# Depoliticizing space: the politics of governing global finance

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# Depoliticizing space: The politics of governing global finance

**Abstract:** This article argues that neoliberal state restructuring is best theorized by bringing two critical approaches into conversation: the spatial concepts of de/reterritorialization and rescaling, and the depoliticization thesis. The globalization of economic activities paradoxically requires the expansion of territorially-bounded regulatory infrastructures, which Brenner terms the dialectic of de- and reterritorialization. Yet this dynamic entails a serious governing dilemma, not explored by the spatial literature. By assuming greater political responsibility for an increasingly global, financialized form of capital accumulation, states risk devastating legitimacy crises if accumulation falters – a phenomenon identified by the depoliticization literature. States have responded to this dilemma by depoliticizing policy-making through the rescaling of political authority. By moving accountability mechanisms away from central government, policy-makers can insulate themselves from popular backlash in case an economic crisis demonstrates the failure of their reterritorialized regulatory infrastructure. This article will apply this hybrid approach to the case of Margaret Thatcher's 1986 Financial Services Act. New archival evidence suggests that this policy represented a strategy to facilitate the Big Bang's globalization of Britain's financial sector through the creation of an unbiased, reterritorialized legal framework for the City of London. Yet political accountability for this regulatory system was rescaled to an obscure, quasi-governmental scale, so as to absorb any political backlash from future financial crises and insulate government legitimacy. This article thus contends that neoliberal state restructuring can be understood as the coalescence of two spatial governing strategies: reterritorializing to deterritorialize, and rescaling to depoliticize.

**Keywords**

Multiscalar governance, financialization, globalisation, spatial economic policy, political economy

# Introduction

Brexit has challenged certain received wisdoms about the regulatory preferences of the financial industry. Less than one week after the referendum, the *Financial Times* reported: 'Six months ago, most City of London bankers had a long list of regulations they wanted to scrap. But the Brexit vote has changed all that' (Arnold and Binham, 2016). As the head of the British Bankers' Association insisted: 'It is important that we do not have a bonfire of EU red tape' (ibid). This hints at the fact that the globalization of finance has only been possible through the creation of an extensive system of laws anchored in specific national and regional localities (Cerny, 1993). Yet while nation states have in many respects extended their regulatory authority in the neoliberal era, responsibility for this oversight has been spread amongst a complicated array of governmental and non-governmental bodies operating at a variety of scales. This was clearly demonstrated by the 2008 financial crisis, as national governments deflected public criticism to independent central banks, regional regulatory bodies such as the EU, and global supervisory and surveillance mechanisms such as the Basel Committee and the International Monetary Fund. Thus, rather than constituting a deregulatory free-for-all, neoliberal state restructuring has consisted of two paradoxical processes: territorial states have in many respects *enhanced* their regulatory powers, while decentralizing and diffusing political authority to different spatial scales.

This article will argue that the politics of this peculiar regulatory configuration can be best theorized by bringing two critical literatures into conversation with one another, namely, the human geography concepts of de/reterritorialization and rescaling (Brenner, 2004) and the depoliticization thesis developed in political science and International Political Economy (IPE) (Burnham, 2001). The former approach contends that the deterritorialization of capital flows in the neoliberal era has been accompanied by a necessary *re*territorialization, as states have facilitated globalization through the creation of territorially-fixed physical, institutional, and legal infrastructures. Simultaneously, national political authority has been rescaled both vertically – to urban, regional, and global spaces – and horizontally – to quangos and other non-governmental bodies. The depoliticization literature, on the other hand, claims that neoliberal state restructuring should be understood as the deliberate depoliticization of policy-making through the creation of arm's-length governance mechanisms, which allows governments to gain market credibility, avoid electoral backlash for painful measures, and escape popular blame for crises. However, while both approaches contain important insights about neoliberal state restructuring, they also have significant shortcomings. The former has been unable to advance a nuanced explanation of *why* governments pursue strategies of de/reterritorialization and rescaling, while the latter has a more convincing explanation of governing motivations but has failed to examine the spatial dimensions of depoliticization strategies. Furthermore, although certain scholars have pointed towards the potential of a geographical understanding of depoliticization, most significantly Swyngedouw (2005: 2002), to date there has been no explicit attempt to create a dialogue between these two extensive bodies of literature.

This article contends that the shortcomings of these approaches can be resolved by combining them in the following manner. The dialectic of de- and reterritorialization creates a political dilemma for governments: by facilitating the globalization of economic activities through greater state intervention, state managers become politically responsible for global dynamics that they have less ability to control. In this context, crises of accumulation could seriously threaten governments' legitimacy. Governments have attempted to resolve this dilemma by pursuing strategies of depoliticization through the rescaling of political authority, which moves accountability mechanisms away from central government and thus insulates policy-makers from popular pressures. As such, deterritorialization not only necessitates reterritorialization, it also creates pressures for depoliticization through state rescaling. This article will thus argue that neoliberal state restructuring can be theorized as a combination of two interrelated state strategies: reterritorializing in order to deterritorialize, and rescaling in order to depoliticize. In addition to advancing the dialogue between the fields of geography and IPE in this way, this article will also contribute to literature on the strategic politics of financial governance (Krippner, 2011; Braun and Hübner, 2018).

The analytical potential of this hybrid theoretical approach will be demonstrated by examining Britain's 1986 Financial Services Act (FSA). The FSA was a hugely significant regulatory change, which, by facilitating the Big Bang liberalization, helped to usher in an era of rapid financial globalization. This article will provide novel insights into this policy through an archival examination of recently released primary sources. In 1981, Margaret Thatcher's government commissioned a legal academic, Professor Laurence Gower, to review Britain's securities industry regulations. While Gower's initial proposals for a government-led system of statutory regulations were met with scepticism by the Thatcher government and the Bank of England (referred to here as the Bank), the impending Big Bang deregulation – agreed upon in 1983 – led to a change of attitudes. The opening up of the London Stock Exchange (LSE) to foreign financial capitals created the need for a comprehensive set of rules for international actors to follow when operating in London. In other words, the government and Bank recognized that the City of London's (referred to here as the City) imminent deterritorialization necessitated a comprehensive, reterritorialized system of regulations. However, the Thatcher administration feared that such statutory regulation would make the government responsible for future financial crises, while the Bank was concerned that their informal governance mechanisms would be disrupted by government prying. As such, the government and the Bank worked to rescale Gower's proposals by taking regulatory oversight out of the hands of the government and placing it with a new private intermediary body called the Securities and Investments Board (SIB), which would take the blame for financial crises and act as a buffer between Parliament and the Bank. This horizontal rescaling of political authority would depoliticize financial governance in two directions: City crises would not threaten the government's political legitimacy, and the Bank's relations with the City would not be subject to political interference. This neoliberal state restructuring was therefore an amalgamation of two strategic initiatives: reterritorializing to deterritorialize, and rescaling to depoliticize.

