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Table of Contents

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Note from the editor

Dear reader,

The financial crisis has drawn attention to the fragility of markets, and the importance of trust and organization for their stabilization. Ideas of deregulation and free market coordination are under scrutiny. The roles of markets and of governments are rethought and the boundaries between politics and markets redrawn. Markets are no longer seen only as a way to promote choice and efficiency, but also as beasts to be ordered, tamed and civilized. Reflecting on recent events, this issue of the *Newsletter* focuses on economic sociology and the study of risk, regulation and security.

I invited Michael Power, author of *Organized Uncertainty: Designing a World of Risk Management* (Oxford University Press, 2007), to provide the lead editorial. He argues that we should be cautious about taking the label of 'financial crisis' too much at face value. "We should be mindful of the mechanisms by which the crisis is represented by regulators and others since this will reveal the diagnostic biases of any reform process", he writes. Jakob Vestergaard analyzes regulatory failure underlying the financial crisis. Oliver Kessler discusses systemic market risks as social phenomena. Ute Tellmann scrutinizes *scenario planning* as a new *post-probabilistic* approach to producing knowledge about risk. Andreas Langenohl examines the relationship between social security and financial professionalism in neo-liberalism.

The interview was conducted with Richard Sennett, one of the world's foremost critical sociological thinkers. In the interview, Richard Sennett, amongst other things, discusses the relevance of the notion of craftsmanship for economic sociology and the organisation of economic life.

As in previous issues, Brooke Harrington edited the book review section, and I would like to thank her for all her work. Further, William Davies and Horacio Ortiz provide summaries of their doctoral research projects, in which they investigate rival normative and cultural frameworks shaping fields of neoliberal thinking, and practices of valuing, investing and innovating in French investment companies, respectively.

The next issue of the *Newsletter* will focus on intersections between economic sociology and law. Please continue to submit material that you think should be published in the *Newsletter*. From November 2009, Philippe Steiner (Université Paris-Sorbonne) with associate editors Sidonie Naulin (Université Paris-Sorbonne) and Nicolas Milicet (Université Paris-Sorbonne) will take over the editorship of the Newsletter. Materials for the November issue should be send to one of the following email addresses:
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Finally, I would like to thank Christina Glasmacher (MPIfG) and Rita Samiolo (LSE) in helping me to put this issue together.

With best wishes, until Summer,

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Opportunity out of Crisis: Economic Sociology and the Analysis of Risk, Regulation and Security

by Michael Power

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The role of the social sciences in the current financial crisis is no doubt very far from the minds of regulators, politicians and policy makers as they grapple with each daily twist and turn of events. And yet it ought to be apparent that, even allowing for bad behaviour, this crisis raises questions about the forms of knowledge which inform management, especially risk management, and regulation. Academics have been very quick into print on the causes and consequences of the crisis, but slower to reflect on the role of the social sciences themselves. Fortunately, the emerging exchanges and alliances between economic sociology, social studies of science and accounting in its broadest sense, provide the best possible platform for exploring this issue.

Important work on the instruments that constitute and perform markets has been done by MacKenzie (2006), Preda (2006) and others. But a larger task awaits, namely a renewed understanding of how the discipline of financial economics, and its various elements, has come to be the pre-eminent *performative*, and now perhaps non-performative, social science. Work by Richard Whitley (1986) and others has drawn attention to the rise of financial economics and its role in the financialization of enterprises, but the centrality of financial economics to what Peter Miller (2009) calls the *anatomy* of failure remains to be analyzed. Of course, there are clues for this analysis spread throughout the history of economic sociology and there has never been a better or more exciting opportunity for the varied forms of critique of *rational choice* theories of agents, organizations and markets to find a new synthesis in this anatomy.

This work could supply key concepts and frames for the analysis of specific practices of risk management and regulation. Some of this work is underway, but there are considerable opportunities for alliances between regulation studies and economic sociology to explore the conditions under which these practices have *performed* a certain style of security as the foundation for economic exchange. Indeed, as STS scholars know, the conditions of failure are ideal for revealing the logic of these practices, and their promises of assurance. Older studies of *legalization* processes in organizations (Sitkin and Bies 1994) deserve to be revisited, not least because it seems that the regulatory obsession with compliance and due process, which reaches its pinnacle in Basel 2 and the Sarbanes-Oxley legislation, may well have the character of a man-made disaster (Turner and Pidgeon 1997).

Contemporary circumstances also offer an opportunity to develop a sociology of transparency, clues for which are widely dispersed in the social sciences (Prat 2005; Strathern 2000). There is a regulatory instinct that more transparency is better but this ideal overlooks how transparency is contingent on material systems of representation, like accounting, laden with biases and interests. Understanding how these technologies of representation provide the visibility of economic action for analysts and policy makers is hardly a new theme, but this could be a useful point of re-engagement between sociology and accounting. Financial economics is itself a technology of representing and intervening which is deeply implicated in this analysis. For example, the *fair value* debate in accounting may seem too specialised for general consumption by an economic sociology audience, yet nothing less is at stake in this debate than the transformation of accounting into a sub-branch of financial economics, with consequences for who has authority in accounting matters (Power 2009).

The fair value accounting debate also provides a case for revisiting some traditional issues in economic sociology, such as the price formation process and its dynamics, and for opening up new areas such as a sociology of liquidity. Such studies would, I expect, reveal the dense interrelations and co-dependencies between risk management, accounting, credit rating bodies and other institutions. These relations are invisible in good times and give the appearance of being discrete, autonomous elements of the financial system. Yet bad times reveal the complex social interdependencies which are highly vulnerable to a failure of one element. Financial regulators have always been concerned about the systemic risks of a single financial institution collapsing, but perhaps we have also seen a collapse of the forms of knowledge which contribute to financial stability.

Today, states are still figuring out how to fix things. But attention will turn to diagnosis and, inevitably, blame at some time in the future. In particular, the discrediting and subsequent reconstruction of practices of risk management will be interesting to observe during 2009. There appears to be a policy resolve that cultural and behavioural factors must be at the heart of any reform process, and a new kind of practice called *oversight*, is being demanded. It remains to be seen how these demands for change make inroads into the more technical domains of risk analysis, but economic sociologists have much to contribute, with an extensive understanding of the ethical foundations of market behaviour. Throughout the 1990s there were demands for risk management to be *embedded*, without any clear understanding of what that meant. Again, this is a theme on which economic sociology has much to say.

As economic sociologists, we should probably be cautious about taking the label of *financial crisis* too much at face value – although the temptation to be thoroughly realist about this is very great, such is the reach of its effects. So we should be mindful of the mechanisms by which the crisis is represented by regulators and others since this will reveal the diagnostic biases of any reform process. It is no bad thing to be reminded of a philosophical truth, namely that events are always events under a particular description and we should be wary of those descriptions which have most popular currency. A critical anatomy of this crisis may lead, most uncomfortably for regulators, to the very practices which were supposed to underwrite the collective financial security and stability of developed economies. The vested interests against such a conclusion are very great, but it may be, as ecologically minded sociologists would no doubt agree, that the forms of standardization and legalization which have characterised the rise of the regulatory state in the last two decades, have only served to render the financial system less diverse and therefore less resilient. Or to put it another way, if organizational and epistemic isomorphism is one of the root causes of what has happened the solution is some form of what Monique Girard and David Stark (2003) call *regulatory heterarchy*.

