the first actions of the newly elected government was the abandonment of the setting of guidelines for mortgage lending by the Joint Advisory Committee which was eventually disbanded in 1984. In his memoirs, Nigel Lawson (1992), Financial Secretary to the Treasury under Thatcher at the time and soon to become Chancellor of the Exchequer, recalls that he himself chose to abandon these practices as he was not convinced that they would work. This became the first step of a series of, often almost accidental (and primarily ideology-driven), measures to deregulate the mortgage market. The eventual abandonment of the corset came about because the abolishment of exchange controls allowed banks to circumvent its restrictions on domestic interest bearing liabilities mainly by entering the UK markets through foreign branches and subsidiaries. The cartel remained in place until its collapse in 1983 because, as Lawson recalled, its temporary existence was convenient for purposes of macro-economic stability even though he favoured the eventual 'liberalization' of the building society sector: 'What we decided to do with building societies was to allow the crumbling to take place at a natural pace as competition developed from the banks' (ibid p. 87).

The cartel lost its significance during these first years of the 1980s and widespread breaches of its setting of interest rates were recorded in 1982. This process also included an interesting change of rhetoric from 'recommending' interest rates to 'advising' the latter (Barnes, 1984). Its eventual demise in 1983 became a mere footnote (Stephens, 2007).

Their restrictive legal framework within this newly emerging competitive market was problematic for the building societies as it limited the expansion of their activities and did not allow them to anything other than retail funds for mortgage lending. In 1983 the banks re-entered the mortgage market and competition became fiercer. The deregulated market also allowed for the entry of so-called centralised lenders that solely relied on capital market funding for its mortgage lending. As a result, the share of mortgage lending from building societies diminished rapidly.

As one interviewee (Interview 8) summarises these developments:

> 'The incoming conservative government felt that it was wrong for mortgages to be allocated in the same way that bread was allocated in standard rations, you queued up and waited until you got to the front of the queue even if you were credit worthy and worthy of having a loan. That was not the right way to do things, so they removed the restrictions on banks and made the case that banks would be welcome in the mortgage market … In 1980, banks had 5 per

cent of net mortgage lending and by 1982, they had 35 per cent of net mortgage lending. The building societies had implemented a pricing policy that created queues i.e. created an expectation of poor customer service and a ready and willing group of people wanted to go somewhere else which could serve them more quickly, which the banks could … And the banks did exactly that … It was completely alien to them to be constrained by a BSA cartel …The cartel fell in 1983. It wasn't made illegal until 1987 but it disappeared in 1983 in effect.'

The building societies had lobbied for greater access to wholesale funds since 1979. Eventually, a working party set was up by the BSA, the Stow Committee investigating potential access to the wholesale market (Boléat, 1986). In 1983, the BSA sponsored Spalding Report (1983) recommended the relaxation of legislation and the possibility for societies to demutualise. At the time, the need for regulatory change for building societies was increasingly being recognised, but the proposed restructuring of the sector also provoked resistance: Commenting on the proposals of the Spalding Report, Labour politician Douglas Houghton stated in the House of Lords that:

'I am a little irritated by the way in which the present tycoonery of the building societies talk about the building society industry. It is a movement. I hope it will remain a movement. If they call it an industry, they know where they are going. They are walking straight into company law, straight into the City, straight into financial institutions instead of great social movements' (HL Deb 19 April 1983, Paragraph 539).

However, most parties, even those within the building society sector, agreed that a need for regulatory change and a liberalisation was 'necessary' to make them more 'competitive'. By the 1980s the traditional building society model was already outmoded, a dinosaur on the verge of extinction:

'It [The 1962 Building Society Act] is, in essence akin to a preservation order like those imposed on National Trust Parks and ancient buildings. However, in the present, increasingly competitive environment and with the lines of demarcation among financial services fast becoming blurred, an imposed preservation order on the nature of business undertaken by societies could, in fact, have the opposite effect to what is intended: it could threaten their future survival' (Llewellyn and Wrigglesworth, 1990 p. 29).

This regulatory change that created a level regulatory convergence and a level playing field between banks and building societies came about in the form of the 1986 Building Society Act and was part of the Big Bang deregulation of financial services in the UK. It also allowed for the demutualisation of societies paving the way for the demutualisation frenzy of the 1990s.

The following table sums up the main deregulatory measures in the UK mortgage market from 1971-1991:

Year	Deregulatory measures
1979	Abolition of foreign exchange controls
	Relaxation of government controls over BSA mortgage rates
1980	Abolition of Supplementary Special Deposits Scheme (the "Corset")
1981	Abolition of formal announcement of minimum lending rate
	Abolition of banks' reserve asset ratio
	Reductions in banks' cash ratio (from 1.5 to 0.5 per cent)
	Greater freedom for building societies to compete for retail deposits
	Ending of BSA mortgage rate cartel
1982	Abolition of remaining hire purchase controls
1983	Further relaxation of controls over building societies (opening up access to wholesale funds and the sterling Eurobond market)
	Banks' cash ratio reduced further to 0.45 per cent
1987	Financial Services Act (1986)
	Building Societies Act (1986)
	Banking Act (1987)
1988	Further relaxation of controls over building societies in terms of access to wholesale funds the issue of subordinated debt and the provision of banking, investment and insurance services
1989	Banks and building societies permitted to issue sterling commercial paper
	Abbey National Building Society converts to plc status
	Building societies allowed to provide a wider range of money transmission services
1991	Banks' cash ratio reduced to 0.4 per cent
	Building societies permitted to issue permanent interest-bearing shares

Figure 4

A Summary of themain deregulatory measures in the UK mortgage market from 1971-1991

Source: Nellis and Lockhart (1995)

Conclusion

This chapter analyses the breakdown of the building society price cartel and the deregulation of the UK mortgage market in the light of the rise of neoliberalist hegemony during the stagflation crisis of the 1970s. It does so with a particular focus on Laclau's concept of the political as instituting dimension of the social and related concepts developed by Glynos and Howarth (2007) such as political dimension and political moment (see particularly section 2.4 – 2.5 and section three of chapter one of this thesis for a thorough theoretical discussion of the concept of the political). The chapter problematises the notion that the advent of neoliberalism was a rational development (in the sense that there was 'no alternative' to neoliberalist restructuring). It also challenges a narrow focus on state-political modes of coercion. Instead, this chapter situates neoliberalism in the context of hegemony which requires the 'consent of the governed' and is constituted in and through hegemonic struggles. Hereby, it investigates the struggles that were constitutive upon the establishment and flourishing of neoliberalist hegemony and the resistance it generated under particular consideration of the transformation in the UK mortgage market between the late 1970s and early 1980s.

The first part of section one discusses the preceding regime of embedded liberalism and its internal dislocations that erupted during the crisis of the 1970s. The emergence of the neoliberalist project is then analysed as a particular antagonistic reaction to these dislocations which, as opposed to alternative projects of the left, succeeded in presenting a credible empty signifier – freedom – alongside which a range of different unfulfilled demands were articulated that were able to mobilise sufficient political and popular support. The transformation of the UK mortgage market is further investigated as a specific example of the political struggles that preceded the institutionalisation of neoliberalism and paved the way for the financialization of mortgage finance. Hereby, the mortgage market was transformed from a 'protected circuit' dominated by a cartel that determined ('recommended') interest rates into a highly competitive market where the allocation of mortgages and interest rates became increasingly determined by market mechanisms.

This new market environment also favoured a new ‘money culture’ that would crystallise into the increasing financialization of mortgages. The 1986 Building Society Act, then, alongside the ‘Big Bang’ Financial Services Act of 1986, fundamentally altered the economic, cultural and political parameters of mortgage lending and funding in accordance with neoliberalst principles. These developments are discussed in the following chapter under particular consideration of the demutualisation frenzy of the 1990s and the struggles that preceded and surrounded it.

‘I doubt whether any business has had to contend with so many and such violent changes, over such a short period of time, as the financial services industry. Economists tell us that one factor can transform markets in quite radical ways. Fundamental changes in Technology; New Social and Economic Orders; New Kinds of Competition; New Channels of Distribution. We have experienced the lot’ (Scott Durward, Chief Executive of Alliance and Leicester cited in: Campaign, 1988, 21 October).

‘It is only at the conclusion of a hegemonic struggle that a particular meaning may be “naturalized”…’ (*LCE* p. 131).

Chapter Six: Big Bang and Demutualisation: The Transformation of the British Mortgage Market in the 1980s and 1990s

Introduction

As the first opening quote indicates, the 1980s and 1990s witnessed a fundamental restructuring of the financial services sector and the mortgage market in the UK. The volatile climate of the 1970s combined with technological innovations and the rapid growth of international capital flows further undermined established financial and economic arrangements which were increasingly deemed ‘uncompetitive’ by the government. These processes resulted in a series of deregulatory legislation such as the Big Bang Financial Services Act of 1986, the Building Societies Act of 1986 and the 1997 Banking Act which, by liberalising financial services and markets on an unprecedented scale, marked a decisive shift away from the protectionist arrangement and cautious approach to risk which had characterised embedded liberalism. This chapter charts the rise of what has been called a new ‘money culture’ (see Marshall et al., 2010) – or, in the terminology of *LCE,* the rise of the social logic of financialization. The chapter hereby investigates the continued marginalisation of the mutual model in the context of the ongoing political institutionalisation of neoliberalist hegemony that began in the late 1970s (see chapter five of this thesis). The first section of the chapter investigates some of the major changes that occurred during the 1980s (legal, political, technological and cultural) which led to an increasingly unfavourable climate for institutions, such as mutual building societies. The chapter then investigates the responses to these changes in relation to the societies (such as the increasing adoption of a 'profit motive' by some of the societies, made possible by new legislation such as the 1986 and 1997 Building Societies Acts). It further investigates how these responses themselves have contributed to undermine the traditional mutual approach which, in turn, paved the way for the demutualisation wave of the 1990s where over two thirds of mortgage assets were transferred to the stock market (see Heffernan, 2005). Those developments consequently created the conditions of possibility for the fiancialization of mortgage on a large scale in the UK.

It is argued in this chapter that the conversion of ten societies into listed companies, starting with the Abbey National in 1989 and continuing until the late 1990s, was the result of contingent struggles rather than the outcome of a process of 'natural selection' that, as was frequently asserted by pro-demutualisation campaigners, would inevitably weed out 'inefficient' business models such as societies (see Dayson, 2002).

Hereby, the chapter makes use of the concept of 'antagonism' and 'war of position' (see section 1.6 and section 2.1 of chapter one of this thesis) to illustrate the contingent nature of the conflicts that surrounded the demutualisation processes. It is argued here that the conversions were often successful because different agents such as management, members, financial advisors and even government agencies formed powerful coalitions, incentivised partly by individual profit motives and partly by an identification with the neoliberalist rhetoric of 'freedom to compete'. The concept of antagonism helps to analyse the constitutiveness of struggles and the division of the mortgage market 'into two opposing camps' at the height of the conversion debate where, on both sides, a lot of effort went into the derision of the 'enemy' that was presented as an obstacle to be removed. The considerable resistance to the demutalisation frenzy, then, shows the contingency of these processes and the inability of a hegemonic discourse to suture the social space completely which, in turn, helps to 'reactivate' counter-hegemonic possibilities that had become largely sedimented.

1. Setting the Scene: The Big Regulatory Shake-Up and its Implications

1.1 The 'Free Economy and the Strong State'[142]

Thatcher's political fate was in severe doubt amidst the recession of the early 1980s (that particularly affected the manufacturing sector) and the rather slow process of her anti-inflationary policies. Therefore, her monetarist stance was highly controversial in her own party and almost cost her the re-election. Eventually, inflation went down to 5 per cent by the end of 1982 which restored her good fortunes and that of her backers (Minford, 1998; Gamble, 1988). As a result and against a background of domestic and global neoliberalist ideology, the UK experienced a sharp reversal of the interventionist and protectionist policies that had defined the era of embedded liberalism. The 1980s saw an economic restructuring on an unprecedented scale that established financial markets and services as the growth industry of Britain (Glyn, 2006). The privatisation of state-owned companies as well as council housing was hereby a crucial part of Conservative policy to create a 'property owning democracy' of shareholder and homeowners through the market. The policy of wide shareholding was pursued with the aim to give voters an extra source of income which they could use in the event of unemployment and retirement and to make them 'complicit' in the reproduction of corporatist capitalism. Additionally, it was believed that shared ownership would make management more responsive to public opinion given

[142] This is the title of Andrew Gamble's book on Thatcherism (1988)

the vast increase in small shareholders[143] (Johnson, 1991, see also chapter four of this thesis).

By the 1983 manifesto, the government was able to point to the privatisation (in whole or in part) of Cable and Wireless, Associated Ports, British Aerospace, Britoil, British Rail Hotels, Amersham International and the National Freight Corporation. The next privatisation round included 51 per cent of British Telecom, Rolls Royce, British Steel, British Shipbuilders, British Leyland, a large number of airports, the National Bus Company as well as British Gas' oil division (later named Enterprise Oil). Housing was an important part of this policy in the form of the right to buy initiative (outlined in the preceding chapter) and a commitment to keep the mortgage rate down (This was not always possible but was successfully reinforced for a few months before both, the 1983 and 1987 election and played a part in the reestablishment of the Conservatives' popularity). The 1984 Housing and Building Control Act extended the right to buy to leasehold property and increased the discount to 60 per cent (it had previously started at 33 per cent and increased to 50 per cent after 20 years' tenancy). The 1986 Act increased the discount to 43-70 per cent for flats, according to length of tenure. The original target of one million homes was reached in 1986 and a total of 1.5 billion homes was sold in 1989 which, together with similar sales in Scotland and Wales and other property sales by the government, totalled £30.6 billion (less than the £39 billion cost of mortgage interest relief offered by the government) (ibid).

These privatisation initiatives were paralleled by a progressive liberalisation of the financial services industry during the 1980s as money became more international and less easy to control by governments. This opened up a range of new possibilities for financial institutions. By the 1970s, for example, currencies were trading continuously in markets and their value fluctuation was based on those trades (see Morgan and Sturdy [2000] for a general

143 This belief, akin to the more general recent notion of a 'democratisation of finance' is, of course, controversial (cf. Langley, 2008a; DeGoede, 2003; 2005; Froud et al,, 2010; Engelen et al., 2011; Crouch, 2011)

overview over the transformations in Financial Services in the UK during this time). Britain abolished its foreign exchange controls in 1979. In addition to the gradual breakdown of the building society monopoly in the late 1970s and early 1980s, as well as the abolition of restriction on domestic bank lending (the removal of the corset was discussed in the preceding chapter), the Bank of England eased its interventionist stance in relation to the control of interest rates. It did this by ending the formal announcement of the minimum lending rate and the abolition of reserve requirements on banks' balance sheets in 1981 (Nellis and Lockhart, 1995). Additional deregulatory measures followed with the Finance Acts in 1983 and 1984 which abolished the remaining hire purchase controls and provided a first step for building societies to tap wholesale markets which made funding cheaper and more readily available. As a result, the wholesale funding of the societies increased rapidly during the 1980s. An unprecedented shake-up of the financial services sector subsequently followed in the wake of the Building Society Act of 1986 and the 'Big Bang' Financial Services Act of the same year, as well as a new Banking Act in 1987 (ibid; Boddy, 1988). Domestic deregulation was accompanied by legislation at the level of the European Community (soon to become the European Union) that gradually established common European markets for the free movement of goods, services and workers.