## Two critical perspectives on neoliberal state restructuring

### *De/reterritorialization and rescaling*

Within spatially-sensitive disciplines, globalization and neoliberal state restructuring provoked scholars to problematize two key geographical concepts: territory and scale. Regarding territory, several authors have challenged the conceptualization of the state as a territoriallystatic and homogeneous unit (Brenner, 1998). Agnew (1994) pointed out that space has been largely understood in the social sciences – and International Relations in particular – as the coalescence of state and territory. Such analyses had fallen into a 'territorial trap', whereby ontological priority was given to the territorially-defined state over other scales of social activity. Globalization rendered these assumptions problematic, as they brought into question the national territory as the primary locus of economic, political, and social relations. Different authors contributed to the reconceptualization of territory in different ways, by pointing to how institutions, transnational legal regimes, and virtual economic activities have contributed to the 'denationalization' of sovereignty (Sassen, 2000); how new forms of non-state governance respond to tensions between demands for democratization and the consolidation of the market as a governing institution (Swyngedouw, 2005); and how the state has been key in reconfiguring governance mechanisms at the urban and regional levels (MacLeod and Goodwin, 1999).

Similarly, the traditional understanding of scale as a 'container' within which social activities occur has been subject to sustained critique (Brenner, 1998: 460). Although the urban, national, and global appear as 'ontologically given' arenas, Smith (1992: 73) argues that these various scales have no prior existence outside of the historically specific social relations that give them meaning. This understanding of space as socially produced entails a conceptualization of scale, 'the most elemental differentiation of geographical space', as produced precisely through social activity, and thus subject to transformation as social relations develop (ibid). By destabilizing the static conceptions of territory and scale, these approaches allowed for the exploration of processes of *de/reterritorialization* and *rescaling*.

While many analyses of globalization (see Ohmae (1995) and O'Brien (1992)) have emphasized its border-less and supra-territorial characteristics, Brenner (2004) argues that such claims are only partially accurate. Processes of de- and reterritorialization are expressions of capital's simultaneous need for mobility – or 'the annihilation of space by time' – and fixity – the creation of fixed environments to support capital accumulation (Smith, 2010; Harvey, 1985). While the former denotes the uprooting of social activities from a particular set of territorial boundaries and their consequent reconfiguration at a different scale, the latter implies the re-rooting of those activities in a certain space. Both moments are inherently linked to one another: processes of deterritorialization 'presupposes the production of fixed socioterritorial infrastructures within, upon, and through which global flows can circulate' (Brenner, 1999: 62). Noting a similar dynamic, Peck and Tickell (2002) identify internal shifts in neoliberalism, understood as the dominating framework for competitive globalization, that reflect a dual movement of 'roll-back neoliberalism', or the *deconstruction* of existing regulatory frameworks, and a 'roll-out' phase that consolidates neoliberal forms of institution-building. Globalization, as such, should not be conceived of as a one-sided process of deterritorialization, but rather as the 'dialectical interplay' between moments of de- and reterritorialization (Brenner, 1999: 43).

Rescaling, on the other hand, refers to the formation of new spaces for the organization of capital accumulation, which challenge the primacy of those already established. This has been framed in different terms by various authors, including the 'politics of scale' (Brenner, 2001), 'production of scale' (Smith, 2010), and 'relativization of scale' (Jessop, 2003). Despite their differences, these approaches advance the common notion of a competitive struggle between existing and emerging scales over which will become the 'new anchor point around which other scales can be organized' (Jessop 2003: 181). In capital's constant search for increased profitability, the geography of capital accumulation is reconfigured into new scalar structures, encompassing a multiplicity of scales.

While de/reterritorialization and rescaling are fundamental spatial expressions of the restructuring of capital accumulation, they should also be understood as strategies wielded by states for political ends. Through different policies, states actively seek to disembed economic activities from the national territory as a strategy for integrating the national economy into global scales of accumulation. Financial deregulation is a clear example of how states eliminate territorial barriers to more profitable markets. Yet, as Brenner (2004) points out, this is accompanied by strategies of reterritorialization, that is, the construction of institutional or physical infrastructures that facilitate this deterritorialization. For example, Bridge et al. (2013) examine how the UK's low carbon energy policy is being deterritorialized through greater EU involvement, while being simultaneously reterritorialized in specific British municipalities, which become important political sites for the implementation of this policy.

Similarly, rescaling as a state strategy entails the spatial transformation of the functions or tasks previously centralized at the national level. This has taken various forms. Swyngedouw (2000) analyzes the up-scaling of political authority to regional institutions like the EU and global regimes such as the WTO; and the down-scaling to urban governance mechanisms and public-private partnership schemes. Furthermore, national political authority has also been shifted to non-governmental bodies, or quangos, which Somerville (2004: 138) refers to as 'sideways', or horizontal, rescaling. Together, the concepts of de/reterritorialization and rescaling capture how state restructuring has entailed the simultaneous re-anchoring of economic activities in the national territory and the shifting of political governance to new scales. Furthermore, by conceptualizing these processes as state strategies, this literature brings the state back in as an active participant in its own restructuring, rather than a victim of external forces.