The complex social foundations of markets, the subject of so much good work over the years, and which are normally invisible, are now exposed for all to see. The self understanding of market actors as entrepreneurial, risk-taking disconnected individuals which gained pre-eminence for over two decades and which has been exported by business schools, is now simply incredible. It is tempting for economic sociology simply to say *we told you so* but it is also a great opportunity both for engagement in public policy for those that wish to do so, and also for the invigoration of existing agendas of enquiry.

Academic disciplines often pretend to have a certain kind of autonomy, but we know that they are subject to numerous influences from the social, economic and political environment. Perhaps at no time in the history of economic sociology as a discipline has the time been more opportune for a wider dissemination of its insights. With the social reproduction of security and trust now in doubt, we can safely predict the widespread creation of new institutions and oversight bodies, populated by the same experts, educated at the same business schools, in the same core subjects, and promulgating the same logics of practice. For this reason I greatly welcome the focus of this issue of the *Economic Sociology Newsletter*, and believe its theme to be rather urgent. I also hope that the current crisis provides economic sociology, and its many co-travellers in adjacent fields, with the opportunity to consolidate a powerful intellectual coalition in academy. If not now, when?

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'More Heat than Light': On the Regulation of International Finance

By Jakob Vestergaard*

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"Right now there is huge uncertainty as to where risk resides" noted an anonymous international economic official as the credit crisis started in August 2007 (Guha and Tett 2007). "We are in a minefield", commented Drew Matus, economist at Lehman Brothers, "no one knows where the mines are planted and we are just trying to stumble through it" (ibid.). By summer 2008, international organizations acknowledged the severity of the crisis. "The current market turmoil in the world's main financial centres is without precedent in the post-war period", said the Bank of International Settlements (BIS 2008: 137). Now, in early 2009, even optimistic observers acknowledge that what was first a credit crunch confined to the US has evolved into a global recession, which is likely to last for at least a year or two, with severe social consequences throughout the world. Yet, one of the most remarkable features of the debate on the global financial crisis is the absence of in-depth analysis and discussion of the *regulatory* crisis implied.

The current crisis has occurred despite efforts over the past decade to 'strengthen the international financial architecture' (SIFA). The SIFA approach to international financial regulation emphasised measures to enhance 'transparency' and promoted the global adoption of standards of 'best practice' in areas such as banking supervision, corporate governance and financial accounting. Given the emphasis on enhancing 'transparency', it is ironic that financial market participants have been bewildered, at best, with regard to the whereabouts of financial risk since the crisis started unfolding. More generally, there is reason to believe that the SIFA initiative was ineffective, if not counter-productive, with regard to its objective of enhancing the stability and resilience of the international financial system. Yet, current debates proceed without much interest, it seems, in understanding the underlying reasons of the spectacular failure of this regulatory regime.

Policy debates continue to focus on the recapitalisation of banks and on fiscal stimulus packages. Indeed, increased 'oversight' and a revision of capital adequacy requirements are likely to become the 'catch-all' regulatory response (FT 2008, 15 September), along with a renewed emphasis on 'transparency' (see also Kessler, this issue). Such responses grossly underestimate the regulation crisis underlying the current global predicament. Analysing codes and standards of 'proper economy' propagated by the SIFA initiative since the late 1990s, this essay seeks to identify the key presumptions of the current approach to international financial regulation, and subjects it to critical scrutiny.

The 'Proper Economy' programme

The SIFA initiative was launched in the wake of the financial crisis in Asia in the late 1990s. The Asian crisis was widely believed to be caused by 'excessive borrowing' on the part of Asian banks and companies. There was some acknowledgement that 'excessive borrowing' on the part of Asian actors could not have taken place without 'excessive lending' on the part of Western financial institutions and investors; "it takes two to tango" (Eichengreen 1999). At the end of the day, however, Western financial institutions and investors were acquitted of responsibility for they had been "misled", it was argued, by "poor data". The SIFA initiative therefore endeavoured to enhance 'transparency'. The true state of economies was to be made *visible* to financial market participants in terms of their deviances from a set of standards of 'best practice'. And the standards themselves were to guide countries toward a 'proper' organization and regulation of their economies. In the words of James Wolfensohn, director of the World Bank at the time, "the proper governance of companies" is becoming "as crucial to the world economy as the proper governing of economies" (Singh 2003: 377).

This new form of 'visibilization' (Foucault 1991, 1997; Miller and Rose 2008) and restructuring of economies was meant to contribute to making the international financial system more stable and resilient. Complying with standards of best practice was to help ensure "that economies function properly at the national level, which is a key prerequisite for a well-functioning international [financial] system" (IMF 2000: 3). Moreover, by making the degree of compliance visible to financial market participants, important effects were expected by means of a mechanism of 'market discipline': On the basis of data on countries' compliance with standards, financial markets would reward or punish economies according to their degree of compliance. Countries with a high degree of compliance would receive larger amounts of foreign capital, at a lower price (interest rate), as compared to countries with a lower degree of compliance. By creating strong economic incentives in this manner, 'market discipline' was to help enforce the global adoption of 'proper economy' standards (Vestergaard 2009). Further, a whole "new body of economic statistics" was developed around the notion of "financial soundness" (IMF 2005). Financial soundness indicators (FSIs) were to make the relative financial soundness of financial institutions visible to themselves, as well as to regulatory authorities and financial market participants. The financial soundness of a financial system was then to be assessed by aggregating measures of financial soundness from each individual financial institution.

The effectiveness of the SIFA initiative hinged upon three key presumptions: the presumption that a mechanism was in operation by which financial markets rewarded or punished economies according to their degree of compliance with 'best practice'; the presumption that more 'market-sensitive' modes of financial accounting and risk management would increase the resilience of the international financial system; and the presumption that the vulnerability of financial systems could be assessed by aggregating measures of financial soundness from individual financial institutions. Each of these three presumptions were and are at odds, however, with the actual dynamics of financial markets. First, evidence suggests that financial markets *do not* reward and punish economies according to their degree of compliance with standards of 'best practice'. Second, there is reason to believe that the promotion of 'market sensitive' risk management practices undermines rather than increases the stability and resilience of the international financial system. And finally, evidence suggests that the current approach to detecting financial vulnerability, whether at the level of the individual financial institution or in national or international terms, is deficient and sometimes perhaps even misleading.

The illusion of 'market discipline'

Argentina for many years followed IMF's macro-economic policy recommendations and was one of the first emerging market economies to make considerable efforts to comply with standards. Yet, in 2001 international investors withdrew capital at large-scale, causing deep financial crisis in Argentina. Malaysia, on the other hand, when afflicted by the Asian crisis in 1997, did the opposite of what the IMF had advised (imposing capital controls, etc.), and made little effort to comply with standards. Nevertheless, soon after the onset of the Asian crisis, foreign capital flowed plentifully into Malaysia again. Argentina, which strove to comply with standards, was punished by financial markets, whereas Malaysia, which did nothing to comply, was rewarded (Blustein 2003, 2005; Rodrik 2003).

