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Chapter 8. From Financing Social Insurance to Insuring Financial Markets: The Socialisation of Risk and the Privatisation of Profit in an Age of Irresponsibility

Simon Lee and Richard Woodward

Since the onset of the financial crisis in 2007 states have expended trillions of dollars on salvaging ailing financial institutions and providing fiscal stimuli to fend off the spectre of depression. According to the International Monetary Fund (IMF), by 2009 governments had poured $432 billion of capital into financial institutions and underwritten debts worth $4.65 trillion (*The Economist* 2009: 20). The legacy is record public sector indebtedness. Between 2007 and 2011 gross government liabilities amongst OECD countries increased from 72.9 to 100.7 per cent of GDP. The effects have been most pronounced in small economies that experienced major banking meltdowns including the Republic of Ireland, where gross government debt has quadrupled from 28.9 to 112.7 per cent, and Iceland, where it has more than doubled from 53.3 to 116.9 per cent but there are a further 11 OECD countries, including the United States and United Kingdom, where such liabilities as a proportion of GDP have swelled by over half (OECD 2010).

Dwelling in central banks, finance ministries and international financial institutions the cadre of neo-classically trained economists that, along with their private sector counterparts, now dominate global financial governance (Porter 2005) hold that restoring budgetary propriety, through cutting expenditures on public goods rather than raising taxes on private and corporate

income, is essential to maintain credibility with financial markets. Politicians have proven receptive to this reasoning and embarked upon the fiercest synchronised fiscal austerity program in history. In 2011 alone, advanced countries have pledged tax rises and spending cuts worth 1.25% of their collective GDP (IMF 2010: 9). This chapter accepts that financial markets impose constraints on state autonomy but these are symptoms of changes arising from the (mis)application of state power. Moreover, the empirical evidence reveals that the financial straitjacket is looser than policymakers aver. States, to varying degrees, retain the autonomy to define and deliver public policies. Therefore we argue that the scale of the current fiscal retrenchment is not a natural or inevitable response to the financial crisis. It is rather the continuation of a deliberate 50 year long political project to redefine the state's role from one that mitigates the risks faced by individuals and companies by financing social insurance to one that urges individuals and companies to take risks by allowing them to reap private profits while insuring them against downside risks. The financial crisis, where taxpayers find themselves liable for colossal bail out and write down packages for financial institutions that took irresponsible risks on the back of implicit state guarantees and subsidies, exemplifies this privatisation of profit and socialisation of risk and the proclivity of modern states to prioritise the welfare of a narrow financial elite over that of their general citizenry.

A world turned upside down: from Bretton Woods to an age of irresponsibility

Prior to the Bretton Woods agreements of 1944, international financial orders presupposed that states would subordinate domestic economic concerns to their international commitments. For instance, when confronted with capital outflows, states operating under the

Gold Standard would follow deflationary policies to maintain their international commitment to a fixed exchange rate, ignoring the negative effects this tightening would inflict on domestic economic activity, wages and employment. The extension of the franchise in the interwar period bolstered the power of labour begetting pressure on states to take more account of domestic aspirations in economic policymaking. These pressures manifested themselves in the 1930s through greater democratic control of financial markets and the extension of welfare states, most notably as part of the New Deal in the United States. Regrettably, endeavours to safeguard domestic interests also triggered counterproductive protectionist policies that exacerbated the Great Depression and hastened the descent into the Second World War.

These incongruities loomed over the plenipotentiaries from 44 countries who convened at the Bretton Woods conference. The Bretton Woods agreements aspired to lay the foundations of a liberal, multilateral order in which states could capture the benefits of international economic relations. The drafters of Bretton Woods recognised that the allegiance of states to international liberalism was contingent on it being 'embedded' (Ruggie 1982) in national structures of Social Democratic control through provisions to cushion states against external disturbances that might otherwise derail their ability to appease domestic demands for social welfare and full employment. Thus, Bretton Woods encompassed features to enhance the state's monetary and fiscal autonomy. Capital controls, which shackled short-term flows of private capital but allowed financing of trade and productive investment, prevented money fleeing the burdens of social legislation imposed by countries determined to fund a large public sector capable of providing free healthcare and education, decent housing, predictable pensions, and stable, lucrative employment. Fixed exchange rates lessened the likelihood of speculators transferring capital overseas in the hope of profiting from anticipated exchange rate movements, especially where