These deregulatory measures sparked a seismic shift in the financial services industry and reinforced competition in the mortgage market between banks, building societies and other mortgage lenders or savings institutions but also between building societies themselves. What emerged out of these developments and the various struggles that accompanied and constituted them was the new neoliberalist consensus that mortgages are best provided through the market (Green and Wachter, 2010; Kleinmann, 1995). This notion culminated in the demutualisation frenzy of the 1990s which paved the way, in turn, for the progressive financialization of mortgage finance. The 'Big Bang' Financial Services Act and the 1986 Building Societies Act were crucial for the liberalisation of financial services and increasing financialization of mortgages.

1.2 Reforming the Square Mile: The 'Big Bang' Financial Services Act of 1986

In the fall of 1986, two legal events occurred which together became known as the Big Bang on the London Stock Exchange which referred to the restructuring in the operation of exchange in the form of a settlement between the exchange and the government responding to claims that the London Stock Exchange had become anticompetitive. As Clemens and Weber (1989) point out, the Big Bang has been the most rapid and complete regulatory reform of financial markets so far, as well as the most striking example of a regulatory move engineered to benefit the financial industry.

Most importantly, the Act was concerned with the abolishment of monopolistic fixed commissions on securities transactions and severed the traditional separation of 'brokers' (who could not trade and act on their own account) and 'jobbers' (the 'market makers' who were not allowed to act for customers) which had been a particular cause of complaint (Hablutzel, 1992). Also, barriers to foreign entry into the exchange were abolished which had been essentially constructed and operated as a private club. This involved of a new regulatory agency, the Securities and Investment Board (SIB) and provided for the delegation of duties and powers to some self-regulating organisations (SROs) (ibid, Plender, 1986-87). These legislator measures resulted in major changes in the structure of financial markets and the structure and ownership of trading firms, a significant increase in the number of market participants and an increase in the movement of stock trading off the floor of the Exchange (Clemens and Weber, 1989).

Particularly (but not exclusively) from a neoliberalist perspective, the regulatory shake-up of the City had been long overdue. The longstanding domination of the 'Square Mile'[144] by an elite-club of old-established financiers was seen to be merely perpetuating 'Victorian and Edwardian'[145] values at the expenses of the benefits that a competitive exchange could reap. As a commentary in the Times on the Big Bang reports shortly before the latter's coming into effect on 27 October, 1986:

[144] The' Square Mile' refers to the financial district situated in the City of London that is about a square mile in size. It is used as a shorthand for institutional investors.

[145] In contrast, building societies are often associated with the Victorian values of self-help and cooperatism.

> ‘Until the 1980s, it was the Victorian and Edwardian era that ruled the area … The City believed in free trade, in open markets, in unfettered capitalism – for everybody except itself … Restrictive practices that have made even the most regressive Union Baron flinch were tolerated, as they seemed quite good for the country and, besides, the City held the purse strings …The system was antiquated, outrageously unfair and, for its members, a licence to print money …The Big Bang proper is the moment when all this is thrown out of the window. Market makers and agents no longer have to be separated. Membership of the Stock Exchange is thrown open both to foreigners and outsiders and commission rates are flexible – brokers will have to compete on the price they charge to investors.’

The Financial Services Act brought about a significant growth of economic and financial activity and profits in the financial and business services industry (the sector increased from a share of 11.6 per cent of GDP in 1979 to 19.8 per cent of GDP in 1989 while, during the same period, manufacturing declined from 28.4 per cent of GDP to 22.2 per cent of GDP). The Act also increased the complexity of the financial regulatory structure and exposed the financial system to a wide range of new risks arising from the explosion of private credit in the bull years of the mid- to late 1980s that households were unable to service during recession times (Johnson, 1991, p. 198 ff; p. 268). (See below, for example, for an account of the housing recession in the early 1990 and section three of chapter four for the role of credit in the lead-up to the financial meltdown.)

The Big Bang re-established London as a major global financial centre. Together with technological change and the increased internationalisation of, and volumes in, global capital flows, the Financial Services Act became one of the main drivers of the unprecedented transformation of the financial services industry in the 1980s and paved the way for the ‘de-regulatory race to the bottom’ between London and New York that defined the pre-crisis conjuncture (see French et al., 2009).

1.3 Lenders Unleashed: The Transformation of UK Financial Services and the Mortgage Market

During the turbulent years of the early 1980s banks began a process of ‘restructuring for profits’ (Leyshon and Thrift, 1993). This resulted in a more ‘flexible’ approach to labour markets and an unprecedented round of voluntary and compulsory redundancies. Additionally, this also resulted in the closure of a significant number of both bank and building society branches. In the face of a more competitive market for retail financial services, banks had been particularly eager to drive down costs by closing branches (Leyshon et al., 2006; Marshall et al., 2000).

Financial instruments such as bonds equities and securitization[146] became more and more important and were bought in increasing volumes by investors. The traditional model where banks acted as simple intermediaries between borrowers and savers was herby progressively displaced by a process called ‘disintermediation’. Hereby, the relationships between investors and borrowers became increasingly mediated by the financial markets themselves (see also chapter three of this thesis and section one and two of chapter four for the processes of disintermediation caused by securitization).[147]

These developments had a number of crucial consequences: Disintermediation increased competition as new institutions such as investment banks, centralised lenders (see below) and even non-financial companies entered financial services. Under a logic of traditional intermediation, competition in financial markets revolved mainly around the ability to match assets with liabilities and around matters of interest rates offered to borrowers. In disintermediated markets, however, financial

[146] The first British RMBS was structured in 1987 (Pryke and Freeman, 1994). By the end of the 1980s, the market for mortgage backed securitization in the UK was still small by American standards (Green and Wachter 2010).

[147] Disintermediation denotes the process by which buyers and sellers of a financial product are increasingly brought together without the presence of a financial intermediary through processes of outsourcing and off-balance sheet transactions such as securitization. As Heilpern (2008) notes, these processes were taken to the extreme in the years preceding the current financial crisis. One of the knock-on effects of disintermediation, however, has been the introduction of new and increasingly opaque forms of ‘re-mediation’ leading to highly convoluted financial transaction chains.

institutions become increasingly required to assess and price risk, to distribute securities on behalf of their clients and to trade in secondary markets on their own account. (The latter point being the now well-known 'proprietary trading' that has become highly controversial in the wake of the current financial crisis proprietary trading; see e.g. McSweeney, 2008.) Far from having occurred naturally, disintermediation required acts of political institution. (see e.g. Wainwright (2009a) for an illustrative account of how the successful implementation of securitization in the UK hinged on networks of bankers and lawyers who lobbied for and creatively adapted an originally alien idea.)[148]

Further, the rise of disintermediated finance and securitisation spawned an explosion of financial innovation and the growth of credit and debt resulting in easier access to credit which began to gradually take over as the engine of capitalist growth (Glyn, 2006). After allowing for inflation, the amount outstanding in consumer credit had more than doubled over the eighties. Not only did more people use credit than a decade before, but those people also tended to have a larger number of credit commitments. During the same time, mortgage debt had almost trebled as a consequence of the Right-to-Buy legislation and also because of a steep appreciation of house prices (see Kempson, 2002, p. 2). The housing recession at the beginning of the 1990s can at least partly be attributed to increased consumer indebtedness and the government's policy to increase homeownership (Watson, 2009a). During the recession, consumers paid off debts and borrowing levelled off before picking up again and doubling once more in the period from 1994 to 2001 (Kempson, 2002, p. 2; see section three of chapter four of this thesis for the pre-'credit crunch' situation of consumer indebtedness). As one interviewee (Interview 15) sums up these new developments in relation to credit expansion:

> 'The government controlled the money supply and what happened was that it was then free competition for available money … anybody could get a loan, provided that they could pay the interest rate … so all the previous regimes, see, had huge controls on who could get credit. You'd only get credit if you

[148] The politics of disintermediation were even more overtly visible in the United States where the secondary mortgage market has been essentially the product of state-political acts of institutionalisation (see Gotham, 2006 and chapter four of this thesis).

were the right sort of person; if you satisfied the controls. Credit was controlled and given to worthy people and firms … Anybody could get credit who had creditworthiness and was willing to pay the price … So you could argue that in many ways this was the most revolutionary thing that Mrs Thatcher did because she enabled the working classes to get credit.'

He continues by saying:

'Effectively, it became a deregulated system in which people's demands at the interest rate drove the balance sheets. There was no control at the balance sheets … whereas if you have credit controls, the government says that the balance sheets shall be no bigger than this … The world changed completely, if you could pay the price, you could get the credit.'

New sophisticated risk management techniques and a steep rise in competition also contributed to the move of financial institutions into increasingly riskier loans such as leveraged buyouts and commercial property. The fundamental fragility of this new financial logic and the emergence of a 'shadow banking system' (on which the current meltdown is often blamed) were already visible at the time[149]:

'In effect, money has been mutating into new forms which exist outside existing structures of regulation. Indeed, this is precisely why many of them are developed, although the majority of instruments have been introduced with the overt aim of helping to manage risk in increasingly volatile financial markets' (Leyshon and Thrift, 1993, p. 226).

These processes combined allowed banks and other financial services providers to increasingly diversify their product range as they moved into new areas and were able to tap new markets for funding. Ertürk et al. (2008) point out that the revolution in retail banking, which also paralleled the capital market revolution, included important changes in everyday life (see also chapter four of this thesis). These manifested themselves, they argue, particularly in the altered layout of bank branches in advanced countries.

[149] One of its effected was the housing market recession at the beginning of the 1990s that temporarily dampened the expansion of financialization.

Bank branches of the 1970s were dominated by the long counter across which money was paid in and out by bank clerks. The decisions to lend money to companies and households were made on an individual basis by the branch manager in a side office. (For example, in the case of mortgages the managers made decisions individually and exercised their discretion at all times as to who would be granted a mortgage; see Wainwright, 2009b, p. 118.) This system had been part of a governmentally administered credit rationing that promoted restraint and low competition on price in order to contain risk through syndicalisation. This system, however, had become progressively undermined by the growing volumes of financial transactions as well as technological and political change (French et al., 2009; see also chapter five of this thesis). In the new system which gradually developed, bank branches became dominated by cubicles and workstations. Decisions about loans became increasingly made by junior call-centre staff based upon impersonal criteria and the allocation of credit became driven by marketing-led corporate policies and the cross-selling of financial products (Ertürk et al. 2008, p. 9).

Against this background, the traditional evaluation of the risk of a loan, based on face-to-face interaction, embodied knowledge and individual judgement (for example in relation to the evaluation of the credit risk of a mortgage borrower) became downgraded in favour of more standardised and impersonal procedures made possible by technological progress.[150] The most significant development in this respect was the adoption of credit scoring systems which were designed to overcome information asymmetries and to distinguished “good” from “bad” customers “at-a-distance”. The advancement of credit to households and corporations does no longer necessarily presuppose a personal interview. Firms collect information from customers from standardised forms that are completed and submitted to a bank (or another lender) as part of an application for a savings account or for credit. This information is then often supplemented by information from other databases (such as credit card checks for example) and evaluated by a

[150] This emergent epistemological stance towards risk assessments and management has become firmly embedded in processes of mortgage lending and funding to the point that MacKenzie (2011) approaches the ‘credit crisis as a problem in the sociology of knowledge’.

computerised credit-scoring software (Leyshon and Thrift, 1999). This software literally constitutes borrowers or savers as ‘good’ or ‘bad’ (with ‘bad’ customers gradually becoming ‘the new good’ in the lead-up to the financial crisis). Over the course of the 1980s and 1990s, credit scoring and risk based pricing became an integral component of the financialzation of the economy particularly the financialization of mortgages (see Aalbers, 2008). Thus, it becomes apparent that technology played a big part in the in the hailing of the new financial subjects and the financialization of everyday life that is discussed in chapter.[151]

It is worth pointing out here that most building societies have retained elements of the traditional ‘face-to-face’ approach towards risk management until this day (a feature which served them well within the financial crisis – see section two of chapter seven of this thesis).

The restrictive regulation of building societies at the time, however, made them increasingly unable to compete within the new deregulated environment of the 1980s as banks and other lenders rapidly expanded their market share and the mortgage market became radically transformed. As one interviewee has commented (Interview eight):

> ‘The banks effectively were given the green light by the Thatcher government to come into the mortgage market even at the time of recession, as it was in the early 80s, and the banks were able to cream off the best business … that was the demand which the building societies weren’t able to meet.’

Building societies are a classical example of the traditional form of financial intermediation in the sense that they provided (and still provide) an effective channel for saver’s surpluses to meet borrowers’ deficits. Under this model, building societies performed all three basic housing finance functions themselves: the origination, servicing (such as collecting, accounting and enforcement of the mortgage instrument) and funding of the loan. This

[151] Technology is, thus, not ‘neutral’ but integral part of a hegemonic formation (cf. Bridgman and Willmott, 2006).

particular circuit managed to exclude many of the potential risks as they were handled by the simplicity and narrow range of both savings and mortgage products and well as the protected environment of the price cartel (Pryke and Freeman, 1994; see also chapter five of this thesis). The deregulation of the market increasingly integrated the latter within the broader macroeconomic environment. It also linked mortgage interest rates to costs in wholesale borrowing, such as LIBOR and mortgage borrowers, and originators indirectly with capital market investors. A gradual specialization within the different functions of housing finance was developed as a 'market clearing rate' for mortgages was established. In the wake of the rise of securitization, new roles for financial agents emerged, offering a range of new services such as administrators, credit enhancers, pool insurers and issuers alongside increasingly disintermediated and fragmented 'value chains'[152] (Pryke and Freeman, 1994).

Constraints on bank lending such as the corset were gradually abolished in the early 1980s (see chapter six of this thesis) and banks started to compete more aggressively for mortgage business, but also for the savings market. This competition took a number of non-price forms such as new technology (including the increased use of ATMs), increased product diversity and advertising. Price competition took the form of the bidding up retail interest rates for savings, the diversification of investments and the introduction of premium interest rate accounts.[153] The mounting competition led the societies to increasingly turn to wholesale markets for the funding of mortgage loans which was facilitated by the Finance Acts 1983 and 1984. These Acts eased prior restrictions on interest rate payments. As a result, the proportion of *new* funds raised in the wholesale markets increased to 48 per cent in 1986 and wholesale funds stood at 12 per cent of total funds by 1988 (Boddy, 1988).

[152] Heilpern (2008, p. 8) defines a 'value chain' as the 'overall space that encompasses the physical business communications, logistical, financial, and administrative process, which resides between the buyer and sellers as part of a commercial legal transaction'.
[153] These problems that were already underway in the late 1970s prompted the BSA to establish the *Stow Committee* which reported in 1979 that it would examine future sources of funds for building societies (ibid).

As mortgages became gradually more attractive to institutional investors, building societies were no longer in the position to pick and choose the people and institutions they did business with (apart from borrowers and savers those included also estate agents and homebuilders), but they had to actively seek mortgage business. (As a result, estate agents quickly became important actors in the housing finance market rather than in the narrow market that they had previously operated in. House buyers now became likely to approach agents first and agents were more and more elevated into a position from where they could channel customers to particular mortgage lenders) (Boléat and Coles, 1987). Resulting from these developments, some of the building societies were among the institutions exploring the possibilities of wholesale funding and, by doing so, became more integrated into financial markets themselves:

> ‘Put very simply, the rationale for secondary market activity in Britain is that the mortgage instrument is now an attractive instrument for institutional investors and, for this reason alone, an industry is developing to meet the demands of institutional investors through supplying and servicing loans to those investors. The estate agents are at the forefront of this new activity as are building societies’ (ibid, p. 125).