This absence of a positive link between foreign capital inflows and domestic policies is not a recent phenomenon. When Chile achieved huge capital inflows in the 1850s and 1860s, it was attributed to 'free market reforms', but similar capital inflows were received simultaneously in Russia, the Ottoman Empire, Egypt, Colombia, Tunisia, Spain, Austria-Hungary, Peru, Romania and the Confederate States of America. "It is hard to argue", Michael Pettis stresses, that these countries "followed a common set of policies", rewarded by foreign investors (Pettis 2001: 191). On a more recent note, if capital flows did indeed reward domestic policy, one would have expected post-WW2 capital flows to Mexico, Chile, Brazil, and Argentina to be correlated with reform implementation. Yet, "in spite of the huge timing differences in the reform process", Pettis observes, "the timing of capital flows … was virtually identical: the massive capital inflows of the 1970s were wholly cut off in 1982-83 and resumed again in 1989-91 to reach their apogee in 1995-1997" (Pettis 2001: 50).

In other words, with respect to foreign capital *inflows*, there is little reason to believe that compliance with standards of 'best practice' has been or will be rewarded by financial markets. The same seems to hold for the case of foreign capital *outflows*. When a financial crisis occurs, fund managers tend to sell off assets not just in the afflicted country but in countries that "resemble in any way the trigger spot" (Williams 2006: 162). Hence contagion, the phenomenon by which a financial crisis spreads, is likely to occur irrespective of the degree of compliance in other countries. On this background, it is unsurprising that quantitative studies examining the impact of compliance on the cost of foreign capital have failed to demonstrate the presumed positive link. In brief, the evidence in support of the existence of an effectively operating mechanism rewarding or punishing countries according to their degree of compliance with standards is not overwhelming.

'Market-sensitive' governance is procyclical

A key aspect of the SIFA initiative was to encourage the adoption of risk management models that were highly 'sensitive' to shifts in market valuations. This reflected a growing fashion in risk management to "move away from discretionary judgements about risk" toward "more quantitative and market-sensitive approaches" (Persaud 2001: 60). The problem is, however, that this approach failed to take adequate account of herding, one of the most salient features of globally integrated financial markets. In a herding environment standardized, quantitative, market-sensitive risk-management models tend to *destabilise* markets, making them *less* rather than *more* resilient.

By promoting a homogenization of risk management practices, the SIFA effectively encourages investors to identify and select very similar investment portfolios. When all financial market participants pursue highly similar investment portfolios, these will automatically lose the attractions that made investors choose them. When everyone searches out investment positions which had high returns, low volatility, and correlation in the past, these will inevitably "become overvalued assets, incapable of outperforming others in the long run" (Persaud 2004a: 98). They will no longer be "high-return, low-volatility and low-correlation assets, but the *precise opposite*" (Persaud 2004b: 181). By promoting the adoption of standardized, market-sensitive risk management models, the SIFA initiative entailed procyclical and destabilising effects, which undermined rather than increased the resilience of the international financial system.

But market-sensitive modes of economic governance are not confined to risk management. To briefly mention one other example, standards of accounting promoted in and through the SIFA initiative have made 'market-sensitive' accounting, commonly known as fair value accounting (FVA), the norm to be strived for. Fair value accounting (FVA) replaces valuation anchored in *historical* values (acquisition prices) with valuation tied to *current* market values.1 Capital markets use financial accounting data to assess the likely future income streams of companies, and for this purpose FVA provides much more suitable data than does historical cost accounting (HCA), the contention goes. Whereas HCA is believed to 'distort' economic reality by 'under-reporting' asset values, "there is nothing more real than the value of an asset today", in the words of the vice-chairman of the IASB (cited from Perry and Nölke 2006: 564). In the course of the current financial crisis, FVA became the subject of increasing criticism, on account of its procyclical effects – which had been debated by scholars for a while already (see e.g. Plantin et al. 2005). Proponents of FVA argue that it is not the role of accounting to ensure financial stability. Critics protest that surely it is not the role of financial accounting to *exacerbate* financial instability either. Accounting too often is regarded as merely a mode of representing economic value, disregarding that accounting shapes economic reality as much as it represents it. In any case, it is important to stress that FVA reinforces the business cycle, both in the boom and the burst, and hence reduces rather than increases the stability and resilience of the international financial system.

Financial risk is not a 'national aggregate'

In terms of financial risk analysis by authorities, the key tool of the SIFA initiative consisted in various forms of stress-testing. In the Financial Sector Assessment Program (FSAP), operated jointly by the IMF and the World Bank, stress tests have focused exclusively on banks, in the vast majority of cases. The relative neglect of *non-bank* financial institutions – such as insurance companies, hedge funds and pension funds – is only one of a number of severe limitations of the current approach to stress-testing.

According to the IMF (2003: 16), most stress-testing has relied "almost exclusively on balance sheet data" and therefore has "serious shortcomings" with regard to assessing risk exposures of "complex institutions with substantial derivatives positions". When stress tests fail to "take account of the effect of derivatives positions", even the "*direction* of exposures to financial shocks … can be misleading" (ibid.). Further, stress tests have tended to focus on individual institutions, rather than on the financial sector as such, or the economy as a whole. This constrains the usefulness of the tests, for one must distinguish between the role of an individual bank supervisor (such as FSA in the UK) and the role of a central bank. For the former, so-called macro/micro stress tests, which focus on the impact that a macroeconomic shock of some sort can have on an individual financial institution, are in principle satisfactory. But for a central bank, responsible for *systemic* stability, macro/micro stress tests are of limited value. A macro/micro stress test is usually a single factor exercise, assessing the impact of, say, a rise in interest rates, on a single financial institution. Dynamic effects in and among financial institutions and the wider economy are not assessed in macro/micro stress tests (Goodhart 2006: 3417). Yet, "actions that may appear compelling and fully rational from the perspective of individual market participants" may very well lead to "undesirable aggregate outcomes for the market as a whole" (Borio 2004: 234). Although much work has been done to "address market distress by improving the *market infrastructure* and the risk management at *individual* financial institutions", Borio concludes that the "link between collective actions of individual market participants and market dynamics" remains largely unexplored (Borio 2004: 237).

Finally, there has been a somewhat surprising tendency for stress testing to neglect the relation between domestic and international risk. FSAPs "have generally been limited to the segments and risks of the financial system that have domestic implications" and they have "made limited inroad into the broader global and regional dimensions" of financial risks (IEO 2006: 35). It is not without irony that in the current era of promoting global financial integration, the predominant modes of financial risk analysis remain firmly wedded to nation states, both conceptually and in terms of the quantitative methodologies deployed.

Concluding remarks

The SIFA initiative has institutionalised a particular gaze on financial risk which overlooks some of the most important dimensions of global financial risk and rests upon some misguiding assumptions about the dynamics of financial markets. First, the effectiveness of the SIFA initiative was predicated upon the presumption that a mechanism of 'market discipline' was in operation, which would reward and punish economies according to their degree of compliance with standards. 'Market discipline', conceived in this manner, is an utopia, in discordance with the realities of financial market behaviour. Second, stress-testing, the key tool for financial risk analysis in the SIFA initiative, neglected a number of crucial issues (non-bank financial institutions; off-balance sheet operations; systemic risk; etc.) and hence was curiously 'out-of-sync' with the realities and dynamics of modern finance. Generally, the SIFA initiative has been firmly confined to nation states, conceptually as well as methodologically, despite the increasingly global and interconnected nature of financial risk. Finally, the promotion of 'market-sensitive' financial accounting and risk management practices has had profound procyclical effects. Indeed, the general thrust of the approach to financial regulation launched in and through the SIFA initiative is to promote homogenization and 'market sensitivity' which tends to exacerbate economic cycles by reducing the diversity of investor behaviour and by creating a 'spiralling' relation between market valuation and risk management.

