The Crunch and the Crisis: the unravelling of lifestyle capitalism?

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Introduction

In 2008, the 'credit crunch' progressed from financial crisis to global economic recession, its impact spreading from the US housing market to western financial markets and, by the end of the year, to most nations and sectors of the international economy. Its origins in the highly technical character of the 'toxic' products spawned in the financial world of intermediation and risk management has informed a hesitant and, in turn, managerial analysis of causality. This hesitancy was reflected in the statements expressed by politicians and business leaders throughout much of 2008 as they oscillated between inaction and reaction and expressed fears, in turn, about the crisis realising uncontrollable inflationary or deflationary trends.

For much of 2008, American and British politicians and business leaders were anxious to downplay the problems created by the credit crisis until the financial world reached the brink of collapse. The UK government, spent much of the year in denial about the weakness of the British economy- it was sound in its essentials - blaming US and wider international developments for the position the UK economy is in[1] while the US government dithered over a bailout plan which was initially designed to buy up all the worthless, toxic assets of the finance sector but eventually took the form of buying shares in US banks.

The combination of denial, hesitancy and indecision that has characterised responses to the current economic crisis has its origins in the political and business world's interpretation of the recent performance of the western, mainly Anglo-American, model of capitalism. Those who have sought to manage it have created a rhetoric laced with words such as stability, expansion, and globalisation when, in reality, the leading western nation, the USA, and its satellite, the UK, have sought to manage economies whose productive dynamism has disappeared and who rely increasingly upon servicing the productive activities that take place elsewhere in the world. A thin veil of respectability has been lent to this perception by the theorisation of knowledge as the intangible, magical ingredient of a new type of western economy that lives by its wits rather than by what it makes[2].

The hollowness of these ideas and policies is now perhaps exposed, creating an opportunity for a more considered and reflective view of what is really happening in the west and the wider world. This paper discusses briefly the causes of the current economic crisis and examines the social conditions of its emergence as well as exploring the limitations of the actions currently

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[1] The UK Prime Minister has consistently blamed the credit crunch and subsequent recessionary trends on international or external factors rather than acknowledging any problems inherent in the UK economy. See Poynter G (2008) 'The Credit Crunch and London's Economy' Rising East, Issue Number 8a, July 2008, http://www.uel.ac.uk/risingeast/currentissue/academic/poynter.htm

[2] There is an extensive literature on 'creating' the knowledge-based economy from the academic and policy-making worlds of UK, European and American government institutions in particular. For an overview of EU policy development , see, for example, Rodrigues M (2003) 'European Policies for a Knowledge Economy, Aldershot: Edward Elgar. For a brief, concise critique see Jessop B. (2000) 'The state and the contradictions of the knowledge-driven economy' in Bryson J. et al Knowledge, Space, Economy, London: Routledge, pp63-78.

being taken to tackle it - the limits, in other words, of what some commentators refer to as a Keynesian programme of state intervention[3].

The Origins of the Credit Crisis

Credit crises are not unusual events. The expansion of credit in the 1970s and early 1980s in western economies, such as the US and UK, , helped stave off recessionary trends arising from the weak performance of the production sector but eventually led to debt-inflation that was addressed by governments in the mid-1980s by curbing public spending and tightening credit controls (Brenner 2006: 159). The current credit crisis has different origins in the service sector, arising from a credit squeeze in the US housing market. Andrew Palmer, in explaining in *The Economist* how 'Paradise' was 'Lost' describes how bankers and finance houses forgot the maxim 'know your customer'. They lent to people who did not have publicly available credit histories and were, therefore, categorised as being in the sub- prime, as opposed to prime, market (Palmer 2008, 7). This exposure to the high risk sub-prime market may have caused relatively few financial institutions to suffer when, in the summer of 2007, the US housing market dipped and immediately exposed subprime borrowers to defaulting on loans. However, suffering rapidly spread throughout the financial world because the institutions that sold sub-prime mortgages had re-packaged the debts and sold them on to other institutions in the sector. What was designed to make the system more resilient by spreading risk, in fact, became the source of contagion, 'the risks flowed back to the banks as toxic assets'(Palmer 2008:6). Whilst the site of the bubble was initially the housing market, the credit crisis has its origins in the process of financialisation.

The origins of financialisation may be traced to the 1950s and 60s with the emergence of new types of consumer credit, supported by the development of the now ubiquitous credit card, the emergence of institutional finance (pension funds, insurance and mutual funds) and the professional practice of fund management. Credit provision in the second half of the twentieth century became a very important part of the activities of many industrial sectors, not just the banking and finance world. General Motors, for example, through its financial arm GMAC, secured most of its profits by the end of the twentieth century through this operation rather than through the making and selling of automobiles.[4] In turn, the activities of the international finance institutions were furthered by the development from the mid 1960s of computer-supported risk management models and the emergence of new financial markets designed to track share performance over time rather than simply recording current prices. The focus on performance assisted investors to track share values, adjusting their expectations against short term movements in prices, and facilitating the diversification of investment portfolios to take into account changes in, for example, currency and interest rates and inflation.

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[3] See, for example, Elliott L. And D. Atkinson (2008) The Gods that Failed, London: The Bodley Head.

[4] Amongst a wide range of financial service products, GMAC has provided General Motors (GM) with vehicle financing deals typically channelled through GM car dealers in the USA. At the end of 2008 it was owned by GM (49 percent of shares) and Cerrebus Capital (51 percent of shares) and it was considering an application to achieve bank holding company status in order to access the US government's financial relief package. To do so GMAC is required to increase its capital base and reduce the share holdings of its two owners. Access to the relief package would provide the basis for raising the level of credit available for customers and in turn, it is hoped, stimulate demand for GM cars. See Bullock N. (2008) 'Questions hang over GMAC's future', Financial Times, Tuesday December 30 2008 p17

The diversification of investment to take into account these risks gave rise to 'hedging' and those who took higher risks for potentially greater rewards achieved 'leverage' by mortgaging their existing assets in order to buy additional assets through the options market or by taking a 'short position' (a short term bet on the value of the additional assets purchased). Legislative changes in the UK and subsequently the USA[5] further aided the expansion of the role of corporate finance in the USA and UK and, as will be discussed below, reflected the underlying lack of investment in the 'real' economies of each nation. The process of financialisation masked the underlying weaknesses of these economies but as long as financial institutions expanded their transactions with each other ('over the counter' transactions), it seemed possible to turn even the least attractive assets into tradeable commodities.