However, while the concepts of de/reterritorialization and rescaling succinctly capture the spatial dimensions of neoliberal state restructuring, there is a lack of discussion of the governing motivations that underpin these strategies. The reasoning behind the state's implementation of these strategies is generally explained in either functionalist or pluralist terms, that is, they were either simply necessary for 'promoting the continued accumulation of capital' (Brenner, 1998: 472) or they were pushed upon the state by 'diverse social forces attempt[ing] to influence the geographies of state territorial organization' (Brenner, 2004: 93-4). To some extent, this functionalism and pluralism derives from this literature's explicit reliance on Jessop's strategic-relational approach as a theoretical anchor. Jessop's state theory emphasizes that state strategies to manage capital accumulation are the result of competition between various fractions of capital, social classes, and interest groups for hegemony (1990). While this framework has faced sustained criticism (see Charnock, 2010), what is particularly unsatisfactory is that it draws attention away from the political processes of policy-making and instead explains state behaviour by reference to lobbying pressures. Thus, while de/reterritorialization and rescaling offers vital insights into the spatial character of state restructuring, its strategic-relational underpinning acts as an impediment to understanding *why* states enact these strategies.

## *Depoliticization*

Burnham's depoliticization thesis emerged in reaction to the dominant IPE conceptualizations of state restructuring in the 1990s. These approaches posited the antagonistic, external relationship between states and markets, while heralding 'the end of the nation-state and the creation of a borderless, stateless world dominated by … footloose capital' (Burnham, 1999: 37). In a sense, these accounts represented the IPE correlates of political geography's deterritorialization thesis. In contrast, Burnham (2001) argued that states' apparent withdrawal from various spheres of governance should be understood as a conscious strategy of depoliticization, whereby politics is seemingly evacuated from the process of policy-making, allowing governments to insulate themselves from popular scrutiny.

The subsequent literature on depoliticization has been characterized by two concurrent trends. The first strand has analyzed a variety of deregulatory or technocratic policies, with emphasis usually placed on how depoliticization can appear to reconcile the contradictory governing imperatives of ensuring effective policy-making and maintaining legitimacy in the eyes of the electorate. This insight has been developed with great clarity by Flinders and Buller (2006), who identified three types of depoliticization: institutional, whereby politicians delegate governance to ostensibly non-political institutions; rules-based, whereby decision-making discretion is curtailed by explicit rules; and preference-shaping, whereby rhetorical strategies are employed that portray specific social issues as outside of the state's jurisdiction. From a Polanyian perspective, Krippner (2011: 145) argues that political rule is the 'substratum on which all market activity … rests', and thus even in the neoliberal era states continue to provide the regulatory bases for market relations. Yet in order to escape political responsibility for economic crises, states have increasingly attempted to govern *through* depoliticized market mechanisms, while still maintaining the capacity to 'guide' these markets so as 'to achieve closely calibrated economic outcomes' (ibid, 2007: 505). These theoretical insights have been applied to an array of case studies, from US financial deregulation (Krippner, 2011) to UK energy governance (Kuzemko, 2016).

The second strand of this literature has anchored the concept of depoliticization firmly within Open Marxist social theory, within which Burnham himself is an important figure. Open Marxism is an interpretation of Marx's writings that emerged from Britain's *Conference of Socialist Economists* in the 1970s and 1980s and built upon other critical Marxist approaches, such as the German 'New Reading' and Italian autonomism. Central to this approach is a focus on value as a form of wealth peculiar to capitalist exchange relations, and on the struggle-ridden and thus historically indeterminate nature of capitalist development.

Open Marxist state theory is heterogeneous, yet its unifying theme is an understanding of the state as completely mired within, rather than relatively autonomous or 'particularized' from, capitalist social relations. Against pluralist approaches that focus on how fractions of the capitalist class rule through the state, this interpretation insists that the capitalist nature of the state obtains not through the class fractions acting through it, but due to the necessity imposed on the state to reproduce capitalist wealth (value) so as to ensure both the economic viability and legitimacy of the state (Bonefeld, 2014). The state is thus not dominated directly by capitalists, but is instead dominated impersonally by the imperatives of value as the basis of social reproduction. As such, the state is conceptualized as an essentially regulatory body that is forced to attempt to maintain the expanded reproduction of capital, while also remaining a site of class struggle, which has the potential to jeopardize its 'impartial' regulatory functions (Clarke, 1991: 189, 195).

Within this understanding, depoliticization points to a state in denial of its own nature (Offe, 1975: 127). The contemporary liberal state must be a capitalist state if it is to ensure its material reproduction, yet as a democratic body it must respond to the wishes of the formally equal citizens that make up bourgeois civil society. Depoliticization denotes a strategy of placing unpopular but materially necessary decisions beyond the bounds of what constitutes the state, thus maintaining the illusion of the state as a pluralist body (Copley, 2017). The Open Marxist use of depoliticization thus explains state restructuring not by reference to the state's capture by particular social forces, but by pointing to the inherent contradiction between value as the basis of the state's material reproduction and the illusion of pluralism as the basis of the state's political reproduction (Rogers, 2009). As such, these accounts advance a more nuanced explanation of the governing motivations underpinning state restructuring than the de/reterritorialization and rescaling literature.

However, despite their theoretical sophistication, the Open Marxist depoliticization literature has not been touched by the 'spatial turn' in social science. As Charnock (2010: 85) observes, Open Marxist scholars have been 'generally disinterested in engaging in specifically spatial terms'. Burnham (1995: 103) pays perhaps the closest attention to the territorial constitution of the global capitalist system, however this territorial matrix of states is characterized as a more or less static 'overhang from absolutism' and thus Burnham fails to explore how state territory and scale is also a site of struggle and strategic manipulation. This lacuna is especially peculiar because many depoliticization analyses implicitly speak to processes that are inherently spatial. For example, the European Exchange Rate Mechanism implied a depoliticized rescaling of political authority from the national to the regional (Kettell, 2008). The depoliticization literature's entrapment in a pre-spatial turn paradigm is thus not simply restricted to a failure to employ geographic language, but rather the precise manner through which many depoliticization strategies are enacted – namely, by the manipulation of state space – is left entirely unexamined.

## *Towards a conversation*

This article contends that neoliberal state restructuring can be most adequately theorized by bringing these two critical traditions into conversation with one another. The hybridization of these approaches can overcome their individual shortcomings. Certain scholars have tentatively hinted at the potential of a geographical understanding of depoliticization: Gough (2004) attempted to conceptualize rescaling from an Open Marxist perspective, with a passing mention of the spatial dimensions of depoliticization; Swyngedouw (2005: 2002) examined depoliticization as a spatial response to legitimation crises through his Foucauldian concept of 'governance-beyond-the-state'; Cohen and Bakker (2014) discussed how the rescaling of environmental governance involves processes of de- and repoliticization; Peck (2012) argued that the manner in which neoliberal states enforce austerity through city governments constitutes the 'downloading' or 'dumping' of responsibility for politically unpopular decisions onto different scales of political organisation; and Jessop (2016) discussed the spatial implications of what he termed 'depoliticization', 'depolitization', and 'destatization'. However, none of these scholars engaged with the extensive existing literature on depoliticization. The potential for fruitful cross-pollination between these two approaches, then, has not been adequately explored to date.

