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Power, Politics & the City of London: Before & After the Great Crisis.

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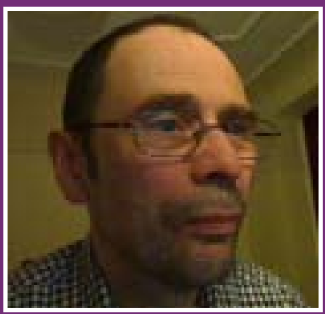

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1. Introduction: four faces of power

What if power in capitalist polities is a kind of practical bricolage which responds to changing circumstances by mobilising whatever means to hand and thereby adds both new capacities and unintended consequences? If this conjecture is admitted, then the social sciences could do with more intellectual bricolage which brings together different concepts of power so as to understand its heterogeneity and limits. This is all the more important because of the current compartmentalisation of specialised social science. Thus mainstream political scientists continue to discuss various conceptions of power linked to sovereign domination which constrains in several different ways so as to give external command and control over subjects; whereas Foucauldian analysts of governmentality focus instead on a decentred, capillary form of power which pervades wide areas of social life and works by internalising numerous restraints and constituting docile subjectivity. Against this background, as intellectual bricoleurs, our aim in this paper is to try and better understand the historical power of finance in the UK since 1918 by considering capillary power as one amongst several faces of power.

In mainstream political science, power already has three 'faces'. The publication of Wright Mills' *The Power Elite* (1956) began a two decade long debate in political science about how to conceive and measure power. The publication of the first edition of Lukes's landmark study (1974) established a consensus – though not an all encompassing consensus – that there were three faces, or dimensions, of power; that these indeed did correspond to real existing forms of domination; but that they could only be explored by different research techniques, and that a full account of power in an arena, or the power of an interest or institution, could only be provided through an examination of all three faces.

Dahl's response to the elitists' picture of power in the United States provided the fullest account of what came to be widely called the first decisional face: power was revealed in the capacity to exercise sovereign influence over the outcomes of overt decisions in which parties had revealed different sets of preferences (1957, 1958, 1961.) Bachrach and Baratz (the first to use the 'faces' image) convincingly demonstrated that the power to dominate could also be exercised by the capacity, not to triumph in overt decisions, but in the sovereign capacity to manipulate agendas so as to ensure that issues threatening to dominant interests were never raised in the first place (1962, 1963). This ensured the defence of some interests at the expense of others without the necessity ever openly to confront and conquer opponents. This second face of power Bachrach and Baratz variously labelled power exercised through 'non' or 'negative' decisions. Though Lukes's analysis has some commonalities with Bachrach and Baratz's conception of 'non decision', his distinctive contribution was to show that power could consist in the creation of ideational hegemony: that some interests triumphed at the expense of others by creating a world taken for granted because of what Lukes called ideology (or as we would now say narrative), thus naturalising the third face domination of some at the expense of others (1974, 2004.)

Plainly these three accounts differed greatly. It was appropriate that Dahl's first analytic exposition of his conception of power was published in a journal called *Behavioral Science*, for this conception of power was the orthodoxy of American political science behaviouralism in its pomp. By contrast, Lukes's third face or dimension plainly owes much to Gramsci – a debt acknowledged, especially, in the introduction to the 2004 edition of his book; and correlatively it rested on an opposition between ideology and science which is no longer sustainable. But what united all these three conceptions was their classical quasi-Weberian concept of power as the exercise of sovereign dominion – either overt, or more or less covert, domination, allowing the sovereign will and interests of some to triumph at the expense of others.

From this point of view, the conception of power popularised by Foucault, and associated with what in English is usually called theories of governmentality, marks a fundamental break. Though it shares some assumptions with Lukes's third 'dimension', it consciously dispenses with the language of either domination or agency. The key passage in Foucault's work is thus as follows:

> We must cease once and for all to describe the effects of power in negative terms: it 'excludes', it 'represses', it 'censors', it 'abstracts', it 'masks', it 'conceals'. In fact power produces; it produces reality; it produces domains of objects and rituals of truth. The individual and the knowledge that may be gained of him (sic) belong to this production (Foucault 1991: 194).

This form of power depends on 'governing the soul' (Rose 1990), or perhaps more pertinently put in Rose's subtitle, governing the private self. It entails the internalisation of values in such a way as to ensure that discipline becomes something not imposed externally but the product of restraints learnt and then followed voluntarily. In economic life the most obvious source of this kind of discipline is the discipline of the market: exposure to market forces entails learning about their constraining and enabling influence. We comply, to take the example of the subject of this paper, not because finance 'dominates' or manipulates us, but because we have internalised codes of behaviour transmitted by markets: citizens become, in Miller and Rose's striking phrase, 'entrepreneurs of themselves' (Miller and Rose 2008: 49).

