Headlong into the Polanyian Dilemma:
The Impact of Middle-Class Moral Panic on the British Government’s Response to the Subprime Crisis

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Abstract

During his time as Chancellor of the Exchequer, Gordon Brown’s Treasury promoted the move towards asset-based welfare in Britain and found numerous ways of rewarding those who embraced it. This article focuses on the discursive construction of a middle-class moral panic occasioned by the distress caused to self-styled ‘responsible mortgage borrowers’ by recent falling house prices. In the context of the move towards asset-based welfare the subprime crisis has manifested itself most obviously in the popular consciousness as a threat to housing market wealth. The British Government has used the political space opened up by the narrative of middle-class moral panic in order to protect banks’ balance sheets from the consequences of their own failed investments in mortgage-backed securities. The ensuing arrangements have immunised banks from the implications of market self-regulation whilst simultaneously allowing them to continue imposing market self-regulation on their customers. This creates an increasingly asymmetric approach to banking regulation analogous to that which Karl Polanyi associated with the contradictory co-existence of market and non-market forms. Polanyi described it as a genuine dilemma when governments felt compelled to introduce long-term contradictions into the social basis of the economy as a temporary palliative for short-term economic disturbances. The British Government’s first phase response to the subprime crisis appears consistent with such a characterisation.

Keywords

subprime crisis; moral panic; banking distress; mortgage securitisation; market self-regulation; protective re-embedding of finance
Introduction

On December 3 2008, the British Prime Minister, Gordon Brown, announced a two-year mortgage interest holiday for households unable to maintain their repayments in the event of an unexpected loss of income. The Government guaranteed housing market loans of up to £400,000, using public money to ensure that mortgage lenders continued to receive their payments whilst simultaneously allowing cash-strapped households to defer their repayments without fear of having their homes repossessed. This figure was high enough to provide complete coverage for 90% of British households. In its front-page headline the following day, the conservative newspaper, the *Daily Mail*, heralded the introduction of a ‘Mortgage Safety Net for Middle Classes’. The equally conservative newspaper, the *Daily Express*, struck a similar tone in its front-page headline, congratulating itself for securing ‘Victory’ in its ‘Crusade’ for state-sponsored middle-class mortgage insurance.

In this article I argue that the announcement of a largely open-ended Government commitment to use mortgage insurance to protect house prices was emblematic of the cultural politics of the first phase of the subprime crisis in Britain. This phase lasted from the first signs that house prices had begun to fall in October 2007 to the first confirmation at the end of 2008 that the credit crunch had led the economy into recession. The focal point of Government activity in the intervening period was the relationship between the distress of the inter-bank credit system and the downward pressure on house prices. In general, the Government ignored issues of housing affordability and the constrained access into private homeownership for first-time buyers. Instead, it concentrated on trying to protect wealth already accumulated on
the housing market. In this way it reacted very much in line with the prevailing construction of middle-class interests.

The analysis revolves around two core contentions: (i) that a middle-class moral panic surrounding falling house prices was successfully initiated in Britain in the first phase of the subprime crisis; and (ii) that this phenomenon impacted decisively to shape the Government’s positive response to banks’ bailout demands. Moral panic is revealed to be a political technique designed to provide reassurance for those whose mortgage borrowing practices had helped to propel the recent house price bubble but whose credit status did not label them as ‘subprime’. It does so by drawing empathetic boundaries around a purely fictitious category of innocent victim: namely, the middle-class homeowner constituted as the ‘responsible mortgage borrower’. The culpability of such people in riding the house price bubble for all it was worth plays no part in this construction, the purpose of which was to position middle-class homeowners as deserving beneficiaries of the Government’s attempts to steer a course through the difficulties emanating from the banks.

A consistent political logic underpinned all of the Brown Government’s attempts to rejuvenate the inter-bank credit system in the first phase of the subprime crisis. The Special Liquidity Scheme launched by the Bank of England in April 2008; the Treasury’s purchase of public stakes in banks throughout the autumn of 2008; the Crosby Report into the future functioning of the mortgage lending market published in November 2008; and the establishment of a £200 billion public insurance fund against banks’ bad debts in January 2009: each of these interventions contained the same dual structure. The most obvious short-term economic objective was to
underwrite banks’ balance sheet positions in order to reduce the prospect of a systemic banking collapse. Yet, it was only possible for the Government to implement such measures because they were consistent with middle-class interests in defending housing market wealth accumulated during the recent bubble. The successful initiation of a middle-class moral panic surrounding the damage caused to self-styled ‘responsible mortgage borrowers’ by falling house prices conferred an important sense of legitimacy onto the Government’s rescue plans for the banks, even though the banks’ problems were of their own making.