This article is sympathetic to spatial accounts that highlight strategies of de- and reterritorialization as mutually-constitutive processes, ultimately reflecting the mobility and fixity of capital. While contradictory, these state practices necessitate one another, as the globalization of capital accumulation demands the enhanced development of physical, institutional, and legal infrastructures. This is, in many respects, a radical spatialization of Vogel's 'freer markets, more rules' thesis (1996). However, this dialectic of de- and reterritorialization confronts the state with a governance dilemma, which has not been sufficiently explored by the spatial literature, with certain exceptions. States must both promote an increasingly deterritorialized form of capital accumulation intimately linked to the dynamics of global financial capital, *and* assume political responsibility for this fragile accumulation strategy through reterritorialized regulatory structures. The potential breakdown of this form of accumulation thus threatens to cast governments into legitimacy crises. This dynamic intensifies the contradiction between the reproduction of profitable capital accumulation and the political reproduction of the state, identified by the Open Marxist literature. Faced with this dilemma, states have responded by attempting to depoliticize policy-making through the rescaling of political authority away from the mechanisms of central government. Accountability mechanisms have thus increasingly come to rest at local, regional, global, and quasi-governmental scales – signifying both vertical and horizontal rescaling. In this way, political fallout from accumulation crises can be absorbed by different scales of authority, protecting governments' legitimacy and insulating strategies of de/reterritorialization.

Neoliberal state restructuring can thus in many instances be understood as consisting of two complementary strategies: reterritorializing to deterritorialize, and rescaling to depoliticize. This hybrid approach overcomes the spatial literature's functionalist/pluralist understanding of the governing motivations underpinning state restructuring by focussing on the contradictory political imperatives confronting capitalist states in the neoliberal epoch, and policy-makers' strategic responses; while also rectifying the depoliticization literature's spatial blind spot, by highlighting that depoliticization strategies operate through the manipulation of state space and scale. The following section will apply these insights to the case of British financial reform in the 1980s.

## The FSA: Reterritorializing to deterritorialize, rescaling to depoliticize

On 27 October 1986, the LSE underwent a dramatic deregulation, known as the Big Bang. This event, decided upon in July 1983, consisted of the abandonment of monopolistic fixed commissions on the trading of securities and the removal of barriers to the entry of foreign firms. As a result, US and Japanese banks flooded into the LSE and the average daily turnover increased from £500 million in 1986 to £2 billion in 1995 (Laurence, 2001: 83). This policy was both a crucial catalyst of financial globalization and one of the earliest and boldest neoliberal reconfigurations of the boundaries of state authority. The 1986 FSA was an essential legislative counterpart to the Big Bang, as it replaced antiquated regulations with a legal framework better suited to the globalizing British securities industry. In stark contrast to its 'sexy' counterpart, the Big Bang, little attention has been paid to the FSA. Yet this belies its highly significant spatio-political characteristics.

Prior to the FSA, British financial services were regulated by a fragmented combination of self-regulation, informal Bank supervision, and weak legal protections. The most important market actors were exempt from the 1958 Prevention of Fraud (Investments) Act (Pimlott, 1985: 143-5). The largest banks were informally supervised by the Bank, while 'second tier' banks were overseen by the Treasury (Vogel, 1996: 97). The LSE, on the other hand, was self-regulating – it policed its own members according to its rulebook. The Bank and the Department of Trade (DoT), which became the Department of Trade and Industry (DTI) in 1983, formally oversaw this self-regulation. The scale of British securities operations, then, unlike the Euromarkets, was chiefly national and overseen by a minimalist, highly informal system of state supervision.

In contrast, the FSA introduced a coherent statutory framework for regulating the securities industry. The FSA produced three institutional layers. Firstly, private actors in the securities industry were grouped into five organizations called Self-Regulatory Agencies (SRAs). These SRAs required that all investment firms within their branch of the industry were authorized and acted according to the rules (Laurence, 2001: 87). Secondly, these rules, created and enforced by individual SRAs, had to comply with the general directives set by a broader body: the SIB. The SIB was a limited company comprised of City practitioners, yet it exercised public authority in authorising the SRAs, creating broad rules for them to follow, supervising their activities, and prosecuting offences (Moran, 1991: 59). Finally, these public powers were delegated to the SIB by the Secretary of State for Trade and Industry, who – with the Bank Governor – appointed the Chairman and members of this body. The Secretary of State was in turn subject to Parliamentary scrutiny. As such, the FSA facilitated the City's enhanced competitivity and access to deterritorialized capital flows by creating a territorially-grounded, formal system of regulatory authority.

However, the FSA did not emerge pre-formed. Instead, it went through three phases of intense debate. Phase 1: In July 1981, following several fraud scandals in the City, the DoT was tasked with commissioning company law expert Professor Gower to review the existing securities regulations. Gower's first publication, a Discussion Document released in January 1982, condemned the existing system and proposed a fusion of existing self-regulation with a new system of statutory controls. Phase 2: In January 1984, Gower released his full Report. A number of SRAs would supervise day-to-day affairs, while statutory powers would be delegated to these SRAs by an umbrella supervisory body, namely the DTI (Pimlott, 1985: 153). Phase 3: After discussing Gower's report for nearly one year, the DTI published a White Paper in January 1985. This White Paper accepted the broad thrust of Gower's proposals with one major exception: the umbrella body would not be the DTI nor any government agency, but rather two *private* bodies – the SIB and the Marketing of Investments Board (MIB). Following debates with Conservative MPs, the White Paper's recommendations were amended so as to collapse the MIB into the SIB. These changes were crystallized in the 1986 FSA. Crucially, during these three phases of debate, the chief regulatory agency of this new system was changed from a government department to a private body.