The Big Bang also allowed for the entrance of a new type of mortgage lender into the market – the so-called ‘centralised lender’. These lenders were not funded through local branch networks anymore but wholly by the wholesale markets. Centralised lenders sell mortgages through mortgage brokers, including independent financial advisers and estate agents, as well as call centres and websites. Centralised lenders were able to offer competitive rates on their mortgage products as they could minimise costs by not needing to maintain a local branch network and being able to sell their products widely through intermediaries (Wainwright, 2009b). (Most of the descendants of these early centralised lenders perished, unsurprisingly, in the wake of the global financial meltdown given their reliance on capital markets for the funding of their on-going mortgage business, see CML, 2010a.) These new lenders had a fundamental impact on the restructuring of the mortgage market, both in terms of contributing to the institutionalisation of securitization and the secondary mortgage market in Britain and by introducing the formalised credit scoring techniques outlined above. This new structure is known as the 'centralised' mortgage lending structure and subsequently became widely established in Britain.

By the early 1980s, the competition for mortgages and savings had become so fierce that it had been described as open warfare: 'Britain's retail market', as the then chairman of Barclay's, Timothy Bevan, put it, 'is a vast battlefield where the smoke of competition is so thick … as banks, building societies and other institutions slog it out for the saver's pound' (The Financial Times, 1983, 20 October).

While at first building societies seemed to be getting the upper hand in the market (ibid), they increasingly found themselves ill-equipped for these struggles. The heavily regulated societies experienced it to be ever more difficult to cope in a post-cartel world of aggressive competition and deregulated markets. In this new world, the traditional mutual model of mortgage lending and funding came increasingly under strain from within and from outside of the sector. As Marshall et al. (2011) point out, the progressive marginalisation of the building society movement stemmed from the emergence of a new 'money culture'[154] prompted by the Big Bang and the Building Societies Acts 1986 and 1987 (see below). This new culture (or 'market logic' in our terminology) aimed at overriding opposition to neoliberalist market reform and at strengthening London's role as an international financial centre. This new 'money culture' is '"made up of people who position themselves in relation to the circulation of money and are also positioned by it"' (Pryke and Allen cited in Marshall et al. 2011, p. 8). This resulted in the gradual undermining of the established '"accounting and legal mentality"'[155] which had previously defined the societies as '"creatures of

[154] Marshall et al. (2011) draw on Allen and Pryke's (1999) interpretation of Georg Simmel's sociology of money here.
[155] Marshall et al. (2011, p. 8) retell an old joke in this context that, until the late 1970s, the sector was so predictable that managers adhered to the 'the rule of three': they borrowed

statute"' who could only operate in the manner specified by legislation (Marshall et al., 2010, p. 8; see also section 1.4 of the chapter below). Indeed, as the calls of those who identified with, and used the language of, the new 'money culture' became more and more widespread, building societies also increasingly became advised to convert to plc status in the name of 'efficiency' and 'profitability':

> 'While societies have recognised the need for their operations to be profitable in order to generate reserves to fund new activities, the competitive environment in both the borrowing and the lending mainstream activities has not enabled them to widen operating margins … An organisation in company form rather than in mutual form is also more likely to be able to attract managers from competing institutions[156] and offer comparable rewards' (Burnett, 1986, p. 51).

The growing influence of the neoliberalist discourse also forced existing building societies to adjust internally to the new conditions, and some societies (but not all of them – Marshall et al. [2000] distinguish between 'commercial' and 'social' mutuals here) increasingly identified and pursued commercial strategies which included the rationalisation of their branch networks that previously had been kept artificially afloat even if some branches were loss-making. (However, branch closures of building societies were not as drastic as those of the banks and generally more sensitive to the needs of their communities; Leyshon et al., 2006; Marshall et al., 2000; Nellis and Lockhart 1995.)

The increasing commercialisation of parts of the movement was also frequently commented on with concern. Dayson (2002, p. 184), for example, complains that the 'capitalist fixation' with profits and technology fundamentally unsettled their 'mutual raison d'être'. In pursuing 'the dominant culture', as he points out, societies risk their relationship with members, as failure to correspond to this new culture could be interpreted as managerial

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funds at one per cent, they lent them at two per cent and they were on the golf course by three o'clock.

[156] It has been argued that the introduction of managers with a plc background was a crucial factor for the orientation of some society towards generating profits (Llewellyn, 1997).

incompetence. Building societies also became forced to use accounting standards which are ‘designed from the perspective of shareholder investors on issues of profit and income maximization’. Thus, as he (ibid) emphasises, the societies hereby became ‘hampered by the language of business’ (see also the above quote by Burnett):

> ‘This process results in building societies becoming marginalised and being described as inefficient or labelled as community services, while the banks are unfettered to close branches in deprived areas, to pay management extraordinary salaries, and to target the most profitable accounts with no responsibility to improve access. All of this occurs because capitalism dominates and shapes everyday discourse forcing mutuals to use this language if they are to be understood, while the images of building societies and credit unions are carefully controlled and monitored by the state and media’ (Dayson, 2002, p. 185).

The particular legislative framework that gave societies greater powers to compete in the deregulated market and, thus, allowed for this ‘erosion from within’ of the mutual model, was the 1986 Building Societies Act (amended by the 1997 Building Societies Act). These Acts aimed at the creation of a level playing field between the societies and other financial institutions and gave societies the possibility to convert to plc (or bank) status, paving the way for the demutualisation wave of the 1990s.

1.4 Towards a ‘Level Playing Field’: The 1986 Building Societies Act

As noted earlier, the Big Bang was paralleled by another piece of legislation that would have the effect of fundamentally transforming the UK mortgage market and enabling the widespread financialization of mortgage assets: the 1986 Building Societies Act that came into force on 1 January 1987.

The Act significantly expanded the societies’ powers and introduced a new regulatory framework. Societies remained primarily concerned with lending for house purchase but the Act significantly removed the differences between the societies and other financial services institutions. It represented the first piece of coherent legislation in relation to the building societies' powers and regulation since the Building Society Act of 1874 and implemented proposals of the Treasury Green Paper *Building Societies: A New Framework published in* 1984. The new legislation eased restrictions in terms of the uses of funds and by allowing for unsecured loans and property development. It also allowed for the diversification of societies into activities related to house purchase and financial services including estate agency, insurance broking, surveys, money transmission and foreign exchange services (which subsequently made societies far more distinct from each other than previously had been the case). The Act also established a Building Society Commission that carried out and extended the regulatory functions previously operated by the Chief Registrar of Friendly Societies.[157] Crucially, the Act formalised and set limits on the use of wholesale funding. It also allowed building societies to convert into public limited (Boddy, 1988). The Act can be seen, as Perks (1991, p. 396) puts it, 'in part as a reaction to … criticisms [against the disadvantages that the societies were facing] and in part as a symptom of a political climate that favoured "privatization" and "corporate status" for a wide range of organizations and activities.'

One of the notable features of the Act were the numerous powers given to the Commission (which had been established by the Act) and/or the Treasury to make statutory instruments (regulation, orders etc) which, providing approval by the parliament could amend and supplement the Act. Since its coming into force (largely on 1 January 1987) it has been amended and extended considerably, particularly in relation to building societies' powers. The 1997 Building Societies Act made a large number of essential amendments to (but did not replace) the Act of 1986. Crucially, it replaced the previous 'prescriptive' regime with a 'permissive' regime that increased the commercial freedom of societies and enhanced further the scope for competition and widened the choice for consumers. It also introduced measures to enhance the accountability of building societies' boards to their members and made

[157] The Financial Services and Markets Act 2000 which came into force on 1 December 2001, provided for a single legislative framework for the regulation of financial services in the UK under the supervision of the Financial Services Authority (FSA) (BSA, 2010, 20 April).

changes to the provisions in relation to the transfer of a building society's business to a company (see also section three of this chapter). Under the 1986 and 1997 Act, building societies must fully secure at least 75 per cent of their assets on residential property.[158] The Treasury can reduce this limit by order to no less than 60 per cent. Also, and importantly, the societies can only raise a maximum of 50 per cent of funding from the wholesale markets.[159] (BSA, 2009, 29 July).

Until the 1997 Act, the regulatory regime was 'prescriptive' which means that activities of societies were deemed to be illegitimate unless specifically permitted. Since 1997, the legislation has become 'permissive' in that activities are thought to be legitimate unless stated otherwise (Stephens, 2001). The 1997 Act gave building societies the freedom to pursue any activities set out in their memorandum, subject only to compliance with the revised principle purpose introduced by that Act, the lending and funding limits, the restrictions on powers and prudential requirements (BSA, 2009, p. 4). In the pragmatic view of the BSA (ibid), this is the 'essence' or 'nature' of the mutual model, which together with the fact that most of a building society's customers are its members, outlines what distinguishes societies from other financial institutions.

The 1986 Act (amended by the 1997 Act) also established rules for the demutualisation of societies into plcs. Conversions require a two thirds majority by 'shareholding' members (members with share accounts). An initial minimum turnout of 20 per cent was required which was later raised to 50 per cent. Furthermore, the conversion requires a simple majority of borrowing members. Mergers can precede demutualisation which requires the same majority. Unlike plcs, hostile takeovers of societies are prohibited and conversions can only be forced upon societies under particular

[158] Section 6B of the 1986 Act defines 'loans fully secured on land' as a loan that is secured on residential property, if the principal of, and interest accrued on, the loan does not exceed the value of the security and there is no more than one prior mortgage on the land (BSA, 2009, 29 July, p. 5).

[159] The Building Societies (Funding) and Mutual Societies (Transfers) Act of 2007 or the 'Butterfill Act' gives scope for the Treasury to amend the Building Societies Act 1986 (1997) to allow societies to borrow up to 75 per cent of their funding from the wholesale market.

circumstances. After conversion, the new banks are protected from takeover for a period of five years (unless they themselves have taken over another company) – a legislative feature that led to the conversion of a number of societies for strategic reasons (see section 2 of this chapter) (Stephens, 2001).

Starting with the Abbey National in 1989, nine building societies have so far demutualised (preceded by the mergers of some of the societies) with Bradford & Bingley being the last one to float on the stock market in 2000. Additionally, the late 1990s saw the floatation of Cheltenham & Gloucester, Alliance & Leicester, Bristol & West, The Halifax, Northern Rock, Birmingham Midshires, and Woolwich Building Societies. In the dying days of the Conservatives, many new first time shareholders were created at the height of the crisis in 1997 (the Major administration did not leave without further liberalising sector with the 1997 Act). At the time, the mortgage market was fiercely in the grip of a populist discourse whose political logic divided those in favour of demutualisation and those against it into two 'antagonistic camps' with outright 'battles' between certain societies and groups of carpetbaggers raging back and forth (see Dayson, 2002). 'The spate of conversion', as The Banker (1997, 1 June) notes at height of the demutualisation mania in 1997, 'is leading to a polarisation into two camps: the converters and the remaining mutuals spearheaded by the Nationwide and Bradford & Bingley [who would later convert as well] which will be the only mutuals left with a high street presence.'

While the conversions were far from inevitable and societies demutualised for different reasons (see Stephens, 2001), the 'pro-demutualisation camp', more often than not, was able to win the struggles surrounding the conversions by being able to build successful alliances between different the factions involved in these struggles against a favourable background of neoliberalist hegemony. Conversions to bank status were often preferred because banks, unlike building societies, could borrow from the wholesale markets without restrictions and could use securitization freely. Thus, the demutualisation of a society would enable potentially unlimited access to cheaper and widely available wholesale funding in an increasingly competitive mortgage market. This was frequently thought to outweigh the disadvantages such as being be accountable to, and having to pay, shareholders. Under the deregulated market conditions of the 1980s discussed above, improved access to funding was difficult to resist for societies. In 1997, Peter Birch, the chief executive of the (already converted) Abbey National, stated that societies face severe difficulties 'because they do not have access to capital and capital eventually is king' (The Times, 27 September, 1997).

There were, however, also less strategic (and more opportunistic) incentives to convert. As Langley (2008a, p. 56) points out, support for the mutual model quickly waned as members of the societies were given substantial windfalls in the case of a conversion – stakes in the new companies in the form of shares that often went into the thousands of pounds – which were typically evenly distributed among members irrespective of the amount of savings held in a deposit. This, in turn, gave rise to the so-called 'carpetbagger' phenomenon – people who joined societies merely to speculate on a potential conversion and an associated windfall (there were also certain notorious carpetbaggers who joined societies on primarily ideological grounds). Furthermore, there were commercially oriented (but often ill-informed) 'carpetbagger guides' available that advised on which society would convert next (see e.g. The Financial Times*,* 1997, 13 August). Financial advisers, investment bankers and City lawyers would also be generously rewarded by conversion and, of course, the managers of building societies could boost their status, salaries and bonuses through floatation. (In fact, The Bradford & Bingley was the only society to convert against managerial advice and the conversion was blamed on carpetbaggers by management [Heffernan, 2005].) Indeed, managers were often seen to be the primary driving force behind the conversions, as Phillip Ireland, then chief executive of the still mutual Yorkshire Building Society asserts:

> '…the biggest threat [to mutual building societies] appear to be from within the building societies industry, in particular from other converting societies and internal Boards [of directors] and management … mutuality benefits are

> irrelevant if its management does not want it. The intention behind some of these changes in legislation for which we are lobbying [Government] is therefore to use the ability of management to influence unreasonably the decisions of members' (quoted in Tayler, 2003, p. 397).

However, resistance to demutualisation was often passionately fought and sometimes successful. The 'reactivation' of these struggles, therefore, can serve as local example of how neolibeliberalism and financialization have been contingently and politically instituted.

2. The Fight to Stay Mutual

Abbey National, then the second largest building society, was the first society to float and remained the only one to do so until 1997 (The Woolwich decided against it at the time). Abbey National had been a particularly rebellious and innovative society which, previously, had attempted to break the cartel arrangement of the BSA. Upon presenting plans for conversion, the directors announced a number of 'roadshows' to be held in city centre hotels organised by public relations consultants. The directors pointed to the restrictions under the 1986 for building societies, the improvement for customers given greater access to capital markets and a number of other reasons in order to mobilise support for the conversion campaign. Their main pitch to win over members was the 'recognition of ownership' i.e. the free shares worth about £150 per member. The Abbey Members Against Floatation (AMAF) formed an antagonistic reaction to these proposals emphasising instead particularly the traditional values associated with societies such as simplicity, an 'identity of interest' between savers and borrowers and so forth, but also commercial benefits and the increased 'efficiency' of mutuals in recent years. The 'fight to stay mutual' mostly took place at general meeting and through the circulation of leaflets but also other measures, such as car stickers saying 'Abbey Bank (No Thanks)', for example. Eventually, AMAF was defeated by the more powerful directors (who denied them a board meeting) and their own rather amateurish campaign and lack of resources even though support for the project had been growing throughout their campaign. As Perks (1991, p. 425) summarises

> ‘The arguments for conversion were powerful and effective because of the directors’ position, and the resources that they could command, not because of any intrinsic merit or demonstrable truth … The arguments were inadequate and misleading, and they were severely criticised by the Building Society Commission. If the directors had relied on the power of argument alone they might well have lost …’

Despite Abbey having been the only society to convert for almost a decade, its demutualisation set the precedent that a society could gain the members’ support for floatation even in the face of resistance.

