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The Role of the State in the Financialisation of the UK Economy

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This article looks at the role of UK governments in the financialisation of the British economy and its industry. It argues two things. First, the UK state has had a rather more active role here than most observers have acknowledged. Successive governments since the 1970s have not merely abandoned industry, they have handed much of its control to the financial sector. Second, a key part of this policy shift was linked to the rising power of the Treasury and its reshaping of the former Department of Trade and Industry in its own ideal economic policy image. This both boosted the City and disadvantaged industry, thus propelling the UK towards financialisation at a faster pace than almost all rival economies. The arguments are based on evidence from a mix of interviews with central actors, published insider accounts and an analysis of budget statements in the period 1976–2010.

Keywords: UK state; financialisation; Treasury and DTI; economic policy, 1976–2010

This article asks two questions: What role did the UK state play in the rise of financialisation in Britain, and what were the institutional mechanisms by which financialisation came to be supported?

Most critical accounts of financialisation tend to ignore the role of the state or assume that states have reacted to irresistible economic trends. They usually rely on macrolevel quantitative data to demonstrate the transformation, but rarely look at the social and institutional mechanisms through which change is achieved. This article seeks to fill this gap by investigating some of the key state institutions and actors involved in UK financialisation. More specifically, it looks at the Treasury and the Department of Trade and Industry (DTI), from the 1976 International Monetary Fund (IMF) bail-out to the end of New Labour – a period coinciding with the UK's lurch towards a more financialised economy. Evidence was collected from a series of interviews and insider accounts, archive documents and from an analysis of four decades of UK budget statements.

All of this suggests that the UK state became an active participant in the process of financialisation. At the heart of this pro-finance institutional shift was a changing balance of power between the Treasury and the DTI. In the late 1970s, both departments went through a series of dramatic changes that left the Treasury far stronger relative to the DTI. The Treasury then attempted to remake the DTI in its own image, subjugating its alternative economic outlook to that of its own. In the process, the UK financial sector was continually boosted while its core industrial base was undermined and further placed in the hands of its London-centred financial sector. This was not simply a lurch towards free markets, but a particular economic policy paradigm that advantaged finance and aided the financialisation of UK industry. It propelled the UK towards financialisation faster than almost any other leading economy of the time.

The Financialisation of the UK Economy and Industry

'Financialisation' describes a particular set of trends, associated with mature capitalist economies, that have developed markedly since the late 1970s. Although often assumed to be an element of globalisation and neoliberalism, it has its own distinct features (Epstein, 2005; Froud *et al.*, 2006; Krippner, 2011; Palley, 2007; Stockhammer, 2010). In Palley's (2007, p. 2) words: 'Financialization is a process whereby financial markets, financial institutions and financial elites gain greater influence over economic policy and economic outcomes. Financialization transforms the functioning of economic systems at both the macro and micro levels.' Most obviously, financialisation is about the growth of financial markets relative to both the state and the real (productive) economy of goods and services. Thus, the capital managed by banks, and their ability to create credit, has grown several-fold compared to state expenditure or gross domestic product (GDP). The stock, bond, commodity, commercial real estate and currency markets have also grown significantly relative to the real economy.

However, the spread of financialisation goes rather wider and deeper, as many economic activities in society are reshaped to serve financial market needs. This pure market finance paradigm alters behaviour and activity at all levels, beginning with the financial sector itself. Banking is less about savings and loans and more about short-term profit-seeking and 'rentier' behaviour (Piketty, 2014). In turn, large non-financial corporations (NFCs) are increasingly run to create 'shareholder value' by any means (see Crotty, 2005; Froud *et al.*, 2006). Corporate merger, demerger and acquisition activity, under-investment, asset sell-offs and global tax evasion are all encouraged by financialisation. Similarly, ordinary households are drawn into financialisation through a range of activities, from the securitisation and collateralisation of mortgage debts to the nationalisation of bankrupt banks (see Engelen *et al.*, 2011; Seabrooke, 2006). Such trends have been in evidence in many economies since the 1980s. However, they were particularly advanced in certain, more financialised economies such as Ireland, Iceland, the US and UK.

Although the UK has had a strong financial sector for centuries, it expanded significantly from the late 1970s. From 1979 to 1989, investment in financial services grew 320.3 per cent next to investment in manufacturing, which rose only 12.8 per cent (Coates, 1995, p. 6). Until the 1970s, UK bank assets had been equal to roughly half the value of UK GDP for a century. Following changes, by the mid-2000s, they had risen to five times the value of GDP (Haldane, 2010). In 1979/80, the equity value of the stock market (£30.8 billion) was roughly 40 per cent of government income (£76.6 billion). By 2012, it was worth £1.76 trillion, or three times government income (£592 billion; HMSO, 1980–2014). From 1997 to 2013, the UK's debt rose from £34 billion in 1997 to £1.3 trillion, or 88 per cent of GDP in 2013. By the time of the financial crisis in 2007–8, the UK's financial sector relative to its economy was bigger than any other G7 nation. In contrast, UK industry has suffered a faster decline than all its economic rivals in that same period. In 1970, UK manufacturing accounted for 30 per cent of GDP, 16.3 per cent of total world exports (Coates, 1995, p. 7) and had trade surpluses of 4–6 per cent annually. Furthermore, 35 per cent of UK employment was in this sector. By 2010, 13 per cent of GDP and 10 per cent of total employment was in manufacturing, and the UK was running a trade deficit in this sector of 2–4 per cent (Chang, 2010, p. 90).