The following section will examine the politics of this three-phase process. Despite initially rejecting Gower's 1982 proposals, the government and Bank came to recognise the need for such statutory intervention following the July 1983 decision that led to the Big Bang. In order for the Big Bang to overcome the City's 'historically specific territorial barriers to accumulation' (Brenner, 2004: 33), it was necessary to create a reterritorialized national legal framework that would apply equally to global financial actors. However, Gower's 1984 Report generated anxiety amongst policy-makers that the government would effectively assume responsibility for future financial crises. Concurrently, the Bank was concerned that Gower's proposals would entail unwanted government meddling in their affairs. Thus, the Thatcher administration and the Bank sought to horizontally rescale Gower's proposals by inserting a private body between the government and the City, which would depoliticize financial governance. The FSA thus represented a strategy of reterritorializing to deterritorialize, and rescaling to depoliticize.

## *I. Gower's Discussion Document and the Big Bang, 1982-3*

Gower's initial Discussion Document was circulated amongst City elites and government and Bank officials in January 1982. This document rejected the principle of *caveat emptor* (the buyer is responsible for their purchase) and insisted that self-regulation be supplemented by a statutory framework. Gower thus recommended the reterritorialization of the City through the introduction of a framework of overt national laws. This document received an almost universally icy reception across the public and private sectors.

The City, unsurprisingly, had the coldest response to Gower's document. Nicholas Goodison, Chairman of the LSE, explained to Secretary of State for Trade John Biffen that 'Professor Gower's proposals were unnecessarily elaborate. There was no occasion to interfere with the Stock Exchange procedures, which were working satisfactorily'.[1] Officials within the DoT tended to agree with the City's diagnosis. In particular, they were concerned that Gower's proposals would overlap with and thus negate their own investigation into the LSE's practices, which 'could cause the Department some embarrassment'.[2]

The Bank's response to the Discussion Document was both fearful and pragmatic. David Walker, Executive Director for Industrial Finance, explained to the Bank's Court of Directors in April that Gower's 'statute-based framework … would involve unwelcome government intrusion, would require a substantial administrative overhead and would not in the end be as flexible or effective as better self-regulation'.[3] The task for the Bank to pursue in the coming months was to 'strengthen the City's self-regulating agencies, thus weakening or largely removing any case for extensive legislation' and minimising the 'risk of intrusion by statute'.[4] The government encouraged the Bank's initiative. As Deputy Secretary for Trade Phillip Brown explained to Secretary of State for Trade Arthur Cockfield in November, 'the attempt to improve the present self-regulatory structure is wholly desirable, and if it does produce a system which we can later recommend to Ministers as a reliable alternative to more statutory supervision, that is all to the good'.[5]

However, this resistance to the reterritorialization of the City – that is, the assertion of the state's territorial authority through the development of strong regulatory infrastructures – was transformed by the events of July 1983. After years of negotiations, the government made a deal – the Goodison/Parkinson agreement – to exempt the LSE from an anti-monopolization court case brought by the Restrictive Practices Court in 1979. In return for their exemption, the LSE agreed to remove all barriers to the entry of foreign firms and to abandon cartelistic fixed commissions (Moran, 1991). This set the stage for the impending Big Bang: a dramatic deterritorialization of the City, characterized by massive increases in financial flows through London and the domination of Britain's financial sector by transnational actors.

As argued by Norman Tebbit, Secretary of State for Trade and Industry, the Goodison/Parkinson agreement 'heaved a massive brick into the once tranquil waters of the

City'.[6] As the DTI explained, this '"financial services revolution" … is rapidly altering the institutional structure of the City of London', resulting in 'increasing international competition in the provision of financial services'.[7] The City's fragmented and club-like regulations were unsuitable for a globalized financial market, in which foreign actors, unschooled in informal British regulatory customs, would need clear rules to follow. As Moran (1991: 77) explains, 'the Goodison/Parkinson agreement meant that new sources of regulatory authority were urgently required'. Faced with the prospect of the globalization of a once cosy British market, the government came to recognize the necessity of a non-preferential infrastructure of statutes to facilitate this deterritorialization. In the words of Chancellor of the Exchequer Nigel Lawson, the looming Big Bang 'underlined the need … for a new and improved regulatory framework' (1992: 400). As such, the DTI argued that the 'Government needs to take action now' by introducing a 'statutory framework' which 'inspire[s] investor confidence by ensuring that the UK financial services sector both is and is clearly seen as a competitive and "clean" place in which to do business'.[8] Sentiment even began to change within the traditionally anti-regulation Bank. Treasury officials noted that four months after the Goodison/Parkinson agreement was signed, 'the Bank, who were at an earlier stage strongly critical, have of late struck a more forthcoming note, without yet going so far as to endorse the Gower package'.[9]

While the reterritorializing character of Gower's 1982 Discussion Document met initial resistance from City practitioners and the Bank, the Big Bang's impending deterritorialization forced these actors to acknowledge the necessity of statutory intervention into the field of financial regulation. This chimes with Brenner's observation that 'deterritorialization hinges upon an equally essential moment of reterritorialization' (2004: 33). In this case, the enhancement of the City's global competitivity required the production of new forms of impartial, territorially-bounded governance. The next section deals with the political debates over what form this reregulation should take, following the publication of Gower's 1984 Report.

## *II. Rescaling and depoliticizing Gower's proposals, 1984-5*

Gower's full report, published in January 1984, outlined a comprehensive system of self-regulation within a statutory framework. SRAs, some of which would be based upon pre-existing City organizations like the LSE, would regulate day-to-day activities, while the whole system would be overseen by a central organization, which would delegate its statutory powers to these SRAs (Pimlott, 1985: 153). Gower was insistent that this central supervisory body should be the DTI. Despite its reliance on self-regulation, then, Gower's 1984 report entailed a significant reterritorialization of the City.

There were three particularly important groups tasked with assessing the Gower Report and advising Tebbit as to the form that a future financial services bill should take: the Gower Report Group (GRG), the Number 10 Policy Unit, and the Bank's City practitioner group. The role of these different groups in giving the FSA its rescaled, depoliticized form will be examined next.