This process, called securitisation, was initially designed to enable banks to share risk with other investors by passing on loans as if they were assets. The original credit note arising, or derived, from the transaction with the customer, is sold on in the form of bonds or securities (hence the description 'derivatives'). In turn, these asset-backed securities were invested in by others such as hedge funds - privately owned investment companies that engage in complex investment portfolios designed to secure high returns for wealthy individuals and institutional investors.[6] The consequence of the massive expansion in securitisation, whereby an original value is resold many times over, was that banks and other financial institutions were unable initially to identify the extent of their exposure to the credit crisis that commenced in the US housing sector and, in turn, the international character of these institutions ensured a rapid spread of the contagion. Banks and other institutions stopped lending to each other –the wholesale money markets in the USA and UK effectively closed down causing the US Federal Reserve and, subsequently, the Bank of England to step in to inject liquidity. Whilst in the UK, Northern Rock had to be saved by Bank of England and government intervention, many other prestigious institutions were forced to undertake write-downs in their values, to the tune of around $200 billion in the US alone. An estimate produced by the US Monetary Forum in February 2008 suggested that a write-down of $200 billion would mean that the credit made available by US financial institutions to US households and companies would contract by $910 billion by the end of 2008 (US Monetary Policy Forum, 2008).

This estimate proved to significantly understate the problem as 2008 unfolded. Investment banks in the US began to collapse as the year progressed. Bear Sterns, the fifth largest US investment bank, collapsed in March 2008, with the Federal Reserve insisting it be sold to JP Morgan but, the greatest shock came from the failure of Lehman Brothers in September 2008, an investment bank that served institutional shareholders. The Lehman collapse triggered the deepest of crises in confidence in the financial world because of its extensive dealings with financial institutions whose exposure to the collapse would take a considerable time to unfold. Despite Lehman's writing down to the value of $700 million dollars in its residential property and mortgages section between June and August 2008, its over exposure to the sub-prime sector (the hard to value mortgage sector) was its undoing – its exposure to this sector being estimated at $54 billion at the time of its closure. Equally, the Lehman's collapse was a massive blow to the hedge fund industry but probably represented the line across which the US

[5] See, for example, in the UK the passing of The Financial Services Act, 1986, the legislation that ushered in the 'Big Bang' and in the USA the repeal of the Glass-Steagall Act introduced in 1933, repealed 1999 and the passing of the Futures Modernisation Act (1999)

[6] See Blackburn R. (2008) and Shiller R. (2008)

government was not willing to go in relation to a programme of ‘bail outs’ that had already seen it nationalise Fannie Mae and Freddie Mac, the largest mortgage provider in the USA, and provide extensive support to prop up AIG, the US’s largest insurance company. By September 2008, the financial sector had given up its primary role as a financial mediator in the US and UK, with lending between banks grinding to a halt as they pursued programmes designed to lick wounds, rationalise costs and re-capitalise. The US and UK governments were forced to intervene, the US with a $700 billion bailout and the UK with a package of financial support that resulted in the assumption of a partial nationalisation of the UK banking sector. By early 2009, the UK and USA administrations are preparing further packages of action designed to kick start their respective economies that are now in deep recession. Despite this woeful tale, it would be wrong to place the primary responsibility for the creation and consequences of the credit crunch upon financial institutions alone.

Causes of the Credit Crisis: The Loss of Dynamism in Western Economies

The period since the early 1970s has witnessed a long downturn for western economies, a downturn from which there has been only brief periods of respite as, for example, with the superficial ‘New Economy’ boom of the late 1990s. The main characteristics of the downturn have been the loss of the dynamic pattern of economic growth experienced in the post-war golden years and the increasing reliance on services and especially financial services as the primary contributor to the expansion of the economies of countries like the USA and UK. The growth of bank capital has expanded as commercial and industrial capital has shifted into the business of banking, the contribution of non-financial services enterprises to the expansion of financial services being indicative of their seeking to rapidly raise shareholder value in ways other than ploughing investment into longer term research and productive activities (Itoh and Lapavitsas 1999:96)

GDP growth, since the late 1970s, has risen at a rate that is half that achieved in the 1950s and 1960s in most developed industrial nations (See Table 1). Over the last two decades, the economies of the USA and UK, in particular, have remained relatively stable without undertaking significant investment in production industries, excepting some parts of the IT sector. In short, production industries have tended to engage in a constant process of rationalisation but in the absence of any significant destruction of ‘old’ capital and its replacement by ‘new’, with only brief exceptions to this trend occurring, for example, in the US manufacturing sector in the mid-1990s (Brenner 2006, 297). The consequence of this unspectacular but stable growth, and the underlying lack of investment in productive capacity, has been a rise in the amount of liquidity available to circulate in financial markets (Mullan 2008, 3). The decline in the performance of the real economy facilitated the rapid expansion of the role of corporate finance in the US and UK economies in particular, with finance performing an increasingly important role in stimulating growth in the respective economies. An input/output analysis of UK economic perfomance published in 2003 recorded that:

> ‘Financial and business services continue to form the largest single sector of the UK economy in 2003, accounting for 31.7 percent of total gross value added (GVA) up from 27.6 percent in 1998.. manufacturing industry contributed less than 15 percent of total economic output in 2003. The sector’s contribution was more than 20 percent of GVA till 1998, but it has fallen to 14.8 percent in 2003’.
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> Source ONS (2005) News Release ‘Business and financial services economic impact is double manufacturing’, ONS 19 August 2005,www.statistics.gov.uk, accessed December 28, 2008

Accompanying the rapid rise in dependence upon financial services and the loss of productive dynamism in western economies, has been the parallel process of dynamic productive expansion within developing economies, particularly China over recent years.