The argument is developed in three stages. In the first section, I use the work of Karl Polanyi to argue that the resulting situation is highly unstable. Government interventions have protected the banks’ right to use the price mechanism as the sole regulator of their core mortgage business: mortgage lending continues to be conducted at market prices, and mortgage repayment schedules are calculated likewise. At the same time, those interventions have released banks from the responsibility of managing their own balance sheet positions according to regulation by the price mechanism: public underwriting of banks’ bad debts has sheltered them from the effects of adverse price movements in their holdings of mortgage-backed securities. From a Polanyian perspective, the outcome is a complex series of asymmetric relationships which portend a future social rupture. The second and third sections focus on how such a situation came about. They do so by studying the content of the middle-class moral panic and charting its legitimating effect on the bank bailouts which themselves create additional susceptibility to social instability.
Bank Bailouts and Polanyian Instability

The scale of the Brown Government’s interventions aimed at restoring the banks to health is noteworthy in itself for its largely open-ended commitments to assistance. But from a Polanyian perspective the nature of the bailout is as notable as its scale. It is particularly significant that the bailout packages, whilst focusing on stabilising the mortgage lending market, provide public authorities with no additional oversight of the process through which mortgage lending is priced.

The British house price bubble which finally burst in October 2007 was propelled by conspicuous over-lending by banks in the absence of appropriate stress-testing of borrowers’ exposure to changing housing market conditions. The justification for even the worst excesses of predatory mortgage lending – where no account was taken of the borrowers’ ability to repay the loan because the loan itself would soon be taken off the bank’s books and repackaged as part of a mortgage-backed security (Shiller 2008, 123-38) – was that this was the prevailing market price of mortgage lending. Using Polanyi’s terminology it was evidence of a self-regulating market, one in which activity is coordinated not by the broader objectives of social policy but by price signals alone (Polanyi 1957 [1944], 68-76). The bailout packages put in place by the Brown Government have done nothing to alter this basic characteristic of the mortgage lending market in Britain. The terms on which mortgage lending is being made available to British households has become noticeably more demanding in the wake of the subprime crisis, but this is only because price signals are now deemed to have changed accordingly. In Polanyi’s framework (ibid., 168) this is equivalent to
the pricing structure which coordinates mortgage lending being disembedded from society.

The disjuncture between the political positions of the banks and society is evident here. Whilst the banks operate a disembedded mortgage lending market in order to profit from changing price signals, society remains fully embedded into the banks’ mortgage business. The individual household’s ability to meet mortgage repayments involves abstention from immediate consumption, whilst the contractual requirement to meet them necessitates a constant flow of savings from those households to the banks who act as mortgage lenders. It is only in the presence of the flows of savings that the technical capacity to price a mortgage can be turned into a sustainable business. Banks could not make money out of selling mortgages were it not for the fully embedded position of society within their business operations. This is what makes it politically noteworthy that the use of public money to capitalise bank bailout packages has not been accompanied by restrictions on banks’ right to operate their mortgage lending business as a self-regulating market. The market rate for mortgage loans and mortgage repayments continues to be determined purely by the banks’ interpretation of price signals within the market.

The crucial distinction activated by the bailout packages is that those same signals now mean little for the valuation of banks’ balance sheet positions and their overall ability to continue as going concerns. In April 2008 the Government introduced the Special Liquidity Scheme in order to make it easier to safeguard the integrity of the banks’ balance sheets. The measures instructed the Bank of England to provide banks with massive amounts of additional liquidity by allowing them to swap mortgage-
backed securities for newly issued government bonds (Bank of England 2008). The latter are of markedly higher credit grade than – and come with none of – the depreciation risk of the mortgage-backed securities now popularly dubbed ‘toxic assets’. The creation of new public debt to engineer these swaps has enabled banks to cleanse their balance sheets of large numbers of seriously damaged assets by replacing them with highly saleable assets containing almost zero chance of default. Of course, private over-the-counter markets do exist in actual swap instruments, but the banks have been unable to revitalise their balance sheet positions using this mechanism. The mortgage-backed securities are now considered to be of such low quality that there is no commercial viability in selling them at market prices: banks would simply bankrupt themselves by doing so.