But what if we consider this final conception as a fourth face of power, rather than as an alternative concept which trumps the first three and justifies a parallel discourse about a new Foucauldian object? The four faces would then be: the power of decision; the power of non-decision; the power of (narrative) hegemony; and the power of learnt self- discipline which is capillary. The distinction of four faces of power is justified because each form of power offers distinct strategic capabilities and its existence depends on different conditions. If power is not always the same, the historical, empirical question then arises as to whether the strategies are mutually exclusive or can be combined to produce effects; and, if combinatorial, what are the principles of combination and hierarchy which promote one form or displace another. And that question in turn opens up the possibility of a new history of finance as the four different faces or forms have appeared, receded and re-combined at each new conjuncture to change the character and limits of power.

This paper's historical argument builds on our earlier paper (Bowman 2012) about the power of finance in our own time since the 1980s; in that paper, our argument was that finance has worked through a combination of sovereign and capillary power because government sponsored and promoted finance whose capillary power was enhanced by the ubiquity of point value calculations (Bowman *et al.* 2012). In this article we set this argument in context by presenting a retrospective history of the power of finance in the UK in successive conjunctures since 1918. The modern history of the power of finance in the UK is – for reasons explained in the next section – dated from the end of the First World War. Since then, two dominant questions have shaped power relations: what is to be the relationship between the City of London and the (formally) democratic system of UK government in which it is embedded; and what is to be role of competition in the workings of financial markets? The answers to these questions are, we shall see, entangled, and these entanglements explain why, at different conjunctures since 1918, bricolage has promoted some faces of power and demoted others in response to periodic disruption by a combination of exogenous events along with the internal limits of power.

To anticipate the full argument of the paper, the history of finance since 1918 is about how a new face and different form of power was dominant in successive conjunctures; but the dominant form always had unintended consequences and practical limits in changing circumstances so that regimes of power lasted very variably. Before the advent of formal democracy, power largely consisted in the power of non-decision and the second face capacity of the City elite to control policy agendas. From the end of the First World War until the 1970s power was the product of the third face exercise of hegemony. The decades after 1979 saw an attempt (under sovereign sponsorship) to create a popular and elite culture where the disciplines of financial markets shaped choice as the fourth face of capillary power became important. But the result from the 1980s was a new regime of power which was both unstable and unsustainable. This instability was demonstrated by the great financial crisis itself and by scandals that grew out of engrained market practices; while unsustainability was driven by the ubiquity of point value calculations which substituted profit taking and equity withdrawal for learnt self- discipline. In the wake of this failed experiment with governmentality, we can see the City organising as a conventional professional lobby designed to ensure victory in struggles over overt decisions: in other words finance has retreated to the exercise of power in the first dimension. Finance may still be dominant but its power is increasingly precarious because it now fights on terrain not of its choosing where outcomes are uncertain.

2. The challenge of democracy and the faces of City power

The decisive modern moment in the history of City power can for once be dated fairly precisely: it is December 1918, the date of what is usually called the 'Coupon' general election in the UK (Moran 1986, 1991 and 2007). That election marked the arrival of an approximation of formal democracy in Britain: it was the first election fought on something fairly close to a universal franchise; and partly in consequence it also marked an important set of changes in the political environment of the City, symbolised by the displacement of the Liberal Party by Labour as the main rival to the Conservatives.

Before the upheavals that accompanied the close of the First World War the exercise of power by City interests had been a fairly straightforward exercise in what – following the language above – can be called the second face of power. Up to 1914 City elites tightly controlled the agenda of financial regulation and financial policy. The Gold Standard, with the City as the switchboard of the international monetary system, spirited key decisions about economic policy away into a sphere far removed from overtly political argument. The City elite was socially closely integrated with the wider ruling elite, and moreover, in a political system with a highly restricted franchise, operated in a political world dominated by two business friendly parties, Liberal and Conservative. Issues of financial regulation were appropriated by City institutions, such as the Bank of England – a privately owned and controlled institution – and the Stock Exchange. Critics of City power, and of the City's impact on the wider economy, were marginalised to the domain of cranks and radicals.

The consequences of the Great War, and notably the political upheavals in Britain and elsewhere that accompanied the closing stages of the war, threatened to destroy this tight system of agenda control. The economic transformation accompanying war – the mobilisation of women into the workforce, the development of an unusually tight labour market, the destruction of the Gold Standard system, the rise of an indebted state – empowered institutions like trade unions and – because the state now had to deal directly with financial markets to manage debt – drew the City overtly into 'politics', that is, into the world of the core executive. The most dramatic wider changes occurred in the revolutionary moment which swept across Europe out from the Russian Revolutions of 1917. For a brief moment in Britain there occurred a frightening threat to the established order. The Labour Party emerged as a nationally organised party in 1918. The constitution which it adopted in that year reflected its brief capture by the spirit of socialist radicalism – a moment of capture which, even after it passed away, still left legacies, like the nominal commitment to widespread public ownership in the Party's new constitution. And the coupon election permanently changed the party system: from one with two dominant business friendly parties to one with a business friendly party (Conservatives) and one which, at least on occasions, was a critic of both the City and the wider business order.