### *The GRG and the Number 10 Policy Unit*

The first group to begin digesting the Gower Report was the GRG. Made up primarily of DTI officials, with one Bank and one Treasury official (Douglas Dawkins and WR Pirie, respectively), this group met from December 1983 to June 1984. In its first preliminary meeting, Alexander Fletcher, Undersecretary of State for Trade and Industry, clearly expressed the DTI's anxiety about the political implications of assuming extensive control over City activities. He was 'opposed to the establishment of an independent Securities Exchange Commission' because it 'would lead to an extra layer of regulation, as the government would not be able to stand back entirely'.[10] Expressing a similar sentiment, Pirie wrote to DTI official M Dell in January 1984 that '[i]f regulation is imposed comprehensively, Ministers will be unable to avoid an enhanced degree of responsibility for regulatory arrangements, even when these are largely self-regulatory'.[11] DTI official Reid, however, expressed concern in January 1984 that the existing Gower proposals 'would not be welcome either to MPs or to Ministers – who would wish to retain their control over such a crucial area of policy'.[12]

The next group to begin analysing the Gower Report was the Number 10 Policy Unit. Of particular importance within this group was Director John Redwood and official David Willetts. Similar to the GRG, the chief concern of the Policy Unit, and of Thatcher herself, was the threat of politicization. On 6 April, Redwood wrote to Thatcher, voicing his unease:

> The intention behind Gower of setting up a series of self-regulatory bodies beneath an umbrella organisation with responsibility ultimately flowing back to the Department of Trade and Industry is a dangerous one. It would mean that the Government would start to assume responsibility for all the foibles and problems of the market place. People would expect the Government to offer them redress. People would expect the Government to make sure there were no crooked operators. It is not within the Government's power to ensure either of these things.[13]

Thatcher annotated her agreement with Redwood's points.[14] Four days later, Number 10 informed the DTI of Thatcher's concern: 'She wonders just how closely the Government should become involved in taking responsibility for the proposed self-regulatory bodies as there is a risk that ultimately the Government could be blamed for any malpractice in the City'.[15] During the remainder of April, Willetts drafted a paper that both critiqued Gower and put forward an 'alternative minimalist approach' to financial regulation. Redwood sent this paper to Fletcher on 4 May, in an effort to influence the DTI's assessment of Gower. Willetts' central criticism of the Gower Report was:

> Government should not appear to take on responsibility for matters which are not actually under its control. Under Professor Gower's proposals, the DTI registers, directly or through SRA members, all those permitted to carry out investment business … If and when a registered investment business is found to have been engaging in criminal malpractices, it will be claimed that the DTI and the Ministers responsible have not been doing their job properly.[16]

In place of Gower, Willetts proposed an approach that 'goes with the grain of the Government's philosophy' by entailing 'no suggestion of government endorsement' of any City firms.[17]

Tebbit responded at length to Number 10's concerns in July. In addition to the functional requirements of future regulations, Tebbit also outlined three *political* objectives: 'the Government should not appear to take responsibility for the activities of City practitioners'; a regulatory body should be made up of 'the minimum number of civil servants'; and this regulatory framework should entail 'the minimum number of quangos'.[18] Number 10 received Tebbit's note with measured enthusiasm. Willetts commented: 'It is much closer to the Prime Minister's thinking than the earlier work done by the DTI … [A]t least Mr Tebbit emphasizes that the SRAs will operate at arm's-length from Government'.[19] He encouraged Thatcher to agree with Tebbit's proposals, which she did.

The Number 10 Policy Unit, and certain DTI and Treasury officials in the GRG, recognized that the reterritorialization of the City, which was necessary to ensure its competitive deterritorialization, would create serious governing dilemmas. The state would appear more responsible for City actions, while effectively losing control over its increasingly global activities. As Krippner (2007: 506) writes, 'markets require regulation, and yet states are under pressure to escape responsibility for economic outcomes'. However, while the government sought to depoliticize Gower's proposals, it was not clear how this could be achieved. As the next section will demonstrate, it was the Bank that proposed that depoliticization could be attained through the *rescaling* of Gower's proposed regulations – via the creation of institutional shock absorbers between the government and the City.

### *The Bank's practitioner group*

While the Bank had reacted negatively to the reterritorializing nature of Gower's 1982 proposals, Bank officials had a more conciliatory response to Gower's 1984 report. This compromising tone resulted from the impending Big Bang and the Bank's fear that opposing Gower's findings would isolate them from the decision-making process. The following discussion must be understood within the context of the Bank's long-standing desire, since its nationalization in 1946, to gain greater autonomy from government (Burn, 1999).

In May 1984, the Bank made their first direct intervention in the debate surrounding the Gower Report. The Bank's Governor, Robin Leigh-Pemberton, wrote to Thatcher, expressing his desire 'to invite, on my own initiative and without committing Government, a small number of senior City practitioners … to form an advisory group' on future financial regulation.[20] While this request was met with scepticism in the Treasury, who suspected the Bank of side-lining them, Thatcher gave Leigh-Pemberton her qualified blessing on 18 May.[21]

For the following three months, the Bank's practitioner group carried out private deliberations (Vogel 1996: 110). On 6 September, Leigh-Pemberton announced the group's findings to the Bank's Court of Governors. The Governor proposed a rescaling of Gower's framework, through the insertion of a private body between the government and the City: 'The preference of the advisory group, and one which I fully share, would be for securities regulation to be headed by a *private sector body*, recognised as the competent authority by government and, on being so recognised, left to get on with the job'.[22] Yet even this depoliticized rescaling did not allay City anxieties over reterritorialization, due to the lack of Bank participation in this supervisory body:

> in the absence of the insulation that would be provided by the continuous prominent involvement of the Bank, there would be risk [sic] that Ministers and officials would persistently interfere in a way that would undermine the effectiveness of such a private sector body and the readiness of major practitioners to be committed to it. The [group's] argument is that a structure for which the Bank had a clear responsibility would largely eliminate this risk and would thus be very desirable.[23]

However, while Leigh-Pemberton sympathized with this concern, he explained that Bank officials had 'strong arguments against assumption by the Bank of a formal statutory responsibility for supervision in this area'.[24] As Vogel (1996: 110) argues, the Bank was wary of assuming formal responsibilities due to the difficulties of governing this complicated array of financial institutions. To resolve this problem, he suggested that the Bank could be given greater veto power over the staffing of the private supervisory body:

> a structure could be put in place under which, with the power of appointment of the chairman and council of the regulatory body reposing in the Governor, and clear delegation by the government through recognition of the body as competent authority, the Bank would be in a position to exert influence in our conventional and informal way.[25]

Leigh-Pemberton thus used his practitioner group's recommendations to advise the DTI to ensure that two principles were at the heart of a future system of regulations. Firstly, a private body should insulate the Bank and City from government prying; and secondly, the Bank should maintain its autonomy by having a veto over the makeup of this body. Rescaling would thus depoliticize government-City relations in both directions: government would be insulated from City crises, and popular forces would be prevented from interfering in Bank-City affairs.