At the time of writing – February 2009 – hedge funds are the only private investors still willing to buy mortgage-backed securities, but in general their offers have been at roughly a 90% discount on the book value required to maintain balance sheet health (Muolo and Padilla 2008, 274-5). The Brown Government has stepped in to ensure that banks do not have to react to new price signals emerging from the mortgage securitisation market in order to revalue these assets at ten pence to the pound of their former book value. The Bank of England now holds on behalf of the Government the toxic assets linked to banks’ mortgage securitisation strategies, thus leaving a hole in the market value of the public finances equivalent to the direct gifting of the additional liquidity. Moreover, the recommendations of the Crosby Report of November 2008 extended the gift analogy. They provided for the purchase of banks’ seriously damaged mortgage-backed securities at their former rather than present

As such, the price mechanism has been subverted as a response to banks’ balance sheet disarray during the subprime crisis. The price mechanism was considered to be an adequate regulatory device for the period in which pricing mortgage-backed securities in line with market rates provided sizeable profits under mark-to-model accounting techniques. But as soon as those same techniques produced balance sheet positions which threatened banks’ very existence public authorities intervened to ensure that banks no longer had to experience the pressures of holding seriously damaged assets. The process of pumping extra liquidity into the banking sector had the effect of enabling the banks to ‘sell’ many of their remaining mortgage-backed securities at way above the market rate dictated by price signals.

The essence of the interventions was to facilitate non-market sales for the banks, whilst protecting the banks’ right to conduct only market sales with its customers. Households who enter the mortgage lending market remain exposed to market sales: price signals continue to inform them that they are paying for their own mistakes when it becomes apparent in retrospect that they have purchased over-priced houses. By contrast, banks have been relieved of the responsibilities inherent in exposure to market sales: government intervention has ensured that they do not have to pay for their own mistakes when subsequent price signals confirm that they wildly over-valued the purchase price of mortgage-backed securities.
Viewing these arrangements through a Polanyian lens, good reasons emerge for worrying about their potential stability. What has emerged is a patchwork of different regulatory principles embodying aspects of both the market and the non-market form. The generic disembeddedness of finance remains dominant, and it is clear from the text accompanying the bailout packages that the Brown Government has no intention of extending ownership over the banks to direct control of their activities (e.g., Darling 2008). However, it is important not to lose sight of the fact that important precedents have been set during the subprime crisis for using government ownership to partially re-embed finance back into society in order to stave off the threat of financial collapse.

Of course, what passes for society in this instance is not what Polanyi had in mind when he wrote about re-embedding market relations. By ‘society’ he meant the beneficiaries of a progressive social policy, whereas in the remaining pages I will show that the bailout packages correspond directly to middle-class interests in avoiding incorporation into a progressive social policy. This is exactly the sort of partial re-embedding of market relations within society – in both senses of the word ‘partial’ – which Polanyi depicted as being inherently unstable (Polanyi 1957 [1944], 210). It is the tensions embedded within the co-existence of market self-regulation and partial social protection which leads to social breakdown, he argued, not the system of market self-regulation alone. Heightened awareness that special favours are being granted to some but not others is likely to be followed by increasingly open dissent aimed at the remaining elements of market self-regulation (ibid., 120). I now move on to argue that the introduction of regulatory incoherence into British finance
during the subprime crisis was legitimated through the development of a middle-class moral panic surrounding falling house prices.

The Personalisation of the Subprime Crisis

It has been difficult to escape either the reporting of the fallout from the first phase of the subprime crisis or the strategies of personalisation which have accompanied that reporting in Britain. Perhaps unusually for a financial event it has retained its capacity to consistently make the news. Modern financial news tends to concentrate on price trends within the markets, as if the magnitude of the daily price changes is more important than the economic context in which such changes occur. The story of the first phase of the subprime crisis – at least insofar as it was reported in Britain – was the way in which the distress of the banking sector impacted upon the structure of house prices. Actual house price changes; predicted house price changes; reports suggesting that actual changes will be greater than previously predicted; studies subsequently confirming the reports: all of these combined to ensure that there was always something different to be said about the housing market aftershock of the subprime crisis.