Thus by the end of 1918 the conditions which had allowed the City to control the agenda of financial politics had disappeared: the City could no longer operate as a closed community; a new political party often unfriendly to business interests was now the second party in the state; and the 'automatic' mechanisms which had taken so much economic policy out of government, notably the Gold Standard, had been destroyed. The City was briefly faced with the prospect of having to fight to defend its interests on the open terrain of democratic politics – by winning victory, in other words, in decisional, one dimensional power struggles. But developments after 1918 soon converted this power terrain into something different where something resembling Lukes's 'third dimension' became the mode of power which was to sustain finance for a generation.

Three separate narrative components made up this new system. First, the City developed a distinctive constitutional narrative. A reformed and professionalised Bank of England (professionalisation symbolised by the institutionalisation for the first time of a permanent governor from 1920) emerged as the authoritative ruler of the City, protecting it from the attentions of Parliament and the core executive, and establishing the government of the City as a constitutional sphere distinct from the rest of the economy (and indeed society). Second, the City developed, and succeeded in establishing, a hegemonic regulatory narrative. The Bank of England was again central to this. It oversaw the organisation of City markets into a series of cartels governed by trade associations and self-regulatory bodies. It pictured financial regulation as a skill only available to those with tacit, practical knowledge of the markets – thus excluding actors from the new democratic politics. And it embedded the practice of regulation in cartelised markets governed by institutions controlled by the markets themselves: membership of the cartel gave privileges; continued membership was contingent on observance of the 'self-regulatory' regime. Finally, these years saw the successful reconstruction of a distinctive economic narrative centred on the belief in the capacity of markets, especially financial markets, to operate as automatic self-maintaining entities – a reconstruction symbolised by the return of Britain to the Gold Standard in 1925.

These narrative constructions proved strikingly resilient: they survived the great crash; the forced expulsion from the Gold Standard; the Great Depression; the transformations accompanying the Second World War; the return of a reforming Labour Government in 1945; even the nationalisation of the Bank of England in 1946. The narrative presumptions supporting City government in the late 1950s – when the Radcliffe Committee conducted its inquiry into the monetary system – were not greatly different from those prevailing in the 1920s. Someone who fell asleep in a City boardroom after a good lunch in 1925 – all too easy to do – and woke, Rip Van Winkle fashion, in 1955 would have observed fundamentally the same narrativised world.

In the decades succeeding Radcliffe, however, this system of hegemony began to decay. The disruptive elements of change could be summarised as the twin forces of contradictory events and structural change. If the City's hegemonic narrative worked by mystification, that process has its limits in a society with – admittedly constrained – norms of democratic accountability and open debate. The City's constitutional narrative was based on the premise that it should be governed by a Bank of England which was autonomous from the democratic state, and was thus exempted from the norms of democratic accountability. Throughout the 1960s and 1970s the Bank fought a rearguard action to defend this position, but it was a losing battle. By the 1980s it had been converted into an unambiguously public institution, unrecognisable from that recreated by Montagu Norman in the 1920s. At the same time, the City's regulatory narrative was challenged by events in the form of recurrent scandals – about crooks in established markets like Lloyds and the Stock Exchange, and avarice and imprudence in banking markets. The scandals could not be totally hidden, and their revelation prompted an obvious, awkward, question: if self-regulation controlled by City cartels was so superior to forms of control involving institutions of the democratic state, like Parliament, why did these scandals occur? In other words, in a society with a flawed, but still robust, culture of open debate it was now not enough to tell stories about self-regulation if those stories were manifestly not aligned with social reality.

These challenges were reinforced by structural change. The foundations of the City's constitutional, regulatory and economic ideologies lay in the cartelised markets. But from the late 1950s – with the initial appearance of Eurodollar markets – the City began to be invaded by new competitive forces, often foreign in origin. The acceleration of globalisation from the early 1970s exposed the City to other global centres – notably New York – that were themselves undergoing rapid structural change and deregulation. Thus the 'big bang' on the New York Stock Exchange in 1975 – the decisive structural episode in that financial centre – was succeeded in 1986 by London's decisive deregulatory moment, its own 'big bang': formally the abolition of restrictions on competition and ownership on the Stock Exchange, substantively the signal for a transformation of the old City world of control by domestically owned firms and domestically controlled cartels into a set of markets where the key players were mostly foreign multinational giants.

The structural conditions for the continuing exercise of a Lukesian 'third face' of power were thus being destroyed. But whereas the birth of the original 'third face' of City power could be fairly precisely dated to the democratic upheavals of 1918, its death was protracted and convoluted It encompassed the destruction of the domestic cartels that had been the heart of self-regulation, beginning with the rise of new markets like the Eurodollar market from the 1950s and culminating in the big bang of 1986. It encompassed the forced reconstruction of many distinct regulatory domains along statutory lines, ranging from the Lloyds insurance market (because of swindling) to banking (because of the great systemic 'secondary banking' crisis of the 1970s.) It encompassed growing juridification in the face of public revelations about abuses like insider dealing, and swindling of depositors (the latter the prompt for the major overhaul of the regulatory system along statutory lines that accompanied the 1986 big bang.)