By the early 1990s, senior management in most of the larger building societies had reached the conclusion that the legislation of the 1986 Act, while appropriate at the time, was too restrictive for the societies and demanded a more permissive way of regulation. By the time the government had rushed through the legislation shortly before the general election in 1997, the demutualisation wave was already under way. An important trigger hereby was the takeover of the sixth biggest society, Cheltenham and Gloucester, by Lloyds bank which was not a hostile takeover but made clear that their mutual status would not protect them from acquisition. The attraction of seeking a takeover by a bank lay also in Cheltenham and Glouster’s ability to retain its own brand name and operational independence while being able to access Lloyds distributional network (Marshall et al., 1997; Stephens, 2001). The subsequent demutualisation frenzy, however, even took market insiders by surprise as Adrian Coles, Director of the BSA admits:

> ‘It has been utterly, unbelievably, astonishing. Seeing the swift disappearance of the former societies in the firestorm, which I don’t claim to have predicted, has also been astonishing’ (Adrian Coles, Director General, Building Societies Association, quoted in Pollock, 2008).

Halifax merged with the Leeds Permanent, then the fifth largest society. Immediately, the closure of 40 branches was announced with another ten per cent planned for 1996. Halifax was launched on the stock market in June 1997 and was the then biggest ever stock market launch in history, its windfalls averaging £2300 (The Guardian, 1997, 3 June).

The next ones to go were National and Provincial, the Woolwich, Alliance and Leicester, Bristol & West and Northern Rock and, one year later, Birmingham Midshires. Some of them demutualised to avoid a hostile takeover (Stephens, 2001). In 1997 alone, the windfall gain was £ 37 billion as a result from the flotation of these societies which amounted to six per cent of overall consumers' expenditure (The Independent, 1997, 14 July). This round of demutualisations was immediately successful because neither the Conservatives nor the Labour Party [160] created a framework that prevented them. Notably, when the courts found a way to circumvent an anti-carpetbagger provision in the 1986 Act that specified a qualifying period of two years to participate in a residual claim, the Thatcher government declined to introduce amending legislation. Instead, they remained committed to their policy of 'deregulation by default' that had already led to the breakdown of the building society cartel (Tayler, 2003; see also chapter five of this thesis). The pro-demutualisation discourse became so pervasive that opponents of conversion were often publicly mocked, hereby becoming constructed into what Laclau and Mouffe refer to as the 'common enemy' (see section 1.6 of chapter one of this thesis). Such an antagonisation of the 'anti-conversion camp' becomes visible in the following quote, for instance:

> 'Opponents of conversion were treated with derision in the popular media. Resistance by directors was interpreted as backward-looking, over-cautious and inattentive to their policy-holders who would benefit from access to more diversified services, competitive loans and so on.' As the Times further put it,

[160] Indeed, New Labour was not necessarily committed to preserving traditional mutual values. As the Guardian points out: 'In power, business-friendly New Labour is not sure about "Mutualism". Here's a bastard child of capitalism that which the party has occasionally chucked under the chin but never warmly embraced' (The Guardian, 1998, 22 July).

> ‘opponents were compared to “steam train enthusiasts”, hopeless romantics trying to save a business model that had no place in electrified modern capitalism.’ (The Times, 2008, 16 June)

The conversions were mostly justified with reference to greater access to wholesale funding for the benefit of the consumer or by alluding to the perceived inefficiency and restrictions of the mutual model which often took on the form of a social Darwinist rhetoric of the ‘survival of the fittest’ (Dayson, 2002). Behind these claims to rationality and efficiency, however, was an arguably deeply fantasmatic investment in the excitements and enigma of the stock market (cf. Stäheli, 2007): ‘They used words like “freedom to compete” and “access to capital,”’ a building society analyst for UBS commented on the conversion frenzy, ‘but the main reasons were excessive pay, share options and testosterone’ (Pollock, 2008).

As mentioned earlier, resistance to these processes was often very determined and, on occasions, successful. This was the case, for example, for the Nationwide whose pro-mutual CEO, Brian Davies, and committed board of directors fought a lengthy campaign in the name of mutuality and (very narrowly) succeeded in fighting off carpetbaggers on several occasions (Griffiths, 2001). Nationwide had been the target of a particularly notorious group of carpetbaggers around Michael Hardern, a former Royal Butler, who ran an aggressive campaign to force several societies to convert. Despite a number of societies managing to successfully shake off carpetbaggers and the Britannia, for example, alongside the Nationwide, following management advice to vote against conversion (Heffernan, 2005, p. 781), the fate of the sector was perceived to be sealed at the time unless societies were better protected by the government. According to a statement by the Save Our Building Societies pressure group in 1998: ‘It is now only direct action by the government that can save the building society movement’ (The Financial Times, 1998, 24 July).

The Labour government eventually (and reluctantly) intervened by raising the requirements for demutualisation proposals albeit not without waiting for the

Nationwide ballot to be decided according to the old regulations (The Guardian, 1998, 22 July). The amended legislation was widely felt to be the end of the demtualisation frenzy as carpetbaggers retreated. However, one important conversion was yet to come: Bradford & Bingley, a building society which had previously underlined its commitment to mutuality on several occasions (see The Financial Times, 1998, 26 Feburary). The society eventually gave in to carpetbaggers and demutualised in 2001 against the board's advice. The result was unexpected since the "death of the carpetbagger" had already been proclaimed a few weeks earlier by one newspaper. Thus, Bradford & Bingley's conversion sparked renewed fear of another round of demutualisations and the now seemingly inevitable 'demise of a 19th century ideal' (The Economist, 1999, 29 April). However, the remaining societies fought back successfully this time, making Bradford & Bingley the last UK building society to convert to bank status (so far) and bringing the mutuality vs. conversion struggle to a provisional end. As the Economist (1999, 29 April) resumes at the end of the 20th century:

> 'As queues of carpetbaggers formed around the block, building societies felt justified in taking steps to raise their defences. Many raised the minimum-deposit rules - to as much as £ 3000 - or restricted membership to local residents. Nationwide, the biggest society still remaining mutually owned, required new members to sign way any windfall to a charitable foundation. It recognised that the minimum deposit rule was deterring the very people it was set up to serve. Last year, it narrowly defeated a motion to demutualise. Fifteen societies have changed their rules, to require more than a simple majority vote to force conversion. Yet, despite the vigorous defence that some societies have mounted, the Bradford & Bingley conversion is an important landmark in their long and steady decline as a force in British banking.'

The now heavily diminished building society sector was still able to offer competitive products and carve out a more or less comfortable niche for itself following the conversion frenzy. Also, the frequently cited 'efficiency' of the demutualised societies, particularly the benefits for customers, was highly questionable, as an independent parliamentary group pointed out (the All-

Parliamentary Group for Building Societies & Financial Mutuals, 2006, March). It was the rapidly growing and ‘exciting’ new banks, however, that defined the subsequent conjuncture. As the demutualised societies swaggered into the seemingly limitless possibilities on offer to them in what came to be known as the period of the ‘Great Moderation’ (see section two of chapter seven and chapter five of this thesis), the ‘death of the building society’, notwithstanding evidence to the contrary (i.e. competitive savings and mortgages products, better customer services etc), had frequently been declared (see e.g. Manchester Evening News, 2005, 11 July). Yet, it was the building societies which came back with a vengeance less than a decade later.

Conclusion

This chapter continues to investigate the marginalisation of the mutual logic in the UK mortgage market during the 1980s and 1990s and the rise of the logic of financialization. It shows how different factors such as technological change, the internationalisation of capital and neoliberalist ideology contributed to the progressive deregulation of financial services and markets in the UK. These changes are inherently political in nature. The first section investigates the liberalisation of financial services under the 1986 Financial Services Act and the changing environment of the 1980s which were defined by an increase in competition which made it increasingly difficult for building societies to compete with banks and other lenders which were aggressively entering the market. These transformations, it is argued, led to a liberalisation of the building society movement which, in turn, contributed to a further erosion of the mutual model (of some societies) in favour of the identification with the neoliberalist discourse that emphasises profits and freedom to compete. The struggles surrounding the demutualisation wave are analysed in the light of the political terrain that was created by the hegemony of neoliberalism which, however, also provoked resistance – sometimes successfully. In drawing on concepts such as Laclau's social antagonism and Gramsci's war of position, these struggles can be conceptualised as contingent and potentially reversible, providing, in turn, a vantage for the contestation of the hegemony of neoliberalism and financialization.

The next chapter discusses the financial crisis and the 'return of the building society' in its wake. It concludes that the logic of mutuality which has briefly re-surfaced during the financial crisis has, so far, failed to generate enough wider political support in order to provide a viable alternative to the fiancialized model that dominates the market.

‘From 1992 to 2007 the world economies all grew pretty much without interruption … [during this period] credit was fairly cheap the real rate of interest was quite low … because there were huge savings, there was a great savings glut from the far east … These savings were coming out on to the world market … driving down rates of interest everywhere … It was a big period of easy money’ (Interview 15).

‘The fundamental problem of political philosophy is still precisely the one that Spinoza says so clearly, and that Willhelm Reich rediscovered: “Why do men fight for their servitude as stubbornly as though it were their salvation?”’ (Deleuze and Guattari, Anti-Oedipus quoted in Gammon and Palan (2006, p. 97).

Chapter Seven: Ideology and Politics in the Financial Crisis

Introduction

As discussed in the previous chapters (particularly chapter four of this thesis), the economic bull years that culminated in the financial crisis of 2007- were driven by a benign macro-economic climate of low global interest rates and high volumes of liquidity. Growth was powered by the expansion of neoliberalist deregulating and financialization which had its political roots in the resolution of the stagflation-crisis of the 1970s and the marginalization of alternative ways of organising the economy, such as the mutual model of mortgage lending and funding. The boom was arguably also deeply interwoven with fantasy. Everyday leveraged investors increasingly identified with the notion of ever increasing house prices. Politicians, bankers, regulators and auditors all colluded to some degree or another in this ideological utopia of an endless boom without a bust. This fantasmatic logic exerted such a strong influence over its subjects that the crisis that followed took many by surprise.

This chapter outlines how this fantasy emerged as a particular manifestation of the market and how this fantasy was succeeded by a restoritative attempt of the utopian return to prudent capitalism. The opportunity for a counter-hegemonic move in the wake of a brief resurgence of mutual building societies at the beginning of the global financial crisis was squandered given a lack of political and popular support. Instead, a restoritative fantasmatic logic has propelled a political logic of difference that has so far succeeded in defending the status quo of neoliberalism and financialization in the UK mortgage market.

1. Ideologies of a Near Past[161]: The Fantasmatic Rise of the 'Perfect Market'

1.1 The Fantasy of the Market

The idea of 'free markets', legitimated by a general trust in the 'scientificity' of neoliberalist economics (see chapter two of this thesis), became the central nodal point of economic activity which was arguably also deeply interwoven with ideological fantasy. The latter's 'grip', rested, to a large part, on the neoliberal notion that markets are something neutral, apolitical and even 'natural'. This view was (and still is) widely disseminated by what Nigel Thrift calls the 'the cultural circuit of capitalism'. (For attempts of the Financial Times to 'sediment' or 'naturalise' financial markets in the years of the new economy, as well as during the current global financial crisis, see DeCock et al., 2008; 2009; 2011). As DeCock et al. (2011) point out, the decisive characteristic of 'the market' as ideological fantasy is to be found in the projection of a certain 'image of the market', an image that first and foremost aims at naturalising markets as such rather than a particular market policy or even specific

[161] This title is inspired by DeCock, C., Fitchett, J. and Volkmann, C. (2009) 'Myths off a Near Past: Envisioning Finance Capitalism anno 2007', *ephemera* 9 (1), pp. 8-25.

economic intervention. Thus, markets effectively became a blank canvas, or a 'horizon' in phenomenological terms, for the elaboration of any concrete form of economic organisation.

Following Žižek (1997), such a reference to mere 'utility' and 'neutrality' designates ideological fantasy at its purest. This notion, in turn, has made the articulation of alternatives to the market economy from within the neoliberalist universe very difficult indeed, since 'it is the fantasy of the law of the markets as "impassable horizon of our time" in its purest form [that defines contemporary capitalism] … a direct expression of human nature' as DeCock et al. (2010, p. 15) put it (see also chapter two of this thesis).

From about the mid-1990s onwards the market ideology found its particular expression in the belief that even the destructive effects of business cycles – the 'bust' in a market that usually follows a 'boom' or the 'bear' that follows a 'bull' – had finally been conquered for good. Politicians, traders, regulators, rating agencies, auditors and the wider public (in the form of the new everyday financial subjectivities discussed in chapter four of this thesis) colluded in the fantasy of unlimited bull markets and debt-fuelled consumption which underpinned the inflation of the bubble (see chapter four of this thesis). The conjuncture that preceded the meltdown of 2007-8 can therefore be classified as one that was defined by a widely shared beatific fantasy of a never-ending economic prosperity: an eternal boom without a bust.

1.2 'Beating the Bear': The Ideology of Boom without Bust

Due to advancements in computer technologies (see Aglietta and Breton, p. 436) and the 'risk-dispersing' qualities of financial derivatives and securitization (see chapter four of this thesis), the belief emerged that the destructive effects of business cycles as such had finally been conquered and, relating to this point, house prices would essentially rise *ad infinitum* and credit-financed consumption would also always be available. This set of ideological beliefs became a particularly pronounced expression of the general fantasy that the market usually 'gets it right' (see chapter two of this thesis). This fantasy was deeply embedded within the materialities and symbolics of the social logic of financialization which is characterised in chapter three and five of this thesis.

As a result of the benign macro-economic climate during the past conjuncture, the UK economy (and indeed the world economy to varying degrees) had experienced a continued period of economic growth. Ben Bernake in the United States, then a member of the Board of Governors of the Federal Reserve Bank (the central bank of the USA) and now its chairman, alluded to the then widely used notion of the 'Great Moderation' (which has mockingly been substituted by the term 'The Great Complacence' in a recent book by Engelen et al., 2011).

A lot of the praise for this development was attributed to the expansion of financial derivatives and securitization markets from Alan Greenspan to the IMF and a large number of leading academics, unsurprisingly most notably neo-classical economists (see Krugman, 2009). For example, Greenspan, then Bernake's predecessor as Chairman of the Federal Reserve Bank and firm believer in the market mechanism, commented in a speech in the same year that:

> 'by far the most significant event in finance during the past decades has been the extraordinary development and expansion of financial derivatives … the reason that growth has continued despite adversity, or perhaps because of it, is that these new financial instruments are an increasingly important vehicle for unbundling risk … in short, the value added of derivatives themselves are an increasingly important vehicle for unbundling risk' (USAGold.com, 1999, 24 March).[162]

Greenspan also more than once (and controversially) claimed that derivatives had increased the standard of living globally (ibid) hereby unintentionally

[162] In the wake of the crisis, Greenspan somewhat revised his position stating that his 'ideology' (sic) had been 'partially wrong' and that he 'found a flaw'. He claimed that he had believed too much in the willingness and capacity of financial institutions to monitor themselves prudently (PBS NewsHour (2008, 23 October).

providing an interesting example for the infusion of morality with a particular hegemonic content as pointed out by Gramsci (see chapter one of this thesis). In the UK, where New Labour fully embraced neoliberalist hegemony and financialized growth (itself legitimised by their own organic intellectuals),[163] Gordon Brown, then Chancellor of the Exchequer, confidently asserted that:

> ‘For 40 years our economy has an unenviable history, under governments of both parties, of boom and bust. So, against a background of mounting uncertainty and instability in the global economy, we set about establishing a new economic framework to secure long-term economic stability and put an end to the damaging cycle of boom and bust’. In his last budget report the Chancellor confirmed that: ‘we will never return to the old boom and bust’ (Channel 4 News, 2008)[164].

