



## Revue Française de Civilisation Britannique

French Journal of British Studies

XXI-2 | 2016

Economic Crisis in the United Kingdom Today: Causes and Consequences

---

# Developmental State or Developmental Market? The Cameron-Clegg Government's Response to the Financial Crisis

*Etat « développementiste » ou marché « développementiste » ?*

*La réaction du gouvernement Cameron-Clegg à la crise financière*

Simon Lee

---



### Electronic version

URL: <http://journals.openedition.org/rfcb/1050>

DOI: 10.4000/rfcb.1050

ISSN: 2429-4373

### Publisher

CRECIB - Centre de recherche et d'études en civilisation britannique

### Electronic reference

Simon Lee, « Developmental State or Developmental Market?

The Cameron-Clegg Government's Response to the Financial Crisis », *Revue Française de Civilisation Britannique* [Online], XXI-2 | 2016, Online since 10 September 2016, connection on 19 April 2019. URL : <http://journals.openedition.org/rfcb/1050> ; DOI : 10.4000/rfcb.1050

---

This text was automatically generated on 19 April 2019.



Revue française de civilisation britannique est mis à disposition selon les termes de la licence Creative Commons Attribution - Pas d'Utilisation Commerciale - Pas de Modification 4.0 International.

---

# Developmental State or Developmental Market? The Cameron-Clegg Government's Response to the Financial Crisis

*Etat « développementiste » ou marché « développementiste » ?  
La réaction du gouvernement Cameron-Clegg à la crise financière*

Simon Lee

---

## Introduction

- <sup>1</sup> For the United Kingdom (UK), the 2007-2008 global financial crisis began in September 2007 as a liquidity crisis for a British bank, Northern Rock, but then evolved into a major financial crisis in September-October 2008, with the rescue by the United Kingdom government of Bradford and Bingley, Royal Bank of Scotland (RBS), Lloyds TSB and HBOS. At their peak, these strategic interventions entailed a total of £1.162 trillion of taxpayer guarantees (£1.029 trillion) and cash injections (£133 billion).<sup>1</sup> By the end of March 2015, the UK taxpayer was still owed a total of £115 billion. No other sector of the United Kingdom economy has ever enjoyed such extensive peacetime financial support. Given the impact of the domestic financial crisis, when allied to that of the United States' sub-prime mortgage crisis upon the global economy, the United Kingdom's banking crisis soon became a much broader economic and political crisis for the Brown government. The economic crisis led to a 6 per cent contraction in UK GDP, culminating in the May 2010 defeat of the incumbent government led by Gordon Brown, the end of thirteen years of Labour Party administration, and its replacement by the coalition government led by David Cameron and Nick Clegg (the Cameron-Clegg government hereafter).

- 2 When it was published on the 20 May 2010, the Cameron-Clegg Coalition's Programme for government immediately identified fiscal austerity as its overriding priority and primary response to the legacy of the 2008 crisis. It stated:

The deficit reduction programme takes precedence over any of the other measures in this agreement, and the speed of implementation of any measures that have a cost to the public finances will depend on decision to be made in the Comprehensive Spending Review.<sup>2</sup>

- 3 At the same time, in their foreword to their Programme for Government, David Cameron and Nick Clegg made some very bold claims for what the coalition would be able to achieve despite this background of crisis and purported necessary and inevitable austerity. They claimed their "*partnership government*" shared a political common ground and ideological conviction that "*the days of big government are over; that centralisation and top-down control have proved a failure*". While acknowledging their agreement that "*the most urgent task facing this coalition is to tackle our record debts, because without sound finances, none of our ambitions will be deliverable*", they nevertheless asserted that their respective political visions had been 'strengthened and enhanced', rather than weakened, by being in coalition. Indeed, the coalition had "*the potential for era-changing, convention-challenging, radical reform*".<sup>3</sup>

- 4 In short, while the crisis of 2008 might have been regarded as a crisis for the developmental market agenda of liberalization, deregulation and privatization implemented in British politics since 1979, the Cameron-Clegg government, and David Cameron and George Osborne in particular, saw it as a major political opportunity to undertake "*era-changing, convention-challenging, radical reform*" to further strengthen and deepen the degree to which British politics is stranded on the neoliberal common ground of the developmental market. Thus, Philip Mirowski's three paradoxes of the 2008 crisis have been manifested in the United Kingdom. First, the political Right has "*emerged from the tumult stronger, unapologetic, and even less restrained in its capacity and credulity than prior to the crash*".<sup>4</sup> Second, austerity has become the watchword in British politics. Instead of blaming markets and market actors for the onset of hard times, government and the role of the state have become "*the scapegoats for dissatisfaction of every stripe, including that provoked by austerity*".<sup>5</sup> Third, although the crisis of 2008 was brought on by feckless speculation, greed and the selfish pursuit of individual self-interest by bankers and financial market traders, governments and taxpayers have actually rewarded those market failures with massive bailouts, enabling them to return to "*business as usual*".<sup>6</sup> In the case of the City of London, far from just "business as usual", its share of global markets in the most speculative forms of currency and derivatives trading has increased spectacularly since 2010. Indeed, the Bank for International Settlements has noted how, in the period from April 2010 to April 2013, foreign exchange turnover in London increased by 47%, and London's share of the \$5.3 trillion a day turnover in foreign exchange rose to 41%, way ahead of the United States 19%, Singapore's 5.7% and Japan's 5.6%.<sup>7</sup>

- 5 Through strategic state interventions and investments such as the maintenance and extension of the £375 billion programme of Quantitative Easing (QE), a £166 billion defence procurement programme, the £14 billion Crossrail (Europe's largest civil engineering project), the £50 billion HS2 high-speed rail project, its Help-to-Buy interventions in the property market, and its reorganisation of the National Health Service and rapid expansion of 'academy' schools, both initiatives in England alone, far

from rolling back the frontiers of the state to unleash the entrepreneurial zeal of the 'developmental market', the Cameron-Clegg government has consolidated the status of the Treasury as the pilot agency of the British developmental state. In an age of supposed austerity, and following the example of £1.162 trillion bank bailout, taxpayers' money has been used to ensure an income to rent-seeking private corporate interests through the provision of lucrative opportunities, not in competitive markets, but in state guaranteed or subsidised projects.<sup>8</sup>