What can be concluded from this? First, with regard to 'market discipline', a new approach to financial regulation should be careful not to depend on any such mechanism for its effectiveness. Second, in terms of financial risk analysis, tools and methodologies need to be developed which address financial risk as a genuinely *systemic* phenomenon. Indeed, any form of 'methodological atomism' – whether in terms of focusing on the financial soundness of individual financial institutions, or in terms of addressing systemic risk as a national phenomenon – is inadequate with respect to today's highly interconnected global financial markets. Third, with regard to the relation between risk management and financial regulation, it is important to realise that universal standards of best practice are not the solution, but a key part of the problem. A more effective regulation of international finance must emphasise diversity and segmentation of risk instead of homogenization. A key element in achieving this could consist in assessing and approving a set of varied risk-management approaches rather than promoting the same model for all types of financial institutions. In such diversified financial regulation lies, as Persaud argues, a "potential for a virtuous cycle" (Persaud 2004a: 102). "The more short-run and long-term investors behave differently", he argues, "the shorter market disruptions will be and the more this different behaviour would be profitable for long-run investors" (ibid.). Finally, 'market-sensitive' modes of economic governance do not appear to be particularly conducive to financial stability. Regulatory measures which are *counter-cyclical* rather than procyclical need to be developed and deployed, if the international financial system is to become more stable and resilient in the future.

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Endnotes

*Philip Mirowski (1989) first used the title *More heat than light*, for his book on economics as the *physics* of the social.

1The International Accounting Standards Board (IASB) defines FVA as "the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction" (cited from Perry and Nölke 2006: 562). In many instances, however, fair value accounting is complicated by the absence of knowledge of market values because the asset in question is not traded. In such cases, recourse must be taken to various forms of model-based estimations of market value.

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Towards an Economic Sociology of the Subprime Crisis?

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Although nobody can say at the moment when we will see an end of the current crisis, what we can say is that it has already led to financial, institutional and discursive changes simply beyond what could have been imagined two years ago. Yet what we currently experience seems to parallel past incidents. The subprime crisis, like previous crises, tells a story of how new investment opportunities emerged, followed by excessive credit expansion. Here, too, we witnessed a constant rise of prices that did not only decouple financial from any real value (if there is such a thing), but also let speculative motives dominate investment decisions. Ultimately, the bubble burst, which led to wide-reaching changes (Minsky 1980; Kindleberger 2000; but see also Bieling 2009). From this perspective, the current crisis can be seen as part of a story that started with the famous Tulip crisis in Amsterdam in the 1630s and the South-Sea bubble of 1720 and reaches to the Great Depression of the 1930s and the currency crises of the 1990s (Mackay 2003; Krugman 1994). There is certainly much to this story.

On the other hand, the subprime crisis differs from past experiences: the pooling of mortgages and their dicing into senior, mezzanine and equity tranches[1] was made possible by modern securitization practices involving *new* actors like credit rating agencies and hedge funds (Committee on the Global Financial System 2008, 2005; Sinclair 2005). Rating agencies provided credibility and thereby not only guided investment strategies, but provided false security. The demand for equity tranches was in particular generated by hedge funds and banks in their search for high returns. Insofar, the subprime crisis is not just another example of economic crises, but it is a crisis of the entire modern financial system.

In this contribution, I argue that further analysis of the subprime crisis does not only require a better understanding of hedge funds, rating agencies and the employment of derivates and complex financial instruments, a task that is increasingly taken up within the academic literature as well as in official documents. The crisis also raises a more conceptual problem concerning the notion of *systemic risk*. In the first section I outline how official documents, and the economics literature which nourishes them, have framed the problématique of systemic risk in static terms. Underlying this framework is a naturalistic concept of contingency focusing on uncertainty as something which needs to be reduced or absorbed to allow for informed and rational decisions. This understanding feeds current attempts devoted to increasing transparency and disclosure requirements. However, such an approach neglects the evolutionary and open quality of finance and, in my view, is insufficient for the stabilization of financial markets. In contrast, the second part seeks to outline a more process-oriented alternative.

I

Within the current debate on the crisis, there seems to exist an implicit agreement on how financial stability ought to be restored. A common sense that is probably best encapsulated by the Financial Stability Forum (FSF) when it notes that "sound disclosure, accounting and valuation practices are essential to achieve transparency, to maintain market confidence and to promote effective market discipline" (FSF 2008a: 22). Of course, many objections could be raised about this focus on *transparency*. For example one could ask how transparency is to be maintained given that innovation of models, instruments, products and practices in financial markets will certainly continue. What is more surprising, however, is that there is no theoretical or empirical discussion about what problems transparency actually tries to solve. There are many references to turmoil, chaos and instability, but not much discussion on why and how transparency (or the lack of it) came to constitute a problem. Neither do we find much discussion on how transparency and systemic risks might be interlinked. Although a theoretical discussion of how systemic risks emerge and are reproduced by the conditions of modern finance seems eminently important, one searches in vain for conceptual or theoretical discussions in official reports. For example, the IMF's Global Financial Stability Reports from April and October 2008 only provide a graph that measures the stability of the financial system by measuring specific risks like *credit risk* (IMF 2008a, 2008b). There is a general idea of what stability means (for example the absence of bank runs), but the focus is on the regulation of specific risks like credit risk, liquidity risk etc., particularly where these reports draw on a predominantly economics-informed literature. In other words, what transparency is said to accomplish is somewhat presupposed and not openly discussed or problematised.

As Gerald Schinasi (2006) has pointed out, one of the reasons for the absence of discussion lies in the negative definition of stability used by economists.**2** Here, stability is defined as the *absence of risk* which has important implications for further analysis. Economists tend to treat stability in static terms, as something which can be 'achieved' and *obtained* and equated with *equilibria* and *steady states*.**3** Already at this stage, the further debate is divided into either individualistic (expected utility) or structuralistic (market forces, equilibrium, arbitrage based) modes of explanations.

Consequently, the current debate on the sources of the subprime crisis is characterised by a specific bifurcation: one camp attributes the collapse of trust to the personal greed of bankers. Here, the talk is of bankers having lost their societal function and responsibility (Bitner 2008; Dooley, Folkerts-Landau and Garber 2008) or that "Wall Street was drunk" (Bush 2008a: 1). To only pursue this scapegoat strategy however leads to a simplistic description as it neglects the systemic and structural aspects of the crisis. Without the innovation and global dispersion of securitized debt and derivates, supported by a specific constellation of hedge funds, rating agencies and private banks, the subprime crisis would not have been possible. The other camp blames the existence of these specific practices and advocates their prohibition. This approach is equally insufficient as the possibility of short selling, leveraging and hedging per se is neither good nor bad. To call for abolition not only neglects the potential benefits of innovation, but actually makes the same mistakes from yesteryear: the focus is maintained on already existing risks and it is forgotten that finance is a dynamic system that constantly changes and will therefore inevitably produce new practices and systemic risks. Top-down regulation with static laws will be as vulnerable as previous stabilization efforts.