This fantasy also provided an effective incentive for the large-scale identification of everyday financial subjects with the neoliberal consensus based on leveraged consumption in exchange for political participation and contestation. The fantasy of a perpetual boom, therefore, provided the ‘ideological glue’ that held together the neoliberalist historical bloc in the first decade of the century, tying the ‘interest’ of the broader population to those of the financial and political elite. As a result of the financialization of all sorts of credit, particularly mortgages, consumption became one of the motors of capitalist expansion and consumer credit, for example through leveraging one’s home. Its becoming more readily available and widespread was aided by the persistent diffusion of neoliberalist ideology throughout civil society (see chapter five of this thesis for more details). (Perhaps one of the most striking examples that signifies that marriage of the world of financial markets and consumption is the weekly magazine of The Financial Times entitled *How To Spend It* which promotes a decisively upmarket version of consumerism unattainable for, but still presented as an ideal to, the vast majority of the population who, however, still can still derive a certain private *jouissance* from

[163] See Jessop (2003).
[164] Brown also retrospectively qualified his statement in an interview with Daily Mail in September 2008: 'I actually said, No more Tory boom and bust (...) Fifteen per cent interest rates under the Tories! We've got interest rates of five per cent, that's a bit different, isn't it?’ (The Daily Mail, 2008, 11 September).

it. Such a fantasmatic attachment to consumerism, as noted in chapter two of this thesis, has arguably found its horrific expression in the lootings that took place across the UK in August 2011.)

With credit increasingly drying up as a result of the financial meltdown, its central role for neoliberalism becomes more and more apparent. One interviewee pointed this out by commenting on the crisis that: ‘We all participated in this [the meltdown], I certainly did … We all have our credit cards, our cars, our mortgages …’ (Interview three).

Housing and mortgages featured particularly prominently within this scenario since the notion of ‘liquid homes’ centring on the notion of continuously rising house prices was actively politically promoted. Everyday leveraged investors enthusiastically identified with the ideology of housing as a perpetual ATM machine protected by the state, as those who did not get on the property ladder ‘scolded themselves for missing such as “sure thing”’ (see the first opening quote by Hamilton in chapter four of this thesis). Governments became eager to collude in, and exploit, this fantasy in order to further the neoliberalist agenda of free markets and private property, as well as to compensate for the crumbling of the remnants of the Keynesian welfare state and to finance state expenditures such as the public sector expansion under New Labour.

The fantasy of ‘no more bust, only boom’ arguably also exerted a strong ideological grip on economic and political cadres because it reinforced feelings of omnipotence and invincibility contributing, in turn, to large-scale excessive risk taking and denial of the consequences (see particularly the above quote by Gordon Brown). Stein (2011) argues that the crisis was preceded by a collective ‘manic culture’ that had evolved in the past two or three decades in Western capitalism. This was characterised by sentiments of omnipotence, triumphalism, denial and over-activity implicating different parties such as regulators, auditors, governments and financial market institutions more or less simultaneously. It is also argued that the ‘phallic masculinity’ that arguably dominates the collective thinking in financial markets contributed to, and legitimised, a sense of certainty and risk-taking (Figlio, 2010).

The presence of this ideological fantasy also helps to explain (among others) things such as incompetence, the opacity of the banking system and, of course, also 'sheer greed'[165]. This greed is exemplified by the refusal of a large number of market participants and experts to accept anything but a 'soft landing', despite warning signs since early 2006, as property markets, particularly commercial property, were booming well into the first half of 2007. For example, Bernake, testifying to the Congress' Joint Economic Committee in March 2007, stated that: '... at this juncture ... the impact on the broader economy and financial markets of the problems in the subprime markets seems likely to be contained.' (M2 Presswire, 2007, 29 March).[166]

It becomes clear that the meltdown itself (and the boom beforehand) is, thus, indeed inextricably linked to a certain emotionally charged 'belief':

> 'Far from representing a failure of knowledge', Roberts (2009, p. 335) points out, 'it seems to me that the crisis has its roots in too much certainty – a belief by market participants that they knew what they were doing ... The extraordinary thing about the credit crisis is that the hurt and damage was similarly inevitable and yet we had all somehow come to believe in the magic whereby markets can transform aggressive self interest into a public good.'[167]

Accounting for the presence of the fantasmatic ideology of 'no more bust – only boom' therefore helps to explain that, despite the crisis having actually been relatively well predicted (Chick, 2008), its subjects often appeared 'trapped' in their belief systems as the crisis already began to unravel. This is

[165] For an illustrative account of some of these themes see Lewis (2009).
[166] The presence of denial also becomes apparent in Greenspan's statement (ibid) that: 'I knew -- the housing bubble became clear to me sometime in early 2006, in retrospect. I did not forecast a significant decline because we had never had a significant decline in prices'.
[167] It is perhaps useful to clarify again here (see also section four of chapter one here) that the notion of 'no more boom and bust' as ideological fantasy (as well as the post-crisis fantasy to be analysed below) is not intended to be used in a 'false consciousness sense' as one might read into this citation but to illustrate how a particular ideology had underpinned, and given consistency, or, 'an underlying guarantee' Chang and Glynos (2011, p.11) to the organization of the economy prior to the dislocations experienced as a result of the financial crisis.

illustrated by the infamous quote of Chuck Prince, then Chairman and CEO of Citigroup, in 24 June, 2007: ‘When the music stops, in terms of liquidity, things will become complicated. But as long as the music is playing, you’ve got to get up and dance. We’re still dancing’ (quoted in Langley, 2009, p. 71).

It is argued in the following that the crisis, despite a brief resurgence of the mutual model and a credible alternative to fiancialized growth, has been accompanied by a restorative fantasy which postulates a return to an imaginary age of ‘prudent capitalism’ that aims to compensate for the loss of ‘no more bust – only boom’.

The figure below gives an outline of the timeline of the crisis:

2007	
July	Bear Stearns announces major losses on hedge funds
August	Severe tightening in wholesale money markets
	Federal Reserve cuts lending rate to 4.75%
September	Run on Northern Rock
Sept–Dec	Federal Reserve cuts lending rate to 4.25%
	Major international banks announce losses
	Credit ratings of bond insurers reduced
December	Federal Reserve announces major loan package to banks
2008	
January	Major falls in stock markets
	House prices start to fall
February	Federal Reserve cuts lending rate to 3%
March	Northern Rock nationalized
April	Bear Stearns taken over by JP Morgan Chase
July	IMF predicts financial losses will be $1 trillion
September	Collapse of IndyMac
	Bail out for Freddie Mac and Fannie Mae
	Collapse of Lehman Brothers
	Merrill Lynch taken over by Bank of America
	HBOS taken over by Lloyds TSB
	Numerous bank rescues, bailouts, nationalizations
	$700 billion bailout rejected by US Congress
October	Wall Street collapse
	Further falls in stock markets
	Further bailouts and rescue packages
	Further reductions in interest rates
	G7 proposes five-point action plan
November	Steve Forbes declares the worst is over
December	European Central Bank reduces lending rate to 3.25%
	IMF announces rescue package for Iceland
	Federal Reserve reduces lending rate to 0–0.25%
	US announces rescue package for Ford, GM and Chrysler
2009	
January	IMF predicts worst recession for advanced economies since 1945
February	Bank of England reduces lending rate to 1%
March	Bank of England reduces interest rate to 0.5%
April	G20 Summit in London

Figure 5: Chronology of the crisis, July 2007 – February 2009
Source: Gamble 2009

1.3 The Revenge of the Repressed: The Downfall of the Converted and the Return of the Mutual

Cracks in the American subprime market were increasingly showing during the first half of 2007. By the second half events began to unravel at a quickening pace. In April, an American Bank that specialised in the subprime market, New Century Financial, filed for bankruptcy and slashed its workforce by half. Its collapse sent ripples throughout the financial system and other institutions had to increasingly write-off subprime loans. In Britain, 20 per cent of mortgage products disappeared in just 10 days and 100 per cent mortgages vanished as Abbey withdrew the last home loan available without a deposit. The investment bank Bear Stearns announced the loss of two of its hedge funds in July, 2007. Banks became aware of their own exposure to subprime loans and their willingness to lend to each other increasingly diminished with the signifier 'credit crunch' increasingly being used as an reason. In August, investment bank BNP Paribas announced to put money out of two of its fund due to a 'complete evaporation in liquidity'. The central banks of Europe, the US, Canada and Japan now began to intervene. On 4 September the rate at which banks lent to each other- the LIBOR – had reached its highest level since 1998. The BBC revealed on 13 September that Northern Rock had asked for, and been granted, emergency financial support from the Bank of England as lender of last resort. A day later, anxious savers queued in front of Northern Rock' branches to withdraw £1 billion until the government guaranteed their savings (BBC, 2009, 11 June; Gamble, 2009a, p. 22 ff).

Although Northern Rock, the former building society, had virtually no subprime lending, it became heavily dependent on wholesale funding to the extent that when the latter dried up in the global markets, it became quickly illiquid. Prior to its collapse the Rock had grown very aggressively becoming the fifth largest lender in the UK with about 50 per cent of its funding coming from securitization through its SPV Granite. Its retail deposits had fallen from 62.7% at the end of 1997 to 22.4% at the end of 2006 (House of Commons Treasury Select Committee, 2008). As one market participant sums up Northern Rocks Business model in relation to securitization (see also chapter four of this thesis):

> 'Northern Rock didn't fail because it wasn't profitable, Northern Rock failed because of a crisis of confidence. Essentially, they were leveraging up very, very aggressively … they were overtrading against the asset base that they had through securitization … so that enabled them to constantly lend more and more and more' (Interview four).

Northern Rock was nationalised in March 2008 and eventually sold to Virgin Money in November 2011 at a loss of £ 400 million to the British taxpayer. Halifax, another one of the demutualised societies and the largest mortgage lender had merged with Bank of Scotland to form HBOS leaving it in severe difficulties. On 18 September, 2008 Lloyds TSB announced the acquisition of HBOS ending weeks of speculation about its fate. Commenting on HBOS's downfall, CEO, Andy Hornby stated that 'it was the combination of being property based on one side of the balance sheet with a significant reliance on wholesale funding on the other' (HM Treasury Select Committee, 2009, p. 22). Bradford & Bingley, the next ex-mutual to perish was said to have attempted to 'replicate Northern Rock's disastrous funding model' (The Telegraph, 2008, 26 September). It too had grown rapidly. Bradford & Bingley combined a high exposure to the wholesale markets by venturing into the more profitable buy-to-let market of which it became the leader, advancing a fifth of all home loans (ibid). Bradford & Bingley also became big players in the self-cert market and acquired mortgage loan books through a series of deals with the General Motors subsidiary General Motors Acceptance Corporation (GMAC), leaving it particularly exposed to bad quality home loans. The problems of Bradford & Bingley were identified as being that 'it was very exposed to the buy-to-let market [and that] it also had a problem with the self-cert market' (HM Treasury Select Committee Report, 2009, p. 16). Bradford & Bingley was nationalised in September 2009. Its savings operations and branches were sold to Santander. None of the 10 converted societies exist anymore today. National & Provincial, Cheltenham & Gloucester, Bristol and West, Abbey National, the Woolwich and Birmingham Midshires were all taken over in the 1990s or 2000s and Alliance and Leicester was acquired in July 2008 by Santander. Unsurprisingly, the entirely centralised securitization funded lenders all vanished.

In September 2009 the entire banking system bordered on the verge of collapse in the wake of the downfall of Lehman Brothers and AIG. In Britain, the government injected a total of £37 billion into three banks effectively (part)nationalising them as the country slid into a recession: Royal Bank of Scotland (RBS), Lloyds TSB and HBOS.

Amidst these turbulences encompassing the downfall of all of the demutualised societies whose 'exciting' business models were hailed only a year earlier,[168] the mutual sector lived through a spectacular resurgence powered by a shift in public discourse towards 'safety and stability'. Often declared dead in the wake of the demutualisation frenzy (see the previous chapter) building societies increasingly managed to capitalise on their image as being boring at the beginning of the crisis. In the first half of 2008 almost £6.3 billion were deposited in the sector as opposed to £3.8 billion during the first half of the previous year. In line with the global economic problems, lending had slowed from £8.4 billion in the first half of 2007 to £3.4 billion between January and June 2008 (The Independent, August 3, 2008).

During the early phase of the crisis one could detect a 'reactivation' (see section 2.4 of chapter one of this thesis) of the mutual model that led to an increased questioning of the merits of the demutualisation frenzy. As the Times puts it on 16 June 2008 (cited in BSA, 2008, 31 July): 'What is doubly sad is that some of the most battered banks are former building societies – those once prudent institutions woven into the fabric of British life'.
Following this, on 7 June the Independent reports:

> 'today the demutualisation dream lies in tatters. All of the building societies that did it have either gone or are shadows of their former selves … a perfectly viable industry which performed a vital public service in a reasonably well managed responsible fashion, has been completely destroyed' (The Independent, August 3, 2008).

Building Societies, restricted by law as to their capital markets funding activity (see the previous chapter) and having no shareholders to serve, did therefore not experience the same problems as the banking sector or even the centralised lenders did. This lead to the Independent (ibid) remarking that: 'the governance arrangements of building societies have proved rather sounder

[168] Northern Rock, for example, was given a 'buy' or 'hold' recommendation by most analysts including Goldman Sachs (Fletcher, 2007).

than those of the heavily “incentivised” bankers’. Indeed, a number of societies pulled back from the market in the early phase of the tightening of credit conditions despite losing market share. For example, the retail director of the Nationwide pointed out that: ‘we took the view at the beginning of this year [2007] that our rivals were driving down pricing, loosing affordability constraints and sacrificing quality for market share’. He goes on by emphasising the importance of sticking to a ‘very basic principle’ despite losing market share, in the light of these developments (The Independent, November 23, 2007).

One interviewee (Head of Group Risk of a building society – Interview five) regards the absence of a financialized business model as central for the identity of a society:

> ‘We don’t treat mortgage customers as commodities. There is a personal approach there and that does mean that, particularly in the branch based business, we would interview every customer and we would look at the individual circumstances and we would base our decision on the interview. We would always say “it’s not just a scorecard “yes or no” decision but we will see whether we could help somebody depending on the circumstances. So I think it’s fair to say that is a mutual feature. Is it an exclusively mutual feature? I don’t think that it is but I have worked for HSBC for 18 years and increasingly driving cost and overhead out of the business model means moving towards a scorecard-based, commoditised approach with call-centres and everything that goes with that. I think you then lose that personal touch … I think a mutual would try to retain an element of that. I think it’s something about the mutual ethos that is about building relationships rather than viewing mortgages as commodities. Hence, we have never securitized. When we have grown our mortgage book, we have done it through direct acquisition so I guess who could say that’s reflecting that approach.’

