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Anglo-Saxon governance: Similarities, difference and outcomes in a financialised world

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ABSTRACT

The increasing pervasiveness of financial markets across the global economy has been identified in the literature with the spread of 'Anglo-Saxon capitalism', reflecting the notion that a common US–UK model of governance and managerial attitudes is becoming increasingly common worldwide. This paper questions the existence of a common US–UK model by exploring how the concept of 'Anglo-Saxon capitalism' emerged and by highlighting the institutional differences in governance and managerial routines between the two countries. As the collapses of Lehman Brothers and Royal Bank of Scotland show, common outcomes, driven by international, financialised markets and actors, may mask important differences in managerial routines and attitudes towards risk.

1. Introduction

In recent years there has been growing interest and concern about the role and impact of financial systems. The financial crisis that started in 2007 has focused attention on the impact that financial systems have on non-financial firms and, by extension, the entire economy. Increased interest in processes of 'financialisation', which refers to the increasing role of financial mechanisms and motivations in the operation of the economy and society (Epstein, 2005; Froud et al., 2000), are contextualised in relation to the impact that neoliberal policies and attitudes have on firms and economies. Within policy debates there is often an implicit (and sometimes explicit) assumption that 'financialisation' reflects the increasing pervasiveness of the economic structures found in the US and the UK, often referred to as 'Anglo-Saxon capitalism'.

This has been subject to searching critique, with Galbraith (2006) and Block (2008), for example, highlighting how European debates misunderstand the US economy, which is in many important ways substantially less market based than Europe. This paper follows on from this work and unpicks Anglo-Saxon capitalism further, following in the spirit of similar studies of concepts such as the market economy (Lazonick, 1993), the European paradox (Dosi et al., 2006), and the biotechnology revolution (Hopkins et al., 2007).

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Our focus on how Anglo-Saxon capitalism is linked to the processes of financialisation, specifically the increasing pervasiveness of 'Anglo-Saxon' institutions and approaches to governance, which are interpreted to be more friendly to finance, and also to an Anglo-Saxon attitude to management, which is interpreted to be more aggressive. We aim to challenge both interpretations of the US and UK economies having a common, coherent model of either institutional governance or managerial approaches. To do this we examine the different governance structures of the two countries drawing upon the corporate governance literature. We then consider differences in managerial routines and outcomes as they relate to differences in managerial attitudes towards risk in the two countries. We conclude by clarifying the distinction between financialisation as a phenomenon and the governance and management of the US and UK firms.

The rest of the paper proceeds as follows. The next section tracks the history of the use of the concept of Anglo-Saxon capitalism, and discusses its links with the financialisation literature. The following section then analyses the differences between forms of governance in the US and UK. The next section then examines the differences between managerial routines in the two countries, and the difficulties involved in linking these to performance. To illustrate these differences we then compare the cases of Lehman Brothers and Royal Bank of Scotland, two companies that both collapsed during the financial crisis but under different institutional and managerial circumstances. Finally, we conclude by relating our argument back to the financialisation literature to argue that the phenomena captured in the financialisation literature is distinct from governance structures and managerial routines in the US and UK.

2. Anglo-Saxon capitalism: a history and overview

In order to group things together, one must first determine the basis for the categories that will be used (Bowker and Star, 2000). The concept of Anglo-Saxon capitalism implicitly suggests the US and UK share common features that reflect important aspects of the organisation of their economies that can be insightfully contrasted with other countries. At first sight, such a grouping makes sense as both nations have legal codes derived from English common law (La Porta et al., 1997) and they share historical, economic, military, linguistic and political ties (Dumbrell, 2006; Ryan, 2003).

They also share key elements of their economic systems, such as well developed equity markets, widely distributed ownership, and largely arms-length control of firms (Baskin, 1988). Both are also home to major financial centres (Michie, 1987) and are associated with the use of market mechanisms for the distribution of capital rather than managed coordination by economic institutions (Hall and Soskice, 2001). Yet while there are clearly similarities, many of these are more widely shared and could just as easily be reflected in a North American model with the US and Canada, or a Commonwealth model with the UK, Canada and Australia. The reason why the US and UK are linked together emerges from the history of the concept itself.

2.1. The British roots of 'Anglo-Saxon capitalism'

The concept of 'Anglo-Saxon capitalism' has its roots in the debate about the relative performance of the UK economy in the 1970s. In the context of ongoing economic turmoil, the concept was largely situated within a declinist paradigm that compared the UK unfavourably with the US within a shared Anglo-Saxon framework (Tomlinson, 2001). The debate compared a market-based economy that was growing, healthy, and productive and a similarly market-based economy that was seen as lethargic, inefficient, and uncompetitive. Britain's traditional trading rivals France and Germany had significantly different political structures and therefore served as poor points of comparison. Within this debate, those on the political right, such as Brittan (1977) in his *Economic Consequences of Democracy*, argued that excessive democracy in the UK had led to an over-expansion of the state. This had led to poorer economic performance than would be found with the more free-market American economy, where government interventions were subject to more political checks and balances. On the left, by contrast, the argument was that the decline of the UK compared to the US was down to insufficient democracy and cultural failures (Rubinstein, 1994; Weiner, 1981), poor industrial relations (Coates, 1989), poor management (Pavitt et al., 1989), and underinvestment (Pollard, 1982).

Following their defeats in the 1979 and 1983 UK elections to Mrs Thatcher's Conservatives, the UK Labour party adopted a market governance rationale for their policies (Shaw, 1993). With this, the key initial distinction behind Anglo-Saxon capitalism was gone. However, by this time there were new debates emerging about differences with other economies, such as Japan (Dore, 1989) and continental Europe (Albert, 1993). With the emergence of these comparisons, particularly in light of the 'third way' politics that emerged in the mid 1990s, the Anglo-Saxon model moved from highlighting the differences between the two countries, and instead highlighted their similarities. Consequently "New Labour" British policy sought to promote a more Anglo-Saxon (i.e. American) model in Europe. As Galbraith (2006) highlights, this shift left many European politicians in a difficult position – either they had to accept a shift towards market governance, or reject the relevance of American success, typically on nationalistic cultural grounds.

Parallel to these political developments were growing distinctions within the academic literature between the market-based and institution-based economies. These placed particular emphasis on different 'breeds' (Albert, 1993) or 'varieties of capitalism' (Hall and Soskice, 2001). These models contrast 'liberal market economies' such as the US and the UK, and 'coordinated market economies' such as the Northern European countries and Japan.

The distinctions highlighted in the 'varieties of capitalism' literature dovetailed with the emergence of the financialisation literature, which addresses "the transformations within the financial sector as well as the growing