Almost ironically, what is not addressed is the dynamic interplay of risk and regulation – how attempts to regulate or reform current practices give rise to new practices that produce new risks and thereby generate new regulatory demand. The main reason for this silence, in my opinion, lies in the theoretical presupposition shared by both modes of explanation: both individualistic and structuralist modes of explanation are derived from economic models where the contingent situation is ontologically prior to interaction and framed in fixed and static terms (Kessler 2008b). Contingency, in other words, is understood to be a product that somehow occurs *naturally*. This inherently realist position comes with three interrelated limitations: first, there is only a limited understanding of uncertainty. In fact, the focus is only on the absorption and reduction of uncertainty, and its transformation into risk, to allow for rational decision-making. This fosters a realist perspective, as it treats reality (or institutional constraints for that matter) as objective forces. Uncertainty is then often treated synonymously with risk and subjected to the same calculus (Hirshleifer and Riley 1992; Savage 1954). Second, assuming that data represent reality, one cannot adequately differentiate between data, information and knowledge, and exactly this conceptual blind spot now translates into the attempt to solve problems of information and (non)knowledge by fostering simply the provision of more data – as if numbers would speak for themselves.**4** Thirdly, the current approach is blind for qualitative changes. For example, when the G20 discussed possible ways out of the current turmoil on 15th and 16th November 2008, it used the recommendations by the FSF as a blueprint (G20 2008; G7 2008a, 2008b; FSF 2008a, 2008b). The FSF recommendations however only expand, revise or change single rules of Basel II and its three pillars. But as §20 of the Basel II accord reads: "This Framework will be applied on a consolidated basis to internationally active banks." Basel II does not even envisage the possibility that an energy company might appear and act like a bank without actually being one. Taken together, these limitations essentially assume away the processes and practices that made the subprime crisis possible in the first place.

To conceptually capture the complexity and open quality of financial risk, it is necessary to leave behind static understandings of stability. A framework needs to be developed that seeks to capture how systemic risks prevalent in financial markets do not simply follow the logic of natural facts or economic mechanisms, but realises that these systemic risks are social phenomena insofar as they emerge and are processed by a changing net of observations among actors that continuously reproduces itself via the employment of specific calculative technologies (MacKenzie and Millo 2003). In the following paragraphs, I cannot fully develop such an alternative framework, but only point at a different concept of uncertainty that such an avenue would entail.

II

As long as contingency is seen as a natural phenomenon, theoretical questions can only focus on how uncertainty is absorbed or reduced to *risk* to allow for informed and rational decisions. Positions can differ here with regards to what cognitive capabilities are required and whether actors actually evaluate uncertain situations as theory *predicts*. But what is structurally excluded is the question of why uncertainty needs to be produced, managed and maintained. To conceptually grasp the openness and changing complexity of the financial markets, it is necessary to leave these economic confines behind and take seriously the social character of contingency. Social contingency stands for the interconnections between societies, institutions, practices, and modes of regulation (Boyer 2000; Clam 2004; also Aglietta 1976). It draws attention to how institutions and practices stabilise, structure, and naturalise interaction. Systemic risks and crises do not occur *naturally*, but each order produces its own crises (also Baecker 1988). The social nature of contingency provides a basis for the development of a dynamic understanding of financial orders where crises, risks and regulatory responses mutually condition one another. Faced with a specific crisis, the regulatory response produces the very conditions of possibility for new crises. Whether specific loopholes in Eurodollar markets in the 1970s, or the bubble in the American real estate market in the aftermath of the Asian crisis, crises are not due to *asymmetric information* or exogenous shocks, but result from the endogenous reproduction of uncertainty (also Best 2005). A dynamic and more socially informed concept of stability needs to take into account that uncertainty absorption and production go hand in hand. The production of new knowledge instantly produces new unknowns (non-knowledge) in face of unintended consequences, problems and contingencies, and thus new uncertainty (see also Japp 1999; Luhmann 1984: 436ff; Luhmann 1993: chapter 2; Willke 2001). There is a genuine part of uncertainty that cannot be erased (also Keynes 1936; Hayek 1942). Exactly this genuine uncertainty provides an entry point for an economic sociology of the crisis, especially as mainstream economists have built their modern techniques on the very exclusion of radical or genuine uncertainty (Beckert 1996; Kessler 2008a).

From such a perspective, the economic reading of the crisis seems to be not only incomplete, but based on a categorical mistake: treating data, information and knowledge synonymously, the (mainstream) economic reading fuses two very different modes of observation. First order observation refers to the differentiation and indication of something in opposition to something else (what is observed). Labour, for example, can be differentiated from unemployment, leisure or capital; the public can be differentiated from the private; the national from the international etc. What can be seen depends on the distinction used and is thus relative to other possible observations. Second order observations refer to how other observers observe 'the world' (how something is observed) (Luhmann 1990: 72-87).

These two modes of observation entail very different notions of uncertainty absorption and uncertainty production. Within first order observation, risk management techniques structure a previously unstructured reality by constructing classes, cases and probabilities. Uncertainty absorption and production refer to the employment of risk models and risk instruments and to how, for example, decisions are made on the basis of limited information and information processing capacity. First order observation is blind to its own operation or the way risk models and instruments structure and form reality. These require second order observation where a different kind of uncertainty is addressed: the observer finds himself in the context of other observers and tries to reconstruct their modes of observation and *models*. Uncertainty refers here to the improbability of first order observation where questions of right or wrong decision, of truth and failure depend on the system of mutual observations (Luhmann 2000: 61-62). What can be considered to be the *right* investment strategy or *sound* risk management depends on what others do. An investment in a sound company that nobody else cares about might nevertheless be individually irrational when other possible investments could lead to a significant higher return simply because everybody else invests in that company and thereby raises share prices (see also Baecker 1991).

In this sense, market dynamics are not simply the aggregation of first order observations, but result from the system of mutual observations and expectations. Markets as institutionalised second order observation allow actors to observe themselves in the context of their competitors. Markets are an internal mirror, as Harrison White (1981) aptly pointed out taking on board a central insight of Keynes' beauty contest. Only on the level of second order observation can dynamics associated with the *breakdown of trust* and of *mutual expectations* be addressed. Trust or expectations are social phenomena and not simply psychological or individual properties. At the same time, the empiricist epistemology underlying the current debate frames the problem as a lack of measurement that then can be solved by increasing disclosure requirements. To frame the crisis as a crisis of measurement focuses only on the level of first order observation and, thereby, cannot adequately address the way information is processed or how actors know and do not know about themselves and others. Such questions require a more sociologically informed conceptual apparatus. The empirical consequence of this conceptual problem can be widely felt: major bailouts and governmental guarantees failed so far to restore institutional trust with the consequence that we find ourselves on the brink of a new round of bank failures.

Conclusion

The subprime crisis not only demonstrates the failure of some economic theory dogmas, but it raises also important questions for economic sociology: from the performativity of risk models and the sociology of organizational risk management to the sociology of trust and credit. An economic sociology of the subprime crisis could differ from mainstream economic readings by differentiating between first and second order modes of observation and by taking seriously the dual process of uncertainty absorption and production. From this perspective, risk is not simply a technique or rationality. Risk is not a thing independent of practices and theories, it does not tell us something of the world. Rather risk names the boundary of what is known and what is unknown and how the uncertain and unknown is made known. What this short contribution implies, is that key economic terms change their meaning when second order observation is taken into account and that economic sociology therefore needs to continue its endeavours to develop a distinct conceptual apparatus by which economic practices can be made understood. Economic sociology needs to construct its own memories and historical narratives of how financial markets work and have worked in the past. Any alternative to economic modelling will prove incomplete when basic categories and semantic distinctions are shared with economics. That does not mean that economic sociologists should be ignorant of economics. But economists do not have a better understanding of economic processes – only a different one. They construct their own world and nourish public debates by providing them with crucial distinctions which are in need of being further analysed.