The questions posed in this study regard the UK state's role here. By many measures, the UK economy has become more financialised and has gone through a more pronounced process of deindustrialisation than any of its major economic rivals. This suggests that such developments were more than just a consequence of natural global economic trends. If successive UK governments have contributed, how have they and through what institutional mechanisms?

In this case, studies of state actions and the UK state in particular are relatively thin on the ground. Much critical globalisation and international political economy literature, with a few notable exceptions, tends to focus on macroeconomic data trends. These demonstrate the rising power of transnational corporations (TNCs) and global economic institutions, relative to national economies, thus undermining national sovereignty and pulling nations into the global economy on their terms. A similar approach characterises much of the financialisation literature. For Gerald Epstein (2005), Thomas Palley (2007), Engelbert Stockhammer (2010) and others, the role of nation states is either ignored or assumed to be in reactive compliance with wider economic forces. As Krippner (2011, p. 13) remarks: 'In short, there is a kind of instrumentalism lurking in some of these accounts that supplants the interests of the financial sector for the interests of the state or simply assumes these interests to be identical.' Krippner (2011) is one of a few financialisation scholars (see also Seabrooke, 2006, Schwarz, 2009; Konings, 2011) who has looked more closely at the role of the state. All of these authors look at the US and none of them, with the exception of Krippner (2011), has used more qualitative data sources such as insider interviews and documents.

In the UK there are few, if any, fine-grained, microlevel studies of the state and the contribution of political actors to financialisation. There have been many broad histories of the Thatcher-initiated, free-market revolution, which ended the post-war tripartite consensus, deregulated many parts of the economy, and discredited Keynesian economic policy and the welfare state. There are also several accounts (Anderson, 1987; Fine and Harris, 1985; Ingham, 1984) charting the long-term separation of finance and industry in the UK. Of equal significance, these same authors (see also Hutton, 1996; Strange, 1988; Theakston, 1995) have documented the dominant 'institutional nexus' that developed between the City, the Bank of England and the Treasury. Such a nexus was mutually beneficial for these institutions but often did little to advance other parts of the economy. Similarly, there have been many studies on the UK's slow industrial decline and the state's abandonment of its industry relative to other Organisation for Economic Cooperation and Development (OECD) economies (Coates, 1995; 2000; Hall, 1995; Williams *et al.*, 1990). Consequently, over many decades, government economic policy often proved more favourable to finance than to industry.

In sum, these various literatures say little about the UK state's more recent role in financialising its economy. Those that look at government actions choose to focus on the US as the primary instigator of financialised capitalism. Those works looking at the UK state tend to separate the stories of financial advance and industrial decline. More importantly, they generally pre-date the far larger and sudden changes in UK finance and industry that took place from the late 1970s onwards.

As this article goes on to argue: (a) UK processes of financialisation and deindustrialisation are closely linked; (b) the UK state was even more implicated in these developments than is usually acknowledged; and (c) the shift took place because one part of the state – the Treasury – gained greater influence over another – the DTI – and with significantly wider economic consequences.

The UK Treasury and the DTI, 1979–2010: The Study

The study presented here collected data from several sources. First was a close reading of the annual budgets over the period 1976–2010. These recorded cumulative fiscal measures over time, analysed public budget statements qualitatively, and subjected them to computer-aided quantitative analysis. Second was a series of 19 in-depth interviews with ministers, senior officials and advisors of the DTI and Treasury, who served in the period 1976–2010. A third source of data was gathered from several biographies, *Who's Who* entries, published insider accounts, government reports and other secondary sources.

All these sources tend to support a broad historical overview (Hutton, 1996; Letwin, 1992; Middlemas, 1991; Young, 1989). The events surrounding the 1976 IMF loan request, and the arrival of the new Thatcher government of 1979, had far-reaching effects across government. The tripartite consensus that had balanced the interests of organised labour, the corporate sector and the state fell apart. A new state free-market economic consensus and policy framework emerged, which was then maintained through the years of New Labour (Jenkins, 2006; Toynbee and Walker, 2010). By the time of the financial crisis (2007–8), UK financial services had grown enormously and much of UK industry had gone the opposite way (Elliott and Atkinson, 2009; Engelen *et al.*, 2011).

However, the research also revealed rather more about the institutional shifts that took place within the UK government. In different ways, both the DTI and Treasury were subjected to powerful exogenous shocks. Such shifts simultaneously strengthened the Treasury and weakened the DTI relative to central government, at both ministerial and civil service levels. This allowed the Treasury's narrow, finance-linked economic worldview to dominate the DTI's wider industrial economic vision. This took place through a mixture of institutional shifts enforced on the DTI by the Treasury. The Treasury not only imposed severe cuts on the DTI, but also determined what functions and personnel were to be cut. At the same time, Treasury-linked senior civil servants and ministers sympathetic to Treasury objectives were put in their place. Ultimately, the DTI was reshaped to reflect the priorities and normative beliefs that the Treasury held in relation to the UK economy. The DTI then aided steps to support the financial sector while also distancing itself from industry and, of equal significance, placed greater control of companies into the hands of the financial sector. Thus, the UK state, under both the Conservatives and New Labour, made a significant contribution to the financialisation of its own industrial base.