states were subduing interest rates or running fiscal deficits to stimulate or compensate for shortfalls in private demand in recessionary periods. Finally, borrowing from the IMF was now an alternative to domestic deflation for states facing balance of payments disequilibria. In short, under Bretton Woods finance was the servant of interventionist states seeking to socialise risks through collective provision of essential services, correcting social injustices, smoothing business cycles, and regulating in the public interest.

By the end of the century, however, the restrictions on financial markets erected under Bretton Woods were largely dismantled, granting private actors the freedom to indulge in cross-border activities to a degree unprecedented since the Gold Standard. Conventional wisdom espoused by the 'hyperglobalist' (Held et.al. 1999) thesis asserts that financial globalisation stemmed from the spontaneous reintegration of financial markets, sponsored by technological innovations and economic interdependence. Furthermore, the footloose character of contemporary capital means states must pay greater heed to the interests of international speculators, who are free to sell the assets of countries pursuing policies that might inhibit the profitability of their portfolios, circumscribing the autonomy of states to respond to domestic demands. For example, demands from international investors for higher interest rates to assure better rates of return and deter inflationary pressures that would erode the value of their portfolios, would outrank calls from domestic producers struggling to cope with the resultant borrowing costs or exporting in the face of an appreciating currency. This view was famously encapsulated in former UK Chancellor Norman Lamont's observation that unemployment was a "price.....well worth paying" to reduce inflation (Hansard 1991: Vol. 191 Col. 413).

Similarly, mobile capital would not countenance the high tax, high spending policies that were the corollary of providing an extensive welfare state, thereby forcing governments to

moderate taxes and shrink social expenditures. Certainly there are examples, such as France's attempts at unilateral fiscal expansion from 1981-3, where speculators have vetoed government economic policies but, generally, the hyperglobalist thesis lacks empirical foundation. Instead of the prophesised cuts, the intensification of financial globalisation has been accompanied by an upward drift across OECD countries in the share of tax revenues as a percentage of GDP (from 25.5% in 1965 to 34.8% in 2008) (OECD 2011a) and public social expenditures as a percentage of GDP (from 15.6% in 1980 to 19.3% in 2007) (OECD 2011b). Indeed some authors contend that financial globalisation has *amplified* the autonomy of more powerful states, especially the US, who tap international financial markets to finance higher government expenditure (Swank 2002).

The domination of the hyperglobalist narrative in the popular imagination, despite weak empirical support, is testament to the proselytising skills of politicians and policymakers. Invoking financial globalisation to justify the trajectory of economic policy simultaneously inures citizens to the rumoured inability of states to protect and promote their interests whilst disguising the fact that financial globalisation is the outcome of a deliberate political strategy pursued by states over the last 50 years to transform their role from one corralling financial markets in the public interest to one that insures risks taken by private actors. Technology and economic interdependence notwithstanding, the main impetus for financial globalisation came from calculated decisions and non-decisions by states that, when confronted with a choice of restraining or acquiescing to markets, have invariably plumped for the latter (Helleiner 1994). The process commenced with the British government's tacit support for the development of the Euromarkets in the City of London in the late 1950s. This quickened the decline of the Bretton Woods fixed exchange rate system by affording private actors the opportunity to circumvent

capital controls. Financial liberalisation gathered pace in the 1970s with the US and UK in the vanguard of efforts to eliminate capital controls, a fashion which spread throughout the OECD and beyond during the 1980s and 1990s. Together the capricious post-Bretton Woods exchange rate environment and domestic deregulation, which fundamentally altered the structure of financial competition, unleashed a welter of financial innovations including derivatives and securitisation which theoretically allowed risk to be apportioned and spread.