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Endnotes

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1 The distinction between senior, mezzanine and equity tranche is based on their different risk-return profiles and the order of repayment in case of bankruptcy. A senior tranche received payments first, as it was being perceived as very safe. A senior tranche usually received an AAA rating. The mezzanine would receive payments once the obligations of the senior tranche were satisfied. This leaves the equity tranche as the investment with the highest risk which at the same time, however, promised the highest yields. See Kiff and Mills (2007).

2 Of course, in this short contribution I do not suggest that all economists are alike. However, there is a specific epistemology underlying modern economic reasoning, i.e. criteria that make an argument an economic and not a political one. These criteria also provide meaning to the scientific vocabulary, that is to what is regarded as a good or bad argument, a failure, mistake, theoretical innovation etc. Of course, I cannot develop a full picture of the contours of economic model theory, but in mainstream economics, the economic problem is defined by a trade-off associated with some inefficiency. The disciplinary identity of mainstream economics is not defined by its subject matter but by a specific kind of (formal) reasoning. And it is this kind of formal reasoning with its focus on rationality, consistency and the implied ontological and epistemological presuppositions that delimit the range of possible questions and the framing of *empirical* problems, such as the problem of maintaining financial stability, restoring trust etc. See Kessler 2008b.

3 Nobody denies the existence of *dynamic* methods in economic modelling. However, the distinction of static/dynamic differs in the context of physical theory (applied in economics) and social systems theory (used in sociology). The notion of *dynamic* as used in mainstream economics is taken from classic natural science, (and thus irremediably linked to ideas of moving equilibria, and it is based on Bayesian Algebra. From a perspective of social systems

theory, these *dynamic* models are still *static* as these models are still based on the idea of 'one' ordering principle. For social systems theory, dynamic modelling trespasses the confines of classical logic, and thus Boolean Algebra, on the operative level, and is associated with a shift of the relation between different ordering principles. For a further discussion see Mirowski (1988, 1989).

4That data is not information, signalling models notwithstanding, can easily be seen when we remember that the same data means different things to different observers. While data is apparently *objective*, information is always linked to some cognitive framework. Or as Gregory Bateson argued, information is a difference that makes a difference (Bateson 1981: 582). Knowledge and information differ insofar as knowledge is inevitably linked to practices. See Hayek (1942), Polanyi (1958), and Luhmann (1990). For further discussions on the distinction between data, information and knowledge see for example Willke (2001: 73ff).

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Imagining Catastrophe: Scenario Planning and the Striving for Epistemic Security

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The Basel Committee on Banking Supervision recently stated that one important cause for the catastrophic nature of the financial crisis has been a false sense of security. The report thereby rehearses the widely shared diagnoses that a lack of an appropriate estimation of risk exposures belongs to the core causes of the crisis. Interestingly, this epistemological failure is taken to be a "failure of imagination" about what the future may hold in store (Basel Committee on Banking Supervision 2009: 17). Accordingly, the efforts of regulation called for are directed at furthering more imaginative and flexible views of the future. They seek to imply modes of stress testing that are not any longer linked to the notion of risk as a "constant statistical process" (ibid.: 9f). Imaginations of "shocks which have not previously occurred" (ibid.: 14) promise – so it seems – more adequate knowledge about one's own risks. The archive of previous occurrences and the statistical calculations of normal distributions are replaced by "non-statistical modes of anticipating the future" (O'Malley 2003: 277).

This reference to fiction and imagination as the proper basis for knowing and surviving the future is not peculiar to the above cited response of the Bank for International Settlement to the current financial crisis. As recent scholarship on catastrophic risk suggests, we are witnessing a much more widespread shift in the ways in which the future is imagined, rationalised and acted upon that goes beyond previous conceptualisations of risk (Power 2007; De Geode 2008; O'Malley 2004; Ericson and Doyle 2004; Bougen 2003; Collier 2008; Collier and Lakoff 2008). The critique of probabilistic calculations of risk and the turn towards an inherently uncertain future belongs, as Pat O'Malley suggests, to new epistemic, organisational and regulatory constellations that need to be investigated. It correlates with a "new approach to producing knowledge about collective life, one that is increasingly important in the disperse emerging assemblages of risk, rationality, and security" (Collier 2008: 226).

The following essay discusses "scenario planning" as an example of these new approaches to producing knowledge about risk. Today, scenario planning has become an integral part of risk assessments and risk regulation; it is used in management practices and organisational learning; and, last but not least, political discourses and strategies around national security employ catastrophic scenarios in their planning procedures, too. The genealogy of scenario planning, aptly enough, reaches back to the context of the Cold War: Herman Kahn, employed at the RAND Corporation, called for imaginative techniques to enhance the possibility of survival in the event of a nuclear attack. "Thinking the unthinkable" was his motto: "It has usually been lack of imagination, rather than excess of it, that caused unfortunate decisions and missed opportunities" (Kahn cit. in Ghamari-Tabrizi 2005: 146). During the 1970s, the Royal Dutch/Shell Company introduced scenario planning to the world of business and management (Wack 1985; Schwartz 1991). While scenarios of catastrophe have all the way through been used for civil defence and emergency planning (Collier 2008), they have recently gained prominence in the risk calculations of investment and insurance companies. Corporations like Risk Management Solution, for example, rely heavily on scenarios of catastrophe for calculating risks (Bougen 2003: 264; Ericson and Doyle 2004: 149). The wide application of scenario planning provokes sociological questions: what cultural subtexts and social implications are at play in the spread and ubiquitous use of catastrophic scenarios? Drawing on recent scholarship, the remainder of this paper begins to unfold how such shifts in the "material systems of representation" (Michael Power, this issue) partake in the formatting of new temporalities, novel territorial differentiations and the shifting of notions of collectivity. As will be shown, imagining the future through catastrophic scenarios paradoxically provides the epistemic security for the regulatory aspiration to govern through risk. The essay proceeds as follows: The first part introduces the technique of scenario planning and discusses how it informs an "imaginary of emergency" (Calhoun 2004). The second part addresses the use of catastrophic scenarios by insurance and security discourses. It draws attention to the prevalence of territorial mappings of risk that are accompanied by calls for defining new collectivities of risk. The conclusion reflects on how scenarios might bolster the established ideals of transparency and logics of regulation, rather than undermining them.

Scenarios: Knowing the unknown in a hostile world

In the words of its practitioners, scenarios are the proper tool for dealing with a future that is uncertain, complex and irregular (Wack 1985). In view of such uncertainty, the "illusion of certainty" (Schwartz 1990) and the "tyranny of the past" are taken to be the biggest impediments to being prepared for the challenges ahead (Wilkinson, Heinzen and Van der Elst 2008: 2). One of the most prominent scenario planners, Peter Schwartz from the Global Business Networks, emphasises therefore that scenario planning consists to a large extent in challenging dominant perceptions of "the official future" (ibid.: 59). Directed against the "perils of too narrow thinking" (Lohr 2003: 1), scenario techniques strive to incorporate information from the "fringes" in order to weave multiple plausible stories about the future (Schwartz 1991: 69). Consciously employing narrative strategies and dramaturgical means, scenarios present the future as fictions or myths: "Scenarios aren't predictions. They are plausible, relevant provocative stories – in the scenario lingo *possible futures*." (Ertel and Walton 2006). Yet at the same time, they promise a "knowledgeable sense of risk" in an uncertain world (Schwartz 1990).