The Treasury and the DTI: A Tale of Two Departments and Economic Visions

From the late 1930s to the early 1970s, the Treasury and the various departments of trade and industry, despite having contrasting economic visions and activities, were well accommodated within UK governments. The departments covering trade and industry were generally directed by economic thinking which sought to manage and boost UK-based industries, at home and abroad. They were central to the tripartite politics and Keynesian economic consensus that had directed the UK state's policy framework from the late 1930s onwards. Having direct management of many nationalised industries, and in charge of a range of regulatory and financial levers, they had grown to a substantial size (Middlemas, 1991; Pollard, 1992). A number of leading politicians, including Harold Wilson and Edward Heath, had managed them during their careers. By the 1970s, with their links to both union and business leaders, they had become fairly influential in the running of the UK economy.

In contrast, the Treasury's primary function was the control of the public finances. It was an inward-facing department that rarely dealt with real industry or the regions (Lipsey, 2000; Pliatzky, 1989; Theakston, 1995). Its main outside links were with City institutions and the Bank of England. Its staff dealt with these institutions on a daily basis and also moved in similar social circles (Ingham, 1984; Strange, 1988; Theakston, 1995). As a rule they were critical of big infrastructure projects and the large, nationalised industries, which drew on Treasury funds and were also associated with ongoing industrial relations problems (see also Gamble, 2009; Hall, 1995; Jenkins, 2006).

Consequently, Treasury staff shared an economic view of the world that had much in common with the Bank of England and the City. This was anti-state intervention and spending, weary of large public industries, favourable towards free trade and international markets, and supportive of UK financial services. This long-term 'Treasury view' was recently summed up by Sir Nicholas Macpherson (2014), the current Treasury Permanent Secretary, in a public speech. The 'view' included: a 'belief in free trade', 'better functioning international markets', 'well functioning capital markets', 'price stability', a 'strong currency', 'limits to what the state can do' and 'spending control'. In effect, liberated, efficient, international stock markets are best placed to run UK business. This view is very compatible with financial market theory – a pure neoclassical economic account of markets – and has been commonly recorded in London's financial sector (Davis, 2007; Fama, 1970; Hutton, 1996; Lazar, 1990). It is a perspective that takes little account of many of the factors that concern real businesses and the real economy, from high currency exchange rates to long-term research and development budgets. In effect, it mentally brackets out wider market and political conditions, and leaves industrial management to secondary, abstract financial markets.

Until the economic crises of the 1970s both institutions and their economic visions were fairly well accommodated in government for a few reasons. First, although the Treasury was always the stronger, according to Leo Pliatzky (1989), it had lost some of its authority and influence in the post-war period. It had certainly struggled to limit public expenditure under the existing Public Expenditure Survey Committee (PESC) system, as spending departments regularly over-ran their budgets (Heclo and Wildavsky, 1974, Thain, 1984). Second, because the departments of trade and industry were central to an economic policy based on the tripartite consensus, they were given a significant voice in government. Third, the dominant Keynesian macroeconomic policy outlook of the period both supported industry and undermined the long-established pillars of Treasury thinking. As a couple of interviewees recalled, Keynesian officials had come to occupy the higher reaches of the Treasury by the 1970s and, consequently, had weakened its longer-term institutional outlook:

> [T]hese [Treasury officials] were people who'd worked with Keynes. It was an aberration in some ways from the traditional Treasury view ... what Keynes was fighting against in the 1930 s was the Treasury orthodoxy (Alan Budd, former Chief Economic Advisor).

The institutional balance of power changed significantly with a series of weighty economic crises in the 1970s. Things came to a head in 1976 – a 'critical juncture' – when the Labour government was forced to seek assistance from the IMF. In many accounts (Hall, 1993; Jenkins, 2006; Mullard, 1993; Pliatzky, 1989) it was the Treasury that was held most to blame for the loss of control over the public finances. For Simon Jenkins (2006), the impact on the Treasury was nothing less than 'traumatic'. What followed, according to interviews, was a series of reviews, personnel changes and restructuring. This proceeded apace when the new Thatcher government came into power in 1979. Peter Middleton, an economist favourable to monetarism, was singled out and promoted to permanent secretary ahead of several more senior ranking staff. Keynesian officials were all pushed out:

> There was a revolution in the Treasury ... the top dogs in the Treasury were under suspicion when the Conservatives arrived ... a couple went very quickly and then two or three more went over the next two years, so that by 1981 you'd probably got most of the new team in place (John Gieve, former senior Treasury official).

The Treasury was then given substantially more power across Whitehall (Chapman, 1997; Hall, 1995; Johnson, 1991; Lipsey, 2000; Pliatzky, 1989; Theakston, 1995). The loan rules laid down by the IMF meant greater Treasury control over department budgets. After 1979, the Thatcher government saw the Treasury as the key institutional means for implementing its monetarist philosophy, thus securing its position even more. In 1981, it was put in charge of civil service pay and promotion, as well as permanent secretary appointments across Whitehall. Its influence was consolidated during the 1980s and 1990s through a series of new hierarchical structures, accounting tools and annual procedures designed to rein in department spending (Chapman, 1997; Heclo and Wildavsky, 1974; Lipsey, 2000; Thain, 1984; Thain and Wright, 1990; 1995). Ultimately, the private, inward-looking and insular Treasury became one of the most powerful financial departments of any established democracy in the world (Hall, 1995; Johnson, 1991; Theakston, 1995).