- 6 This article seeks to account for the United Kingdom government's response to the financial crisis, and how a massive failure of private financial markets has been transformed into a fiscal crisis for the British state necessitating sustained austerity over two terms of government. Since May 1979, successive United Kingdom governments have claimed to be restoring an entrepreneur-led enterprise culture, based upon a 'developmental market' political rhetoric and agenda which has asserted the political, economic and moral superiority of the Anglosphere civilization and Anglo-Saxon model of capitalism. However, this article argues that United Kingdom governments from the Thatcher governments of the 1980s to those led by David Cameron since May 2010 have in fact reflected a longstanding developmental state tradition which can be traced back to England's financial revolution during the seventeenth century. Where late industrializing economies in Asia have pursued a developmental state strategy based upon the nurturing of competitive advantage in civilian manufacturing industries, England and latterly the United Kingdom has pursued a developmental state strategy founded upon competitive advantage in financial markets and military industries. It is only when this alternative historical narrative is fully acknowledged that the United Kingdom government response to the 2007-2008 financial crisis can be understood.

## The Developmental State Tradition in England

- 7 In its *Human Development Report 2013: The Rise of The South: Human Progress in a Diverse World*, the United Nations Development Program (UNDP) has contended that in societies which have brought about transformational human development, a common feature has been "a strong, proactive state-also referred to as a 'developmental state'", i.e. "a state with an activist government and often an apolitical elite that sees rapid economic development as their primary aim", and capable of setting policy priorities for and nurturing the development of selected industries.<sup>9</sup> Ever since Chalmers Johnson first coined the term 'developmental state' in his groundbreaking study of industrial policy in Japan,<sup>10</sup> it has been assumed that developmental states have been the province of late industrializing economies, such as Japan and South Korea. Johnson specified how a developmental state, orchestrated by a pilot agency such as the Japanese Ministry for International Trade and Industry (MITI), could engineer "market-conforming" patterns of state intervention in selected strategic industries.
- 8 Whether it is through the lens of different varieties of capitalism;<sup>11</sup> models of capitalism;<sup>12</sup> cultures of capitalism;<sup>13</sup> national systems of innovation;<sup>14</sup> or developmental states,<sup>15</sup> as the world's earliest industrializing nation, England as a distinctive national political economy in its own right has tended not to feature in any discussion of national economic performance. In the vast literature on British decline in general and the relative economic decline of the United Kingdom in particular, the timing of England's industrialization has been widely held to be a significant competitive disadvantage in

terms of her later capacity to develop the appropriate institutional foundation for industrial modernization. In short, economic growth and development in the United Kingdom has been held to have been frustrated by the absence of an industrial policy, developmental state, national system of innovation or technocratic modernization strategy.<sup>16</sup>

- 9 What this literature has overlooked is that, more than a century before it underwent the world's first industrial revolution, England underwent a series of other revolutions, including major commercial and financial revolutions symbolized by the establishment of the East India and Virginia Company of London in the early years of the seventeenth century and the Bank of England in 1694. Because of the intervening political, administrative, fiscal, scientific and military revolutions which England experienced during the seventeenth century, and the pattern of state intervention that had developed in earlier centuries, the English state had actually become a developmental state long before the era of industrialization.<sup>17</sup> But it had done so by nurturing the development of the military industries of the warfare state, notably the Royal Navy.
- 10 One of the most salient features of the developmental state in England from the seventeenth century onwards, and of particular importance given the contemporary focus upon austerity and reducing the United Kingdom's annual current budget deficit, was its capacity for innovation in debt management. This was characterized by borrowing by "*self-liquidating annuities (usually for lives or for ninety-nine years), by organizing public lotteries, or by selling corporate privileges (the Bank of England (1694), the New East India Company (1709) and the South Sea Company (1711) in return for substantial loans*".<sup>18</sup> At the same time, "*the development of a market in securities in London in the period 1688 to 1756 was one of the most important aspects of the financial revolution*", which saw the developmental state strategically nurturing financial industries.<sup>19</sup> The English Financial Revolution during the period between 1620 and 1920 has also been extensively documented by Carl Wennerlind. He has noted how:
- Comprised of a long-term funded national debt, an active securities market, and a widely circulating credit currency, the modern financial system enabled England to create a powerful fiscal-military state, to forge a dominant global empire, and to move in the direction of the Industrial Revolution faster than any other nation.<sup>20</sup>
- 11 For her part, Anne Murphy has identified the origins of England's financial markets in a later period, between 1685 and 1695, but nevertheless concurred that "*The innovations of the 1690s, therefore are rightly described as a financial revolution*".<sup>21</sup>
- 12 Consequently, England should instead be recognized as the location of the world's first developmental state, but one which developed financial services and military industries, rather than the civilian manufacturing industries nurtured by subsequent developmental states elsewhere. As Sophus Reinert has noted, "*England was among the most interventionist states of its age*",<sup>22</sup> where "*political economy was not merely the science of reforming institutions and making the kingdom wealthy, it rendered nations viable as political entities in the midst of international rivalries*".<sup>23</sup>
- 13 English liberalism "was not antagonistic to the state. The liberalism spawned in 1688-89 was revolutionary and interventionist rather than moderate and antistatist".<sup>24</sup> That pattern of revolutionary liberalism and state intervention has continued to the modern era, and accounts for the willingness of the British state to continue to this day to intervene strategically in defence of financial markets and military industries. Indeed, many key events of the past forty-five years of British politics can be understood as a