Drawing on the Bank's proposed rescaling of Gower's proposals, Tebbit began creating a fully-formed framework for what would become the 1985 White Paper. He explained the makeup of the future regulation to Thatcher on 9 October. Tebbit came down firmly in favour of Gower's principle of self-regulation through SRAs within a statutory framework, yet he insisted that the government delegate its supervisory capacities to two non-state bodies with statutory backing, rather than one: the SIB and MIB.[26] Within Number 10, Tebbit's proposals were met with ringing endorsement. Willetts exclaimed to Thatcher on 10 October, in explicit depoliticization terms, that 'Mr Tebbit's particular solution is ingenious … [H]is supervisory bodies can check up on the performance of SRAs, *whilst acting as a lightning conductor for City scandals so they are not blamed on the Government*'.[27] After requesting clarification on certain issues concerning Tebbit's proposed framework later in October, Thatcher confirmed her approval to the DTI in November.[28]

The decision to horizontally rescale Gower's 1984 proposals through the creation of the SIB resulted from the harmonization of interests between Number 10 and the Bank. The Prime Minister's office was desperate to ensure that government ministers were insulated against future crises, following the Big Bang. The Bank was keen to preserve its informal regulatory networks against government and popular encroachment. These interests coalesced around the same strategy of depoliticization through rescaling, whereby a 'lightning conductor' body would be erected between the government and the City, and the Bank would play a crucial role in deciding which people occupied this body. This combination of forces led to the DTI's creation of the 1985 White Paper. The final section will examine how this rescaled, depoliticized reform became law.

## *III. Defending depoliticization, 1985-6*

While the rescaled, depoliticized approach in the 1985 White Paper satisfied the interests of Number 10, the Bank, and the DTI, it was heavily criticized in the House of Lords, House of Commons, and even amongst the Conservatives' back bench. Lord Chancellor Quintin Hogg wrote to Tebbit in January that he feared Tebbit 'may have underestimated the criticism which will be mounted against your proposal that the legislation should enable you to delegate your regulatory powers to the proposed Securities and Investments Board and Marketing of Investments Board'.[29] This framework would mean these boards 'would be law-making bodies without any sort of Parliamentary accountability – a form of 'sub-delegation to a quango' that was 'unprecedented' except for 'under the Emergency Powers (Defence) Act 1939'.[30]

Furthermore, upon presenting the White Paper to the House of Commons in April, Tebbit received backlash over its depoliticized nature – especially from MPs within his own party. Conservative MP Anthony Beaumont-Dark decried the 'constitutional outrage' entailed by granting the Bank the power to overrule the Secretary of State's decisions with regards to the SIB.[31] Similarly, Conservative MP Anthony Nelson expressed his displeasure about the Bank's veto power over the SIB: 'Many of us are concerned about the steady encroachment of the Bank of England in this area'.[32]

The greatest formal challenge to Tebbit's framework, however, was mounted by Conservative backbenchers during the Committee stage of the financial services bill, following

Tebbit's replacement as Secretary of State for Trade and Industry by Leon Brittan and subsequently Paul Channon. MPs Anthony Nelson and Tim Smith made several amendments to the DTI's proposals, including the scrapping of the MIB. Yet the most serious of these amendments gutted the regulatory framework of its depoliticizing characteristics and effectively 'made the SIB a conventional government agency – with its budget, staffing and powers under full departmental control'.[33]

In April 1986, Channon suggested to Lawson that these attempts to *re*politicize financial regulation could be appeased by granting several concessions related to the SIB. This included solidifying the SIB's regulatory capacities against accusations of being light-touch, by granting the SIB statutory powers to investigate and prosecute illegal investment activities.[34] Ironically, in an attempt to assuage Conservatives who were worried about the erosion of government control, Channon was advocating a further delegation of public powers to a private body. Thatcher recognized this, writing: 'This is a fundamental change … Are there any other *private bodies* with *prosecuting* powers?'.[35] Yet Channon's initiative was successful, as the concessions were accepted by Nelson and Smith in early May, and the bill made smoother progress through the remaining legislative stages.[36] The FSA finally gained Royal Assent on 7 November.

Overall, the FSA was the crystallization of two spatial governing strategies: reterritorialization and rescaling. To facilitate the competitive deterritorialization of the City – the cornerstone of Britain's neoliberal economic growth – it was necessary to reterritorialize the City by instituting a comprehensive national regulatory infrastructure. However, this dynamic of de/reterritorialization gave rise to a governing dilemma, as government ministers would be held responsible for future financial crises, despite having less power to prevent them. Thus, Number 10 and the DTI endeavoured to overcome this dilemma by depoliticizing Gower's proposals. The Bank, desiring to protect its regulatory relationships from popular intervention, proposed that this depoliticization could be achieved through the horizontal rescaling of Gower's framework. The government was able to resist pressures to repoliticize the framework after political maneuvering, and this in turn outsourced even more regulatory power away from the British state.

## Conclusion

This article has addressed debates on the restructuring of the neoliberal state by arguing that there is space for a fruitful conversation between two critical traditions: de/reterritorialization and rescaling, and depoliticization. Considered individually, these approaches fail to fully explain the process of institutional restructuring pursued by states in the neoliberal era. While the former literature provides a comprehensive account of the spatial character of state transformation, the governing motivations underlying these changes have been explained in an unsatisfactory functionalist and pluralist manner. The latter literature has advanced a more nuanced political explanation of these governing motivations, by highlighting the contradiction between capital accumulation and political legitimacy, but has failed to examine the spatial dimensions of depoliticization strategies.