Table 1 GDP Growth (average annual % change) Selected Countries 1960-2000

Source: OECD Historical Statistics

	1960-69	1969-79	1979-90	1990-95	1995-2000	1990-2000
US	4.6	3.3	2.9	2.4	4.1	3.2
Japan	10.2	5.2	4.6	2.0	1.7	1.9
Germany	4.4	3.6	2.15	2.0	1.7	1.9
Euro 12	5.3	3.7	2.4	1.6	2.5	2.0
G-7	5.1	3.6	3.0	2.5	1.9	3.1
UK	3.8	3.5	2.5	1.5	2.7	2.5

China's spectacular rate of economic development enabled it to become a manufacturing workshop to the world, especially the US economy to which it has exported increasing volumes of manufactured goods. For example, between 2003 and 2004 alone, China's exports to the USA expanded by some 57 percent (worth around $70 billion). At the same time, China sustained high foreign exchange reserves, significant proportions of which were used to purchase US securities and especially treasury bonds which helped suppress long term inflationary trends[7]. By September 2007, it was estimated that China's holding of US securities had reached $1 trillion (see Table 2 and CRS 2008,5).

Table 2 Top Five Foreign Holders of US Securities (June 2006)

Source: US Treasury Department, Report on foreign portfolio holdings of US securities as of June 2006, May 2008 p8 in CRS 2008, 5)

	Total	Long Term (LT) Treasury	LT Government Agency	LT Corporate	Equity	Short term
Japan	1,106	535	184	108	195	85
China	699	364	255	59	4	17
UK	640	47	28	249	300	16
Luxemburg	549	52	38	233	193	32
Cayman Islands	485	19	50	111	178	31

[7] Another source of liquidity from developing economies over recent times has been Sovereign Wealth Funds, government supported funds drawn from foreign exchange reserves and used for overseas investment. They are currently valued at about $4 trillion. See Mullan 2008, 3.

World Total	7,778	1,727	473	2,021	2,430	615
China's Holding as a % of World Total	9%	21.1%	53.9%	2.9%	0.2%	2.8%

The 'special economic relationship' between China and the US enabled the latter's economy to act as a vast market for the consumption of manufactured goods which helped to stave off international recessionary trends in the early years of the new century, and assisted the US to sustain consumption at levels that reached new heights, fuelled by easily available credit to private consumers. This US consumption-led boom, in practice, an example of a society living beyond its means, burst in 2007 as a result of the housing crisis and consequent credit crises of 2008. Unlike earlier credit crises, the current crisis started in financial services and rapidly spread to other parts of the economy via, for example, the curtailing of credit facilities for enterprises and the dramatic curbing of private consumption especially in the USA.

A broadly similar process unfolded in both the USA and Britain, a process that led one leading commentator to suggest that:

> '..what is happening in credit markets today is a huge blow to the credibility of the Anglo-Saxon model of transactions-oriented financial capitalism'. (Wolf 2007,1)

The failure of US and UK administrations to recognise the underlying weaknesses of their respective economies for much of 2008 (and arguably to identify any worrying trends over a period of a decade before) tended to exacerbate the problems initially generated by the collapse of the US housing market. Even when, the US administration introduced its troubled assets relief programme in September 2008:

> 'Congress scared everyone by failing to hammer out a deal showing the world that the US political class did not understand the depth of the crisis. The Treasury launched the plan with no clear idea of what it would do, then twice changed its mind over how to use the money'.
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> Source: Authers (2008) 'Four strong contenders for mistake of the year', Financial Times, 13/14 December, 2008

By comparison, the Labour government's bailout of the UK banking sector to the tune of £50 billion in October 2008, primarily through the provision of new capital in the form of preference shares and the introduction of the Bank of England's new liquidity scheme designed to provide short term loans to encourage banks to start lending again, looked like more decisive action and prompted Prime Minister Brown to suggest that such measures may be followed by other countries whose banking systems were also suffering. But as Kathryn Meyer of the US magazine, Time, commented:

> 'Their (*Gordon Brown and Alistair Darling, Chancellor of the Exchequer*) emergency rescue plan was hatched over weeks but finalized in such a hurry that bleary officials labored overnight to finish it before the skittish markets opened. At a morning press conference, both men maintained that the problem started with the U.S. sub-prime crisis; Brown refused to answer questions about how Labour policy over more than 10 years in office might have contributed to the situation. "This is the time to talk about the future," he said'.

Source: Time, 'Flash Gordon Brown', October 15, 2008 http://www.time.com/time/magazine/article/0,9171,1850562,00.html, accessed December 28, 2008.

By the close of 2008, the interventions of the US and UK governments in the banking sector had perhaps staved off its collapse but the sector remains in intensive care, with little real evidence of it demonstrating any capacity to provide the kind of lending and credit facilities that other sectors of the economy require. Over the same autumn period during which the US and UK governments introduced their bailouts, the global nature of the financial crisis really began to bite with financial institutions in several developed nations falling into crisis.