series of interventions by the British state to advance the interests of finance. These interventions have included the Heath government's initial steps towards the deregulation and liberalization of credit in 1971; the Thatcher governments' abolition of exchange controls in 1979, its 'Big Bang' state-led modernization of the City in 1986, and £10 billion state subsidy to build a new financial centre in London's docklands at Canary Wharf; the Blair governments' risk-based, light-touch approach to financial regulation; the Brown government's preparedness to sanction £1.2 trillion of state loans, guarantees and cash to bailout major British banks during the 2008 crisis; and since May 2010 the Cameron-Clegg and, since May 2015, Cameron governments' willingness to impose fiscal austerity upon the British people rather than impose regulation or taxes upon the City of London. Led by the Treasury under successive Chancellors from Sir Geoffrey Howe in 1979 to George Osborne (2010-), the British developmental state's pattern of intervention has not just been 'market-conforming', but actually market-making, as illustrated by George Osborne's October 2013 'ground-breaking' deal to establish London as the global offshore hub for trading the Chinese currency, the Reminbi, and his March 2015 insistence that the United Kingdom should be the first major western economy to become a founding member of the China's Asian Infrastructure Investment Bank.

- 14 It is this particular model of national development which can help to explain the state of the contemporary economy and the economic policy choices of United Kingdom governments in response to the crisis of 2008. As Darion Acemoglu and James Robinson have noted "*England was unique among nations when it made the breakthrough to sustained economic growth in the seventeenth century*".<sup>25</sup> It was not entrepreneurship, the institutions of the developmental market, or the manifest destiny of the English as an exceptional, chosen people, on account of their longstanding attachment to liberalism, free trade and parliamentary democracy, which brought about England's rise from relative obscurity at the end of the sixteenth century to a nascent global power at the end of the seventeenth century. On the contrary, this great transformation was led by the interventions of the centralized English state.

## The Developmental Market from Thatcher to Cameron

- 15 Why has the role of the developmental state not been acknowledged in the British state's reaction to the crisis of 2008? To a significant degree, this omission reflects the degree to which modern British politics has become stranded on the ideological common ground of the political economy of neo-liberalism, which has itself been founded upon an alternative political narrative and very particular understanding of the history of England and the United Kingdom. In parallel to Chalmers Johnson's notion of the 'developmental state', I have coined the term 'developmental market' to denote the policy agenda of market liberalization, deregulation and privatization fashioned by neo-liberalism during the past forty years. Proponents of the developmental market from Margaret Thatcher to David Cameron and George Osborne have portrayed England as having risen to greatness through *laissez-faire*, limited government, and free trade.
- 16 This ideological and political triumph for the neo-liberal Right in British politics has been illustrated by its attitude towards the 15 June 2015 eight hundredth anniversary of the signing of the Magna Carta. This event was mobilized by the Right as part of a broader political narrative to demonstrate the political, economic and moral superiority of the Anglo-Saxon 'free market' model of capitalism over those of its continental European and

East Asian developmental state rivals. Indeed, the Eurosceptic Member of the European Parliament for South East England, Daniel Hannan presented the Magna Carta as “*the foundational charter of Anglosphere liberty*”.<sup>26</sup> The common law of England, the rule of law, personal liberty, representative government, its uncodified, in a single document, constitution, and the English-speaking peoples of the ‘Anglosphere’ should be understood as the inventors of freedom and the prime movers of “*a common Western civilization*”. At the heart of this narrative is “*a continuous ‘Anglo-Saxon’ civilization, whose chief characteristic is a commitment to free markets*”.<sup>27</sup> The greatest threat to this civilization is now posed by the European Union and its alleged ambitions for a European ‘superstate, or what Hannan terms “*Continentalization*”.<sup>28</sup>

- 17 For his part, David Cameron has identified Magna Carta’s anniversary as an historical weapon to be mobilized for his own parallel political ambitions to establish a new British Bill of Rights and break the link between the European Court of Human Rights and courts in the United Kingdom (or at least England),<sup>29</sup> to renegotiate the United Kingdom’s relationship with the European Union, and desire to see the successor framework for the Millennium Development Goals (MDGs) reflect the “golden thread of liberty” symbolized by Magna Carta.<sup>30</sup>
- 18 However, the year 2015 also marked another significant but almost unnoticed anniversary: the four hundredth anniversary of the first use of the term ‘political economy’ in a book published in England. Given that the 2008 crisis was undoubtedly a crisis of global and national political economy (although the relative significance of the crisis for particular political economies is the subject of fierce debate) this anniversary has taken on a particular importance. During 2015, it was a French political economist, Thomas Piketty, who highlighted the importance of the detrimental impact on the distribution of wealth of an economy where  $r > g$ , that is where  $r$ , i.e. the average annual rate of return on capital is greater than  $g$ , the rate of growth of the economy, i.e. the annual increase in income or output.<sup>31</sup> However, in 1615 it was another Frenchman, Antoine de Montchrestien, whose *Treatise on Political Economy*, first used the term ‘political economy’ in the title of an economic tract,<sup>32</sup> to show how markets were “*only the economic elements of politics*”.<sup>33</sup>
- 19 At the time of Montchrestien’s fashioning of the term ‘political economy’, England provided the blueprint for emulation by rival national economies. However, it was to be emulated not because of its developmental market qualities of limited government, free trade or entrepreneurship, but because “*England was among the most interventionist states of its age, and the harrowing success of these policies made England’s economy and the ideas on which it was based worthy of guarded emulation*”.<sup>34</sup> Sophus Reinert has shown how John Cary’s 1695 *Essay on The State of England* provided a blueprint for state-led industrial modernization, including a fourteen point agenda for nurturing manufacturing industry, more than a century before Alexander Hamilton’s reports on the state of manufactures, and more than one hundred and forty years before the publication of Friedrich List’s *Natural System of Political Economy* (1837) and *National System of Political Economy* (1841). All of these works identified the political economy of England as the blueprint for national development. It was England’s status as the world’s first developmental state, rather than the limited government of the Whig, neo-liberal interpretation of English history, which attracted emulation by rival national economies.