As can already be gathered from this cursory account, scenarios engage in a paradoxical translation of uncertainty into certainty. While they depict an essentially uncertain world and proclaim the need to understand the limits and porous foundations of one's own ways of perceiving the future (Schwartz 1991: 59), they also promise certainty and firm grounds for decision-making. The certainty they offer is of a particular kind: it does not ground itself in statistical regularities, experiments or universal laws, but it joins a particular set of outlooks to an emotional sense of certainty and preparedness. Creating the emotional salience of scenarios and imbuing them with "heat and urgency", accordingly, is an important stage in scenario planning. The very poetological devices used – such as stage writing, jazz improvisations or science fiction – aim at creating "affirmation" and "ownership" of the scenarios (Flowers 2003; Davis 2004: 4). Given this intention of producing an emotional sense of preparedness, it becomes a mistake to imagine too many "possible futures": "When you're trying to find that middle ground between paralysis and denial, you can't entertain 15 scenarios meaningfully and actually do something. We aren't trying to identify all the possible futures" (Ertel and Walton 2006). While two scenarios "might not capture reality", Peter Schwartz contemplates, three apparently will do (Schwartz 1991: 140). Each story about the future is distilled in a process that obviously harbours many contingent decisions as to what counts as "inevitable" and what counts as "critical uncertainty" – but these epistemological uncertainties do not show in the stories that are based upon the presumed "real life behaviour" of social systems (ibid.: 114; 136).

Organisational sociology and the sociology of knowledge will find a rich field of research about the "good organisational reasons" – to borrow from Harold Garfinkel (1967) – for why and how these scenarios are assembled and employed in practice. Leaving this untapped and interesting research field aside, it is worthwhile attending to the possible impact that scenario planning techniques may have on the shaping of culturally prevalent patterns of temporality. Cultural anthropologists and sociologists have begun to discuss more extensively the making of temporality within economic contexts (Guyer 2007; Knorr Cetina and Bruegger 2002). Scenarios are essentially 'plot lines' that order events according to certain narratological structures. As if rehearsing the argument about the inevitable rhetorical underpinnings of historiography furnished by Hayden White (1987), scenario planners offer a limited menu of story lines, consisting, inter alia, of "winner and losers", "challenges overcome", "revolution" or the "lone ranger" (ibid.: 151ff). Scenario planning itself seems to be prone to one particular plot line and notion of temporality that Craig Calhoun has recently called the "imaginary of emergency" (2004: 376). Within this imaginary, the temporality of the future appears solely as a discontinuous sequence of sudden events, which are as much unexpected as they are inevitable. It is because of a future characterised by unexpected and inevitable events that scenarios appear to be the most appropriate form of knowledge production; at the same time, the scenarios themselves tell stories that tend to favour narratives of sudden emergence and emergencies. For example, the Pentagon Study about climate change, undertaken for the US government by the two well known scenario planning specialists Peter Schwartz and Doug Randall, warns that the climate will not change gradually, but abruptly: "This report suggests that, because of the potentially dire consequences, the risk of abrupt climate change, although uncertain and quite possibly small, should be elevated beyond a scientific debate to a U.S. national security concern" (Schwartz and Randall

2003: 1). A less dramatic, albeit equally telling example of this way of understanding the future can also be found in a brochure of the reinsurance company Swiss Re, which defines the future with the following words: "The future is not a question of distance in time. The future is what radically differs from the present." (Swiss Re 2004: 11). In this temporal frame, even the many deaths of elderly people during the hot summer in Paris 2003 assume the form of an unexpected event in a discontinuous future, rather than being a consequence of very accessible parameters of social security and familial habits (ibid.: 24). The understanding of the future as being replete with discontinuous events, which are as much unexpected as inevitable, might simply actualise a prevalent template of temporality, whose political and social implications itself remain hidden from view. Further research that combines the perspectives of economic sociology with cultural sociology would have to explore such templates and their effects.

Turning catastrophes into grounds of knowledge: Maps, collectives and grounds of investment

Scenarios not only fare prominently in business strategies and organisational communication. They have also been an integral part in the production of knowledge about catastrophic risk. Collier and Lakoff have chronicled the genealogy of catastrophic modelling from its early uses in civil defence planning to its most recent application by insurance companies in calculating the risks of natural disasters, terrorist attacks and outbreaks of epidemics (Collier and Lakoff 2008; Collier 2008). In the risk modelling of these companies, scenarios assume an important role: they provide an imaginative rendering of a particular catastrophic event, for example, a car bomb in Manhattan, an anthrax attack, or a bomb delivered in a cake box (RMS 2004). These catastrophic imaginations form the basis for assessing the impact of such imagined events allowing for measurement of the potential vulnerability of particular objects or "urban elements" like infrastructure (Collier and Lakoff 2008: 18-20). A multiplicity of geographical maps is produced that renders the impacts, vulnerabilities and losses visible. These maps of territorially distributed vulnerabilities feed into calculations of loss ratios (Ericson and Doyle 2004: 138). They allow for the specifying of insurance policies and insert catastrophes into the machineries of risk assessment. This has been vital, as Philip Bougen explains, for enabling reinsurers to access capital markets as a source for financing and distributing risks (Bougen 2003).

Catastrophic modelling both uses and exceeds probabilistic techniques of calculating risk: imaginative scenarios are integrated in techniques of calculation that keep aspiring to offer a "fully probabilistic framework" (Air Worldwide Corporations, cit in Ericson and Doyle 2004: 149). The rationalisations and the "taming of chance" (Hacking 1990), which probabilistic risk calculations offered, hence, are not dispensed with. In recent discussions, such uses of post-probabilistic instruments of gauging risk have been brought to bear critically on Ulrich Beck's claim that contemporary catastrophic risks lie beyond modern forms of rationalising risks (1999). As Power, O'Malley, Bougen and Ericson have suggested, uncertainty of catastrophic events does not simply lie outside mechanisms of social redress, economic calculation and political rationalities. Rather, they are integral to their modification.

Two aspects appear to be particularly interesting. The first concerns the specific spatiality of risk that is produced in these models: scenarios of catastrophe partake in fashioning a specifically geographic or territorial template for ordering knowledge about risk. This territorial logic of catastrophe models has already been pointed out by Peter Galison (2001) in his discussion of civil defence planning during the Cold War. It also has been lucidly explored by Collier and Lakoff (2008) in terms of a "spatial understanding of vulnerability" in discourses and practices of national security. But the impact of such territorialized ways of assessing risks in economic calculations remains to be investigated as part of the "geography of finance" that "highlights the spatialities that may be configured by the embroidery of financial calculations" (Pryke 2006: 8). The second aspect, intimately conjoined with the first, pertains to the shifting articulations of collectivities of risk. The old model of calculating and distributing risks, especially those underlying the logics of social welfare, sought to achieve widest distribution of costs by articulating large and diverse (national) collectives of risk bearers (Ewald 1986: 481). The spectre of catastrophic risks and the novel lines of territorial differentiation they spark, invites a different logic of drawing up collectivities: "Compulsory insurance schemes are one way of setting up risk collectives, although their coercive nature makes them controversial. More attractive are communities which offer all their members a higher degree of security and substantially reduce their risk-related costs. The greatest possible homogeneity and transparency are helpful here: the more similar the individual risks are the more equitable the distribution – both of the total loss burden and the value added – will be." (Swiss Re 2004: 7). Such reflections on risk communities confirm

Pierre Rosanvallon's (2000: 4) observation that it has become "much more problematic to consider the whole nation as a single class facing identical risks." To what extent these statements are paradigmatic for shifts in rationalities of governing and imaginaries of collectivities remains to be seen. At such an early stage, the young and still emerging ramifications which have come to be tied to the "imagining of catastrophe" do not allow for the drawing of firm conclusions. They only indicate the necessity to watch and understand the effects of such shifts in the "material systems of representation" (Power, in this issue).