Tightening credit conditions, the collapse in consumer demand and earlier increases in world commodity prices (especially energy prices), in turn, ensured that the US economy moved rapidly and dramatically toward recession. In November 2008 alone, over half a million job losses took place in the US, the highest monthly rise in the jobless total since 1974. As the US appetite for cheap imported manufactured goods fell, so did estimates of the growth rates of the economies of the export oriented nations such as China decline. By the end of a tumultuous year, the economies of the advanced and the most rapidly developing nations moved toward either major recession or significant slowdown. The capacities of the US, UK and other economies to deal with the resultant recessionary trends vary but perhaps the key point here is that the 'Anglo-Saxon' model is not alright in its fundamentals. Indeed, its 'fundamentals' illustrate a major relative decline in dynamism, an historic shift away from productive activities toward the transient fruits of financialisation or 'thin air' and, by the beginning of 2009, an over dependence on public spending as the main catalyst to stimulate domestic economies.

Social Dimensions of the Current Crisis

Economic crises and recessions in the twentieth century were accompanied by social upheaval, public debate about the future of capitalism and political unrest; by contrast the current crisis has no such sharply defined social or political dimensions. The social is evident only in its absence. The financial booms and bubbles of the late Victorian and early Edwardian eras, to the outbreak of the first world war, witnessed in the UK the rise of new unionism, the struggle for improved wages, the early development of socialist and social democratic political movements and a political response that sought to improve basic education provision and provide elementary forms of social insurance. The period of the 'Great Crash' and the recession of the 1930s ushered the collapse of the Labour government, the formation of a national government and the emergence of new movements of the left and right and the recessions of the seventies witnessed widespread labour unrest, student protest and the downfall of a highly unpopular Conservative government in 1974.By contrast, in the west, the current crisis is characterised by the demonising of a few greedy bankers, the lining up of industries seeking government financial support, the draining of consumer confidence and the weakening of the publics' resolve to go shopping.

The absence of any meaningful social dimension to the current crisis was reflected in the early phase of the credit crunch by the rhetoric used to explain the consequences of the problems that originated in the finance sector. The bursting of the housing bubble wiped share values from companies and pressed subprime borrowers into debt. In the US, finance houses were criticised for reckless lending that created an insecure sector of the real estate market; that the 'market' consisted of ordinary low paid working class families and individuals was largely ignored. Even as the crisis has unfolded its impact has been couched in the broadest and relatively meaningless social terms. The ramifications of financial failure for other parts of the economy and society being captured, for example, in phrases that focused upon the repercussions for 'main street'; and even as unemployment has rapidly risen in late 2008, politicians on both sides of the Atlantic have presented their bailout policies as assisting its victims and the nation, rather than specific social classes or groups, to withstand the turmoil caused by unprecedented market conditions.[8]

The absence of the 'social', or perhaps more accurately the delineating of conflicting views and interests arising from the current crisis may be explained in various ways. Three are discussed here. First, there is a widespread acceptance within contemporary society that there is no alternative to the market as the regulator of social and economic life; second, running an economy is now widely perceived as a matter of technical management rather than engagement with contested political ideas and, lastly, the attributes of wealth creation and the associated individualistic values of 'life style capitalism' that have emerged over recent years have rested upon sustaining a level of private consumption that has exceeded the underlying capacities of the economies in which it has arisen. The first two explanations relate directly to the perceptions of a business and political elite that have, in turn, been widely accepted within society about the economy and its 'management' and the third identifies how such perceptions have rested easily with the credit-fuelled, yet for many, transient patterns of prosperity that have been achieved.

Social relations, in circumstances where there appears no alternative to the market, appear merely as the product of the circulation, exchange and consumption of 'things'; the market is primarily operated through the inter-actions between 'rational' individuals and production is subordinate to consumption, whose assumed prominence in shaping society and social behaviour has been reflected in the endless publications and reports emanating since the late 1980s from the political, business and academic worlds on the turn to 'culture' and the creation of lifestyle capitalism.[9] The emergence of this form of capitalism, in economic terms, called neo-liberalism, as the dominant set of ideas for ordering economic life has been well documented and dates back to the achievements of the conservative administrations of Reagan in the US and Thatcher in the UK, especially in much reducing the power and influence of trade unions and presiding over the end of the cold war marked by the fall of the Berlin Wall in 1989 and the eventual exhaustion and failure of the Soviet Union's alternative to capitalism.

Characteristic of neo-liberalism is its emphasis on the diminished role of the state in regulating public affairs; being mainly confined to commissioning services that could not be provided by the market, regulating competition (with a 'light touch') and relying upon the competitive nature of domestic and international markets to generate shareholder value. Internationally, the globalising economy, prompted by successive rounds of trade negotiations and the role of agencies such as the World Bank and IMF, sought to reduce tariff barriers and other forms of impediment to the efficient shifting and allocation of capital and resources[10]. Neo-liberal values

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[8] The muted debate in the US Presidential elections reflects this rhetoric, race and class were present in their absence in both the main candidates public speeches, only the Vice Presidential running mate of the Republican Party, articulated a traditional conservative populism in her election rhetoric extolling the virtues of middle and small town America and criticising the Washington elite, a kind of latter day American version of Poujadism.

[9] See Hourigan B.'The Brave New World of Lifestyle Capitalism' a review of selected texts on the topic in the Journal of the Institute of Public Affairs, November, 2008 accessed on January 24th, 2009 at http://www.highbeam.com/doc/1P3-1593456781.html

[10] See Wade R (2008) 'Financial Regime Change', New Left Review, 53, September/October 2008, pp 5-22.

and ideas provided a seemingly compelling interpretation of developments in the global economy and in nations, such as the UK, they assumed a dominance in the discourse used by management in all sectors of the economy, not least the public sector where the emulation of market conditions and behaviour became the mantra of the 'new public sector management' that took shape from the late 1980s.[11]

In this context, the economy is no longer the site of contested ideas and values but becomes an area of government responsibility that requires the management of an 'economic framework' rather than the intrusion of politics. New Labour, following its electoral victory in 1997, offered such a prospect. A Bank of England Monetary Policy Committee was established under the technical direction of the Governor of the Bank of England, thus removing decisions about interest rates and other matters to outside the political sphere while, within it, effective and prudent management was the order of the day. As Gordon Brown in his first and final pre-budget reports as Chancellor of the Exchequer argued:

> '"For 40 years our economy has an unenviable history, under governments of both parties, of boom and bust.
> "So, against a background of mounting uncertainty and instability in the global economy, we set about establishing a new economic framework to secure long-term economic stability and put an end to the damaging cycle of boom and bust".
> In his last budget as chancellor, Brown said "we will never return to the old boom and bust"'.
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> Source: Channel 4 News (2008) 'FactCheck: no more boom or bust?' 17 October 2008, http://www.channel4.com/news/articles/politics/domestic_politics/factcheck, accessed December 30 2008.