The continued newsworthiness of the subprime crisis was facilitated by the ease with which the focus on house prices turns a public financial event into a personal struggle to survive global economic pressures unscathed. Individual stories of mis-sold mortgages or of mis-sold properties provide salient tales of accelerated personal debt and increasing difficulties making ends meet as global economic conditions turn
down, thus shattering illusions of the wealth that was to be unlocked by trading up on
the housing market. The subtext of so many news stories of this nature was: ‘could
this happen to you?’. It is well documented that the ‘might you be next?’ angle feeds
a psychological response which keeps stories in the news: fear (Glassner 2000).
Constantly projected images of expected house price falls send a clear message that
all is not well in the housing market. It also taps into latent insecurities through the
simple transposition of knowledge about the housing market as a whole into fear of
the consequent implications for the price of one’s own house and one’s own exposure
to housing market debt.

There are no objective criteria which help to delineate a newsworthy event from any
other. ‘Newsworthiness’ is itself a social construction, depending on the ability to
locate a story within socially generated criteria of what is and what is not appropriate
for considered attention. According to David Altheide (2002), recent changes in news
journalism have increasingly oriented the content of reporting to the maintenance of
societal ‘problem frames’. Within such a context, events retain their significance to
the extent that they reproduce concerns that society is somehow ‘under threat’ and
that the threat in question needs to be tackled. Sociological studies of the late modern
condition have confirmed the presence of personal anxieties which, when harnessed
effectively, produce politically meaningful manifestations of societal siege
mentalities. Zygmunt Bauman (2002) has written of a society of increasingly isolated
individuals who temporarily come together to form collective bonds in a common
‘ambient insecurity’. This is suggestive of a latent desire to find means to articulate
and give form to what otherwise might remain unspecified and unexpressed anxieties
(see also Furedi 1997). The reporting in Britain of the individualised fallout from the subprime crisis provides one such means.

From Bauman’s perspective, individuals are mobilised to particular visions of the future via a process through which other people’s experiences are relayed into their consciousness and give meaning to fears which they might otherwise not have known they had. The vicarious replaying of other people’s experiences through ‘what if …’ scenarios will often take the first person form in order to create the impression that the experience could well end up being theirs as well. The result is the apparent confirmation that it was right all along to have those previously unspecified and unexpressed anxieties. Insofar as this also confirms the particular vision of the future encoded in the original news reports, it typically leads to the institution of new subject positions. The reports will be imprinted with a narrative form which draws attention both to the reason for the original problem and the subject position which reasonably-minded members of the audience should adopt if they are to help enforce the necessary solution to the problem.

The personalised reporting of the fallout from the subprime crisis provides one such example. The effect of audience interpellation to fear of house price falls has been achieved by pairing reports of the general state of the housing market with carefully chosen illustrations of households struggling to make ends meet. This creates a chain of equivalence which begins with the distressed state of the banking sector, passes through the distressed state of the housing market and concludes with the image of individuals in distress. Thus, the psychological distance which is likely to exist between most people in their conduct of everyday life and the imbalance in banks’
financial bottom lines is immediately reduced. In this way, individuals can begin to ‘tune into’ the disarray of the banking sector by developing interpretive instincts which immediately translate evidence of banks’ balance sheet difficulties into justified fears about how this might impact upon them personally (on ‘tuning in’ as semiotic strategy, see Innes 2004, 352-3). They are interpellated to create for themselves the subject position of innocent victims of problems caused by other people.

The illustrations of ‘individuals in distress’ therefore act to produce knowledge in much the same way as the role Thomas Kuhn attributed to scientific exemplars (see Kuhn 1977, 297-8). For Kuhn, exemplars do not tell people things that they did not already know. Instead, their purpose is primarily to educate people into viewing the world in a particular way. They are designed to confirm particular theoretical dispositions in the minds of observers, but they do so because they only make sense when first having accepted as true the main claims of the theory (Kuhn 1981, 11). The illustrations of ‘individuals in distress’ contained in the reporting of the subprime crisis in Britain operate in much the same way. They provide a means of visualising the world, but where the content of what might be seen is already largely pre-determined. Audience members can only make sense of what is being shown to them if they are prepared to visualise themselves in the position of the distressed households contained in the report.