Successful hegemonic narratives , naturally, work not merely on those they subordinate; they also work through those who disseminate them. Thus the collapse of the conditions for the successful operation of the City's constitutional, regulatory and economic ideologies did not immediately put an end to their invocation. After 1986, in particular, all sorts of strange, contorted institutional forms were developed to try to salvage self-regulation and City autonomy: as with the Securities and Investments Board which was supposed to preside over a system of organised self-regulation after the passage of the legislation in the wake of the 1986 big bang. Meanwhile, the language of the 1920s - about the superiority of the City's way of regulating itself - continued to be used. But this was now as incongruous and anachronistic as riding round the City in a Model T rather than a Ferrari. A new kind of story – a new narrative construction – was needed, and it was fashioned in the era of the Great Moderation, as the new long boom in the advanced capitalist economies was called. But though fashioned in the era of the Great Moderation it was able to draw on existing ideas and practices: the rise of a wider neo-liberalism in Britain in the 1980s provided the foundations for development of the fourth, capillary, face of City power.

3. 'Neo-liberalism' as the City enlists capillary power

Since the argument of the paper has reached a turning point, it may be helpful to summarise things so far. Before the advent of democracy, City power mostly consisted in the exercise of the second face: the manipulation and control of policy agendas by a City elite which was in a condition of symbiosis with other political and social elites, and which was able to spirit away policy issues to its own private domains. The post-1918 development of formally democratic politics and the rise of political and social movements challenging to City (and business) power occasioned crisis out of which came a 'Lukesian' solution: the creation of a hegemonic narrative which fused constitutional, regulatory and economic policy elements. That was finally eroded by cultural change, regulatory failure and structural change which threatened again to move City issues into the domain of struggle over overt decisions: to resurrect the first face of power, something which it has been a long-term ambition of the City elite to avoid, since it involves open contestation on public, and often democratic, terrains.

The response in the years of the Great Moderation – the period of the long financial market-led boom that collapsed in 2007-8 – involved sovereign government sponsorship of a finance sector which enlisted the capillary support of governmentality. This opened up a prospect of semi-automaticity through the fourth dimension of power identified earlier: the project was to make markets and their operation highly visible as policy makers; financial elites and populations were supposed to perform behaviours and internalise a whole series of normative constraints that were market sensitive. Two things should be emphasised about this. First, agency or intent had little to do with it: that is, the project was bricolaged as a set of responses to a heterogeneous series of social and economic problems. Second, to anticipate the main theme of section 5 of the paper, the project never became anything but a failing regime. That was because the reach of governmentality exceded its grasp both when appropriate norms were not internalised by the population and when the widely accepted complacent account of the workings of financial markets was controverted by events as the great crash of 2007-8.

The project of constructing this new regime of power had six elements, and a brief review of those elements shows how far capillary power was imbricated in the wider rise of what many call 'neo-liberalism'.

First, structural changes exposed populations to the rewards and risks of financial markets. The privatisation programmes of the Conservative Governments - principally from 1983 – were aggressively marketed to promote a 'share-owning democracy', both by extensive advertising campaigns and by deeply discounted offerings of share allocations. A similar programme of heavily discounted and aggressively marketed sales of social housing resulted in the transfer of up to one a half million dwellings to private ownership, exposing a whole new and large social group to the signals from both financial markets, via interest rates, and to property markets. The floating of mutuals, like building societies and some insurance mutuals, likewise created windfalls for deposit holders and exposed these institutions to new market disciplines, notably through doctrines involving the maximisation of shareholder value.

Second, in part, though only in part, because of these exposures, whole new industries sprang up designed to mass market products that protected against financial risks. The declining value of collective security – for example, the closure of occupational schemes and the declining value of state pensions – created opportunities to market new instruments of protection linked to the fortunes of financial markets. Financial products to protect against risk, until a couple of decades previously largely confined to traditional catastrophe insurance against events like fire or premature death, now were designed to extend into huge areas of social life. The ambitions of the Bischoff Report, the City's 2009 statement of its role in economic and social life, envisaged fresh markets in areas like protection against the costs of care in old age. (For more on Bischoff's vision of the new City, see below.)

As it was, the schemes – in many cases it transpired, scams – seemed endless and grew in complexity over time. They included the gigantic marketing of mortgage endowments schemes, which exposed mortgage holders to the gyrations of stock prices; and personal pensions which just like mortgage endowments ended in mass claims for compensation. As high street banks – and their newly deregulated competitors in the old building society sector – found it hard to operate their traditional business models of profit from intermediation between borrowing and lending, high street banking was converted into the mass marketing of all sorts of insurance schemes protecting against risk. The ballooning of household debt in the boom years of the Great Moderation opened up markets for schemes like Payment Protection Insurance. By the end of boom the schemes were even more ambitious: interest rate swap agreements, imposed on small business borrowers as a condition of receiving bank loans, involved hedging small businesses against interest rate risk – and, it turned out, exposing them to potentially catastrophic losses when the bets were wrong.

Third, this exposure to the disciplines of financial markets as managers of life risks was reinforced by another kind of exposure: to the disciplines of markets over policy decisions. The most important sign of this was the change in interest rate policy regime, and symbolically and substantively the most important moment occurred immediately after the election of the Labour Government in 1997. Labour had already in the years of opposition in the famed 'prawn cocktail offensive' sought to demonstrate its subordination to the City. But in the immediate aftermath of the election victory the creation of the Monetary Policy Committee, endowed with control over interest rates, institutionalised this subordination: it was designed to reassure the markets in the light of a Labour victory; and it did so by removing a key financial policy instrument from the control of democratic government.