## The Anglo-American Developmental State

20 For understanding the response to the crisis of 2008 on both sides of the Atlantic, it is of particular importance that recent research has identified an American developmental state tradition from the work of Alexander Hamilton, George Washington, Abraham Lincoln, Henry Clay and Franklin Roosevelt.<sup>35</sup> While William Novak has exposed the myth of the 'weak' American state, William Lazonik has highlighted the role of the American developmental state in fostering entrepreneurial ventures, and Fred Block has charted the rise of a 'hidden' developmental state in the United States (Novak, 2008; Lazonik, 2008; Block, 2008).<sup>36</sup> More recently, Mariana Mazzucato has challenged both the theory, practice and linguistic narrative of the neo-liberal developmental market model by offering up a vision of the 'entrepreneurial state'. Here, the state's role is transformed:

From an inertial bureaucratic 'leviathan' to the very catalyst for new business investment; from market 'fixer' to market shaper and creator; from simply 'de-risking' the private sector, to welcoming and taking on risk due to the opportunities it presents for future growth.<sup>37</sup>

21 However, by far the most challenging analysis has been presented by Linda Weiss's thesis of the American National Security State (NSS) (Weiss, 2014). Weiss has accounted for the United States' capacity for transformative innovation:

not merely from the entrepreneurship of its private sector, or simply from the state as such, but from the national security state—a particular cluster of federal agencies that collaborate closely with private actors in pursuit of security-related objectives.

<sup>38</sup>

22 The original catalyst for the creation of the NSS and its evolution as an American developmental state have been geopolitics and related external threat perceptions, rather than the pursuit of profit.<sup>39</sup>

23 Weiss has understandably presented this as a unique and novel developmental state model, particular to the United States since 1945. She has also located Britain "*leaning toward the more passive end of state involvement*" in promoting innovation.<sup>40</sup> But the United Kingdom government's response to the financial crisis has demonstrated anything but passivity in state intervention. Nor was the United States the world's first economy to generate a National Security State variant of the developmental state, driven by external geo-political threats and characterised by hybrid forms of capitalism. On the contrary, what Weiss has brilliantly depicted was pioneered by England during the sixteenth and seventeenth centuries, culminating in the creation of an English, and, latterly, British, empire as its principal output.

24 As a consequence of the English, and latterly, British, developmental state model, the English and British state's role in innovation has been anything but passive. On the contrary, it has fulfilled the entrepreneurial role identified by Mazzucato, but in the financial services and military sectors of the economy, rather than civilian manufacturing industries. If, according to Block's analysis, the American developmental state has remained 'hidden', the English developmental state has remained buried. Only David Edgerton's thesis of 'liberal militarism', and its identification of England as a profoundly militant and technological nation, has begun the process of uncovering the English developmental state.<sup>41</sup>

- 25 Edgerton's thesis has identified the first phase of the British state's liberal militarism as having begun in 1815. But for the English state, that liberal militarism had actually begun centuries earlier. In these terms, the Industrial Revolution, celebrated in Unionist and British nationalist narratives as the greatest proof of the virtues of the British Union as a fulcrum for radical innovation, should be understood as the last of a long series of revolutions in politics, political economy, warfare, science, commerce and English grand strategy, shaped by a period of radical thinking which should be understood as "*the English Enlightenment*".<sup>42</sup>

## A Written Constitution for The Developmental Market

- 26 We can now revisit Montchrestien's insight about markets being only the economic elements of politics to explain how in England and latterly the United Kingdom, Piketty's  $r > g$  equation of the annual rate of return on capital exceeding the rate of economic growth has been a characteristic of the political economy of the United Kingdom not merely during the era of the developmental market, but for much of the period dating back to England's seventeenth century financial revolution. The developmental state in England and latterly the United Kingdom has frequently intervened to ensure an attractive rate of return on capital. More pertinently, and in this longstanding state tradition, the Cameron-Clegg government reacted to the 2008 crisis by a series of policy interventions, including extending the £375 billion programme of Quantitative Easing (QE) and taxpayer-funded subsidies to the domestic property market, which ensured that Piketty's rate of return on capital, especially that invested in property-based assets would far outstrip the United Kingdom's rate of economic growth.
- 27 In the modern era, this process of using law and legislation to fashion a developmental role for the British state was inspired by Margaret Thatcher and Sir Keith Joseph's ideological conversion in the mid-1970s from the technocratic pragmatism and state-led industrial modernization programmes of One Nation conservatism, exemplified by projects such as Concorde and the state bailout of the bankrupt Rolls Royce in 1971, to the market liberalism of Friedrich Hayek.
- 28 To understand how this developmental state role can be reconciled with the political narrative of a developmental market, in which individual entrepreneurial initiative is regarded not only as the prime agency of change in the economy, but in all aspects of society, including science and the arts, it is necessary to revisit Margaret Thatcher and Sir Keith Joseph's ideological conversion in the mid-1970s. At that juncture, Thatcher's own analysis of British decline was stark: "*Unless we make a dispassionate assessment of past economic performance as a prelude to action, we are likely to continue along a path of drift and decline*".<sup>43</sup> Success depended on "*winning not just power but the battle of ideas*".<sup>44</sup> For Sir Keith Joseph, the Conservative Party, like British politics in general, had become "*stranded on the middle ground*" and thereby been "*inhibited from fighting a vigorous battle of ideas*".<sup>45</sup> Both party and politics must move rightwards towards the common ground of an entrepreneur-led, property-owning market order.
- 29 Hayek's previous optimism that liberalism could triumph over the arbitrary interventions of social democratic, state-led modernization projects had been dissipated during the 1970s by the rise of trades union militancy, and the onset of rising inflation and unemployment. The relative decline of the United Kingdom appeared to confirm that

judgement. Consequently, he now contemplated a scenario where “*If in a society in which the spirit of enterprise has not yet spread, the majority has the power to prohibit whatever it dislikes, it is most unlikely that it will allow competition to arise*”.<sup>46</sup> Since personal freedom would no longer be guaranteed by the free constitution of spontaneous market association, a model constitution would have to be drawn up politically and legislation passed to define the limits of state power. In short, the basic principles of a free society might have to be “*temporarily suspended when the long-run preservation of that order is itself threatened*”.<sup>47</sup> To preserve the market order, state power would have to be used to rule out specific policies, for example, rendering “*all socialist measures for redistribution impossible*”.<sup>48</sup> The free economy would have to be accompanied by the strong state.<sup>49</sup>