However, mutuality appears not to be a bulletproof guarantee for stability. The Derbyshire, Chesire and Dumferline building societies all collapsed during the financial crisis because of involvements in the Icelandic Banking Crisis or, in the case of the Dumferline Building Society, the ill-advised purchase of selfcertified mortgages by GMAC and Lehman which resulted in heavy losses. Those societies have, as Michie and Llewellyn put it: ‘developed a risk appetite inappropriate for a mutual’ (cited in Elgin, 2011, p. 4).

More generally, then, the mortgage market is still in distress and the societies are facing strong competition from the state owned banks in a depressed market. In 2010, there were only 8 or 10 active lenders out of 100 and return to pre-‘crunch’ lending and securitization volumes seemed neither realistic or desirable. The mutual sector, however, proves to be remarkably resilient and cautiously optimistic (BSA, 2011b, 1 June). However, given the coalition government’s commitment to ‘foster diversity and promote mutuals’ (BSA, 2011c, 4 May), remarkably little has been done to change how the mortgage market and its institutions operate, as one can see by the rushed sale of Northern Rock to Virgin at a knock-down price. Mutuo, a think tank dedicated to promoting mutual values pointed out that the government failed to produce evidence showing that a mutual solution is not feasible. As Ed Mayo, the secretary general of Cooperatives, UK stated: ‘Deciding not to mutualise Northern Rock despite calls from a range of stakeholders, does not sit well with the government’s frequently stated support for cooperatives and mutuals. It is argued here that one of the reasons for the reluctance to implement more radical reform is the emergence of a fantasmatic narrative of the crisis that aims at the a re-affirmation of neoliberalism and financialized growth which has been translated into a political logic of difference in order to preserve the institutional complex as a whole.

1.4 A Return to Prudent Capitalism

The post-crisis ideological fantasy has morphed from its ‘no more boom and bust’ incarnation into a desire to return to an imaginary situation of prudent capitalism which is translated into a transformist political logic of difference. This political logic preserves key features of financialization and neoliberalist hegemony based on the fantasmatic object of the market. This new fantasy contains beatific and horrific elements. At its beatific end, according to Bloom (2010), this fantasy is centred upon an idealised future of recovering the stability of an imagined past. Its promise contains a restoration of prudent borrowing and lending that has somehow gotten out of hand. According to DeGoede (2009), the crisis is discursively framed in terms of ‘excess’. Through the attribution of excess to borrowing lending, trading and so on, it is possible to retro-actively define causes for the dilemma and, thus, project control on to the situation.

Alistair Darling, for instance, demands a ‘return to good old fashioned banking’ (BBC News 2009, 11 June). As such endeavours are continuously frustrated, they become translated into their horrific reverse: the crisis as a threatening contamination of, or intrusion into, an otherwise pure economy. The widespread use of toxicological metaphors in the wake of the crisis to describe financial instruments is a good indicator of this process. Hereby pure AAA assets become ‘contaminated’ by ‘bad debt’ etc, or, as Watson (2009a) points out, responsible mortgage borrowers are discursively opposed to reckless lenders, a move that legitimises a bank bail-out because it promises to return banking back to ‘normal’ via state interventionism. At the height of the crisis, the latter is depicted in highly apocalyptical terms using a language that resembles an end-of-days scenario. And indeed, what MacKenzie calls ‘the-end-of-the-world trade’ – the cost of taking out an insurance against the collapse of half of America’s top corporations has, despite its very hypothetical nature, increased tenfold in 2009. Shortly after the collapse of Lehman, one trader fuelled the collective imagination with a story that the its collapse had been: ‘a financial Armageddon, doomsday and nuclear war rolled into one’ (The Daily Star, 2008, 16 September).

What emerges out of these scenarios are ‘greedy bankers’ as the archetypical scapegoats of the financial crisis. Greedy bankers have stolen our collective lost/impossible enjoyment in the sense that they are not just enjoying themselves but enjoying themselves at our expenses. As the Scottish Sun excitedly reports (2008, 18 October):

> ‘FATCAT Lloyds TSB bankers gorged themselves on a sumptuous five-course feast at Scotland’s most exclusive hotel – just days after getting a share of a

£17 billion bailout paid for by YOU. As Scots families struggled to beat the credit crunch, the money men scoffed salmon terrine and beef fillet while quaffing expensive fine wines at Gleneagles in Perthshire. Afterwards they retired to the swanky hotel bar and roared with laughter while ordain whisky's costing up to **£1,000 A NIP**' (original emphasis).

Even in the fall of 2011, the Daily Mirror is still running a feature series called FatCat bankers with its own logo – a fat cat with a big cigar in its mouth. What this scapegoating process arguably has achieved, apart from snatching back a little bit of that lost *jouissance,* is to narrow that fundamental and systemic critique and transformation which becomes very difficult to articulate. As DeGoede (2009, p. 306) comments:

'the present focus on the bonus culture, entails a very problematic and populist narrowing of the debate. It allows ordinary citizens an easy target to voice their critiques of the financial sector and it allows [Ministers] to make a seemingly firm stand against the financial industries. In the meantime, the complex product innovations and more fundamental risk cultures of the markets are in the process of being placed beyond public debate.'

Scapegoating bankers presents us therefore with what Žižek (1997, p. 29) calls a 'false opening' or an 'offer to be refused' as it simultaneously maintains a false opening of choice, while at the same time narrowing the possibilities for choice. This ideological commitment to a false opening is arguably what has prevented a more fundamental reform of the financial system so far.

In the context of the mortgage market this means, for example that the government does not intervene into how mortgages of the failed banks are priced (i.e. through the market) (see Watson, 2009b). Indeed, the separation of 'good' and 'bad' bankers only serves to reinforce the market as a depoliticized sphere beyond public scrutiny and intervention (Froud et al., 2010) and hereby preserving key rhetorical tropes of the neoliberalist project such as the generation of 'shareholder value' for the taxpayer. The government was quick to respond to the crisis of the housing market and has quickly propped up the latter with a whole series of different legislatory measures (Williams, 2011). Yet, what seems to be prevalent is a return to the market and bubble mentality. Recently, the Coalition government has introduced a new taxpayer-backed 95 per cent mortgage to help '"unstick" the housing market and make the "dream of homownership" a reality for more people'. A year earlier the housing minister Grant Schapps asserted in June 2010 that 'the age of aspiration [regarding the increase of homeownership levels] is back'. Simultaneously, and in emphasising the private sector as a future solution for housing provision, he stated that 'the cash for affordable housing has run out' (Guardian, 2010, 8 June). In this sense, one perhaps has to refine the post-crisis fantasmatic logic not as an imaginary return to a golden age of capitalism but essentially a return to the bubble: 'Please can we have our bubble back, clamours just about everyone' (The Guardian (2009, 24 February). Neoliberalism might be crumbling, but it still seems to be very much alive in the realm of belief.

Conclusion

This chapter is concerned with the concept of ideological fantasy in the pre-crisis and post-crisis world. It characterises the pre-'credit crunch' conjuncture of asset inflation and frantic trading of securitization and derivatives driven by a favourable macroeconomic and embedded in the fantasmatic notion of 'no more bust – only boom'. This fantsmatic logic is a particular manifestation of the fantasy of the market which came to an end amidst the dislocations of the financial crisis.

The chapter describes the events of roughly the first year of the global financial crisis. It shows how every single building society that was still an independent entity collapsed in the wake of the meltdown. As the remaining building societies lived through a period of 'reactivation', new fantasmatic logic centring on the market was already underway. The latter drew on the notion of a return to prudence and on the scapegoating of a number of individuals, most notably ‘greedy bankers’, who were deemed responsible for ‘the mess we’re in’. It is argued that this fantasy propels a political logic of difference that re-affirms neoliberalism and financialized growth. Thus, the contestation of the status quo in the mortgage market seems unlinkely (for the forseable future at least) as Northern Rock has been returned to the stock market.

Chapter Eight: Concluding Discussion

Introduction

The thesis provides a genealogical reading of the political construction of the UK mortgage market in the light of the financial crisis of 2007-. Its main aim, reflected in the overall structure of the thesis, is two-fold: Firstly, to develop and engage a poststructuralist account on the financial crisis and, secondly, to investigate empirically the financialization of the British mortgage market in the build-up to, and the aftermath of, the financial meltdown of 2007-09. The UK mortgage market has been chosen as the object of analysis given the importance of mortgages for the conjuncture of capitalist expansion that preceded the crisis and given the relative neglect of scholarly research on the UK context as opposed to the US. My theoretical framework is outlined in the chapters 1-3 and the empirical analysis of the mortgage market has been carried out in the chapters 4-7.

The poststructuralist/post-Marxist approach to political economy that is developed in the chapters one and two draws on the theoretical framework of Ernesto Laclau and PDT. It is used as an 'ontological frame' for the articulation of more middle-range theories of neoliberalism and financialization that are discussed in chapter three. Taken together, these various theoretical approaches construct an 'investigatory lens' which allows for a fresh perspective on the financial crisis and its preceding phase of capitalist expansion. (I have outlined the need for such a combination of theoretical approaches in section two of chapter two of this thesis as well as in the introduction; for the 'method of articulation' see *LCE,* chapter six; Howarth, 2005; and section three of the introduction to this thesis.)

By making use of the theoretical edifice thus constructed (and the empirical material listed in section three of the introduction), the thesis gives an in-depth account of several 'critical moments' in the financialization of the UK mortgage market during neoliberalist hegemony under particular consideration of the marginalisation of the building society model that had dominated the market until the 1980s.

In the following, I will outline and synthesise my main theoretical arguments and empirical findings, with a particular focus on the empirical analysis chapters, and situate them in a broader context. Section one of this concluding discussion presents the main theoretical insights of the thesis and section two contains an overview over the most important points of the empirical analysis carried out in the chapter 4-7 in the light of these insights.

1. Main theoretical insights

The thesis develops and engages a poststructuralist/post-Marxist approach to the political economy as a critical alternative to mainstream interpretations of the economy and the financial crisis.

In particular, I have distinguished a poststructuralist/post-Marxist take on the political economy from an orthodox Marxist one on the one hand and a neoclassical one on the other hand. While Ernesto Laclau and Chantal Mouffe locate themselves within the Marxist (more precisely, Gramscian) tradition, one of their main contributions is the deconstruction of Marxist economism and historical stagism as discussed extensively in the chapters 1-2. Following this approach, the thesis affirms the critical angle and focus on social struggle of the Marxist tradition but rejects its economic determinism. Thus, a major theoretical concern of the thesis is the constitutive nature of struggles and the primacy of the political in the construction of economic space. Also, and following Gramsci as well as Laclau, the economy is not an isolated sphere but part of a hegemonic project which always consists of cultural, political and economic factors alike. Social logics such as mutuality or financialization are therefore not confined to one topography of the social (the economy, for example) but are articulated within the wider historical bloc of neoliberalism. An analysis of the political economy according to the approach advocated here must therefore always take into account how its logics are made and re-made within a wider hegemonic terrain (I have particularly illustrated this point in chapter four of this thesis that consists of a discussion of the cultural, political and economic forces that have contributed to the financialization of the UK mortgage market). Furthermore, as indicated above, a Laclauian approach to the economy is diametrically opposed to the doctrine of neoclassical economics which has been instrumental in legitimising and promoting neoliberalist hegemony and the financialized growth model at the heart of the financial crisis. In particular, neoclassical economic's conceptualisation of the economy as an isolated terrain populated by rational actors who operate in an ahistorical social and political vacuum can be challenged by a poststructuralist/post-Marxist framework which emphasises relationality, historicity, power, affect and the primacy of the political. (See particularly chapter two of this thesis for a brief synopsis and critique of the methodological underpinnings of neoclassical economics and an overview of a poststructuralist political economy according to Laclau.)

In drawing on these insights, the thesis aims to contribute to the small and diverse but growing literature on poststructuralism and political economy/finance (see e.g. Langley, 2006; 2007; 2008a; DeGoede, 2003; 2004; 2005; 20006; 2009; Daly; 1991; 1999; 2004; 2006; Scherrer, 1995; Bertramsen et. al, 1990; Griggs and Howarth, 2009; Howarth, 2010; Gibson-Graham, 1996; 2006). Inspired by various traditions of the 'poststructuralist variety', these approaches are broadly concerned with highlighting power and politics, anti-economism, contingency, economic difference and the precariousness and discursivity inherent in the construction of economic space.

Most importantly, as the majority of these approaches point out, the economy has long been constructed as a depoliticised sphere beyond public debate and political inquiry within mainstream representations (see in this context also Froud et al., 2010; Harvie and Milburn, 2011, 4 August). Thus, a major theoretical concern of these accounts often involves a 're-politicisation' of economic and financial practices (see particularly DeGoede, 2004; 2005).

A Laclauian framework, then, is able to contribute to this agenda of the re-politicisation' of sedimented and contingent economic and financial practices by providing a theoretical framework that formulates, as Contu (2002) puts it, a ‘political answer to questions of struggle’. Thus, Laclau supplies the theoretical resources to account for the contingency, historicity and political construction of the economy (cf. Laclau, 1990, p. 31-36) by situating power-struggles at the heart of the social. This allows for a ‘re-politicisation’ of the economy in the truest sense of the word (see particularly Daly, 2004) as power is conceived of as a set of exclusionary and inclusionary practices that are linked to the instituting dimension of the political which takes primacy over the social (including the economy which, consequently, can no longer function as the determining ‘base’ of society). The economy, as mentioned on a number of occasions in the thesis, can therefore be understood as the contingent result of conflicting hegemonic power struggles that strive to institutionalise their particular interests as universal and to marginalise/suppress alternatives.

The task of the researcher, then, becomes to expose the ‘original acts of violence’ (Laclau, 1990, p. 33-5) that have led to the establishment of the current taken for granted social order and have involved the repression of equally valid alternatives. This means that every social order (including the economy) can be challenged as contingently instituted or, to invert Margaret Thatcher’s infamous phrase, ‘there is always an alternative’.

Here, Glynos and Howarth’s ‘logics approach’ (see LCE), a particular version of Political Discourse Theory (PDT), has helped to translate Laclau’s rather abstract theoretical premises into a more ‘institutionalist’ framework that deploys a nexus of political, social and fantasmatic logic to account for how social regimes are instituted, contested, maintained or transformed**.** Also, the component of ideological fantasy in Glynos and Howarth’s theoretical edifice brings to the fore a useful psychoanalytical dimension which remains latent in Laclau’s own work. (See particularly section four of chapter one for a discussion of the concept of ideological fantasy.) In accordance with Laclau, the logics approach affirms the radical contingency and political institution and general contestability of every social order.

As stated above, these theoretical insights which are discussed at length in the first two chapters of the thesis form the basis of a genealogical study whose aim it is to illuminate the political acts of institution and power struggles as well as the affective dimension that have shaped the mortgage market in the UK during the last four decades.

The different theories analysed in chapter three highlight different aspects and processes of financialization such as the growth of derivatives and securitization (British Social Accountants), institutional transformations (Regulation School) and culture and everyday life. Those approaches are then 'articulated together' in the chapters 4-7 on the basis of the overall framework of Laclau and PDT.

In doing so, the thesis aims to avoid an overtly structuralist explanation of the financial crisis as well as narratives of individual greed, incompetence and fraud that occupy the mainstream press and a range of practitioner account. Instead, it stresses how struggles have constituted the current economic and financial order and how this very order is always vulnerable to the forces that it has excluded in the process of its constitution.