The enthusiastic support of states for financial liberalisation, especially from the 1970s onwards, reflected ideological changes amongst the institutions of global financial governance. Organisations that had respected, even celebrated, the state's role in shielding their economies and societies from the privations of unfettered financial markets when designing Bretton Woods, now championed markets as finer mechanisms for promoting economic growth, social justice and morality. The capital controls and the domestic financial regulatory structures essential for postwar planning and welfare provision were now seen as a hindrance to economic growth because they stymied the market's genius for efficient resource allocation. Accelerated economic growth would deliver social justice because even if the benefits accrued disproportionately to the fortunate few some would trickle down to those at the bottom, making everyone better off. From a moral standpoint, capital controls constituted an unwarranted imposition on individual liberty by the state. Moreover, widespread state safety nets were seen to undermine personal responsibility and encourage a 'dependency culture'.

The touted solution was to slim state provision of public goods. Privatisations and public-private partnerships grabbed the headlines but many reforms passed almost unnoticed. The OECD's aforementioned figures regarding public welfare expenditure conceal the withdrawal of states from many areas of social protection since the late 1970s. Governments trusted that private

sector provision would fill the resulting vacuum, thereby transferring risks previously borne by the state to the individual. Widespread examples include attenuating the generosity of state pensions to oblige private pensions provision, reducing the quality or quantity of social housing to incentivise families to buy their own property, and phasing out grants to support those in higher education in favour of loans.

Frequently, the private sector solution necessitated the indebtedness of individuals. The problem was that prospective borrowers and lenders were risk averse. Bridging loans and other short term debts were relatively commonplace amongst poorer sections of society but most were unaccustomed to, and apprehensive about, taking on large personal debts. Lenders meanwhile had insufficient information to assess the creditworthiness of their new potential customers. To overcome this reluctance, and somewhat at odds with their faith in the automaticity of markets, states have geared policies and regulations to wean people off public provision and on to private debt. For example, many introduced subsidies and tax breaks, such as tax relief on mortgage interest payments, to stimulate demand for private housing.

Lenders meantime seized upon government commands to ease the stringency of their lending requirements. In 1977 the US passed the Community Reinvestment Act mandating banks to fulfil the credit needs of the 'entire community', code for lending more to the needy. Throughout the 1990s and 2000s Fannie Mae and Freddie Mac, that guarantee mortgages on the US government's account, received slacker underwriting guidelines allowing them to underwrite riskier tranches of loans. The broadening base of acceptable mortgage applicants fuelled the already frothy housing market and enabled middle class homeowners to release the equity from their properties to finance private healthcare, pensions and education.

Compared with 30 years ago, inhabitants of advanced industrialised countries are more likely to be home owners with private healthcare and pension provision and privately-educated offsrping. By accomplishing their agenda of shifting risk onto private individuals, their everyday lives (Langley 2008), indeed welfare, have become inseparable from the fortunes of financial institutions. Financial institutions and the states in which they reside are aware that because of pervasive dependence on their products their failure will cause untold disruption. Knowing this, many financial firms believe they operate with an implicit government guarantee which allows them to take risks with impunity. If the risks taken are profitable the result will be bountiful dividends for private shareholders but if they result in huge losses the state will have to bail it out because they are 'too big to fail'. In short the state has shed its role in social insurance only to become the insurer of financial institutions.

From Social Insurance to Financial Insurance

The economies where the transformation of the state's role and broader national political economy from financing social insurance to insuring financial markets has been the most acute have been the United Kingdom and the United States of America. It is unsurprising that the socialisation of risk and the privatisation of profit, followed by the deepest recession since the Great Depression, should have occurred in those polities where the ideological assault upon the collective provision of social insurance was first launched. The United Kingdom in particular has provided an especially interesting example of this transformation because of the unique historical role of the English and latterly the British state as a provider of collective welfare to the City of London's financial markets. This collective provision of financial insurance by the state had

predated by several centuries the establishment of the modern British welfare state during the first half of the twentieth century. It also predated the Industrial Revolution, Britain's status as the world's first industrial nation, and the formation of the United Kingdom itself.