In this way, the reporting of the subprime crisis has publicly imprinted its essential meaning through personalising the crisis. Richard Ericson, Patricia Baranek and Janet Chan (1991) depict this as a developing feature of news discourse: the desire to bring
the news as much as possible into people’s lives through dramatising public issues in such a way that they are subsequently interpreted as ‘private troubles’. The news itself acts as a translation device to connect the two realms of experience – public and private – into something much more integrally formed than the simple factual account of an event which happened to a third party. Fears of such an event being replicated in one’s own life can become wholly disproportionate to the likelihood of it actually occurring. However, the fear on its own can often be enough to persuade people to alter everyday behavioural practices and to adopt the new subject position which is commensurable with the changed behaviour. Audience members tap into their latent anxieties (here concerning their exposure to mortgage debt) to transpose the information about the original event (a falling housing market) into perceptions of that which makes them feel most vulnerable (the decline in the value of their own houses) (Slovic 2000).

The criminological focus on signal crimes adopts this way of thinking. The concept prioritises the process of social reaction through which a criminal event is not only reported as a statement of fact but, crucially, is also defined as a problem requiring personal adaptation (Ferraro 1995). In the first instance the response is primarily psychological, in that it requires a personal reinvention of the self designed to minimise the threat of being subjected to the same sort of event. But this also has behavioural implications. The new self being created in the imagination will only result in minimising the risk presented by the signal crime if it is embodied in new ways of thinking and new ways of acting. Signal crimes are thus interpreted as warnings about both the overall distribution of risk within a particular social space and the potential for that risk to become momentarily concentrated in the lives of
people who would otherwise be only vicariously connected to the underlying event via a news report (Girling, Loader and Sparks 2000, 47).

The response to the subprime crisis in Britain has contained many of the social reactions which criminologists associate with signal crimes, even though in most relevant cases a crime has not been committed. The banks might well have used the apparent protection of mortgage securitisation techniques to offer mortgages on predatory terms which required borrowers to stretch their personal finances beyond breaking point to meet repayments. Yet, the vast majority of mortgages sold in this way were sold legally, even if a strong argument can be made that they were sold immorally. Despite this, there is clear evidence that the response to the subprime crisis in Britain has followed the established pattern of responses to signal crimes in the way in which discursively constructed fears have travelled along specified lines of social demarcation. The ‘responsible mortgage borrowers’ amongst Britain’s middle classes have been alerted to the potential for systemic housing market risks to impact upon them personally, and this has led to the search for a new understanding of the self and a new socially-demarcated subject position which acts as a partial immunisation against such risks.

The reaction to signal crimes revolves around asking what ‘I’ must do in order to minimise ‘my’ chances of falling victim to a similar crime – i.e., how ‘I’ must change my everyday behaviour in order to avoid the contexts in which such crimes arise. In the case of the subprime crisis, by contrast, there is no directly analogous sense that the reorientation of one individual’s behaviour acting alone can generate feelings of enhanced security against falling house prices. The ‘I’ ceases to be an effective actor
in the midst of a beleaguered housing market, because houses are not priced individually so much as relative to an overall market rate (Case and Quigley 2008, 164-5). Another step has been necessary in the response process: this has been to translate the newly insecure ‘I’ into a ‘we’ which is capable of producing safety in numbers through collective action. What has been necessary was a second level of interpretation whereby the newly personalised trouble became re-animated as a public issue.

In criminological terms, this is equivalent to the outbreak of a moral panic. This requires the formation of a socially-demarcated group identity capable of substituting for the population as a whole and thereby speaking authoritatively in its name. In the response to the subprime crisis, the ‘I’ of the ‘responsible mortgage borrower’ has been turned subtly into the ‘we’ of ‘responsible mortgage borrowers’. This enables claims to be made on behalf of the group with the apparent force of numbers behind them, thus adding to their ostensible moral weight. It also allows the group – in Britain, comprised of a distinctively middle-class membership – to seize the wider discourse of the subprime crisis in order to assert, as a matter of moral urgency, the alignment of its interest and the public interest. I use the concept of middle-class moral panic in the following section to bring together the cultural politics of response to the subprime crisis in Britain and the pattern of government intervention to assist the banks embroiled in that crisis.
Middle-Class Moral Panic and the Subprime Crisis

The Nationwide House Price Index reported an average fall across the British housing market of 18% for the period from October 2007 to December 2008 (BBC News 6 January 2009). Despite this incorporating the largest single annual decline yet recorded, when set against the sixty-fold increase from 1967 to 2007 it looks to be a relatively minor short-term price phenomenon. It merely reverses eighteen months’ worth of the 12% average annual increase between 1997 and 2007, a period which ended with a massive price bubble. In his influential micro-studies of public order, however, Erving Goffman has shown that ostensibly trivial occurrences can lead to often seriously disproportionate responses provided they tap into a sufficiently energised public mood. The key to establishing calls for overreaction lies in the disturbance of the appearance of normality.