Fourth, this subordination to the markets was itself part of a wider set of beliefs which have been well documented in studies of the history of the Great Moderation. They amounted to a celebration of the superior intelligence of the markets in the management of risk – superior to that of citizens and of their elected representatives. This was the era of encomia to the ingenuity of market operators in devising new financial instruments which were alleged to have both solved the historic risks of transactions in markets, and integrated new participants – such as high risk borrowers – by the invention of novel instruments for packaging, securitising and selling on risk. This also had the effect of imposing powerful self-restraints on regulators: the story of the first ten years of life of the Financial Services Authority (established 1997) is precisely one of self-restraint in overseeing and controlling markets, in the belief that really effective regulation was 'cooperative regulation' – a system that accepted the superior judgement of actors in markets in estimating and managing risk (The documentation for the preceding argument is in Engelen *et al*. 2011, on which these passages rely.)

Fifth, these images of superior intelligence were given an incarnation in the emergence of authority figures who spoke to the citizenry and to their elected representatives, communicating the messages to be internalised. The most prominent were the new generation of 'scientifically' qualified central bankers, like Mervyn King and Ben Bernanke, who offered the assurance that, like scientists in a laboratory, central bankers had now learnt from past failed experiments and operated only according to hypotheses confirmed by evidence. At a more popular level financial economics now supplied a new breed of economist and researcher as an authority figure: not the academic in the lecture room or study, but the chief economist or analyst interviewed in TV news, against the background of City dealing rooms, conveying the authoritative views of the markets to the citizenry via the newly 'mainstreamed' financial news.

None of the developments summarised here were unique to Britain in the era of the Great Moderation, though the attempt to reshape social life and citizens' perceptions around signals from financial markets was peculiarly strategic in Britain where a post-war social settlement was being dismantled. But there was a final element which was special to the UK.

Sixth, as the economy recovered after the trauma of the currency crisis of Black Wednesday in 1992, a distinctive narrative was developed about the role of financial markets in Britain. The background to this is well known: the long decay of a manufacturing sector which had once been globally preeminent, a decay that accelerated in the crisis of the 1970s, and then in the recession of 1981. What was to replace all this manufacturing might? The narrative that developed was to the effect that the deregulation of London as a financial centre had created an alternative economic dynamic: had given the UK a comparative advantage in building a post-industrial service economy, the great motor of which would be the financial services sector, especially its heart in the City.

At the height of the Great Moderation, policy makers like the Chancellor of the Exchequer, and leading voices of City interests, were united in expressing – and believing in – this story. But the account had an important corollary. If the City was an economic powerhouse, it was a powerhouse which had to operate in a fiercely competitive global financial services industry, against many rival centres. It could only operate successfully if light-touch regulation allowed maximum flexibility in the pursuit of enterprise and creativity. The narrative thus strengthened the already powerful bias in favour of cooperative regulation – which in practice meant the lightest of possible touches from the authorities, notably the Financial Services Authority. It also strengthened the tendencies, noted above, encouraging the expansion of financial instruments in wide areas of everyday life by its emphasis on the necessity of relentless innovation.

As we noted above, capillary power is usually represented not as one of four faces, but as a comprehensive alternative to conceptions of power linked to sovereign domination. But since we are trying to understand the heterogeneity and limits of power in single or combined form, the account of the history of City power offered here is different and focuses on the successive domination of different forms of power in successive conjunctures.. As we have argued, before the economic and political upheavals of the First World War the City essentially exercised power through the second face – by agenda control. The challenge of democracy in the immediate post-World War One was headed off by creating a hegemonic narrative , and institutions like the reorganised Bank of England helped police enforcement. After a period of struggle and confusion, Labour's reforms of 1997 inaugurated a period when the fourth face of power was promoted through a whole range of practices including the dominant light-touch regulatory regime, as the products and practices of the financial services industry increasingly penetrated everyday life amidst complacence about the genius of markets and market practitioners in managing risks; and celebration of the City as the powerhouse of a new post-industrial economy.

But dominance and ubiquity is not the same as stability or sustainability of power because a project is not necessarily a durable regime. The power of Foucault's great meditations on the history of social domains like incarceration, medicalisation and sexual discipline is that they chart highly successful projects: that is, they show domains where 'power' is manifested as the pervasive infiltration of values and practices which constitute subjectivity performed in everyday practices so that the world can run without much necessity for the exercise of something so crude as sovereign domination. This was precisely what was attempted in the case of financial power where there was a project for the conversion of popular social life into a kind of extension of the cultures and practices of financial markets. This extension is brilliantly recorded for the US in Thomas Frank's *One Market under God* (2000). Frank's book was published just before the tech stock crash which led into the sub-prime boom. It therefore failed to register one big difference between market populist finance and the domains documented by Foucault which became clear only when that boom collapsed: whereas Foucault documented highly effective historical projects which became regimes , the 'fourth face' of financial power in the UK and other high income countries was always an ongoing shambles which ended in undeniable catastrophe that called the political sponsorship of capillary finance into question.