A relationship of mutual welfare dependency had been established in which, on the one hand, the capacity of the Crown to finance wars to expand the British Empire, had depended upon the City's financiers and merchants to which the Crown had granted a charter. On the other hand, the City had depended upon the Crown's largesse to protect its private interests by providing it with political privilege and stability at home, and expanding opportunities for profitable commerce abroad, guaranteed by the Royal Navy's military superiority. Thus, the Bank of England (founded in 1694 by a group of eminent City financiers and merchants), was granted a legal monopoly of joint stock banking in 1708 that lasted until 1826. During this period, joint stock banks were not legalized beyond a 65 mile radius from London, which meant that the Bank of England could, in effect, become 'the Bank of London' by focusing upon its interests in private banking for the City's major international trading companies (Mathias, 1974: 116-7). Concurrently, such was the importance of the management of public debt for the role of the state and the City's financial interests that by the 1820s the interest payments on that debt amounted to £30.4 million of the state's total expenditure of £51.8 million (Mathias, 1974: 463).

The success of the relationship of mutual welfare dependency between the British state (led by the Treasury), the Bank of England and the City of London's financial and commercial interests helped British capitalism to acquire and maintain 'a distinctive dual character-as the first industrial economy and as the world's major commercial entrepot' (Ingham, 1984: 5). But, whereas state was to play a developmental role in nurturing the interests of civilian manufacturing in later industrializations in Germany, France, Japan and South Korea, in the

United Kingdom the state's developmental role was confined to the provision of political and financial insurance to the City of London's commercial interests. In the British developmental state, sustained intervention in manufacturing was restricted to the military industries of the warfare state to secure the ascendancy of the British Empire (Edgerton, 1991). In this regard, the measures designed by William Beveridge and other wartime planners in the 1940s to roll forward the frontiers of the British state in the provision of welfare to millions of ordinary citizens amounted to a fundamental ideological and political challenge to the longstanding provision of financial insurance. Equally, the attempts from the mid-1970s to challenge the post-war political settlement, and to roll forward the frontiers of liberalization, deregulation and privatization, should be interpreted as a project of restoration of a much older British state tradition.

During the war the Inter-Departmental Committee on Social Insurance and Allied Services had surveyed the United Kingdom's existing schemes of social insurance. When Beveridge outlined its recommendations as part of the planning for post-war reconstruction, he identified three guiding principles which had informed the Plan for Social Security. The first guiding principle was that 'any proposals for the future, while they should use to the full the experience gathered in the past, should not be restricted by consideration of sectional interests established in the obtaining of that experience'. In short, plans for reforming the welfare of the British people should not be piecemeal or incremental because 'A revolutionary moment in the world's history is a time for revolutions, not for patching' (Beveridge, 1942: p.6). The second guiding principle was that:

‘organisation of social insurance should be treated as one part only of a comprehensive policy of social progress. Social insurance fully developed may provide income security; it is an attack upon Want. But Want is only one of five giants on the road of reconstruction and in some ways the easiest to attack. The others are Disease, Ignorance, Squalor and Idleness’ (Beveridge, 1942: 6).

The third guiding principle was that:

‘social security must be achieved by co-operation between the State and the individual. The State should offer security for service and contribution. The State in organising security should not stifle incentive, opportunity, responsibility; in establishing a national minimum, it should leave room and encouragement for voluntary action by each individual to provide more than that minimum for himself and his family’ (Beveridge, 1942: 6-7).

Beveridge’s ambition was to introduce a comprehensive plan of social insurance for ordinary people. Beveridge’s Plan for Social Security defined social security as ‘security for the individual, organized by the State, against risks to which the individual will remain exposed even when the condition of the society as a whole is good as it can be made’ (Beveridge, 1967: 12). It was accompanied not by ‘a “Plan” but a “Policy” for Full Employment’ (Beveridge, 1967: 38). This recognised that full employment could not be ‘won and held without a great extension of the responsibilities and powers of the State’ (Beveridge, 1967: 36). Indeed, in pursuing social insurance and full employment, the state should undertake ‘only those things which the State alone can do or which it can do better than any local authority or than private citizens either

singly or in association, and to leave to these other agencies that which, if they will, they can do as well or better than the State' (Beveridge, 1967: 36). Beveridge recognised that launching 'a common attack on the giant social evils of Want, Disease, Ignorance and Squalor' (Beveridge, 1967: 31), required similar priority to be given by the productive resources of the nation to 'the re-equipping of British industry, whether in private or public hands, with new and better machinery to ensure a steady increase in the standard of life' (Beveridge, 1967: 31).