The critical issue from this perspective is not so much how far house prices have fallen as the fact that any decline today seems to confront the social expectation of what represents normal housing market conditions. During the recent bubble, constantly expanding valuations of the wealth locked-up in homeownership constituted ‘normal’ market conditions. Indeed, that expectation was part of the process through which the bubble inflated. Subsequent price falls have shattered this illusion of normality and, as Goffman predicted, they have consequently led to a reconfiguration of how perceptions of both personal risk and social control are constructed. All that is necessary to destabilise the subject positions associated with an extant social order is for the veneer of normal appearances to be broken (Goffman 1972, 241).
Moral panics arise from attempts to draw a clear demarcation between socially acceptable and socially unacceptable behaviour, where the sudden visibility of the socially unacceptable is responsible for disturbing the appearance of normality (Cohen 1972, 42). The discursive strategy of demarcation is successful at the point at which certain forms of behaviour are encircled as ‘deviant’, whereupon one of two things might happen: (1) it becomes legitimate to withdraw rights from the groups which the dominant construction associates most directly with the deviant behaviour; or (2) it becomes legitimate to assign extra rights to the groups which the dominant construction associates with untainted behaviour. Either way, it is a strategy of social division built upon the asymmetric allocation of rights in favour of the group who successfully comes to define what counts as errant and/or proper behaviour. It is about a dominant group denying comfortable assimilation for everyone into its way of life and using the policy process to introduce asymmetric rights as a means of confirming that exclusion.

Moral panics are often set within the context of a nostalgic image of an idealised past – a time at which additional rights did not need to be allocated to a dominant group because its existing rights were not considered to be under threat (Pearson 1983). It is the idealisation which serves as the index for comparing today’s situation with ‘normal appearances’, even if the substantive conditions prevailing at the previous point of time were somewhat different to the representation of normality. The inherent fragility of the house price bubble pre-2007 can thus be glossed over in the search for an effective nostalgia, one which might need to stretch back only to the time before the subprime crisis when the housing market was still outwardly healthy.
The nostalgia serves as preparation for the directive that ‘something must be done’, a call to arms made possible only by the contrast to a time before the onset of more troubling circumstances. The sharpness of the distinction between the two sets of conditions will almost certainly be an exaggeration, but the exaggeration itself serves a purpose. It facilitates mobilisation to the idea that things might be different and that decisive action should be undertaken in order to restore the previous distribution of risk as it impacted upon the people seeking to popularise the moral panic.

The narrative of moral panic thereby combines the discursively instituted ‘fact’ of social decay and the constantly reiterated possibility of reversing that decay. In the context of the subprime crisis in Britain this relates respectively to the collapsing housing market and the potential for restoring stability to house prices by rewarding ‘responsible mortgage borrowers’ with a financial context which guarantees the health of their housing stock investments. The assistance given to banks to enable them to cleanse their balance sheets of underperforming mortgage-backed securities was justified publicly primarily because it coincided with the defence of ‘responsible mortgage borrowing’: recapitalising the banks would restore normality to the mortgage lending market and, in turn, provide the conditions for sufficient levels of housing market activity to maintain the structure of house prices (HM Treasury 2008, 3-7). In this way it more closely corresponds to (2) than (1) above – enacting a social exclusion by ascribing additional rights to a privileged group.

These rights were to be given specifically to members of the middle classes who had shown themselves to be good financial citizens in the eyes of the Government. Such a designation was accorded to people who had responded positively to the Treasury’s
encouragement to invest in assets which would create extra personal wealth for the future (e.g., HM Treasury 2001). Middle-class incorporation into a system of asset-based welfare was routed primarily through the housing market during the recent house price bubble (Watson 2008). The moral panic of ‘responsible mortgage borrowers’ has directly followed middle-class incorporation into a system of asset-based welfare. It is this which has politically conditioned the character of the Brown Government’s approach to bank bailouts. Forcing the banks to take responsibility for their own balance sheet errors would have required them to price at the market rate their mortgage-backed securities and accept the subsequent losses. But it would also have massively contracted the banks’ ability to activate mortgage lending, with noticeable knock-on consequences for house prices.