Significantly, the Treasury was also given a more prominent role in developing macroeconomic policy and managing the larger economy (Coates, 1995; Lipsey, 2000; Pliatzky, 1989; Theakston, 1995). As part of the restructuring, there was an influx of economists in the 1970s (Lipsey, 2000; Theakston, 1995). During the 1980s, several Treasury ministers had City backgrounds. Chancellor Nigel Lawson, the widely acknowledged intellectual economic policy force of the period, had spent many years as a financial journalist in the City. John Major and Norman Lamont, the next Chancellors, as well as several Treasury ministers (Cecil Parkinson, Lord Cockfield, Leon Brittan, Nicholas Ridley and Peter Lilley), also had established City careers before entering Parliament. These shifts, at both ministerial and civil service levels, helped to re-establish the long-run Treasury–City economic view, as well as giving it far more influence over economic policy:

> My time in the City did inform my disillusionment with the policies pursued by Heath because ... I worked as an investment manager and I could see the problems that were building

> up, and the harm that was being done, and the distortions that were being created by policies. So I suppose, in that sense, my time in Rothschild's did have a big impact (Norman Lamont, former Chancellor).

Just as the Treasury was considerably strengthened by the exogenous institutional shocks of 1976 and 1979, so the DTI was severely destabilised. It was clear after 1979 that Mrs Thatcher and her inner circle viewed the DTI, with its close relations with the nationalised industries and unions, as inextricably tied to past problems. Keith Joseph, Peter Lilley, David Young and other DTI heads did not hide their contempt for what Young called the 'Department of Disasters' (Johnson, 1991; Theakston, 1995). There were regular rumours that it would eventually be abolished. It became a department that most aspirational ministers avoided. Between 1983 and 1990, there were seven secretaries of state, and junior ministers came and went with equal frequency (Johnson, 1991). The post itself became an unwanted position on the ministerial ladder going to somewhere else. The department was serially cut and restructured, and its links to industry were eroded during the Thatcher governments (Theakston, 1995). In 1979, the Department for Prices and Incomes was abolished and integrated into the Department of Trade. The National Enterprise Board was cut loose before being closed down in 1982. In 1983, Trade and Industry were merged into one.

The rise of the Treasury and the demise of the DTI continued, albeit at a reduced pace, into the 1990s and 2000s. Treasury power dipped in the early 1990s but was then reasserted in the New Labour years under Gordon Brown (Jenkins, 2006; Toynbee and Walker, 2010). Despite Michael Heseltine's stronger presence at the DTI, from 1992 to 1995, there were more sales of national industries and rounds of departmental restructuring. The National Economic Development Council and Office were abolished in 1992 (Mullard, 1993; Pliatzky, 1989). Parts of the departments of Energy and Employment were folded into the DTI. Under New Labour, six secretaries of state came and went over ten years and several more rounds of restructuring took place. Bits of Education, Energy and Environment came and went, with budgets and headcounts changing significantly too. For several interviewees, the reorganisations and rapid turnover of ministerial and civil service staff left a sprawling, fragmented department, low on morale and without clear direction:

> I spoke to somebody who was a special advisor there ... he had ten secretaries of state. Disastrous ... people were demoralised. We had a huge generation gap in the middle of the department where they'd had to get rid of lots of people and they hadn't been replaced in the Thatcher cuts. And the department had got lots of different bits in it that had never been brought together (Margaret Beckett, former DTI Secretary of State).

By 2007, the once powerful DTI department had become a shadow of itself. It was then disbanded, restructured and renamed. Two years later, another large overhaul took place, leaving the rather smaller Department of Business, Innovation and Skills. In contrast, in this same period, many rival economies (the US, France, Japan and Germany) had kept their equivalent industry ministries on a more equal footing with their finance ministries (Hall, 1995; Theakston, 1995). Under such circumstances – a strengthened Treasury and a destabilised DTI – the potential for a government-led restructuring of the economy was in place. The DTI's economic vision was likely to be superseded by the Treasury's resurgent economic views, and with longer-term consequences for both industry and finance.

The Treasury Reshapes the DTI in Its Own Image

The Treasury's intentions for the DTI were made clear quite quickly. It used the tools at its disposal to reshape the department and redirect its institutional resources. Publicly, this was made clear in the annual budget statements and in a series of fiscal measures which advantaged finance over industry. Internally, changes were imposed through a mixture of budget cuts, personnel shifts and the setting of new institutional priorities. The most dramatic shifts took place under Margaret Thatcher, but continued throughout the Major, Blair and Brown administrations.

Policy priorities, in favour of finance and against industry, were outlined publicly in successive budget statements. Computer-aided analysis of speeches, from Denis Healey to George Osborne, shows a steady decline in the use of terms such as 'industry', 'industrial', 'trade', 'manufacturing' and 'export'. Healey was the last Chancellor to talk about 'finance for industry' in 1977. Constructions about industry dropped precipitously from Healey's time, falling almost fourfold by Lawson's, where they have remained ever since. The only time Lawson mentioned manufacturing was when he withdrew its tax assistance, which he called 'unnecessary reliefs' (Lawson, 15 March 1984). In contrast, from Geoffrey Howe onwards, there was a steady increase in the use of finance terms, including 'share ownership', 'capital markets', 'financial strategy', 'market discipline', 'banking business' and 'private investor'. After Nigel Lawson, successive Chancellors from Ken Clarke to Alistair Darling used such terms between three and five times as frequently as they did industry ones.