2. The Political Construction of the UK Mortgage Market 1979-2011

In order to illuminate how the mortgage market in the UK has been constructed politically with respect to its exclusionary practices and constitutive power struggles, the analysis section of the thesis consists of four chapters that highlight, on the one hand, different historical phases of market construction in the neoliberalist era and, on the other hand, different aspects of the theory of Laclau and PDT. The overriding concern of these four chapters is to investigate how the progressive financialization of mortgages in the UK has rested on hegemonic power struggles and, particularly, the exclusion of the mutual model that had previously dominated the market. The thesis hereby provides an in-depth localised example as to how the hegemonic regime of financialization and neoliberalism has been politically instituted and the struggles and modes of resistance that this process has encountered. Financialization is conceptualised as a 'market logic' of the neoliberalist regime that has constituted itself to a large part in opposition to the logic of mutuality. The ‘naming’ of those two logics serves the purpose of challenging the dominant logic of financialization in the name of an arguably more sustainable and fairer but marginalised counter-logic (see section three and LCE for the process of naming logics and counter-logics).

In doing so, the thesis traces several different ‘critical moments’ from 1979 until the aftermath of the meltdown and has investigated how struggles at the organizational level of the mortgage market are related to the molar level of neoliberalist hegemony. To this end, the thesis deploys Glynos and Howarth’s framework of social (chapter four), political (chapter five and six) and fantasmatic (chapter seven) logics and dimensions as a ‘guiding thread’ throughout the analysis chapters.

The thesis concludes that the rise of financialization in the mortgage market has been inherently political and unstable in nature (as revealed in the financial meltdown) but that the potential opportunity for reform associated with the brief resurgence of the mutual model in the wake of the financial crisis has not (yet) gathered sufficient political support to challenge (and potentially transform) the financialized monoculture of mortgage lending and funding in the UK. The main points of the chapters 4-7 will be summarised in the following in the light of these elaborations.

Chapter Four is concerned with giving an overview over the state of financialization of the UK mortgage market prior to the financial crisis - the ‘sedimented’ content of financialization in the words of Laclau - whose political origins had been largely forgotten prior to the meltdown and whose reactivation has been the aim of chapters 5-7. Theoretically, the chapter particularly draws on Glynos and Howarth’s concept of social logics and Laclau’s notion of discourse as well as Gramsci‘s relational conception of hegemony. It is also the chapter that makes the most use of the theories of financialization as discussed in chapter three in order to account for different aspects of the financialization of the mortgage market.

The chapter aims to provide a broad overview over the social logic of financialization in the context of homes and mortgages. It is primarily concerned with the description of how the financialization of mortgages 'ticks'[169]. Hereby, Laclau's conceptualisation of discourse is an important thread throughout the chapter.

Firstly, as discussed at length in chapter one, a discourse comprise 'material and ideal' elements and (partially) constitutes subjects as well as objects. In following this approach, the chapter investigates a range of material as well as symbolic practices of mortgage borrowing and financing and shows how, through the emergence of new financial instruments such as securitization and derivatives, new forms of subject positions are produced and identified with (see particularly also Langley, 2006; 2008a on this point). The identity of the financialization of mortgages (how the financialization of mortgage 'ticks') is therefore understood to be an assemblage of practices, speech-acts, material things and subjects, a bricolage that forms an unstable totality, rather than a 'rational', ahistorical and asocial phenomenon.

Secondly, and following Gramsci's notion of a historical bloc in addition to Laclau's concepts of discourse and relationality, the economy cannot be viewed in isolation but must be situated within a wider relational terrain of hegemony that includes cultural, political and hegemonic forces in equal measure (see particularly also Bertramsen et al., 1991 for a thorough discussion of this point). The chapter comprises a broad analysis of the cultural, political and economic factors that have contributed to the hegemony of financialization in the context of mortgage lending and funding in the UK. Given the importance of securitization for financialization, the chapter contains a lengthy discussion of this financial market innovation as well an account of forms of mortgage borrowing that are associated with financialization and are characteristic of the neoliberalist ideology of consumption promoted on the basis of freedom and choice (equity release schemes, buy-to-let, 125 % etc). Additionally, the chapter discusses important cultural and political factors that contributed to the financialization of housing and mortgages to account for the 'bigger picture' that has been neglected in the often (but by no means always)

[169] To recapitulate, the analysis of a social logic is primarily (but not exclusively) concerned with description. (see LCE and section three of chapter one of this thesis).

technical and depoliticised literature on the financial crisis and processes of financialization.

Having provided a (more or less) descriptive account of the social logics of mortgage market financialization in chapter four, the thesis then asks how this regime has been politically instituted and contested with particular reference to the progressive marginalisation of the building society model (the political dimension and logic) in the chapters 5-6 before it investigates the curious absence of fundamental reform in chapter seven (fantasmatic logic and dimension). To this end, the thesis takes the transformations of the British mortgage market in the UK in the late 1970s as the starting point of its genealogical investigations.

As already indicated, **chapter Five** is concerned with the instituting dimension of neoliberalist hegemony and the related hegemonic struggles that have shaped the mortgage market in the UK in the late 1970s and early 1980s which, in turn sowed the seeds of the demutualisation frenzy of the 1990s and the rapid financialization of mortgage finance in its wake.

The aim of the chapter is to return to, or 'reactivate', the terrain of the original violence' of the hegemony of neoliberalism in order to account for the contingent struggles that preceded its institution and the forces it excluded or marginalised in its constitution. The various manifestations of the concept of 'the political' in the work of PDT (e.g. political moment, political dimension and political logic) hereby form the backbone of the chapter). In addition, it uses a range of associated Laclauian concepts such as dislocation, antagonism, empty signifier and logic of equivalence in order to chart the contingent rise of neoliberalism and the associated transformations of the UK mortgage market.
In the first part of the chapter, it is shown that the rise of the neoliberalist project is linked to the ideological appeal of the signifier 'freedom' which successfully mobilised political support from various sections of society in the wake of the dislocations created by the stagflation crisis of the 1970s while simultaneously managing to repress alternative projects of the left (see

Gamble, 2009a for a number of alternatives that had been attempted but ultimately failed).

The second part of the chapter investigates the fundamental transformations of the UK mortgages market from a ‘protected circuit’ dominated by a near-monopoly cartel of building societies into one of the most deregulated financial markets in the UK. By using Glynos and Howarth’s theoretical approach, the chapter discusses how various economic, political and ideological struggles ‘in the name of a principle or ideal’[170] - the signifier ‘freedom’ - led to the successive deregulation of the market and the abolishment of the building society price cartel. It is thus possible to connect struggles at the level of the market to the broader molar level of national and global neoliberalist hegemony (cf. Howarth, 2010). On the basis of the transformations in the mortgage market, it is also shown how neoliberalism largely constituted itself as an antagonistic response to the preceding regime of embedded liberalism[171].

These developments and struggles contributed to a broader restructuring of financial services in the UK and the progressive undermining of the building society model culminating in the demutualisation wave of the late 1990s which is the topic of chapter eight. Theoretically, the chapter aims to further substantiate the central claim of this thesis that hegemonic struggles constitute economic space.

If every book or thesis indeed has a ‘core’ as argued, for example, by Agamben (2011), for this thesis, the latter is to be found in **chapter six**. This is the case because the chapter contains the essence and synthesis of the main theoretical and empirical arguments of the thesis. To reiterate, the first one is, the constitutive (and not derivative) nature of hegemony power-struggles and the presence of an economy that is ‘criss-crossed with

[170] LCE, p. 115
[171] It is worth recalling here that, according to Glynos and Howarth (LCE, p. 106), ‘the institution of a particular regime...is always defined in opposition to a contested regime...and this oppositional contrast colours the regimes practices’.

‘

antagonisms' (HSS, p. 151). The second one is the empirical claim that the building society demutualisations of the 1990s were the focal point for the financialization of the UK mortgage market both ideologically and materially.
The chapter primarily makes use of Laclau's notion of power and antagonistic struggles as well as Gramsci's concept of 'war of position' to investigate the continuous erosion of the 'market logic' or mutuality from the early 1980s onwards that culminated in the conversion of 10 of the largest society into plc, hereby transferring two thirds of mortgage assets to the stock market. The first part of the chapter investigates the 'Big Bang' Financial Services Act and Building Society Act both of 1986 that significantly accelerated the logic of financialization and further eroded the logic of mutuality, making instead most building societies more market oriented.

The second part of the chapter provides an in-depth account of the struggles which surrounded the demutualisation phase starting with the conversion of the Abbey National in 1989. In addition to Laclau's notion of antagonistic struggles, this section particular deploys Gramsci's idea of a 'war of position' that emphasises the importance of persuasion and the building of alliances in order to 'seize power'.

The chapter argues that neither were those demutualisations 'pre-determined' nor were they exclusively driven by supposedly rational factors such as 'the freedom to compete' or 'access to capital' even if those were indeed important factors. The fierce hegemonic struggles (that often transcended the immediate sphere of the market, via an active media interest for example) as well as the successful resistance to demutualisation of some of the societies, highlight the contingency at the heart of the demutualisation, a contingency that later became partly reactivated in the wake of the financial crisis.
The chapter therefore illustrates how Laclau's notions of power, antagonism and contingency can be put to work to illuminate constitutive processes in the political economy.

Chapter Seven, then, investigates the ideological and political response to the dislocations of the financial crisis in the context of the UK mortgage market. Hereby, the chapter deploys the concept of ideological fantasy that is discussed in section four of chapter one. This Lacanian concept finds expression in PDT as the ‘fantasmatic logic’ that accounts for the ideological ‘grip’ (Glynos, 2001) of a practice or regime. The concept of ideological fantasy stresses the categories of subjectivity and enjoyment – *jouissance* in Lacanian terms – by providing an analytical frame for how subjects identify with certain practices and not others. However, these practices often affirm rather than contest structures of domination and oppression. The chapter uses the notion of fantasmatic and political logics to illustrate how the alternatives to financialization that have presented themselves in the wake of the financial crisis have been dismissed (so far) in favour of an affirmation of the status quo and the legitimation of existing power relations.

Empirically, the chapter argues that there has been a partial ‘reactivation’ in the wake of the crisis – a heightened sense of contingency which was particularly visible when building societies, traditionally associated with safety and stability, lived through a period of resurgence in the wake of the failure of the demutualised societies such as Northern Rock and Bradford & Bingley. However, this has not translated into broader political support and opportunities for a structural reform of the sector, and indeed, the financial markets more broadly, have arguably been squandered in an attempt to recuperate the neoliberal project and financialized growth.

The first part of the chapter investigates the ideological fantasy of ‘no more bust, just boom’ that underpinned the conjuncture of financialized expansion which preceded the crisis and drove to debt bubble most notably in housing. It conceptualises this fantasy as a particular version of the more general quasi-religious ideology of ‘the market’ that has been integral to the neoliberalist project from its inception. The ‘crunch’, then, led to a short-lived disruption of this ideology as savers and borrowers returned to mutuals amidst the failure of the demutualised society which entailed a partial reactivation of the merits of the demutualisation period (or, rather the lack thereof) in the wider public discourse.

Soon, however, the fading fantasy of ‘no more bust, just boom’ became transformed into a newer one that can be titled ‘a return to prudence in capitalism’ which affirmed key features of the neoliberalist model and promised and imaginary return to ‘responsible capitalism’, albeit (and only seemingly paradoxically) largely within the established order (see also Bloom, 2010). Reinforced by the public scapegoating of a few individual bankers and horrific depictions of doom and decay at the height of the crisis, the thesis argues that this fantasy has (so far) resulted in a significant narrowing of the public debate by providing *jouissance* for the public and by mobilising a political logic of difference that has been mostly successful in keeping contestation (and concessions to the population) to a minimum and preserving the existing institutional complex as a whole by preventing fundamental structural reform.

Given a lack of political (and ideological) support, the impact of the resurgence of the building society model in the wake of the financial crisis has therefore been limited. Despite a convincing case for demutualisation, Northern Rock has now been returned to the public market (not least because of a lack of interest from other building societies in its acquisition). The thesis concludes that a formidable opportunity for sustainable reform has therefore indeed been ‘wasted’, at least for the time being (cf. Froud et al., 2010).

To briefly recapitulate, the thesis provides and approach to the political economy that affirms contingency, discursivity and the primacy of the political over the social. It thus locates power-struggles at the constitutive centre of economic activity. This allows for conceptualising the economy a contingent sphere of institution and economic activity and agency, contrary to the dominant paradigm of neoclassical economics, as something that is constantly made and re-made via struggles and acts of identification. The concept of fantasmatic logic, as used particularly in chapter seven, provides further theoretical resources to illuminate as to why subjects identify with certain hegemonic projects and submit themselves to conditions of subordination.

The critical, and indeed emancipatory, merit of this approach lies in the fact that, from this point of view, contingency is something to be affirmed. Hence, another social and economic order that differs from the current status quo is not only thinkable but, given enough political support, also achievable. The extension of the concept of radical democracy onto the economy, then, means an openness other potential forms of organization of the economy from the vantage point of which the existing power configuration can be potentially be challenged (see also Gibson-Graham, 1996; 2006). The thesis analyses financialization precisely from such a vantage point by providing an in-depth genealogical investigation into one of its counter-logics: the logic of mutuality.

The following chapter concludes the research project. It revisits the research questions posited at the beginning of the study, points out the limitations of the thesis and discusses potential areas of further research and engagement.

Overall Conclusion

1. Research Questions

This thesis provides a detailed genealogical analysis of the transformations in the UK mortgage market in the neoliberalist era by using the theoretical framework of Ernesto Laclau and Political Discourse Theory. In the course of this thesis, I have addressed the following research questions:

<u>1. Research Question One:</u> How can the theory of Laclau and PDT be fruitfully mobilised for an analysis of the economy and finance?

I discuss Laclau's theory and PDT in detail in chapter one. Chapter discusses and engages a Laclauian framework for an analysis of the political economy. Hereby, it a useful strategy has been to juxtapose a poststructuralist political economy following Laclau with the philosophical underpinnings of neoclassical economics and, through this oppositional contrast, distill different conceptual categories for empirical analysis. I conclude this observation by arguing that Laclau and PDT furnish concepts that are able to challenge convincingly the central paradigms in neoclassical economics such as the figure of the homo economicus, the social atomism of economic agents as well as the relegation of politics and power from the sphere of the economy.

A Laclauian poststructuralist political economy, as understood here, therefore emphasises the categories of relation, irrationality, primacy of the political and power as well as affect in economic analysis. I put these guidelines to use in my analysis chapters 4-7, emphasising hereby the category of discursive relation in chapter four both at the molar level of state, economy and civil society and at the molecular level of how subjects and and material objects are constituted.

Further, the thesis highlights the political dimension of institution and contestation and the constitutiveness of antagonistic struggles upon the economic sphere in chapter five and six and investigate the category of affect and ideological fantasy in chapter seven. In the light of Laclau's (1991) emphasis on how the empirical always interacts with the theoretical in the course of which both become transformed, what has emerged as a central argument during the course of my research both theoretically and empirically, has been the notion that struggles are constitutive upon the economic sphere and not derivative of an underlying transcendental principle such as 'the market' or the 'economic base' (see also the concluding discussion in the preceding chapter of this thesis).

This insight has emerged by carefully observing the processes of struggle and resistance between different hegemonic forces and market logics in the light of the ascendancy of neoliberalism and the demutualisations of the 1990s. Hereby, Laclau's theoretical edifice has helped to conceive of those struggles as contingent and involving counter-logics that can be reactivated to contest the status quo.