4. Contradictory events and disorderly internal operations

The putative semi-automatic regime was discredited after 2008 in the usual way (just like earlier regimes) by a combination of public events that contradicted its established narrative and structural changes which shifted power into new domains. And, we would add, the project of capillary power was also undermined by its own disorderly internal operations when a population which was functionally incapable of prudential calculation was nevertheless enlisted in unsustainability through cashing out on rising house prices. The two effects of discrediting events and undermining behaviours were of course interrelated because the housing equity withdrawal of the confused masses fed the value extraction of cynical corporate elites whose pyramid of unregulated credit creation through derivatives was built on mortgage loans.

The crash of autumn 2008 was of course the most important destructive and discrediting event. In a tolerably liberal society with a fair amount of open reporting and debate, narrative mystification cannot work simply through deceit and conspiracy. Thus, when events falsify the terms of a legitimising narrative, that narrative is in trouble. The crash falsified key features critical to the fourth face of power. It manifestly demonstrated that the account which pictured financial institutions and markets as capable of packaging and managing risk was wrong; indeed it showed that key practices of freely innovative markets were themselves one of the main sources of the crash. The almost unbelievable costs of rescue to the public purse could also likewise not simply be concealed, and made more difficult a key element in the pre-crash narrative: the tale that the City was a kind of goose laying golden eggs for the wider economy. After the crash that account could only be maintained (as it was in the Bischoff report, for instance) by carefully massaged figures which simply ignored the costs of rescue.

But the crash not only had cultural consequences. It had straightforward structural and policy consequences which also complicated the workings of the 'fourth face'. In the UK it did what only the most radical elements on the left had ever envisaged: transferred a large chunk of the banking system to public ownership. As we have described elsewhere, much political effort then ensured the nationalised banks were controlled undemocratically and at arms length through the UKFI agency (see Froud *et al.* 2010). But public ownership did change the terms of power struggle: it transformed issues of corporate practice, and executive reward, from ones that were the concerns of markets to ones that were subject of acrimonious political debate – to ones that were subject to 'decisional' power, in other words.

The consequences of the crash were also bound up with another blow to the authority of finance because it inaugurated a new age of scandal in the City. When an elite is afflicted with a succession of scandals that is usually a sign that its authority is in decay. (Consider the coincidence of secularisation and the appearance of the sexual abuse scandals in Catholicism; or the rise of empowering feminism and scandals concerning sexual harassment in elite institutions.) Apart from the scandals immediately contingent on the crash, we have seen a succession of episodes which have discredited retail and wholesale banking practice and bankers. A key element of the system of power created in the years before the crash was, as we saw above, the elevation of financial institutions, and their typical personifications like chief executives and chief economists, to positions of great authority – encouraged to pontificate on the conditions of economic life. The succession of abuses constructed as 'scandals' was itself a sign that this elevation was no longer possible.

Fresh scandals in retail were particularly damaging because they suggested that retail banking had not reformed the practices which had previously led to aggressive mis-selling of endowment mortgages and personal pensions. Thus, after 2008, we had new scandals with even larger compensation payments for mis-selling of Personal Protection Insurance to private borrowers and small business complaints about being pressured into taking out hedging instruments which exposed the financially ill informed to catastrophic losses in derivative markets. The problems were not confined to retail and significantly a public which in 2008 barely understood the more technical aspects of wholesale like derivatives and leverage could by 2012 understand the corruption of the markets because the widespread manipulation of LIBOR (a key wholesale money market interest rate) provided an intelligible instance of dishonest traders working for themselves.

The cultural damage done by the succession of scandals was potentially much larger than the not inconsiderable costs of compensation, because the scandals were not about lapses in behaviour by some operatives but about the operating systems of the putative new regime. First, the scandals on the supply side all arose out of features central to the business models for retail cost recovery and the internal organisation of investment banks. Confusion marketing and cross-selling in retail was the standard way of covering the costs of free current accounts and expensive branches; LIBOR manipulation was driven by the comp ratio system of reward for investment bankers. Second, the scandals that involved retail finance were central to the project summarised earlier – what might be called the financialisation of everyday life, the attempt to make the population not only large-scale consumers of financial products but also subjects who internalised the values of the markets in consequence . What the scandals suggested was that customers were being sold to (as they say in the motor trade when a customer is induced to buy an unsuitable and unsaleable model).

The result of all this was not a population of docile bodies but an electorate of suspicious customers. There is direct evidence of a collapse in the cultural foundations of the authority system, from polling data in the British Social Attitudes surveys which periodically ask questions about public confidence in key business institutions. In 1983 it asked its sample of the population whether banks in Britain were well run. 90 per cent agreed that they were: the confidence expressed was higher than for any other institution surveyed. By 2009, when a similar question was asked, the figure had dropped to 19 per cent. In reporting these figures Curtice and Park (2011: 141) remark that: 'this is probably the biggest change in public attitudes ever recorded by the British Social Attitudes series'. We do not have exactly comparable later data but, entirely unsurprisingly, subsequent scandals like that of LIBOR fixing have caused wide disenchantment: a Yougov poll in November 2012 found that 80 per cent of those surveyed believed that the LIBOR scandal was symptomatic of a widespread problem of ethics in UK banks (Rowe 2012).