Only by this careful restatement of the principles underpinning Beveridge's Plan for Social Security and Policy for Full Employment that two key points can be made about the relationship Beveridge envisaged between the provision of social security and the maintenance of national competitiveness. First, Beveridge's assault upon the five social evils was never intended to stifle individual enterprise or market incentive, opportunity and responsibility through the creation of a welfare dependency culture. Second, Beveridge understood that full employment and social security would be possible only through the industrial modernization of civilian industries. He had concluded that 'the necessity of socialism, in the sense of nationalization of the means of production, distribution and exchange, in order to secure full employment, has not yet been demonstrated'. Indeed, all that had been demonstrated was that 'it would be possible to obtain full productive employment under conditions of private enterprise' (Beveridge, 1967: 37). It is important to bear these principles in mind when contemplating the neo-liberal political economy which has been created to insure private financial markets in an age of irresponsibility.

Organised by the State and international institutions neo-liberalism has, since the 1970s, within the constraints of policies of privatization, liberalization, and deregulation, attempted to provide financial security and insurance for major banks and other major corporate actors against

risks to which the individual consumer, worker and citizen has remained exposed even when the condition of the world economy has been as good it could be made. This provision of insurance and security for financial markets could not have been won and held without a redefinition of the responsibilities and powers of the state. Echoing Beveridge's provision of social insurance and social security, the neo-liberal agenda for social insurance of financial markets has been founded upon three principles. First, where Beveridge sought to avoid restrictions arising from sectional interests, the insurance of financial markets has privileged the interests and welfare of major banks and other large corporate actors over those of the general citizenry. Second, like Beveridge's organisation of social insurance, the organisation of insurance for financial markets and the socialization of risk has been only one part of a comprehensive policy of social progress. This time, however, rather than tackling the five social evils of Want, Disease, Ignorance, Squalor and Idleness, neo-liberalism's priority has been to provide financial markets with freedom from the three private evils of Risk, Regulation, and Taxation. Third, where Beveridge's schemes the state and the individual to cooperate, with the state offering security for service and contribution, the provision of insurance for financial markets has required cooperation between the state and major financial and corporate organisations, but with security offered without the prerequisite of service and contribution by financial markets. Indeed, insurance and security provided by the state has been their reward for irresponsible risk-taking and massive market failure.

Public and Private Indebtedness Arising from the Socialization of Risk

The political, economic and social costs of insuring financial markets against the consequences of their irresponsible risk-taking have been enormous. They can be illustrated in two ways. First, in historical terms, by comparing the performance, in terms of economic growth and fiscal policy, of the Bretton Woods' era from 1950-1973, shaped by the expansion of the welfare state, social insurance and the commitment to full employment, with the era from 1973-2000, shaped by the desire to privilege and insure the interests of liberalised and deregulated financial markets. Second, and more immediately, by analysing the cost to national economies, notably the United Kingdom, of the state's provision of insurance to financial markets.

In historical terms, a global political economy rooted in the expansion of the welfare state, social insurance and full employment, bestowed a superior dividend of economic growth and stability. From 1950-1973, there was an annual average growth rate of 5.3 per cent, resulting from economic expansions averaging 10.3 years in duration which accounted for no less than 94.4 per cent of this era. Any recessions averaged only 1.1 years, resulting in an average 2.1 per cent decline in output. By contrast, in the post-Bretton Woods era of market liberalization from 1973-2000, the average annual growth rate was only 2.6 per cent. Expansions during this era lasted only 6.9 years on average and accounted for only 86.6 per cent of this era. Furthermore, while 60 per cent of the recessions during this era were one year in length, another 32.5 per cent lasted over two years, with the remainder enduring three years or longer. Overall, the Bretton Woods era delivered a 102.9 per cent average increase in output during its periods of expansion, compared with an average of only 26.9 per cent in the periods of growth since 1973 (IMF, 2002: 45).