In terms of hard fiscal and regulatory measures, the Treasury made a series of changes that were designed to free up markets generally (see also Cairncross, 1992; Jenkins, 2006; Pollard, 1992; Toynbee and Walker, 2010) but often worked to benefit financial markets at the expense of UK industry. The years 1979 and 1980 brought the release of exchange and credit controls and thus initiated a new credit boom. This also meant that big UK-based institutional investors started switching far more of their funds abroad and away from UK industry. Stamp duty on the purchase of shares and bonds was cut in stages from 2 to 0.5 per cent. Dividend payment controls were abolished in 1982. In contrast, although corporation tax was cut for all businesses, this was paid for specifically by removing capital investment allowances for machinery and plants – measures which primarily hit manufacturing. There were steady value-added tax (VAT) rates rises on goods and services, but financial and insurance services were made VAT-exempt. This doubly disadvantaged industry next to finance as the former made much greater use of real world goods and services than the latter. For Lawson, all decisions came back to freeing up markets with little recognition that such measures would both aid finance and hinder manufacturing:

> Transaction taxes do a particular harm because you need to have transactions, that's how markets work ... the reduction in stamp duty [on shares], there were so many more transactions as a result ... [cutting tax relief on capital investment] was entirely my own thinking, obviously having decided that, I wanted ... to have a lower rate of tax on profits, offset by a gradual winding down of all these reliefs, which had no economic rationale (Nigel Lawson, former Chancellor).

The public discourse and fiscal measures were matched by severe Treasury-enforced department budget cuts at the DTI. With little support from the prime minister or wider cabinet, it was difficult for the DTI to resist some of the harshest cutbacks of any Whitehall department in the 1980s (Mullard, 1993; Thain and Wright, 1992b). Maurice Mullard's (1993, pp. 24 and 35) study of changes in public expenditure patterns noted that the DTI's own budget dropped pretty continuously from 1.35 per cent of GDP in 1979 to 0.7 per cent by 1987. It edged up later, but never rose above the 1 per cent level again. Capital expenditure programmes, with a direct industry impact, were cut from 4.07 per cent in 1974 to 0.92 per cent by 1988. DTI staff members, as a percentage of the whole civil service, dropped through the life of the department, from 2.45 to 1.77 per cent (Civil Service Yearbooks, 1976).

There were also clear shifts in senior personnel. Thain and Wright (1990; 1992a; 1992b; 1995), in particular, document the procedural, management and accounting tools that were imposed by the Treasury in order to tighten financial controls. This included the machinery of the Treasury's General Expenditure Policy Division (GEP) with its Expenditure Divisions (EDs) in each department. Thus the Treasury was able to place small staff divisions within each department to oversee and communicate with every financial division.

Most significantly perhaps, a series of Thatcherite allies, most with City and Treasury links, were put in charge of the DTI. There were 12 DTI cabinet ministers in Thatcher's time in office. Of the 12, six (Keith Joseph, John Nott, Lord Cockfield, Cecil Parkinson, David Young and Peter Lilley) had served part or all of their pre-politics career in the City. Two more – Norman Tebbit, a former *Financial Times* journalist, and Leon Brittan – had strong City connections. Eight of the 12 (John Nott, Patrick Jenkin, John Biffen, Lord Cockfield, Cecil Parkinson, Leon Brittan, Nicholas Ridley and Peter Lilley) had held one or more ministerial positions in the Treasury prior to joining the DTI. Only one of the 12 (Paul Channon) had neither City connections nor ministerial experience in the Treasury. Such links to the City and Treasury have never been so strong, either before or since, in the DTI's history. A related development was the growing tendency to bring in external consultants from the City to advise on new finance-related activities that were taken on by the DTI:

> [W]hen I got there we appointed bankers, brokers, engineers, accountants, regulatory advisors. You name it, we got the lot. ... I said this is the team that's going to take on privatisation from now ... to companies which have been floated, and I don't want brokers coming along at the last minute (Cecil Parkinson, former DTI Secretary of State).

Treasury objectives were also conveyed to those civil servants working in the DTI. During interviews, it became clear that the less able ministers and DTI officials stayed working with the nationalised industries and business support. The more able went to work on new privatisations, competition or trade policy, with many going to help develop the European Single Market. In effect, advancement within the DTI meant working on, and conformity with, larger Treasury macroeconomic policy goals: privatisation, deregulation, competition, control of inflation and public expenditure, and international free flowing markets (Theakston, 1995, p. 311). Everything was developed in the service of producing better international, finance-led market competition, and the conditions to attract inward investment. As one DTI official recalled of her time in the 1980s:

> [I]f you were working on the big privatisations there was complete alignment. That was really pointing the way between Number 10, Treasury and DTI in that territory, so that was a very tight relationship in terms of looking in the same direction, thinking the same things, very tight at ministerial level, tight at official level ... so long as the DTI was driving the big privatisations on energy, telecoms, Rover, the sort of innate tensions between a DTI view of industrial policy and a Treasury let-the-market-at-it view was perhaps more subdued (Anonymous former senior DTI official).