The destructive forces working on the fourth face of power described thus far for the most part concern events during and after the crash of 2007-8. But there was a more insidious internal weakness to the whole system – insidious because it was present even at the height of euphoria about the Great Moderation. Foucault's accounts of the great historical disciplinary systems like incarceration, sexual restraint and the meaning of health owe their power to the fact that these disciplinary systems did indeed lead to mass internalisation of restraining values. As Rose nicely puts it, they embraced ways in which 'one might be urged to and educated to bridle one's own passions, to control one's own instincts, to govern oneself' (Rose 1999: 3). But what was striking about the popular culture of the period of the Great Moderation was precisely the lack of this kind of self-government. If people were indeed to be 'entrepreneurs of themselves' (in Miller and Rose's phrase: 2008: 49) they were remarkably careless and imprudent entrepreneurs.

The carelessness was rooted in the financial illiteracy of the customers, who in a world of disciplinary power should have become 'entrepreneurs of the self'. 'Numbers have achieved an unmistakable power within the technologies of government', says Rose, in his outline of the circumstances where a system of power is based on self restraint and self surveillance (1999: 197). But, in respect of finance, the evidence is that the population has simply not been taught its numbers. Around three quarters of the UK population – especially almost all of those most vulnerable to aggressive selling of expensive debt – had not the slightest grasp of even the most elementary skills needed to make a sensible financial ratio calculation. Drawing on survey data Ertürk *et al*. (2005, 2007) show that two thirds of a national sample could not make elementary calculations of returns on interest rates; 79 per cent could not explain the meaning of an APR (2007:563). Their general summary of the evidence is damning: 'the general level of financial literacy is very low; the middle classes in the UK have delusions about their competence to choose financial services products; and under conditions of uncertainty, consumers are likely to focus on reward and ignore risk' (2007: 563).

The financial services industry and government in the UK and elsewhere did make an attempt to promote financial literacy for the citizen. As Ertürk *et al.* noted before the crash, literacy had been identified as "a key control technology whereby financialised capitalism obtains improved economic performance and socially responsible outcomes' (2007: 558). But the literacy programmes were always under-resourced and practically they were a complete failure because they never resolved the issue of access to the mass of consumers. Financial literacy courses were aimed not at adults actually taking risky decisions but at captive audiences in schools, and moreover in a curriculum system where there was intense competition between subjects for space. As late as 2009 the Bischoff report had got no further than issuing vague injunctions about the need for curriculum modules on the subject.

The popular cultural foundations of a genuinely capillary system of power demanded a population capable of internalising restraints and observing prudence. That capacity was never created and the dominant retail institutions were actively undermining prudence by aggressive marketing of credit card debt and high-valuation, interest-only mortgages. The population happily joined in the imprudence because they may have been functionally innumerate in financial ratio calculations but they did recognise an increase in the house price value of their house and could realise that unearned increment through mortgage as unearned income to spend on holidays, kitchens and German cars. In Tony Blair's premiership, as in Margaret Thatcher's, housing equity withdrawal was larger than nominal GDP growth, so that imprudence provided the unsustainable driver of consumption demand and economic progress to the crash.

The results were congenial for consumers who cashed out unearned gains and for an industry which profited from unregulated credit creation.To that extent, the system was not irrational, although it was unsustainable because it required perpetual increases in property prices. In the years of the Great Moderation, as far as popular finance is concerned, we had a casino where the house fiddled the odds, and the punters lacked the elementary skills to know what was going on but happily took unearned winnings off the table. This is a great short-run recipe for a profitable casino and happy punters; but it is no foundation for a system of disciplinary power based on the government of the financial self.

5. Zombies awaken: incantation, power and decision after the crash

The potency of narrative representation lies not only in its capacity to govern the minds of those who suffer domination; it also lies in its capacity to mystify the minds of elites that dominate. Thus great crises, like the 2007-8 crash, rarely result in the immediate abandonment of the standard tropes. Elite figures rather come to resemble zombies, dead men walking through a ruined landscape repeating the incantations which appeared plausible in the last conjuncture . A good example is provided by the behaviour of elites, both in the City and in the core executive, in the immediate aftermath of the crash.

The classic example is provided by what is usually by convention called the Bischoff Report of 2009 on the future of financial services in the UK. The conventional title nods to the identity of the co-chair of the Working Party which produced the report, a City grandee. (Most of the hard work of drafting was done by staff of the Corporation of the City of London.) But the report was commissioned by the Treasury, and should more accurately be called the Bischoff-Darling report, for it was signed off by Bischoff and by the Chancellor of the Exchequer, Alistair Darling, as co-chairs. After a brief opening recognition of the financial crisis (which of course was at its height when the Working Party was at its business) it settles to down to pre-crisis language: the City is a major contributor to the wider economy and a major contributor to the tax take of the UK government. More striking still, it proposes to extend financial market innovation to manage social risks – the examples include provision against the costs of retirement and old age care, health care and protection against the consequences of climate change (HM Treasury 2009: 45). It repeats too one of the key conditions of the exercise of capillary power by asking for the education of a financially literate population.