- 30 The United Kingdom government’s reaction to the financial crisis of 2007-2008 must be understood as just the latest phase of the passage of laws and legislation by a strong state to create a model constitution and market order focused upon the United Kingdom’s financial and commercial interests. Hayek’s thesis had been that the “*last battle against arbitrary power*”, namely “*the fight against socialism and for the abolition of all coercive power*” could yet be won.<sup>50</sup> Through policies of privatization, market liberalization and deregulation, Thatcherism and Reaganomics subsequently claimed to be rolling back the frontiers of the state to maximize the opportunities for entrepreneurship, competition and profit. However, in practice the developmental market agenda has redefined, not rolled back, the frontiers of state power. Indeed, for more than three decades, Hayek’s ‘coercive power’ has been mobilized by the neo-liberal state to advance the frontiers of the developmental market. Austerity under the Cameron-Clegg and Cameron governments has simply been the latest stage of that political construction.
- 31 The state has simply defended the interests and promoted the same sectors of the economy-financial services and military industries-which it has always done ever since England’s financial, political, scientific, administrative revolutions during the seventeenth century English Enlightenment. This is how a £1.162 trillion state bailout of irresponsible bankers can be reconciled with the Cameron-Clegg government’s central political narrative from May 2010 of the need for austerity in fiscal policy, and a wholesale redefinition of the role of the state in the United Kingdom.

## Conclusion

- 32 On Friday 12 June 2015, a letter was published in *The Guardian* on behalf of 77 eminent economists, including Thomas Piketty, Ha-Joon Chang, Marianna Mazzucato, and Simon Wren-Lewis. The letter claimed that George Osborne’s plans for “*permanent budget surpluses*” as part of “*A new settlement for the British economy*”, as announced in Osborne’s 10 June 2015 Mansion House speech,<sup>51</sup> had “*no basis in economics*”, were “*not fit for the complexity of a modern 21<sup>st</sup>-century economy*”, and required “*an urgent rethink*”.<sup>52</sup> However, the point is that Osborne’s developmental market agenda does not owe its basis to economics. Like its predecessor plans, at least since May 1979, and including the Cameron-Clegg government’s response to the 2008 crisis, Osborne’s plans owe their basis to politics, political economy, history, ideology, and party political advantage rather than economics *per se*.
- 33 As this article has suggested, the United Kingdom government’s response to the 2007-2008 financial crisis has been based upon a particular developmental market

political narrative and policy agenda of market liberalization, deregulation and privatization. However, the implementation of that agenda has required a developmental role of the British state. That role is nothing new. On the contrary, it is simply the most recent manifestation of a developmental state tradition dating back to the early seventeenth century. It is against this historical context that both the decision to devote £1.162 trillion of taxpayers' resources to bailing out failed and failing British banks, and the Cameron-Clegg government's decision to implement a programme of government according primacy to fiscal austerity must be located.

- 34 Recent events present us with something of a closing paradox. On the one hand, David Cameron and George Osborne are now governing as a single party administration with a 12 seat majority at Westminster, and are no longer in coalition. The result of the 7 May 2015 General Election appears to have vindicated their response to the 2008 crisis. There is little prospect of "*an urgent rethink*". Indeed, the Cameron government is committed to delivering a budget surplus by 2019-2020 and implementing the world's largest privatization programme to achieve that surplus. Such policies will not come about through a passive state. On the contrary, they will necessitate further programmes of law and legislation, as the British developmental state continues to build its model constitution for a market order focused upon the global financial and commercial interests of the City of London.
- 35 Despite the mounting evidence of its manifest economic shortcomings, far from being abandoned, the political narrative of the developmental market appears to be on the point of entering a new era. In his 2015 annual speech at the Lord Mayor's Banquet, the Governor of the Bank of England, Mark Carney, paid tribute to the City of London's 350 year history of "*pre-eminence through market innovation*" as the world economy's "*centre of financial capitalism*", but also noted that "*Though markets can be powerful drivers of prosperity, markets can go wrong left unattended, they are prone to instability, excess and abuse*".<sup>53</sup> Carney's solution was to suggest that, since markets "*need to retain the consent of society - a social licence - to be allowed to operate, innovate and grow*", the need now is for what he has termed "real markets".
- 36 The qualities that Carney has attributed to those "real markets" have offered a vision of the next incarnation of the developmental market. Carney's "real markets" do not collapse, are transparent, accountable, professional and open, "resilient, fair and effective".<sup>54</sup> However, Carney has conceded that "*Real markets don't just happen; they depend on the quality of market infrastructure*".<sup>55</sup> While Carney has further suggested that "*Removing public subsidies is absolutely necessary for real markets to exist*",<sup>56</sup> the actions of the British state in responding to the crisis of 2008 have demonstrated that, when required to do so, the developmental state in the United Kingdom, led by its pilot agency, Her Majesty's Treasury, is prepared to intervene massively and to mobilise hundreds of billions, if not trillions of pounds, to defend the interests of the City of London. If the cost of that intervention and set of priorities is prolonged austerity for millions of ordinary citizens and those on low incomes or disabled, then so be it.
- 37 **Dr Simon Lee is Senior Lecturer in Politics at the School of Politics, Philosophy and International Studies, University of Hull. His most recent book was published in April 2015: M. Beech and S. Lee (eds.), *The Conservative-Liberal Coalition: Examining The Cameron-Clegg Government* (London: Palgrave Macmillan). His next book is *The State of England: The Nation We're In* (London: Palgrave Macmillan, 2016).**