The discursive power of a moral panic resides in its disciplining effects (Hay 1995, 204-5). Subsequent events are presented as confirmation of the legitimacy of the social boundaries drawn around the rights of the privileged group. In the case of the subprime crisis each new report of predicted house price falls has served to confirm the presence of the symptoms of social decay as experienced by the beleaguered middle-class mortgage borrower. Such discourses do not resonate because of the sophistication of the way in which they reconstruct the experience of a complex social event (McRobbie 1994, 199-200). Rather, they allow people to dial-in their own experiences to the prevailing discourse by offering a simple story of why a person like them would be justified in feeling ‘under threat’.

The character list for a successful moral panic of this nature usually contains a clear-cut distinction between the self (under threat) and some sense of the other (who does
the threatening) (Ungar 2001, 271). The self-appointed other of ‘responsible mortgage borrowers’ has not been the banks responsible for selling subprime mortgages, because the capacity for easing middle-class housing market anxiety passes through preferential Government treatment of the banks. This particular moral panic is somewhat unusual, because neither have those people who were sold subprime mortgages been conspicuously ‘othered’. I say this despite the clear ascription of socially-excluded status to subprime borrowers in deciding who should be helped first by government interventions. Nonetheless, it is noticeable that the exemplars of distressed mortgage borrowers in British news reports have been overwhelmingly those who have borrowed responsibly, who hold prime mortgages and who believe that they have reasonable claims to be seen as good financial citizens. It is people with good credit histories and a record of previously pristine financial behaviour who have been presented as deserving of wider public sympathy.

To sustain a distinctively middle-class moral panic of ‘responsible mortgage borrowers’ it is important not to create clear means of empathetic identification which transgress the social boundary encircling those in the subprime sector. To avoid this, most reports have concentrated not on who has been mis-sold a mortgage but the fact of the mis-selling and what this fact means for the housing market as a whole. The personalisation of middle-class anxieties about falling house prices has involved the general anonymisation of subprime mortgage borrowers. In this way the discursive lines of demarcation between the two groups retain their solidity.

The aim has not been to present human interest stories which focus on the mechanisms by which ordinary people were sucked into the banks’ attempts to
squeeze every last penny of profit out of the mortgage lending business by carving out the subprime sector. Instead, it has been to show that it is the financially literate, financially aware and financially conscientious members of the middle classes who can claim to be genuinely innocent victims of a subprime crisis which is the result of other people’s poor decision-making. By downplaying the human interest aspect of stories about being in the subprime sector, the idea of being innocently in that sector has been progressively lost. That loss, as well as the oppositional logic of social demarcation on which it is based, has been functional to making the case for state protection of housing market wealth to be almost exclusively a middle-class phenomenon.

The significance of the solid demarcation between the two groups is that it facilitates a disproportionate response. Almost all theorists of moral panic agree that disproportionality is the predominant feature of public authorities’ attempts to tackle the problem at source (Goode and Ben-Yehuda 1994, 174). But here an important difference is apparent between criminal and financial moral panics equivalent to the two different approaches outlined earlier in this section. Criminal moral panics depict the route to safety for the dominant group in the disproportionate punishment of the deviant behaviour of the subordinate group (Thompson 1998, 37). In this context a moral panic is successful to the extent that it secures appropriate deterrence effects. By contrast, it is unclear what impact deterrence effects could have in a financial moral panic. Subprime mortgages have already been mis-sold, and the consequences for house prices are already apparent. Deterring further use of the same mortgage financing techniques would be insufficient to restore the status quo ex ante to the pricing structure of the housing market. A response other than disproportionate
punishment of allegedly deviant behaviour is therefore necessary amidst financial moral panics. In the case of the subprime crisis it is the disproportionate assistance for the middle classes identifying themselves as ‘responsible mortgage borrowers’.

All of the Brown Government’s interventions to recapitalise banks have been encoded with this one core political feature. The remaining personal wealth locked-up in the housing market is susceptible to banks being required to revalue their assets in line with market prices. So, in an attempt to guarantee that wealth the Government has released the banks from the need to value their underlying balance sheet positions in this way. Providing the Bank of England with the capacity to issue new government debt to effect direct swaps of banks’ seriously damaged mortgage-backed securities secures such an outcome, as does allowing it to buy those assets at their old market price using cash. The Government’s purchase of stakes in banks to allow them guaranteed access to state-sponsored credit lines is a third example; the creation of a public body from which banks can buy state insurance of their bad debts is a fourth.