All this, of course, was drafted at the very moment when the financial system was crashing around the ears of elites. The extent to which elites were still trapped in a kind of single, self-reinforcing dream world is illustrated by the almost contemporaneous publication of the Labour Government's reform proposals to deal with the great crash – proposals which, incidentally, in their modesty show no inkling of the depth of the catastrophe suffered (see Froud *et al.* 2010). The White Paper outlining these proposals draws heavily on the Bischoff Report in hymning the stellar contribution of the City of London to British economic success, exactly in the kinds of terms conventional before the crash. The following is typical: 'In the UK, in addition to playing a pivotal role in supporting economic growth, the financial services industry is a significant sector of the economy in its own right' (HM Treasury 2009a: para 1.6).

Alongside this dream world more quick-witted elite figures were of course repositioning themselves in the wake of the great crisis. The publication of these two zombie-like accounts is contemporaneous with a report by Adair Turner, who had just taken over as Chair of the Financial Services Authority, which launched a scathing attack on the very practices which had been the subject of encomia during the Great Moderation: in *Prospect*, one of the house magazines of the Anglo-American elite, he dismissed much financial innovation as 'socially useless' (Turner 2009, and see Turner 2009a). The rise of clear-minded elite critics like Turner and Andrew Haldane is hardly surprising because of the catastrophes which struck the financial system from 2007 onwards. (Haldane, the Bank of England director responsible for financial stability, expressed increasingly heterodox views as the crisis deepened.) The effect of these has to been to undermine authoritative expert support for the 'disciplinary' project which characterised the years of the Great Moderation.

The post-2008 crisis could be described as the collapse of the attempt (under sovereign sponsorship) to exercise power through its 'fourth face' and this discrediting of project and regime plainly left the financial elite with serious problems. In essence, it has been obliged to fall back on a riskier power strategy which earlier financial elites have (whether through accident or design) avoided since the onset of democracy in Britain: to work through the first, 'decisional', face of power by confronting issues and opponents openly, often by involvement in the struggles in the democratic arena.

In entering arenas where overt decisions are the object of struggle, the City elite has, as we show in a moment, considerable resources. Still, the cultural adaptations needed to operate in this often unfamiliar world have produced some spectacular fiascos. The example of Bob Diamond, the former CEO of Barclays, provides an instance. When Diamond appeared before the Commons Treasury Select Committee in July 2012 to try to give an account of his and Barclays' role in the LIBOR fixing affair, he had all the formidable resources of the bank behind him, and had plainly been carefully coached in both the style and content of his responses. The result was a personal disaster: the evasive content, and the contrived style (addressing MPs whom he had never before met by their first names) aroused enormous hostility in the Committee. Adaptation to the world of struggle over open decisions is not easy, and we can expect more Diamond-like instances of ineptness. (Indeed we have already had some more recently in the incompetence of tax-avoiding corporations trying to explain their behaviour to Parliamentarians.)

Nevertheless, while the exercise of decisional power is a second-best solution for the City, it has impressive resources to mobilise. These are of a kind familiar in any orthodox political science analysis. The resources of individual corporations and of City trade associations mean they can buy the smartest lawyers and PR operators on the market. Moreover, in recent years key parts of the City have been reorganised to smarten up the lobbying operation. The British Bankers Association, moribund as recently as the early 1990s, is now a well resourced and highly professional lobbyist. The Corporation of the City, once largely given over to ceremonial and charitable functions, has in recent years equipped itself with impressive lobbying and advocacy resources. The City also possesses to an impressive degree the kinds of expertise, and strategic location in policy networks, which always mark out highly effective lobbies: we have elsewhere documented, for instance, how the institution that manages the state's holdings in the banks nationalised in the 2007-8 crisis (UKFI) is staffed by the City elite and has acquired the mentality of that elite (Froud *et al.* 2010). Moreover, the plutocracy of the working rich created in the City during the boom years has been adventitiously helped by an unrelated development: the collapse of political party financing in Britain. The disappearance of the mass party, and of the resources which it could command from its mass membership, has thrown all the major parties into financial crisis, and has driven them to desperate, and often barely legal, measures to avoid bankruptcy. In these circumstances the City working rich have emerged as major bankrollers of the metropolitan parties: they supported New Labour in the good years of the Great Moderation, and are now major supporter of the Conservatives. (The documentation for this paragraph is in Johal *et al*. 2012).

Thus, by lobbying power, expertise, strategic location in policy networks and the suborning of political parties, the City is very well equipped to operate on the open terrain of decisional power. But this is all very much more uncertain in effectiveness than are hegemonic projects or agenda manipulation and the aim is essentially defensive rather than constructive and transformational as with capillary power. Whether the City can develop a strategy to transcend decisional power is an open question.

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