---

## BIBLIOGRAPHY

- ACEMOGLU Daron and ROBINSON James, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (London, Profile Books, 2012).
- ALBERT Michel, *Capitalism Against Capitalism* (London, Whurr, 1993).
- AMSDEN Alice, *The Rise of "The Rest": Challenges To The West From Late-Industrializing Economies* (Oxford, Oxford University Press, 2001).
- BANK FOR INTERNATIONAL SETTLEMENTS, *Triennial Central Bank Survey: Foreign Exchange Turnover in April 2013, preliminary global results* (Basle, Bank for International Settlements, 2013).
- BLOCK Fred, 'Swimming Against the Current: The Rise of a Hidden Developmental State in the United States', *Politics and Society*, 36, 2 (2008), pp.1169-1206.
- BREWER John, *The Sinews of Power: War, Money and the English State, 1688-1783* (Cambridge, Massachusetts, Harvard University Press, 1988).
- CAMERON David, 'Combating Poverty at Its Roots: Economic development requires aid, but also sound institutions. Britain can lead on both fronts', *The Wall Street Journal*, 1 November 2012.
- CAMERON David, Magna Carta 800<sup>th</sup> Anniversary Speech, Runnymede, Surrey, 10 June 2015.
- CAMERON David and CLEGG Nick, 'Foreword' to Her Majesty's Government, *The Coalition: Our Programme for Government* (London, The Cabinet Office, 2010).
- CARNEY Mark, 'Building real markets for the good of the people', Speech, Lord's Mayor's Banquet, Mansion House, City of London, 10 June 2015.
- COATES David, *Models of Capitalism: Growth and Stagnation in the Modern Era* (Cambridge, Polity Press, 2000).
- DICKSON Peter, *The Financial Revolution in England* (London, Macmillan, 1967).
- EDGERTON David, *England and the Aeroplane: An Essay on a Militant and Technological Nation* (London, Macmillan, 1991).
- GAMBLE Andrew, *The Free Economy and The Strong State: The Politics of Thatcherism* (London, Palgrave Macmillan, 1994).
- HALL Peter and SOSKICE David (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford, Oxford University Press, 2001).
- HAMPDEN-TURNER Charles and TROMPENAARS Alfons, *The Seven Cultures of Capitalism: Value Systems for Creating Wealth in the United States, Britain, Japan, Germany, France, Sweden, and The Netherlands* (London, Piatkus, 1993).
- HANNAN Daniel, *How We Invented Freedom & Why It Matters* (London: Head of Zeus, 2013).
- HAYEK Friedrich, *Law, Legislation and Liberty: A New Statement of The Liberal Principles of Justice and Political Economy: Volume 3: The Political Order of A Free People* (London, Routledge and Kegan Paul, 1979).

- HER MAJESTY'S GOVERNMENT, *The Coalition: Our Programme for Government* (London, The Cabinet Office, 2010).
- JOHNSON Chalmers, *MITI and The Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, California, Stanford University Press, 1982).
- JOSEPH Sir Keith, *Stranded on The Middle Ground* (London, The Centre for Policy Studies, 1976).
- LAZONICK William, *Entrepreneurial Ventures and the Developmental State: Lessons from the Advanced Economies* (New York, United Nations University World Institute for Development Economics Research Discussion Paper No.2008/01, 2008).
- LEE Simon, 'Part B: Explaining Britain's Relative Economic Performance' in Cox Andrew, Lee, Simon and Sanderson, Joe, *The Political Economy of Modern Britain* (Cheltenham, Edward Elgar, 1997).
- LEE Simon, *The State of England: The Nation We're In* (London, Palgrave Macmillan, 2016).
- LIND Michael, *Land of Promise: An Economic History of The United States* (New York, HarperCollins, 2012).
- MACOURANT Jérôme, 'Montchrestien' in 1615: the Beginnings of Political Economy?' *History of Economic Ideas*, XXI, 1(2013), pp. 25-45.
- MAZZUCATO Marianna, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (London, Anthem Press, 2013).
- MIROWSKI Philip, *Never Let A Serious Crisis Go To Waste: How Neoliberalism Survived The Financial Meltdown* (London, Verso, 2013).
- MURPHY Anne, *The Origins of English Financial Markets: Investment and Speculation before the South Sea Bubble* (Cambridge, Cambridge University Press, 2012).
- NATIONAL AUDIT OFFICE, *What is the current level of support provided?*, 15 February 2015, <<https://www.nao.org.uk/highlights/taxpayer-support-for-uk-banks-faqs>> [consulted 15 February 2016].
- NELSON Richard (ed.), *National Innovation Systems: A Comparative Analysis* (New York, Oxford University Press, 1993).
- NOVAK William, 'The Myth of the "Weak" American State', *American Historical Review* (2008), pp. 752-772.
- OSBORNE George, Speech, Lord Mayor's Banquet, Mansion House, City of London, 10 June 2015.
- PIKETTY Thomas, *Capital in the Twenty-First Century* (Cambridge, Massachusetts, The Belknap Press of Harvard University Press, 2014).
- PINCUS Steve, *1688 The First Modern Revolution* (New Haven: Yale University Press, 2009).
- PORTER Roy, *Enlightenment: Britain and the Creation of the Modern World* (London, Penguin, 2000).
- REINERT Sophus, *Translating Empire: Emulation and the Origins of Political Economy* (Cambridge Massachusetts, Harvard University Press, 2011).
- THATCHER Margaret, Speech presenting *The Guardian's Young Businessman of The Year Award*, The Mansion House, The City of London, 9 March 1977.
- UNDP, *Human Development Report 2013: The Rise of the South: Human Progress in a Diverse World* (New York, United Nations Development Programme, 2013).