The claimed disappearance of 'boom and bust' (more accurately a metaphor for the 'removal' of politics from the economic sphere) rested upon the capacity for nations such as the USA and UK, to steadily expand their economies and thereby maintain social cohesion through sustained employment growth and debt-fuelled forms of consumption. In the UK, according to the government, employment growth over the period 1997 to 2007, with total numbers in employment reaching record levels, illustrated the sound base of the economy while the continuous rise in prosperity was reflected in the development of major new retail parks and

[11] That the rhetoric of neo-liberalism masked a much more pragmatic practice has largely been ignored. In the UK and the USA, though in different specific circumstances, the state has continued to perform an important rather than 'residual' role in the economic and social life of these nations throughout the last thirty years. In large part this role has been consciously or otherwise designed to manage the transitions in economic and social life that have accompanied the rapid growth of the financial and related service sectors and the rapid decline of the production-driven sectors of the domestic economy. Even at the height of Thatcherism, the government under the guidance of Michael Heseltine, sought to build gardens in Liverpool and provided much needed financial and legislative support for the development of Canary Wharf, an area that was to become the new centre in London for the UKs international financial activities. Successive Conservative administrations provided incentives to entice inward investment and in areas of social policy and welfare 'intervened' in significant ways to reform and re-structure vocational training and educational provision. Indeed in such areas as urban regeneration the state has provided significant support for several industrial sectors and in social policy both the USA and UK have been characterised by a few astute commentators as, paradoxically, achieving in the period of the ascendancy of neo-liberal ideology the status of the 'nanny or therapeutic state'.

shopping centres in several of the UK's leading cities. However, all was not quite what it seemed.

Over the past decade, Labour governments have made much of the economy's capacity to create new jobs, especially in the private sector. Two key studies, however, have suggested that much of the employment created since 2000 in the UK has relied upon public spending either to directly increase public sector employment in areas like health and education or as a result of the 'spin-off from public expenditure' facilitating job creation in several different sectors including financial and business management, private health and social care provision and construction (through urban and regional regeneration programmes and much needed infrastructure investment). Whilst Labour government statements emphasised the importance of supply-side factors in sustaining employment growth, it was, in practice, pursuing a programme of public spending that secured much of the UK's employment growth for several years before the financial crisis began in 2007. 'Keynesian' policies - public spending to induce employment growth with its resultant multiplier effects - were pursued long before the on-set of the credit crunch despite government statements and arguments to the contrary. (Edmonds and Glyn, 2005; Coutts, Glyn and Rowthorne,2007).

The credit system in a market economy performs many useful functions not least in times of economic expansion when it provides individual enterprises with a capacity to invest in fixed capital, to enhance productivity and secure greater future returns on the capital invested. Credit facilitates the 'use of idle money capital and enables circulating capital to expand and acquire elasticity' (Itoh and Lapavitas 1999:103). The credit system within a market economy can also produce negative consequences as has been explained above. Here, the focus is not upon commercial or bank use of credit but rather the role it has performed in facilitating the expansion of private (household) consumption (and indebtedness) not least through encouraging people to purchase property by entering into highly leveraged mortgage arrangements or acquiring a lump sum in cash via increases in the loan or mortgage taken out on their property. This 'real estate myth', as Robert Shiller (Shiller 2008 69-85) has called it, has fostered a widely held view that rising house prices make good news for most people. In reality, rising house prices simply indicate that demand exceeds supply (let alone 'need') and when this is coupled with house price rises significantly exceeding improvements in wage levels over a sustained period, the least wealthy and those on average or middling incomes in society are the ones most likely to feel the full effects of a fall in house price values and the most serious consequences of the resulting credit squeeze.

