Interpretation

Our interpretation, in the context of the Tipping Points project, will explore five interrelated dimensions:

The Media
First, do the media make a difference during a banking crisis? The media often play a central role in how a banking crisis is perceived by the public, government and even the financial institutions, but in what ways are the media responsible or irresponsible during a banking crisis? Can mediation affect a crisis? Through archival research and interviews with journalists, and working with researchers from anthropology and marketing science in other parts of the Tipping Point project, we will examine the role of the media during banking crises and how it affects the financial system.

Metaphor
Second, like the term ‘tipping point’, the term ‘banking crisis’ may be a metaphor that can actually give itself agency. We will examine the use of the term ‘banking crisis’ to find out what it actually means to the people who use it and whether this plays a role in financial crises.

Markets
Third, the ideological belief in the superiority of self-regulating financial markets allowed greater influence of banks over the financial system with little government oversight. Taking into account the depth and breadth of markets, why then do they at times fail to be resilient? We will look at why markets fail to prevent banking crises and ensure financial security, and in so doing create the conditions that allow tipping point behaviour to emerge.

Managers
Fourth, bank managers were traditionally trained to be conservative when taking risks. Has this changed? What has made it change? Are the bankers of today fundamentally less conservative? Or have a new wave of players emerged, labelled as ‘bankers’ but with very different sets of values of what constitutes banking as a practice.

Moral Hazard
Finally, we will examine how government intervention in the banking system actually works and whether or not it is indeed effective in a tipping point system. Governments have always intervened in the banking system, but how do they ensure whether their intervention does not lead to a climate of risk taking? Banks often lobby for less government regulation and more corporate sovereignty, but is there a causal connection between banking crises and government intervention?

Making links to the wider project

The quantitative and qualitative materials generated by this work package will be explored by our mathematicians working on the project. Using innovative forms of system learning, notably those of Bayesian Linear Analysis, new mathematical representations of the banking system will be developed and their behaviour explored to see if they do show tipping point behaviour. Our anthropologists and marketing science researchers will look at the ‘change culture’ of the banking systems, and the roles played by critical players in creating the conditions that eventually lead to tipping points: behaviour influencing banks over the financial sector with little government oversight. Taking into account the depth and breadth of markets, why then do they at times fail to be resilient? We will look at why markets fail to prevent banking crises and ensure financial security, and in so doing create the conditions that allow tipping point behaviour to emerge.
Introduction

The financial crisis of 2007-2008, and its subsequent fall-out, was a stark wake-up call for banks, governments, the media and the public alike as to the inherent instability of the global economic system. The banking crisis in the UK was so severe that its economy, amongst other countries, is still recovering from a crisis that has not occurred within its borders since 1866. Historically, banking crises do not usually happen in the UK, although they have in many other countries throughout the world. The UK endured WWI and WWII without a banking crisis, and even during the financial crises of 1929-1932, this did not translate into a banking crisis. Despite these examples of ‘resilience’ in the UK financial system, why then did it experience a banking crisis in 2007? And why didn’t it have banking crises at other points in history when the similar banking systems in other countries were in crisis? Researchers in the Leverhulme Trust-funded Tipping Points project are studying why banking crises occur in the UK and other parts of world, in ways that should shed light on the resilience of the current and future UK and global economy alike. Central to our investigation is understanding the extent to which crises emerge because of progressive changes within financial system(s) to the point at which relatively small forcings, such as the statement by an influential media organisation, make the system inherently unstable, and such that rapid development of crisis, a ‘tipping point’, translates from being simply metaphorical. Can the tipping points ‘metaphor’ even have ‘agency’?

Core questions

By studying how banking crises occur in the UK through banking, media and government archives along with interviews with bank managers, executives and others involved in the 2007-2008 banking crisis, we will attempt to answer the following questions:

- Why didn’t a banking crisis take place in the UK during the financial crisis of 1929-1932?
- What was the role of government, Bank of England and the media during the UK banking crisis?
- Can banking crises be managed through regulation or are they symptomatic of a periodic tendency for over-accumulation of capital in particular ways that lead to inherent and rapid system shifts?

Why do banking crises happen?

Before a banking crisis occurs, a bank commands the trust of its community and peer group so that people have faith in the security of the bank and deposit their money in it, while banks in turn lend to each other. After a banking crisis or ‘bank-run’, all of this changes and the bank itself ceases to exist as it no longer has the confidence it once had from the community and its peer group. This has consequences for the national and international banking system and causes severe problems for the global economy. Historians know that banking crises make significant impacts on society, but very little research has been done on UK banking crises as the last crisis prior to 2007 happened in 1866. We will look at how the 1866 UK banking crisis took place, including the role played by Overend, Gurney & Company and compare that with the crisis of 2007, which had Northern Rock at its centre. We will explore the national and international financial contexts of these time periods. For instance, London has become a financial centre of the world through government restraints on legal intervention into the banking system and promotion of ‘light touch’ regulatory methods, both delivering financial success for some time, but then severe exposure when the light touch regulation that has underpinned its success allows behaviour to develop in unsustainable ways. We will examine the role of legal, political and economic events in the 2007-2008 banking crisis in order to understand what changes in the UK banking system could have led to the crisis and whether or not the kind of behaviour that resulted during the crisis is symptomatic of a ‘tipping point’. The role of internal corporate governance practices within banks in particular may lead to irrational exuberance when the economy deteriorates as a result of internal corporate governance’s overly zealous faith in a particular form of the economic system.

We will study archival materials within the public domain, Bank of England, National and bank archives. We will interview prominent bankers, politicians and other key players involved in the 2007-2008 banking crisis. Through this intensive research programme, we will uncover evidence as to how and why banking crises happen by creating historical narratives of the events that took place in attempt to measure what actually happened during that time period.