WADE Robert, *Governing The Market: Economic Theory and The Role of Government in East Asian Industrialization* (Princeton, Princeton University Press, 1990).

WEISS Linda, *America Inc? Innovation and Enterprise in the National Security State* (Ithaca, Cornell University Press, 2014).

WENNERLIND Carl, *Casualties of Credit: The English Financial Revolution, 1620-1720* (Cambridge, Massachusetts, Harvard University Press, 2014).

## NOTES

1. NATIONAL AUDIT OFFICE, *What is the current level of support provided?*, 15 February 2015, <<https://www.nao.org.uk/highlights/taxpayer-support-for-uk-banks-faqs>> [consulted 15 February 2016].
2. HER MAJESTY'S GOVERNMENT, *The Coalition: Our Programme for Government* (London, The Cabinet Office, 2010).
3. CAMERON David and CLEGG Nick, 'Foreword' to Her Majesty's Government, *The Coalition: Our Programme for Government* (London, The Cabinet Office, 2010), p. 7.
4. MIROWSKI Philip, *Never Let A Serious Crisis Go To Waste: How Neoliberalism Survived The Financial Meltdown* (London, Verso, 2013), p. 2.
5. *Ibid.*
6. *Ibid.*, p. 2.
7. BANK FOR INTERNATIONAL SETTLEMENTS, *Triennial Central Bank Survey: Foreign Exchange Turnover in April 2013, preliminary global results* (Basle, Bank for International Settlements, 2013).
8. LEE Simon, *The State of England: The Nation We're In* (London, Palgrave Macmillan, 2016).
9. UNDP, *Human Development Report 2013: The Rise of the South: Human Progress in a Diverse World* (New York, United Nations Development Programme, 2013), p. 55.
10. JOHNSON Chalmers, *MITI And The Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, California, Stanford University Press, 1982).
11. HALL Peter and SOSKICE David (eds.), *Varieties of Capitalism: The Institutional Foundations of Comparative Advantage* (Oxford, Oxford University Press, 2001).
12. *Ibid.*; COATES David, *Models of Capitalism: Growth and Stagnation in the Modern Era* (Cambridge, Polity Press, 2000).
13. HAMPDEN-TURNER Charles and TROMPENAARS Alfons, *The Seven Cultures of Capitalism: Value Systems for Creating Wealth in the United States, Britain, Japan, Germany, France, Sweden, and The Netherlands* (London, Piatkus, 1993).
14. NELSON Richard (ed.), *National Innovation Systems: A Comparative Analysis* (New York, Oxford University Press, 1993).
15. JOHNSON Chalmers, *MITI And The Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, California, Stanford University Press, 1982); AMSDEN Alice, *The Rise of "The Rest": Challenges To The West From Late-Industrializing Economies* (Oxford, Oxford University Press, 2001); WADE Robert, *Governing The Market: Economic Theory and The Role of Government in East Asian Industrialization* (Princeton, Princeton University Press, 1990).
16. LEE Simon, 'Part B: Explaining Britain's Relative Economic Performance' in Andrew Cox, Simon Lee and Joe Sanderson, *The Political Economy of Modern Britain* (Cheltenham, Edward Elgar, 1997).
17. LEE Simon, *The State of England: The Nation We're In* (London, Palgrave Macmillan, 2016).
18. BREWER John, *The Sinews of Power: War, Money and the English State, 1688-1783* (Cambridge, Massachusetts, Harvard University Press, 1988), p. 120.
19. DICKSON Peter, *The Financial Revolution in England* (London, Macmillan, 1967), p. 457.

20. WENNERLIND Carl, *Casualties of Credit: The English Financial Revolution, 1620-1720* (Cambridge, Massachusetts, Harvard University Press, 2014), p. 1.
21. MURPHY Anne, *The Origins of English Financial Markets: Investment and Speculation before the South Sea Bubble* (Cambridge, Cambridge University Press, 2012), p. 221.
22. REINERT Sophus, *Translating Empire: Emulation and the Origins of Political Economy* (Cambridge Massachusetts, Harvard University Press, 2011), p. 7.
23. *Ibid.*, p. 25.
24. PINCUS Steve, *1688 The First Modern Revolution* (New Haven: Yale University Press, 2009), p. 8.
25. ACEMOGLU Daron and ROBINSON James, *Why Nations Fail: The Origins of Power, Prosperity, and Poverty* (London, Profile Books, 2012), p. 102.
26. HANNAN Daniel, *How We Invented Freedom & Why It Matters* (London: Head of Zeus, 2013), pp. 109-117.
27. *Ibid.*, p. 6.
28. *Ibid.*, p. 371.
29. CAMERON David, Magna Carta 800<sup>th</sup> Anniversary Speech, Runnymede, Surrey, 10 June 2015.
30. CAMERON David, 'Combating Poverty at Its Roots: Economic development requires aid, but also sound institutions. Britain can lead on both fronts', *The Wall Street Journal*, 1 November 2012.
31. PIKETTY Thomas, *Capital in the Twenty-First Century* (Cambridge, Massachusetts, The Belknap Press of Harvard University Press, 2014), p. 25.
32. REINERT Sophus, *Translating Empire: Emulation and the Origins of Political Economy* (Cambridge Massachusetts, Harvard University Press, 2011), p. 5.
33. MACOURANT Jérôme, 'Montchrestien in 1615: the Beginnings of Political Economy?' *History of Economic Ideas*, XXI, 1(2013), pp. 25-45.
34. REINERT Sophus, *Translating Empire: Emulation and the Origins of Political Economy* (Cambridge Massachusetts, Harvard University Press, 2011), p. 6.
35. LIND Michael, *Land of Promise: An Economic History of the United States* (New York, HarperCollins, 2012).
36. NOVAK William, 'The Myth of the "Weak" American State', *American Historical Review* (2008), pp. 752-772; LAZONICK William, *Entrepreneurial Ventures and the Developmental State: Lessons from the Advanced Economies* (New York, United Nations University World Institute for Development Economics Research Discussion Paper No.2008/01, 2008); BLOCK Fred, 'Swimming Against the Current: The Rise of a Hidden Developmental State in the United States', *Politics and Society*, 36, 2 (2008), pp. 1169-1206.
37. MAZZUCATO Marianna, *The Entrepreneurial State: Debunking Public vs. Private Sector Myths* (London, Anthem Press, 2013), p. 9.
38. WEISS Linda, *America Inc? Innovation and Enterprise in the National Security State* (Ithaca, Cornell University Press, 2014), p. 4.
39. *Ibid.*, p. 5.
40. *Ibid.*, p. 8.
41. EDGERTON David, *England and the Aeroplane: An Essay on a Militant and Technological Nation* (London, Macmillan, 1991).
42. PORTER Roy, *Enlightenment: Britain and the Creation of the Modern World* (London, Penguin, 2000).
43. THATCHER Margaret, Speech presenting *The Guardian's* Young Businessman of The Year Award, The Mansion House, The City of London, 9 March 1977, p. 87
44. *Ibid.*, p. 51
45. JOSEPH Sir Keith, *Stranded on The Middle Ground* (London, The Centre for Policy Studies, 1976), p. 25.