These trends changed little through the Major or Blair governments. The computer-aided analysis of budget statements show that Norman Lamont and Ken Clarke spoke a little more about industry and a little less about finance than John Major and Nigel Lawson before them. But New Labour changed tack again. Gordon Brown and Alistair Darling said relatively less about industry and more about finance than Lamont and Clarke. In fact, Brown said less about industry and Darling said more about finance than any of their Conservative predecessors (although in Darling's case he was dealing with the financial crisis). Enforced DTI budget and staff cuts also continued. In Labour's first term these figures were stable or went up slightly. They then started to drop again in the second term. For Brian Bender, in charge of the DTI over the period, 'the relationship between the DTI and the Treasury was like the playground bully and the bullied'. Then, with large-scale restructuring in 2007 and again in 2009, the DTI was reduced to a quarter of its size to form its eventual successor, the Department of Business, Innovation and Skills (BiS):

> I had three quite significant machinery of government changes in my time as permanent secretary. The first was the creation of Defra by Tony Blair in 2001. The second was the creation of the Department for Business, Enterprise and Regulatory Reform when Gordon Brown became prime minister. That involved taking science and innovation out of the department to the newly created (and short-lived) Department for Innovation, Universities and Skills. And the third, in autumn 2008, was when Gordon Brown created the Department for Energy and Climate Change. The result of the last two changes was to reduce the department's budget from over £6 billion to a bit below £1.5 billion (Brian Bender, former DTI Permanent Secretary).

Unlike the Thatcher years, under New Labour there was no well-trodden ministerial pathway from the City and/or Treasury to the DTI, but there was a marked increase in (GES) Government Economic Service-appointed economists within the department and a continuing influx of consultants from the City. In fact, the GES, in operation since 1964, housed in the Treasury and linked to the Bank of England, expanded significantly during Labour's term of office. In 2001 there were 607 GES civil servants. Numbers more than doubled to 1,295 by 2010, and all during a period of overall decline in civil service head count. The DTI had 60 GES staff in 2002. This had increased to 107 in the new BiS incarnation by 2010, again during a period of cuts (figures supplied to authors direct from GES). Those present during this time also talk of the steady influx of City consultants and the close links with the banking sector that seemed to increase over the years:

> [T]he real issue was the City and getting financial advice ... later on we have the Shareholder Executive ... the people you'd employ there were clearly people who understood the City and financial markets. They became quite useful in all sorts of things around government. ... I

> think it might even have been in the Treasury to start with but it ended up at BiS ... the big bank leaders were much more into the Treasury and into Number 10. And I was aware in Number 10 that the banks had a strong line into the place, not only to the prime minister, but to Jeremy Heywood for instance (Dan Corry, former Labour economic advisor in the DTI).

By the time New Labour arrived, civil servants had cut many of their links with, and traditional means of support for, industry. More than that, the department itself had become entirely anti-interventionist and, according to some interviewees, many were now as hostile to industry as the Treasury itself. The new orthodoxy was to step away from companies and produce a better business environment through infrastructure and greater competition. At the same time, it had come to view and promote finance as a world-leading 'industry' of the UK economy – one that should be supported at all costs:

> [I]n the process of course the industrial policy that developed was one that basically said there's very little money for business support ... everyone was under the influence of the financial sector, I think, probably including the DTI ... we were probably all of us far too impressed by how well the financial sector was doing and how competitive it was internationally (Vicky Pryce, former Chief Economic Advisor, DTI).

Ultimately, through three decades, Treasury actions and perspectives were imposed on the DTI, realigning its thinking, processes and goals with those of the Treasury itself. A new state institutional economic consensus emerged. Although many Treasury actions favoured finance over industry, several of the key shifts that facilitated financialisation and deindustrialisation in the UK were implemented by the DTI. Three of these are briefly discussed in the next section: deregulation of the City, privatisation and corporate governance.

The Reshaped DTI and the Financialisation of UK Industry

At the start of the Thatcher government, financial services and insurance were regulated by the DTI. It was Cecil Parkinson who, when heading the DTI, led the negotiations with the London Stock Exchange (LSE) for deregulation. The 1986 Financial Services Act ('Big Bang') that followed ended the exclusive, insider networks of the City and opened it up to international players. In a short space of time London's broking companies were almost all bought by wealthier overseas investment banks. For those involved at the time, policy was driven by the desire to restore the UK's financial sector to a central position in the global economic system by making London more open and competitive:

> [T]he world of international finance was changing dramatically, and if London wished to be part of it, it had to change. And if it was going to change you had to allow the British companies to operate in international markets so that the whole system had to change (Terry Burns, former Treasury Permanent Secretary).

When New Labour came into power in 1997 it altered the regulatory structures. The changes required more regulation, but they also emphasised self-regulation and an unobtrusive approach (Lipsey, 2000; Moran, 2007; Thain, 2009). The Bank of England was given independence and the new Monetary Policy Committee (MPC) was given control of interest rates. The new tripartite system of regulation, consisting of the Treasury, the Bank of England and the Financial Services Authority (FSA), practised 'constrained discretion'. Liberalisation and the influx of international financiers led to huge rises in international financial capital flows in and out of London. Shortly before Northern Rock collapsed in 2007, Labour passed a further reform of the 2000 Financial Services and Markets Act, which made FSA regulatory requirements 'even lighter'. Gordon Brown and Ed Balls continued to advocate 'light touch' regulation in speeches to the financial community, actively encouraging overseas financiers to come to the UK:

> Ed [Balls] became Minister of the City and he went round preaching deregulation ... 'light touch, light touch' everywhere he went ... and the Treasury's light touch idea was to attract as much as we could of these [financial] activities to London, certainly we were successful there ... [but] we definitely took our eye off that ball and paid a heavy price for it (Geoffrey Robinson, Labour MP).