Within this dual process of defending middle-class wealth and protecting the banks from full exposure to market forces, something important is happening in the public regulation of the financial system. It is losing its internal coherence as an increasing number of ad hoc arrangements designed for short-term ameliorative purposes are bolted onto the underlying principle of market self-regulation. The pattern of public regulation which is emerging has taken a distinctive form. From a Polanyian perspective, it looks like a fundamentally unstable balance between selective protection from the price system for those who have been able to define the meaning of the subprime crisis to their own ends and no protection at all for those whose
interests are not reflected in the dominant cultural construction of the crisis. Under the influence of the prevailing moral panic, the demand has not been for a full-scale Polanyian re-embedding of finance in order to secure full societal protection from the repercussions of changing price signals. It has only been for the partial re-embedding of finance in order to protect middle-class wealth accumulated during the recent house price bubble in Britain. The moral panic surrounding the subprime crisis has been an effective means of activating such reforms.

Conclusion

In his classic study which kick-started academic interest in the sociological phenomenon of moral panics Stanley Cohen (1972, 204) predicted that the emergence of these events would be a continuing feature of modern life. “This is not because such developments have an inexorable inner logic,” he wrote, “but because our society as presently structured will continue to generate problems for some of its members … and then condemn whatever solution these groups find.” Viewed today as British politics continues to be embroiled in the fallout from the subprime crisis, these words have a prophetic ring to them. The problem which society has created for so many subprime borrowers revolves around the expectation of the sheer normality of private homeownership. The solution has involved direct exposure to banks’ predatory mortgage lending techniques, the adverse effects of which are now only too apparent.
This is not to say that criminal and financial moral panics are formally identical. In criminal cases, the trigger moment has a single and clearly identifiable perpetrator who can be named as such. By contrast, no single subprime mortgage unravelled the pricing structure of the most recent house price bubble in Britain and so blame cannot be attributed to a lone deviant. But there are important similarities which make the analogy between criminal and financial moral panics a useful one. Most obviously, in both types of event, the image of ‘threats’ is appropriated in order to allow a dominant group to speak in the name of society as a whole, but to do so in a self-interested and almost wholly unaccountable manner. In both types of event that voice is used to demand positive action from the state so as to ensure additional security for those who have constructed a discursive platform from which to articulate ostensibly legitimate grievances about feeling under threat. In this way, discursive lines are drawn to encircle a socially-excluded group.

The most interesting aspect of the middle-class moral panic surrounding recent falling house prices is that it is subprime borrowers and not the banks who form the socially-excluded group. The banks appear to deserve genuine disapprobation from society for the way in which their reckless mortgage lending has impacted adversely on the British economy as a whole. Whilst many broadsheet accounts of the crisis have certainly struck this tone, it is not a distinguishing feature of the middle-class moral panic. Indeed, the desired outcome of the successful institution of the moral panic – to defend middle-class wealth already accumulated in housing stock – passes directly through public forgiveness of banks and the recapitalisation of their credit lines using taxpayer money. As such, the banks have had to be integrated into the socially-included group alongside the middle classes in order to make the moral panic work.
politically. It has been left to the people who were wantonly mis-sold mortgages by the banks to occupy the socially-excluded group.

This is an outcome littered with asymmetric protective arrangements which disrupt the internal coherence of the regulatory regime and which also highlight the social tensions inherent in the political responses to the subprime crisis. I have argued that it creates a generically unstable tension between what Polanyi identified as the market and the non-market form. Coordination of economic activity via price signals is maintained for every participant in the banking structure – with the single, but crucial, exception of the banks themselves. A Polanyian perspective deems resulting arrangements to be fundamentally unbalanced and the precursor to a breakdown in social order. This is because they are evidence of both purely self-interested middle-class calls for protection and the unwillingness to contemplate the move to a genuinely new system of financial regulation which would extend protection more broadly across society. The institution of a successful moral panic of ‘responsible mortgage borrowers’ worried about falling house prices could well nullify the short-term threat of the first phase of the subprime crisis to accumulated middle-class wealth. Yet, it might only do so by ushering in rather more widespread social dislocation.

Notes

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