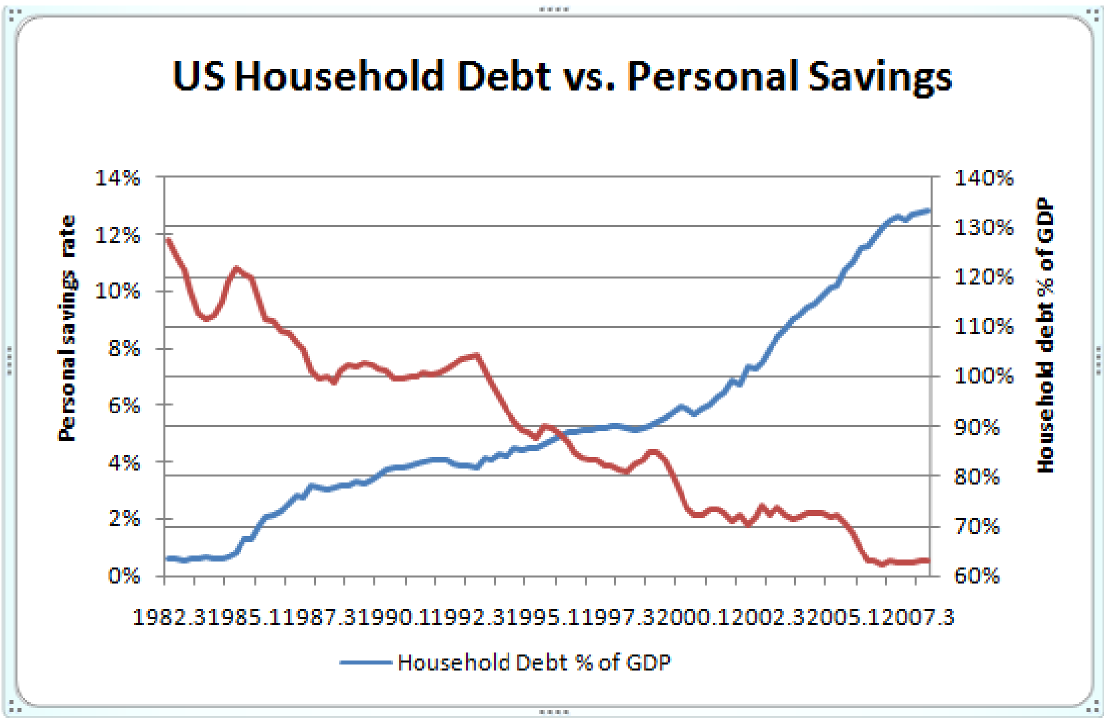
In the USA, wage levels in the private sector have remained relatively stagnant since the mid-1980s as manufacturing employment has hollowed out to be replaced by low paid service jobs (See Appendix 1). Over the same period, year-on-year real per capita wage levels for all workers in the USA have shifted between plus and minus two percent, with three lengthy periods (1972-77; 1986-1992; 2002-2008) recording a decline in real wages. The period 2003-2008 witnessed a decline of -2.4 percent for all civilian workers. [12] And, over the last three decades, income inequalities have grown significantly as the gap between higher and lower income groups has widened. Over a similar period, household debt as a ratio to GDP has doubled (See Figure 1 and Wade 2008:12). In the UK a broadly similar picture emerges for the

[12] For a detailed discussion of wage levels and the rise of indebtedness in the USA, see, Artus P. 'The rise of indebtedness in the United States: A long-term vision', Flash Economics, 15 December, 2008, http://cib.natixis.com/activities/research/default.aspx, accessed January 15, 2009.

same period though real wage levels have not stagnated to the extent that they have in the USA. UK pay growth, however, has rarely outstripped inflation or annual retail price indices for several years and since 2005 it has been flat:

> ‘And regular pay growth had been flat or slowing on most measures since late 2004. Moreover, the wage of new immigrants (including those from the A8 countries) has been strikingly weaker in the recent past, and some of this weakness is likely to have helped to moderate wage pressures in some sectors’.
> Source: Blanchflower D. (2006) ‘Reflections on my first four votes on the MPC’, September 2006, http://www.dartmouth.edu/~blnchflr/papers/speeches/speech283.pdf, accessed January 15, 2009

UK household debt has increased at a more rapid pace than in the USA and other G7 nations. At the end of 2008 it stood at 173 percent of income, more than double the level of the early 1990s (it was 102 percent in 1993).



Source: http://www.creditwritedowns.com/wordpress/wp-content/uploads/creditwritedowns.wordpress.com/files/2008/10/household-debt-vs-savings.png, accessed

The relatively weak performance of real wage levels in the UK and, in particular, the USA, has been offset by a record rise in household debt. The American and UK working and middle classes have been compensating for the relative stagnation in wage levels by borrowing on an unprecedented scale.

During periods of economic crisis in the twentieth century, the response of these classes was to collectivise their discontent through political and industrial action, creating the space for conflicting views and perspectives about the origins of recession and who would pay for it. The economic crises of the 1970s gave rise to 'alternative' economic strategies and generated in the UK successive rounds of strikes, culminating in a 'Winter of Discontent' in 1979 when public sector workers undertook strike action against an ailing Labour government. The Conservative Party's general election victory in the immediate aftermath of the dispute enabled the new government, under Margaret Thatcher, to attach much of the blame for Britain's economic weakness to the trade unions - their restrictive practices and unrealistic wage and employment demands. The resulting economic and political outcome was a massive rise in unemployment and successive attacks on 'the enemy within' from which the unions have never recovered.(Milne: 1994) In the wake of this decline in collectivism, since which almost a whole generation of working life has passed, the response from those losing their jobs and homes during the current crisis is confined to seeking individual solutions while passively waiting for government to introduce social programmes aimed at moderating the crisis' worst effects. Once the 'enemy within', the working class now appears at best, as a shadow of itself, as a 'victim' of a recession spawned by the greed of bankers, a victim that the government is morally committed to helping since it is unable to help itself; as the Prime Minister stated at the Labour Party conference in the autumn of 2008 :

> 'And in these uncertain times, we must be, we will be, the rock of stability and fairness upon which people stand. And friends, it's a calling that summons us because in every time of profound change those with great wealth and privilege have always been able to look after themselves.
>
> But our duty, what gives us moral purpose, is serving the people who need us most- Britain's vast majority - people on middle and modest incomes who need to know that they are not on their own amidst this change - we are on their side'.
>
> Source: NEWS.Scotsman.com (2008) 'Prime Minister Gordon Brown's speech to the Labour Party conference in Manchester, 24 September 2008', http://news.scotsman.com/politics/Gordon-Brown39s-speech-in-full.4520451.jp**, accessed** January 20, 2009

Thus far, the highly technical and managerial nature of the debate over the causes and consequences of the credit crunch has ensured the discussion of its social dimension to be largely absent or more recently, in the wake of major rounds of redundancy and job losses, confined to that of a meek morality tale.