Just as the DTI aided the Treasury in the growth of the UK's financial markets, so it also actively contributed to the financialisation of British industry (see also Hall, 1995; Hutton, 1996; 2011; Johnson, 1991). One way it did this was through the privatisation programme that peaked in the 1980s but continued through the 1990s and the New Labour years. Between 1979 and 1996 there were 59 major public sales of government-owned businesses, worth £65 billion, and 88 private sales, worth a further £6.7 billion (Gibbons, 1997). New Labour had rather less to privatise after 1997, but it maintained the policy. Privatisations took place at other departments too, but the DTI took a prominent lead. The National Air Traffic Services (NATS), the Royal Mint, Tote and the Commonwealth Development Corporation were each privatised. More significantly, the government entered into Public-Private Partnership (PPP) agreements and began outsourcing many state services. By 2005, £100 billion of PPP-related debt had built up, and by 2007 some 20 per cent of public expenditure was on outsourced services (Jenkins, 2006, pp. 261 and 266).

By many accounts, the privatisation programme was initially pushed through to shrink the state and enable the growth of the private sector. However, one key point to note is that privatisation automatically came to be transacted through public flotations on the LSE, with various alternative means and mechanisms usually rejected. Another key point is that, as time went on, the Treasury became increasingly reliant on the income from such sales (Pliatzky, 1989; Thain and Wright, 1990; 1995). The public accounts were represented so that the sales were not recorded as 'receipts', but rather as 'negative expenditure' (Pliatzky, 1989). The Labour government's PPP contracts were also worked out so they could sit off-balance-sheet and make the overall Treasury figures look stronger in the short term. In effect, the manner and means of privatisation, PPP and outsourcing suited both the City and the Treasury. But this also meant that the privatisation programme handed over great swathes of UK industry, public services and debt directly into the hands of London's financial sector. The UK government also became a major contractor for financial services companies, many of which then went on to work with other governments on their privatisation programmes. Once again, the DTI often acted as the institutional means for achieving such Treasury goals:

> Looking back on it, this was a Treasury-led programme, even though the Department of Energy, the Department of Industry and so on fronted the individual sales. It was a consistent

> Treasury-led programme, under the prime minister's encouragement, to just push state businesses into the market sector (John Gieve, former senior Treasury official).

The UK state, through the DTI, also did much to hand greater control of public companies more generally to the financial sector. This took place in three areas of legislation overseen by the DTI: corporate governance, trade liberalisation and takeover policy (see Davis *et al.*, 2013; Seely, 2012). Financial market thinking in the US and UK since the 1970s had come to emphasise 'shareholder value' as being central to good corporate governance (see Davis, 2007; Froud *et al.*, 2006; Hutton, 1996). UK corporate governance as it evolved and was regulated by the DTI from the 1990s onwards came to be developed according to such financier expectations. Thus governance rules oriented company directors' 'fiduciary duties' primarily towards serving investors over and above other stakeholders (employees, customers, communities) or even the company itself. Following a series of corporate financial scandals, several new committees followed (Cadbury in 1992, Greenbury in 1995 and Hampel, in 1998) each setting out new proposals. In each case, the panels were dominated by big City institutions. In each case, corporate governance principles were laid out and then loosely enforced by the LSE and Financial Reporting Council (FRC) – both of which were, once again, dominated by City representatives.

Similarly, trade liberalisation and takeover policy came to be set through the DTI but according to the financialised economic thinking of the Treasury and the City. The DTI led the way in negotiations for the deregulation of international trade within the EU and beyond. Other EU states agreed such policies, but most of them also maintained more protections and supports for their own key industries (Coates, 2000; Hall, 1995; Hall and Soskice, 2001; Hutton, 1996). Takeover policy in the UK likewise became increasingly *laissez faire* and, consequently, handed almost complete control of the process to the LSE. After 1979, the tests and scope for government intervention were steadily weakened by DTI secretaries of state. In 1984, Norman Tebbit made clear that referrals to the then Monopolies and Mergers Commission would be made primarily on 'competition grounds'. Between 1984 and 1991 there was only one referral made for other reasons. Accordingly, the UK became the easiest of all major economies in which to conduct takeovers. Between 1991 and 1997, UK takeovers relative to GDP were far higher than any of its G7 rivals, including the US (Jackson and Miyajima, 2007).

Once again, the New Labour years saw a clear continuation of these trends. The 2000 Financial Services Act and 2006 Companies Act, produced by the DTI, officially recognised the FRC and LSE as having legal jurisdiction in the areas of corporate governance and takeovers. This further ensured that company directors regarded their main duties as being to serve shareholders above all else. In the 2002 Enterprise Act, Patricia Hewitt removed further powers from ministers to intervene in takeovers and reaffirmed competition as the key reason for referral. Between 1998 and 2005, despite rises in takeover activity globally, the UK remained the most takeover-prone country. In this period, takeovers in Japan equated to 2.5 per cent of GDP, in Germany to 7.5 per cent, in France to 9.9 per cent, in the US 10.7 per cent and in the UK 21.8 per cent (Jackson and Miyajima, 2007). New Labour, as with previous regimes, saw itself as leaving takeovers to be decided by markets, but in practice this meant handing more say to financial markets:

> [T]he worry that the Treasury has, and I think it's legitimate, is that the DTI becomes a defender of British industry ... to start with, ministers still sort of took the final decisions on mergers ... over time we took them out of it completely, and we put more economists in charge of OFT and the Competition Commission (Dan Corry, former Labour economic advisor in the DTI).