46. HAYEK Friedrich, *Law, Legislation and Liberty: A New Statement of The Liberal Principles of Justice and Political Economy: Volume 3: The Political Order of A Free People* (London, Routledge and Kegan Paul, 1979), p. 77.
47. *Ibid.*, p. 124.
48. *Ibid.*, p. 150.
49. GAMBLE Andrew, *The Free Economy and The Strong State: The Politics of Thatcherism* (London, Palgrave Macmillan, 1994).
50. HAYEK Friedrich, *Law, Legislation and Liberty: A New Statement of The Liberal Principles of Justice and Political Economy: Volume 3: The Political Order of A Free People* (London, Routledge and Kegan Paul, 1979), p. 152.
51. OSBORNE George, Speech, Lord Mayor's Banquet, Mansion House, City of London, 10 June 2015.
52. *The Guardian*, 12<sup>th</sup> June 2015
53. CARNEY Mark, 'Building real markets for the good of the people', Speech, Lord's Mayor's Banquet, Mansion House, City of London, 10 June 2015.
54. *Ibid.*
55. *Ibid.*
56. *Ibid.*

## ABSTRACTS

The policies and actions of the Cameron-Clegg government, and its successor single party Conservative government led by David Cameron since its victory at the 7 May 2015 General Election, should not be seen in isolation. Since May 1979, successive United Kingdom governments have claimed to be restoring an entrepreneur-led enterprise culture, based upon a 'developmental market' political rhetoric and agenda. However, this article argues that successive United Kingdom governments from Thatcher to Cameron have in fact reflected a developmental state tradition which can be traced back to England's financial revolution during the seventeenth century. Where late industrializing economies have pursued a developmental state strategy based upon the nurturing of competitive advantage in civilian manufacturing industries, England (and latterly the United Kingdom) has pursued a developmental state strategy founded upon competitive advantage in financial markets and military industries. It is this developmental state tradition which can account for the British state's provision of a £1.162 trillion bailout of United Kingdom banks, and the fiscal austerity implemented since May 2010. Rather than having been shaped by a developmental market, as the basis for a Hayekian constitution of liberty, the United Kingdom's government's response to the 2007-2008 financial crisis has witnessed not a rolling back but a wholesale redefinition of the role of the British state through the passage of laws and legislation designed to defend the interests and deal with the consequences of the exercise of arbitrary market power. In this sense, in the words of Philip Mirowski, the United Kingdom government has not let the 2008 crisis go to waste.

On ne saurait considérer isolément les politiques et mesures du gouvernement Cameron-Clegg ni de son successeur, mené par David Cameron et issu du seul parti conservateur depuis sa victoire aux élections législatives du 7 mai 2015. Depuis mai 1979, les différents gouvernements britanniques ont prétendu rétablir une culture d'entreprise menée par les entrepreneurs eux-mêmes, selon une rhétorique et un programme politiques faisant du marché le moteur du

développement économique. Cet article soutient la thèse, cependant, que, de Thatcher à Cameron, les gouvernements britanniques s'inscrivent en réalité dans une tradition d'Etat « développementiste », selon la terminologie de Chalmers Johnson, qui remonte à la révolution financière anglaise du 17<sup>e</sup> siècle. Alors que dans les économies tardivement industrialisées, il encourageait l'avantage concurrentiel des industries manufacturières civiles, l'« Etat développementiste » a privilégié, en Angleterre et, plus tard, au Royaume-Uni, celui des marchés financiers et des industries militaires. C'est cette tradition qui peut expliquer le versement par l'Etat d'1.162 milliards de livres en vue de sauver les banques britanniques ainsi que l'austérité fiscale mise en œuvre depuis mai 2010. Plutôt que d'avoir été façonnée par un « marché développementiste », qu'Hayek jugeait fondamental à « la constitution de la liberté », la réaction du gouvernement britannique à la crise financière de 2007-2008 s'est accompagnée non pas d'un retrait de l'Etat mais d'une redéfinition complète de son rôle par l'adoption de lois visant à défendre les intérêts du marché et à traiter les conséquences du pouvoir arbitraire qu'il exerce. Dans ce sens, selon les termes de Philip Mirowski, le Royaume-Uni a su tirer pleinement parti de la crise.

## INDEX

**Mots-clés:** Etat développementiste, marché développementiste, économie politique, crise financière, austérité

**Keywords:** developmental state, developmental market, political economy, financial crisis, austerity

## AUTHOR

**SIMON LEE**

University of Hull