Seeking Solutions: The UK Economy and the Limits of State Intervention

Actions to address the economic crisis have focused mainly upon proposals for the reform of the financial system and the rescue/ameliorative packages constructed by governments across the globe. Despite the bailouts to the financial system in late 2007, banks have not re-assumed the role of providing credit either to domestic enterprises or to each other. The initial tranches of financial support to the financial systems in the USA, UK and several other nations now officially in recession were sufficient to draw institutions back from the brink of collapse but were insufficient to enable them to re-capitalise, address the accumulated 'toxic' assets problem and provide credit on a sufficient scale to induce consumer demand and enable companies to continue trading with each other.

The knock-on effects have been considerable and rapid in their unfolding. Export-oriented growth, pursued by China, India and other dynamic capitalist economies has slowed significantly as these nations' overseas markets have dried up and none of the 'BRIC' nations[13] have sufficiently developed or expandable domestic markets to take up the role that the US economy has performed in consuming imported manufactured goods over recent decades. The sharp decline in demand, the drying up of credit facilities and the accumulation of unsold stock has contributed to falls in the prices of commodities but still no-one, it seems, is prepared to buy. The consequence is a deflationary cycle of international proportions that begins to look something like the 'Great Crash' of the 1930s. In their attempts to learn from history, governments have taken action to re-stabilise their economies by preparing further rounds of support for the financial system and engaging in public spending programmes designed to mitigate the worst effects of the crisis, thus seeking to avoid the so-called 'lost decade' of growth experienced by Japan in the 1990s when its government failed to act decisively to address the problems experienced in its own financial system for fear of fuelling uncontrollable levels of inflation.(Turner 2008: 135-58)

But government action through unprecedented levels of state intervention can only mitigate some of the effects of the recession, and possibly exacerbate other aspects of it, particularly if intervention leads to the pursuit of national interests via policies of protectionism. In this sense British Prime Minister Gordon Brown is right about what might be called the advanced inter-dependence of the contemporary international economy and the threats posed by individual nations taking beggar-my-neighbour measures.[14] This threat is particularly relevant to the case of the UK economy, whose growth over recent years has largely depended upon the international activities of the financial and business service sectors. But, Mr Brown is wrong to suggest that the range of actions taken thus far, and those proposed by government and many economists for the future, will ensure that a strong UK economy will emerge from this recession over the next couple of years.

In the short term it is likely that the UK will undertake what the Governor of the Bank of England, called 'unconventional measures' to kick start lending in the economy[15] as conventional measures based upon lowering interest rates have not succeeded. The key unconventional measure is 'quantitative easing' and takes:

> "the form of purchases by the Bank of England of a range of financial assets in order to expand the amount of reserves held by commercial banks and to increase the availability of credit to companies," Mervyn King, Governor of Bank of England quoted in Stewart H. (2009)

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[13] BRIC refers to those economies - Brazil, Russia, India and China – that achieved rapid annual rates of growth over recent years.

[14] See Sullivan K. (2008)Brown 'Warns against Protectionism', Washington Post November 11, 2008, PA15 http://www.washingtonpost.com/wp-dyn/content/article/2008/11/10/AR2008111002683.html: ' Prime Minister Gordon Brown on Monday warned that trade protectionism would worsen the global financial crisis, a remark widely perceived as aimed at U.S. President-elect Barack Obama. In a speech lauding the "global power of nations working together," Brown called for "rejection of beggar-thy-neighbor protectionism that has been a feature in transforming past crises into deep recessions."

[15] Stewart H. (2009) Governor paves way for quantitive easing', Guardian, Tuesday, January 20, 2009, http://www.guardian.co.uk/business/2009/jan/20/mervyn-king-speech-quantitative-easing, accessed January 22nd 2009

These and other credit easing steps, likely to be put in place by early spring 2009, will be accompanied by a significant rise in public spending. Labour's expenditure plans for 2009, announced in November 2008, commit an additional £20 billion in spending upon infrastructure, training for the unemployed, welfare benefits, specific measures to help small businesses and a reduction in Value Added Tax (VAT) –a measure designed to stimulate consumer demand. The overall package was estimated to increase government borrowing by £78 billion in 2008 and £118 billion in 2009, with government finances estimated to return to balance by 2015/16.

Along with credit easing and increased public spending, a third element of the rescue of the UK economy will involve the review and enhancement of financial regulation, a process that has already commenced through the state assuming partial ownership of key high street banks and one that will undoubtedly involve attempts by the UK government and others to develop the international dimension of a new regulatory regime. Already much advice on how to proceed with this has emerged from economists. Elliott and Atkinson (Elliott and Atkinson 2009) have called for a 'New Populism' that echoes many of the requirements of the Glass-Steagall legislation (that required the separation of retail and investment banking) that regulated US financial markets for most of the post-1945 period until its repeal in the 1990s. The New Populism also contains many of the sentiments to be found in Shiller's 'The Sub-Prime Solution' which calls for a 'democratisation of finance', a programme of reform of the housing and financial markets, that takes its inspiration from the actions of the US government under President Roosevelt in the latter part of the 1930s. These authors, and several others, ally their proposals to programmes of public expenditure designed to kick-start the economy in Keynesian fashion. In brief, the UK government and economists from the academic, business and media worlds broadly agree on the direction of institutional reform and the essentials of state intervention, with differences appearing perhaps most clearly in the strength of the rhetoric used to critique successive governments' commitment to 'neo-liberalism', the failure of governments to act quickly and decisively when the credit crunch begun and the excesses or 'over exuberance' of the bankers. But, the resurgence in popularity of Keynesian approaches to the current crisis is perhaps indicative of the weaknesses of contemporary economic thinking which seems intent on looking toward a partial, even rose-tinted, interpretation of economic history for solutions whilst ignoring the new and specific dimensions of the current international recession.