In effect, an increasing number of changes, enacted through the DTI, handed control of the bulk of UK industry not just to the 'free market', but to its financial markets. It was a slow, staged coup that made Britain's corporate leaders and companies direct their larger goals towards the needs of the City and international investors. The profile of UK equity market shareholders changed accordingly. In 1981 individuals held 28 per cent of shares, UK-based pension and insurance funds 47 per cent, and overseas investors 4 per cent (Golding, 2003, p. 23). By 2012, individuals held 10.7 per cent, pension and insurance funds 10.9 per cent, and foreign investors 53.2 per cent (ONS, 2012). Hedge funds and high frequency traders were responsible for 72 per cent of market turnover (Kay, 2012). In the 1960s the average company share was held for almost eight years. By 2008, this was reported to have dropped to three months (High Pay Commission, 2012). UK companies had become increasingly owned by foreign-based and short-termist financial institutions, which treated companies as simple units to be traded on fast-moving secondary markets. As critics and several interviewees acknowledged, UK industry had been handed to the control of anonymous, absentee shareholders and the financialised economy:

> By and large if you look at the people who own Britain's largest companies they're not British, they're international investment operations. ... The long term interests of this country, the industrial base, the scientific elements, the research and development facilities, the supply chains, all these things have no consequence at all. Well that is unlike any other capitalist economy, unlike any other, starting with America (Michael Heseltine, former DTI Secretary of State).

Conclusions

This article has focused on the role of the UK state in producing a new variation of the capitalist system – financialisation. As argued here, the state played a very active role in this process. Whether conscious or not of the larger macroeconomic outcomes of its decision-making, government ministers and civil servants reorganised the economy to support its financial sector. Its interventions were very decisively in favour of finance and against industry and, in many ways, handed greater control of industry direct to financial investors.

The study took a fine-grained and qualitative approach in its research, exploring the institutions, people and ideas operating at the centre of government. Specifically, it looked at the dramatic changes that took place inside the Treasury and DTI after 1976. Such changes enabled a strengthened Treasury to reshape the DTI along Treasury–City economic ideal lines. Much of this was forcibly imposed on the DTI as its budgets were severely cut and its policy goals increasingly set by Treasury thinking. Normative influences were shifted through changes in professional personnel, as economists and City- or Treasury-linked civil servants, consultants and ministers were moved into the DTI. Aspirational DTI ministers and officials then responded by attempting to put into practice

Treasury economic thinking as a way of achieving institutional stability and personal advancement. Through this process, a new unity of state economic thinking emerged – one developed in the Treasury but enacted through both the Treasury and reshaped DTI together. It was *financial market* thinking as much as *free market* thinking that provided the rationale and directive parameters for 'Big Bang', privatisation, deregulation of finance and trade, and evolving corporate governance and takeover regimes. These not only shifted economic conditions in favour of international finance and against manufacturing, they helped to pass UK industry more overtly into the hands of the financial sector.

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Anonymous former senior civil servant, various positions at the DTI, 10 December 2013.

Dame Margaret Beckett, Labour MP 1974– , various cabinet and shadow cabinet posts, 1989–2006, including Secretary of State for DTI, 1997–8, 26 June 2013.

Sir Brian Bender, various senior positions at DTI and across government, including Permanent Secretary of DTI and Business Enterprise and Regulatory Reform, 2005–9, 6 November 2013.

Sir Alan Budd, Senior Economic Advisor to Treasury, 1970–4 and 1979–81, Chief Economic Advisor, 1991–7, Head of Office for Budget Responsibility, 2010, 30 June 2014.

Lord Terry Burns, Chief Economic Advisor to Treasury/Head of Government Economic Service, 1980–91, Treasury Permanent Secretary, 1991–8, 15 July 2014.

Dan Corry, Economic Advisor to Labour in DTI, (Shadow) Treasury and Number 10 Policy Unit, 1989–2010, 5 August 2013.

Sir John Gieve, senior Treasury civil servant, 1978–2001, various senior posts elsewhere, 2001–9, 11 July 2013.

Lord Michael Heseltine, Conservative MP, 1966–2001, various shadow and cabinet positions, 1974–1997, including President of the Board of Trade, 1992–5, 24 June 2013.

Lord Norman Lamont, Conservative MP, 1972–97, various ministerial positions in government, in Treasury, 1986–93, including Chancellor of the Exchequer, 1990–3, 28 June 2013.

Lord Nigel Lawson, Conservative MP, 1974–92, Chancellor of the Exchequer, 1983–9, 20 June 2013.

Lord Cecil Parkinson, Conservative MP, 1970–92, various cabinet positions, 1983–9, including Secretary of State for DTI, 1983, 1 August 2013.

Vicky Pryce, Chief Economic Advisor DTI/BiS, 2002–10, Joint Head of Government Economic Services, 2007–10, 22 May 2014.

Geoffrey Robinson, Labour MP, 1976– , various positions in Labour governments, 1970s–1990s, including DTI and Treasury, 24 June 2014.

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