Theoretically, the struggles that took place surrounding the rise of neoliberalism are situated within an explanatory framework that shows how subjects are politically mobilised in relation to certain demands/signifiers – the signifier ‘freedom’ for example. This framework therefore adds to other, more Foucaultian, poststructuralist accounts of the political economy (see e.g. Langley, 2006; 2008; DeGoede 2003; 2005; 2006) by providing a theoretical framework for struggle that integrates the molar and the molecular level of the economy.

<u>2. How and why</u> has the UK mortgage market been transformed from a protected circuit in the 1970s to a highly financialized and competitive market in 2007 where the mutual model has been increasingly antagonised? What have been the implications of these transformations for the global financial crisis?

The thesis provides an empirical analysis of the transformations in the UK mortgage market since the late 1970s. Chapter five investigates the rise of neoliberalism and the struggles surrounding the breakdown of the building society price cartel. Chapter six discusses how the rise of a new money culture, or market logic, progressively undermined and marginalised the mutual logic, culminating in the demutualisation frenzy. Chapter seven shows the ideological attempts to reanimate and preserve key features of neoliberalism and financialization.

As already stated, the thesis shows that the contemporary mortgage market has been the result of struggles. Thus, the transformations in the UK mortgage market are understood to be contingent and always contestable. Neoliberalism has succeeded in marginalising the mutual model by mobilising enough (often tacit) political support from various sections of society but, as the occasional successful resistance to the demutualisation wave and the resurgence of mutuals during the financial crisis exemplifies, this has not been a necessary process. Thus, as frequently pointed out in the thesis, ‘the excluded’ can always serve as a counter-logic to challenge and potentially transform the existing taken-for-granted power configuration. Whether it succeeds, however, is arguably a matter of successfully generalising its particular demand.

The thesis argues that the demutualisation wave exemplifies crucial features of the neoliberalist project and sheds light on the current problems in the mortgage market. It is thus unsurprising that these processes have been reactivativated to some degree in the wake of the crisis.

In particular, demutualised societies made aggressive use of the wholesale funds that became freely available upon demutualisation. The frozen money markets of 2007-8 that resulted in the collapse of, inter alia, all remaining demutualised societies can, and have, therefore been directly related to the hegemonic struggles and politics that shaped the market in the 1980s and 1990s.

In making explicit this connection both ideologically and materially, the thesis contributes to existing research on mortgage finance that highlights institutional factors but often fails to adaeqautely conceptualise processes of power and resistance (see e.g. Aalbers, 2008; 2009a; 2009b; Gotham, 2006; Sassen, 2009; Wainwright, 2009a; 2009b).

<u>3. How has neoliberalist</u> hegemony and financialization been reproduced or contested culturally, politically and economically in the context of the UK mortgage market?

The reproductive mechanisms of neoliberalism, its social logics, are particularly investigated in chapter four with regard to their political, economic and cultural dimension in the context of the mortgage market. This chapter accounts for the social logic of financialization from the perspective of the broader historical bloc of neoliberalism. It shows that neoliberalist hegemony in the mortgage market relies on a hegemonic consensus which centres on the transformation of housing into an object of finance and speculation. As the chapter emphasises, this is enabled economically by new financial instruments. Further, the chapter discusses the cultural and political component of mortage market financialization, the latter with regard to how a cross-party agreement emerged in the neoliberal age that is based on homeownership above all other forms of accommodation.

The contestation that neoliberalism has encountered is discussed on a number of occasions throughout the analysis chapters 4-7 with particular emphasis on the demutualisation frenzy which supports Laclau's claim that struggles are constitutive upon the social. Together with the other main insight of the thesis that neoliberalism, as a hegemonic regime, always encompasses cultural, political and economic aspects, the thesis contributes to existing accounts on neoliberalism that conceives of the latter more narrowly particularly at the expenses of cultural forces and struggles (see e.g. Gamble, 2009a; Gamble, 2009b; Gamble, 2002 Crouch, 2011; Harvey, 2005).

2. Limitations

The thesis is not a representative 'case' nor is it concerned with the 'testing' and application of theoretical variables. As pointed out in section two and three of the introduction, rigid definitions of validy and reliability therefore do not apply to the study and they are not intended to[172]. Rather, the focus is on discovery (both theoretically and empirically) and political intervention.

Therefore, the study is not, 'generaliseable' in the more narrow sense as deployed in the mainstream social sciences particularly as it factors a certain contingency into the process of carrying out empirical research itself by acknowledging the overdetermined nature of every social identity (see the discussions in sections two and three of the introduction). The thesis is thus not concerned with 'causality' but with 'critical explanation' (Glynos and Howarth, 2007).

Also, the focus of the thesis is theoretical and not methodological or method-led. However, it is acknowledged that future work is needed to elaborate a more concise methodological position particularly in relation to data gathering and analysis in order to defend this approach against accusations of 'methodological arbitrariness'. Given Laclau's focus on ontology and neglect of (one could even say, open hostility towards) 'methods', the thesis gives primacy to the ontological at the expenses of methods which, admittedly, assume more of an ad-hoc character in the study[173]. While this is presumably in accord with Laclau himself, if I was to conduct the study again, however, I would (early on) focus more on considerations of methodology and methods particularly in relation to data collection and empirical research designs in order to obtain a more cohesive dataset (not least for future follow-up research).

[172] As stated in the introduction, this does not mean, of course, that the methods employed in this study cannot be justified.
[173] However, this approach also has had the advantage of responding flexibly to the difficulty of gaining research access to financial institutions during the financial crisis.

A second (and related) limitation of the study is that is concerned with the application of one particular approach (Laclauian theory and PDT) to a context where it has not (or not sufficiently) been used in the past (the economy). While, as I believe, this has yielded a number of interesting insights, a more theoretically flexible account could have been, perhaps, a bit more elegant at times. On the other hand, this would have compromised the theory-led approach that has been an important part of the thesis.

Also, my analysis is confined to a particular site of the economy, the mortgage market (and within this market, to very particular forms of struggles), but also aims to make a more general statement concerning the trajectory of neoliberalist hegemony. However, it does not claim to do this exhaustively and in an ‘unbiased’ manner (in the sense that mainstream social science would use the term). While the thesis certainly points to crucial symptoms of neoliberalism as a whole, the latter is a very complex and overdetermined process and has developed many strands and contradictions and, arguably, currently undergoes significant transformations (see also section one of the introduction).

Within this complex terrain, the study is to be understood as a ‘particular’ intervention that is political rather than ‘scientific’ in nature (‘scientific’, again, according to a more mainstream connotation of the term). Since this course of action, in all likelihood, accounts for a weakness for a good portion of social scientists, it needs to be reiterated here that, while its methodological side could have indeed been strengthened (see above), the thesis does not attempt to be ‘a primer’ on the neoliberalisation and financialization of mortgages but, rather, as also indicated above, is to be understood as being part of a hegemonic struggle that itself is based on contingency and the (unavoidable) exclusion of other, equally valid, alternatives.

3. Glimpsing the Future

The contribution of Laclau and PDT to a critical poststructuralist economy is still in its infancy but has a lot to offer to the field of political economy (as well as business and management studies). As pointed out in chapter two, there is a small but growing amount of work on Laclau and political economy already (see for example Howarth, 2010; Griggs and Howarth, 2009; Bertramsen et al., 1991; Scherrer, 1995). However, these accounts have remained either very abstract or, as in the (very interesting) work of Griggs and Howarth's work on aviation, arguably, not been too much concerned with a theoretical engagement with the sphere of the political economy *per se.*

In my eyes, therefore, more studies are needed that merge theory development and empirical analysis and hereby address traditional concerns of political economy (or economics) in a novel way. The logics approach, and PDT more broadly, seems to be a promising way forward in this respect (see e.g. Glynos et al., 2011) but they are certainly not the only one.

In my eyes, Laclauian theory can provide a novel approach to power and economic struggles which contests established accounts on the basis of the contingency, historicity, power and primacy of the political of all social relations. Researcher dissatisfied with the monolithic, universalist and totalising representation of capitalism in orthodox Marxism (see Gibson-Graham, 1996; 2006 in this context) but nevertheless in search of a critical angle, can find a vast theoretical reservoir in Laclau for a more nuanced and differentiated approach to economic life including, of course, its contestation. Central concepts such as antagonism, dislocation, identity and identification, empty signifier and so forth can thus potentially form the basis of a myriad of different critical studies on the economy that actively affirm contingency and radical democracy.

The extension of the concept of radical democracy itself onto the economy, as briefly indicated in section two of chapter one and chapter two, could hereby become the conceptual backbone of a critical approach towards the poltical economy that is firmly committed to social justice and critique. A new emancipatory research spirit could therefore potentially emerge that takes seriously the contingency and 'openess' of the economy as opposed to relying on an arguably outdated and futile notion of 'revolution'. Indeed, research based on Laclau can escape such totalising accounts by starting to engage with concrete demands (Laclau, 2005) or logics (Glynos and Howarth, 2007) that have the potential of becoming (counter-) hegemonic.[174]

Of course, this requires a lot more theoretical and empirical work as to the suitability and limitations of this research strategy. Hereby, Chantal Mouffe's body of work could also be of additional help as she has, arguably even more than Laclau (see Wenman, 2002), contributed to the concept of radical democracy. Additionally, the cross-fertilisation with other approaches such as Regulation School appears promising but could be developed more systematically and with more considerations for empirical research. Similarly, other approaches to political economy and finance, particularly those concerning culture and everyday life (see chapter three), could be mobilised together with Laclauian theory and PDT for further fruitful empirical research and theory development.

The almost complete absence of the economy in the theory of Laclau as discussed in chapter two, can hereby be turned into a major advantage, I believe, which is the development of a fresh and critical theoretical perspective on the political economy that is receptive to the demands imposed by the current times and unburdened by past dogmas or failures.

Empirically, further research is needed on the current performance of building societies and the role they can play in the mortgage market of the future. For example, the merger of the Britannia building society with the Co-operative to

[174] This has been the approach favoured in this thesis which has idenfied mutuality as a counter-hegemonic discourse from which to contest financialization and neoliberalism. It must also be noted in this context, that precisely such a totalising pre-occupation of the left with the then dominant discourse on the state in capitalism has led to an almost complete silence on its part as well as a strategy of non-interventionism during the demutualisation period of the late 1990s (see Taylor, 2003).

form a so-called ‘supermutual’ is an interesting case and certainly worthwile researching.

More generally, the current and future trajectory of the mortgage market needs to be further researched given its past importance for growth and neoliberalist expansion as well its cultural and political significance in terms of homeownership ideology. It will be important, hereby, to challenge the ‘monoculture’ that still conceives of the market as the best provider of homes and mortgages.

The main empirical insight of this thesis is that mutuals provide a viable (and arguably much ‘healthier’) alternative to neoliberalist forms of organisation and financialized business models but are in need of political support given neoliberalism’s tendential hostility towards all forms of collective organisation.
Nobody of the mutual specialists that I have interviewed during my research would advocate a return to the price cartel discussed in chapater five (or indeed anything that comes close to it) even if this was possible. However, an attentiveness to the ‘reactivation’ of collectivist forms of organisation that typically (but not always) have been marginalised by neoliberalism in favour of ‘freedom to compete’ and individual property, is certainly another important topic for future research.

This is particularly the case in the light of current debates about the future of the economy and capitalism more broadly. Not all ‘collective’ forms of organisations are the same, of course, and while some have thrived during the financial crisis such as the Cooperative and John Lewis, others have suffered for example in agriculture, particularly in the global South. It is perhaps therefore not far-fetched to argue that, whatever the sector that delivers the growth that is needed to revive the economy, it is also likely to encounter the destruction of its more traditional forms of organisation if neoliberalism is to survive in its current form (if indeed those forms still exist).

The research that is proposed here should thus move beyond the current infatuation of the political elite with the ‘John Lewis Model’, of course, to encompass broader and more profound considerations about the nature and desirability of certain economic and organisational forms and practices (and their potential alternatives) and, ultimately, the society that we want to inhabit. Hereby, Laclau's theoretical perspective can make a valuable contribution.

Appendix

List of Interviews

1. Market Analyst

Interview in November 2007 and September 2008. The interviewee was employed by two large investment banks respectively at the time of the interviews. The person has over ten years experience in the analysis of a range of different commercial sectors.

2. Leadership Consultant in the Private Equity Sector

Interviews in February 2008, and October 2008. At the time of the interviews, the person was founding member of a leadership consultancy. The consultancy specialised in consulting private equity funds, including the private equity section of a large commercial bank.

3. Vice President; Relationships and Sales Officer of Investment Bank

Interview in November 2008. The interviewee was employed by the British dependence of an American investment bank at the time of the interview. This person has had a longstanding career in investment banking and has also authored scholarly papers on financial markets and the crisis.

4. Director of Building Society

Interview in March 2009. The interviewee was the director of one of the ten largest building societies in Britain at the time of the interview. Prior to that, the individual also had an extensive career in the commercial banking sector.

5. Head of Group Risk – Building Society

Interview in June 2009. At the time of the interview, this individual was Head of Group Risk of a medium-sized building society. The person has oversight over the risk management system and frameworks that the society and its subsidiaries use to assess and manage exposure to risk. Prior to this, the person had worked for a commercial bank for almost twenty years.

6. PhD candidate economics

Interview in May, 2011. This individual specialised in financial economics at the time of the interview. The person also kindly provided material for the first section of chapter two.

7. Professor in Economics: Head of Academic Section

Interview in January 2009. This professor has published widely on the banking sector and global macroeconomics both in academic journals and in newspapers.

6. Software Engineer, Hedge Fund

Interviews in August, 2008 and February, 2009. This person designed and maintained trading software for a hedge fund that specialised in futures trading at the time of the interview. This individual holds a PhD in financial economics and has in-depth knowledge about financial derivatives.

7. Mortgage Market Expert

Interviews conducted via e-mail between March and August, 2009. This person had worked in the mortgage market for over 25 years at the time of the interview. The person has published widely on the UK mortgage market.

8. Director General of BSA (title given with consent of the interviewee)

This person was the director of the Building Society Association at the time of the interview. He has an exceptional expertise of the building society sector and the mortgage market and has published widely on these subjects.

9. BSA Employee

Interviews in September, 2009 and March, 2010. This person was a longstanding employee of the BSA at the time of the interview.

10. BSA Employee

Interview in December, 2008. This person was employed by the BSA at the time of the interview.

11. Head of Group Finance

Interview in June, 2009. This person was in charge of the finance division of a medium sized building society at the time of the interview. The person has a personal background in commercial banking and is an expert on mortgage funding

12. Head of Public Relations

Interview in June, 2009. This individual was the head of public relations of a medium sized building society. The person has more than twenty years experience in the sector.

13. Political Activist: Derivatives Specialist

Interview in November, 2009. This person was a political activist at the time of the interview. The individual is an expert on financial derivatives.

14. Professor Accounting

Interview in January 2008. This person has published widely about the auditing, banking and the shadow banking system. The person is also involved in political consultation

15. Professor of Economics – Adviser to Thatcher (title given with the consent of the interviewee).

Interview in October, 2009. This person was an economics professor at the time of the interview. He had previously been an adviser to Thatcher and has published widely on the crisis of the 1970s and Thatcher's economic policies.

16. Business Analyst

Interview in July, 2008. This individual was a business analyst for a large investment bank at the time of the interview. It the time of the interview, he was an analyst in the pharmaceutical sector.

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