During the Bretton Woods era, despite the major expansion of the role of the state in the collective provision of welfare and social insurance to its citizens, the United Kingdom's national finances experienced a notable improvement. In 1945-46 the United Kingdom's national debt stood at 232 per cent of GDP. One year later, reflecting state's rapid expansion as it sought to provide social insurance and full employment, the national debt had leapt to 252 per cent of GDP. Thereafter, however, the impact of a fully employed and expanding national economy, supported by a growing welfare state, was to witness a steady decline in national debt, which stood at 74 per cent of GDP in 1969-70 (IFS, 2011). Moreover, during the 1970s, when the United Kingdom economy was portrayed as 'the sick man of Europe', and with demands beginning to emerge from Margaret Thatcher and her closest ideological ally, Sir Keith Joseph, for the frontiers of collective welfare provision to citizens to be rolled back, to allow the frontiers of entrepreneur-led and market-based risk-taking to roll forward, national debt continued to fall steadily to 46 per cent in 1979-80. By contrast, during the 1980s, despite the Thatcher Governments' rhetorical ambition to roll back the frontiers of the state, national debt had only declined to 39 per cent of GDP by 1989-90. By the time the Major Government departed office in 1997, the national debt had risen again to 52 per cent of GDP (IFS, 2011).

The cost to the United Kingdom's national finances of insuring major banks against the consequences of their risk-taking and spectacular market failures has been significant. At the end of December 2009, the National Audit Office reported that the cost of maintaining the financial stability of the United Kingdom's banks was £955 billion, including £117 billion in cash borrowed to purchase bank shares and to provide loans to the banks. By December 2010, that cost had fallen to £512 billion, although the amount of cash borrowed had increased to £124 billion. The taxpayers' loss on state-owned bank shares was £12.5 billion (National Audit Office,

2010: 7). However, that explicit subsidy by the taxpayer ignored the further implicit taxpayer subsidy arising from the fact that, compared to 'standalone' banks, the British banks insured by the state had enjoyed a stronger credit rating by agencies, allowing them to fund their own borrowing at a significantly lower cost. Andrew Haldane, the Executive Director of the Bank of England, had calculated that this implicit subsidy had been worth £177 billion from 2007 to 2009 (Haldane, 2010).

The scale of this implicit subsidy has been disputed. The New Economics Foundation (2011: 3) has calculated the annual subsidy of the United Kingdom's five major banks to be 'in the range of £30 billion', but has also identified much wider 'feather-bedding of financial services'. The Royal Bank of Scotland commissioned its own independent study which suggested that the annual taxpayer implicit subsidy would be approximately £5.9 billion (Oxera, 2011: ii). Irrespective of how it might be calculated, it is clear that the financial sector has incurred a degree of financial welfare dependency greater than any other sector of the United Kingdom economy. Paradoxically, this is a sector which accounts for only 3.5 per cent of the United Kingdom's workforce and 11.2 per cent of total government tax receipts (City of London Corporation, 2010: 3).

At the end of December 2010, the United Kingdom's net public sector debt stood at £889.1 billion or 59.3 per cent of GDP (ONS, 2010: 1). This was not only low by historical standards, being a lower proportion of national income than in any year between 1916-17 and 1971-72 or between 1855-56 and 1881-82 (IFS, 2011), but also among the lowest amongst the OECD. However, when the impact upon net debt of the interventions to rescue Northern Rock, Bradford and Bingley, Lloyds Banking Group and the Royal Bank of Scotland are added, the United Kingdom's net debt soars by another £1433.6 billion or 95.6 per cent of GDP to reach

£2322.7 billion or 154.9 per cent of GDP (ONS, 2010: 1). By comparison, defeating the Kaiser during the First World War added a sum equivalent to 87 per cent of GDP to the national debt by 1918, defeating the Nazis during six years of total war only added a sum equivalent to 85 per cent of GDP by 1945 (IFS, 2011).