This article brought these approaches into conversation in order to further analyse how territorial states have combined the enhancement of their regulatory functions with the diffusion of political responsibility through rescaling. State strategies of de- and reterritorialization, highlighted by the spatial literature, must be understood as co-constitutive, as the globalization of capital flows in the neoliberal epoch has required the simultaneous creation of territorially-bounded regulatory infrastructures. Yet this gives rise to a governing dilemma, unexplored in detail by spatial accounts. By assuming formal political responsibility for this deterritorialized, financialized form of accumulation, states expose themselves to potential legitimacy crises in the case of economic downturn – intensifying the contradiction between accumulation and legitimacy identified by Open Marxist accounts. Faced with this dilemma, governments have sought to depoliticize their reterritorialized regulatory infrastructures, in order to avoid blame for future financial crises. This has been pursued through the vertical and horizontal rescaling of political authority away from central government.

This hybrid theoretical approach was applied to the case of Britain's 1986 FSA. The decision to implement the Big Bang liberalization entailed the opening of the LSE to foreign financial capitals, hence eliminating the spatial limitations to capital accumulation in the City. This imminent deterritorialization led the Thatcher government to reconsider Gower's proposal for the reaffirmation of the state's authority over the securities industry through the creation of fixed regulatory infrastructures. However, Gower's plans to reterritorialize the state's authority confronted the Thatcher administration with a governance dilemma, namely, how to enhance the state's supervision of the City's activities without putting the government on the hook for future crises. In response to this dilemma, the government and the Bank worked to rescale Gower's proposals by taking regulatory oversight out of the hands of policy-makers and placing it with the quasi-governmental SIB instead. This horizontal rescaling would depoliticize financial regulation in two ways: financial crises would have a lesser impact upon government legitimacy, and the government would be less able to interfere with informal Bank-City relations.

This approach has the potential to provide insights into other areas of state restructuring beyond Britain and beyond the case of securities regulation. For example, the European Economic and Monetary Union (EMU) has served to forge what Gill (1998) calls a 'new constitutionalism', whereby a system of rules facilitates the international operation of market mechanisms and enforcement of financial discipline. The deterritorialization of economic activities entailed in European economic integration is dependent upon the reterritorialization of regulatory capacity at the European level. In political terms, the EMU constitutes an attempt to 'set juridical limits to the influence of mass democracy on free markets' through the depoliticized rescaling of political authority from democratic nation states to less accountable regional mechanisms (Bonefeld, 2012: 51).

In addition, this analytical framework may also prove fruitful for understanding transformations in governance beyond the advanced capitalist world and beyond the case of strictly legal infrastructure. The Initiative for the Integration of South America's Regional Infrastructure, overseen by the Union of South American Nations, supports the integration of the South American region into the global economy through the development of physical infrastructure projects, such as road networks that facilitate the transport of agricultural commodities from farms to international ports. Through this initiative, the development of fixed, territorialized infrastructure transforms existing spaces with the purpose of providing regional access to global markets, or, in other words, the deterritorialization of economic activity (Kanai, 2016). This enormous project has generated concerns over environmental and social impacts, and consequent resistance from NGOs and local populations (Killeen, 2007). However, the scaling 'upwards' of the project has shifted responsibility from national states to the regional level, in what could be considered a strategy of rescaling to depoliticize. These cases suggest the potential traction of this approach in explaining the political character of state restructuring in a variety of contexts.

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## Notes

1. TNA FV73/215, Note of a meeting, 19 March 1982.
2. TNA FV73/214, Note of a meeting, 5 January 1982.
3. BOE 3A161/199, Williams to Dawkins, 29 April 1982.
4. BOE 3A161/199, Williams to Dawkins, 29 April 1982.
5. TNA FV73/215, Brown to Cockfield, 10 November 1982.
6. Hansard, House of Commons Debate, vol. 64, cc49-114, 17 July 1984.
7. TNA PREM19/1461, DTI note, 12 July 1984.
8. TNA PREM19/1461, DTI note, 12 July 1984.
9. TNA T471/171, Saunders to Pirie and Lawson, 17 November 1983.
10. TNA T520/117, Note of a meeting, 15 December 1983.
11. TNA T471/171, Pirie to Dell, 17 January 1984.
12. TNA T471/171, Note of a meeting, 20 January 1984.

13. TNA PREM19/1461, Redwood to Thatcher, 6 April 1984.

14. TNA PREM19/1461, Redwood to Thatcher, 6 April 1984.

15. TNA PREM19/1461, Turnbull to McCarthy, 10 April 1984.

16. TNA PREM19/1461, Redwood to Fletcher, 4 May 1984.

17. TNA PREM19/1461, Redwood to Fletcher, 4 May 1984.

18. TNA PREM19/1461, Tebbit to Thatcher, 12 July 1984.

19. TNA PREM19/1461, Willetts to Turnbull, 13 July 1984.

20. TNA PREM19/1461, Leigh-Pemberton to Thatcher, 10 May 1984.

21. TNA PREM19/1461, Thatcher to Leigh-Pemberton, 18 May 1984.

22. BOE 3A161/199, Minutes of a meeting, 6 September 1984.

23. BOE 3A161/199, Minutes of a meeting, 6 September 1984.

24. BOE 3A161/199, Minutes of a meeting, 6 September 1984.

25. BOE 3A161/199, Minutes of a meeting, 6 September 1984.

26. TNA PREM19/1461, Tebbitt to Thatcher, 9 October 1984.

27. My emphasis; TNA PREM19/1461, Willetts to Thatcher, 10 October 1984.

28. TNA PREM19/1461, Flesher to Thompson, 14 November 1984.

29. TNA PREM19/1461, Hogg to Tebbit, 9 January 1985.

30. TNA PREM19/1461, Hogg to Tebbit, 9 January 1985.

31. Hansard, House of Commons, vol. 77, cc885-964, 24 April 1985.

32. Hansard, House of Commons, vol. 77, cc885-964, 24 April 1985.

33. TNA PREM19/1718, Griffiths and Willetts to Thatcher, 11 April 1986.

34. TNA PREM19/1718, Channon to Lawson, 17 April 1986.

35. Emphasis in original; TNA PREM19/1718, Norgrove to Thatcher, 18 April 1986.

36. TNA PREM19/1718, DTI note, 7 May 1986.

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