A slightly more considered study of the great depression of the inter-war years, reveals that in the UK, for example, direct state intervention to restructure industry and employment was coupled with traditional Tory policies of protectionism and imperial preference. Whilst state action emulated aspects of Keynes's general theory it did not adopt an extensive government deficit spending approach to address the depression. Indeed, Keynesianism became only a 'theory' that had influential policy implications in the aftermath of the second world war. It was the war and preparations for it that brought the real transformation of the US and British economies. Only in the post-1945 period did Keynesian theory provide de facto legitimacy to British economic policies that aimed at achieving a 'liberal' middle ground between the models offered by the marginalists that focused on the dominant role of the market in regulating economic affairs and the Soviet model of socialism (Clarke 1988: 230-231) Just as the importance of Keynesian approaches have been overstated in terms of their influence in addressing the economic problems of the Great Depression, aspects of the Keynesian approach adopted during the most recent period of the ascendancy of 'neo-liberalism' have been understated. The Labour government, despite its public affinity to the 'free' market, has sought to stimulate employment and effective demand for goods and services for much of the last decade; the credit crunch has simply created an additional urgency to extending this

‘Keynesian’ approach further in the direction of a commitment to significant levels of deficit spending.

The problem with deficit spending, however, is that what is borrowed by government has to be paid back. This may be achieved via the restoration of strong economic growth in the medium term and a combination of higher taxation and curbs on public spending. The weaker the recovery and the longer it takes, the more likely it is that taxation must rise and public spending reduced dramatically. The process of curbing public spending has already begun in the UK, with the Treasury seeking to achieve efficiency savings of about £4 billion in the public sector over the next two years. Whilst mitigating some of the effects of the current recession, state intervention will exacerbate in the medium term the problems faced by those who depend on the public sector for employment and those who receive benefits and services from it.

Lastly, and perhaps most significantly, there is little evidence that the British economy is capable of achieving a speedy and significant recovery. The hollowing out of production industries over recent decades has left an unbalanced economy that has not witnessed the nurturing of major new industries or achieved levels of research and development investment at anywhere near that of several other advanced industrial nations. Whilst, the finance sector is likely to slowly recover and London remain a significant player in international finance, the new regulatory regimes to be put in place nationally and internationally are likely to curtail the levels of profitability to be secured from the sector for some years to come.

Conclusion

The present crisis has different origins to previous credit bubbles and is taking place in a world that is more inter-connected than ever before. The underlying cause of the crisis is not the US housing sector but the relative and long term decline in the performance of the productive industries of the US and other advanced industrial nations and the relative decline in the mass of profits that investment in them could secure. With the decline in rates of return, money capital has found its way into the financial world partly through the spawning of new financial ‘products’ on which quick returns appeared to be guaranteed. At the same time, capitalist forms of production, albeit often at relatively low levels of technological sophistication, have spread across the world.

As the dynamic source of value creation has moved to the east, so the US and UK economies have become increasingly dependent upon the flow of money and commodities from nations such as China. The increasingly international character of the recession simply demonstrates that this ‘special’ economic relationship has now hit a barrier to its advancement that is of its own making. The USA and UK have run up record trade deficits and domestic indebtedness at the same time as they have failed to restructure their economies, the market is blind to this problem (as have western politicians been) for as long as financial capital can be invested in financial products and a stock exchange that make profits. That such investments are not value creating but rather redistributive is not a problem for the market until the securities, bonds and other financial products start to rapidly depreciate in value, a depreciation that eventually washes back across the economy from the sphere of circulation to the real world of production - expressed currently across virtually all industrial sectors as a shortage of credit, a ‘credit crunch’.

The measures to offset or counter this decline may only mitigate rather than resolve the international recession, perhaps shortening its duration for some nations. The political and business elites across the world are currently seeking ways of countering the tendencies toward economic breakdown and protectionism through developing collaborative policies on trade and the development of new mechanisms to manage the financial world. Meanwhile, a rather chaotic pattern of rationalisation and restructuring is occurring at different levels of intensity within industrial sectors. During this phase, factory and office closures are leading to significant increases in unemployment and underemployment and the longer term consequences in countries like the UK for public services, pension rights and many other areas of social policy are rarely discussed. Unlike previous periods of recession that took place in the twentieth century, there seems little appetite to dig beneath the surface, to question the prevailing interpretations of its cause and the veracity of the current state-driven programmes designed to mitigate or cure. In such circumstances the 'victims' of the recession, many of whom never really tasted the fruits of lifestyle capitalism, will remain just that.

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Appendix 1: Source: Labour Research Association

http://www.workinglife.org/wiki/Wages+and+Benefits:+Real+Wages+(1964-2004)

Wages and Benefits: Real Wages (1964-2004)

REAL WAGES

1964-2004

Average Weekly Earnings (in 1982 constant dollars)

For all private nonfarm workers

Year	Real $	Change
1964	302.52	
1965	310.46	2.62%
1966	312.83	0.76%
1967	311.30	-0.49%
1968	315.37	1.31%
1969	316.93	0.49%
1970	312.94	-1.26%
1971	318.05	1.63%
1972	331.59	4.26%
1973	331.39	-0.06%
1974	314.94	-4.96%
1975	305.16	-3.11%
1976	309.61	1.46%
1977	310.99	0.45%
1978	310.41	-0.19%
1979	298.87	-3.72%
1980	281.27	-5.89%
1981	277.35	-1.39%
1982	272.74	-1.66%
1983	277.50	1.75%
1984	279.22	0.62%
1985	276.23	-1.07%
1986	276.11	-0.04%
1987	272.88	-1.17%

1988	270.32	-0.94%
1989	267.27	-1.13%
1990	262.43	-1.81%
1991	258.34	-1.56%
1992	257.95	-0.15%
1993	258.12	0.07%
1994	259.97	0.72%
1995	258.43	-0.59%
1996	259.58	0.44%
1997	265.22	2.17%
1998	271.87	2.51%
1999	274.64	1.02%
2000	275.62	0.36%
2001	275.38	-0.09%
2002	278.91	1.28%
2003	279.94	0.37%
2004	277.57	-0.84%