The massive increase in indebtedness arising from the extension of welfare to the banks has not been confined to the public sector. A principal consequence of the market liberalization and deregulation fostered by neo-liberalism has been a gargantuan increase in household debt. Indeed, as manufacturing and industrial production's share of national income has diminished, and the share accounted for by financial markets and services has advanced, the United Kingdom and the United States in particular have created a new model of economic growth. This model is dependent upon the relentless expansion of consumer spending, and the capacity of the financial sector to engage in ever more risk-laden lending to sub-prime borrowers, especially in the property market. The consequence for the United Kingdom, for example, was that by the end of 2010, total household debt stood at £1560 billion or 163 per cent of GDP (HM Treasury, 2011: Table 1.8).

As Chancellor of the Exchequer, George Osborne has conceded that the financial crisis 'was a crisis that started in the banking sector', and that 'The failures of the banks imposed a huge cost on the rest of society' (Osborne, 2010). Osborne has identified the need for 'new policies and new institutions' as part of a new British economic model founded upon 'a broad-based economy supporting private sector jobs, exports, investment and enterprise' (Osborne, 2010). However, rather than intervening decisively to put an end to the failures of the banks, the government exploited this new revolutionary moment in the world's history to launch a fresh ideological assault upon the welfare state and the collective provision of social insurance to the

United Kingdom's citizens. To 're-balance' the economy, Osborne promised to correct the situation where 'Over the last decade, the UK's economy became unbalanced, and relied on unsustainable public spending and rising levels of public debt' (Osborne, 2010). However, while Osborne pledged to cut Total Managed Expenditure from 47.3 per cent of GDP in 2010-11 to 41 per cent of GDP in 2014-15, including cuts in welfare programmes amounting to £11 billion a year in 2014-15(HM Treasury, 2010: 1), at the same time he did nothing to curtail private indebtedness or borrowing. Indeed, his 2011 Budget report forecast that household debt in the United Kingdom would soar by £566 billion from £1560 billion or 160 per cent of nominal household disposable income in 2010 to £2126 billion or 175 per cent of household income in 2015 (H M Treasury, 2011: Table 1.8). Osborne evidently expected future growth to be driven by further private indebtedness, not least through loans provided by those British banks whose own welfare will continue to be insured by the taxpayer (Lee, 2011). Simultaneously, Osborne rejected the need for an industrial policy in his economic model, by insisting 'We all know that Government can't pick winners or transform the economy overnight' (Osborne, 2010). Consequently, he chose to overlook the explicit and implicit subsidies that his government continued to supply as a form of social insurance to the City of London's financial institutions.

Conclusion

The highly successful East Asian developmental state model demonstrates that there is nothing intrinsically wrong with spreading private investment risks to the public. In Japan, for instance, directed credit gave obvious signals about the sectors and enterprises likely to be favoured by government policy amounting to an implicit guarantee to private banks (Page 1994). Nevertheless, the freedom of banks to make private profits were married to a panoply of rules

which ensured these profits were ploughed back into institutions with a wider social purpose rather than the destructive model that has predominated in many Western countries whereby implicit government guarantees were wedded to freedom for banks to engage in excessive risk.

In the United Kingdom, the British developmental state model has also spread private investment risk-taking to the public sector. For more than three hundred years, the British state has provided extensive explicit and implicit guarantees and subsidies to the financial institutions of the City of London, a pattern of intervention which has been most conspicuous since 2007 in the Brown and Cameron Governments' policies for dealing with the consequences of the global financial crisis. However, unlike its East Asian counterpart, the British developmental state model has not required the banking recipients of state-funded insurance to plough back their profits into institutions with a wider social purpose. On the contrary, as this chapter has demonstrated, the British model has freed its banks from risk, regulation and taxation, and enabled them to continue to engage in highly speculative trading on a 'business as usual' basis. It is an example that has been followed only in part in the new age of austerity, with its welfare state cutbacks. The financial and political costs to the taxpayer and ordinary citizen of this socialization of risk and privatization of profit have been significant.

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