Conclusion: Imagining catastrophe and regulating through transparency

As the foregoing tried to show, the dramatisation of an uncertain future and its catastrophic imaginary entail a particular mode of epistemic certainty production aimed at emotional affirmation. These ways of tying catastrophes to certainty resonate in surprising ways with the very old meaning of the word apocalypse: the etymology links the occurrence of a catastrophic turn to the revelatory moment of seeing the truth (Müller-Funk 2002: 252). Understanding this link makes it less surprising to find that catastrophic scenarios are often taken to provide guarantees for an improved risk assessment, capable of detecting risk exposures – such as toxic credits – that have gone unnoticed before. Paradoxically, imagining the future and connected uncertainties through scenario planning, therefore, does not destabilise, but bolsters regulatory policies that take transparency as ultimate anchor for making the financial world stable and resilient. Recent documents from the Bank of International Settlement or the G20 give the impression as if this rationale of regulation remains firmly in place. The declaration made by the G20 members at the summit on the financial crisis in November 2008, for example, proclaims transparency, accountability, risk management and information sharing as the "common principles of reform" (G20, Full Text of Declaration 2008). As the document from the BIS, quoted in the introductory paragraph of this essay, confirms, such principles are served, inter alia, by opening risk management towards post-probabilistic modes of knowledge. Scenarios of the next catastrophe might remedy certain "failures of the imagination", but they certainly do not wonder about possible failures of the political imagination.

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Endnotes

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Social Security and Financial Professionalism in “Neo-Liberalism”: Perspectives for Economic Sociology

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Critiques of neo-liberalism, social security and the notion of governmentality

This essay reviews discussions addressing changes in social security regimes due to the impact of neo-liberal ideologies, policies and strategies. In particular it focuses on studies that have utilised Michel Foucault’s notion of governmentality and recent refinements in the use of that concept. Building on these refinements, the paper proposes a research agenda that views changing social security regimes from the perspective of professional relationships between financial professionals and their clients.

Criticisms of neo-liberalism have been fairly widespread within and outside academia. This concerns, first of all, the omnipresence of market-like forms of (non-)regulation that neo-liberalism stands for (cf. Rose and Miller 1992: 198-199). According to a recent definition, “[n]eo-liberalism describes the variant of capitalist economic thinking articulated by Hayek (1944) and Friedman (1962)[…] and the associated economic and social policies that developed in Britain and the United States in the Thatcher and Reagan era. […] Above all else it reflects the unifying assumption of classical liberalism, namely, possessive individualism and the absolute primacy of market relations.” (O’Connor and Robinson 2008: 39-40). Its effects are therefore seen in a narrowing of options in economic and social policy making which, in turn, affects social security and, more broadly speaking, arrangements traditionally ascribed to the welfare state.

While much critical work foregrounds such restrictions and the accompanying loss of options in social policy making due to the specific characteristics of neo-liberal ideology and the interests standing behind it (cf. exemplarily Gilbert 2002), other authors highlight the productive, as opposed to restrictive, potential of neo-liberal regimes. This is exemplarily true for a constantly growing body of works drawing on Foucauldian categories, particularly the notion of governmentality (cf. Aitken 2003; Knights 1997; Martin 2002; Miller and Rose 1990; Langley 2007; Rose and Miller 1992; Soederberg 2007). Broadly speaking, the governmentality argument states that macro-social discourses and institutions – for instance, neo-liberal ideology, law-making, and administration – operate at the level of everyday action. In Rose’s and Miller’s (1992: 174) phrasing, “[t]he term governmentality sought to draw attention to a certain way of thinking and acting embodied in all those attempts to know and govern the wealth, health and happiness of populations.” Economic institutions and modes of economic action, thus, are deeply intertwined with particular mechanisms of social control that do not rule society from without or above, but govern and manage it from within (Foucault 1979). This amounts to the regulation of whole populations and their reproductive practices (called *biopolitics*). Further, with respect to neo-liberalism it has been argued that neo-liberal policies, laws and discourses not only manipulate but actively produce new subjectivities and practices. This claim is made, for instance, in regard to an allegedly all-encompassing *financialization of daily life* (Martin 2002).

More to the point of social security, which is the concern of the present essay, researchers have criticised a shift *from social right to individual duty* (Soederberg 2007: 101) and the replacement of collective *insurance* with individual *investment* (Langley 2007: 75). As individuals are actively encouraged to make their own social security arrangements, through their actions, they reproduce not only their own political atomisation (for instance, through transforming their subject positions from that of a worker to that of an investor), but also the salience of a discourse denying the existence of overarching forms of solidarity. To sum up, while ideology-critical (ideologiekritische) approaches to neo-liberalism foreground the restrictive top-down effects of a certain discourse and style of policy making, the contribution of approaches utilising the notion of governmentality lies in their attention to mechanisms that – through sociality and subjectivity – put neo-liberalism in motion as a force penetrating the whole of society.

Yet, many studies drawing on the notion of governmentality, although often referring to the category of micro-politics in order to highlight the diffusion of power technologies throughout a population, tend to turn a blind eye on how people *actually* encounter those micro-politics in their social practices, and thus presume rather than investigate the working of governmentality in social practices (for instance Sakai and Solomon 2006; Hardt and Negri 2000; Dean 1999; for an overview see Packer 2003). For instance, Rose and Miller's (1992: 191-198) classical article on governmentality in the British welfare system focuses in large parts on the interplay of diverse institutions and organisations, such as the Ministry of Health, the medical profession and the Public Expenditure Survey Committee, mentioning the *health consumer* (page 195) only in passing, and only in regard to how the new, *active* role of this figure was constructed by and within these institutions, rather than looking at its day-to-day enactment in and through social practices.

Recently, this has led Paul Langley to the critique that, in the field of investigations into social security, such studies "give the impression that the subject position of the investor is performed relatively smoothly as the processes of financialization and neoliberalization march on." (Langley 2007: 73) He argues that many authors using the governmentality concept attribute to neo-liberal discourses and institutional arrangements a power to exclusively shape subjects in a way that contradicts fundamental features of Foucault's notion of governmentality, especially his insistence in his later work that processes of subjectivation cannot be fully explained through the formative effects of discourses and institutions alone. According to Langley, it is necessary to focus on social practices, their micro-social conditions, and their relationship with institutions and discourses seeking to implement a neo-liberal ideological agenda. Only a focus on social practices can bring to light the unevenness and contradictions of neo-liberalism at the level of our daily lives. In particular, Langley identifies the following contradictions arising from a combination of neo-liberalism's ideological demands and the effects that neo-liberal discourses and policies exhibit at the level of their penetration into everyday practice.

First, there is a mismatch between the imperative of individual investment for social security demanding from subjects a certain capacity to plan ahead, on the one hand, and the effects of neo-liberal policies of work place deregulation and free-floating return rates in a deregulated financial economy, which undermine individuals' planning capabilities. Additionally, an increasingly neo-liberal work ethic is put into place that revolves around a series of highly contingent professional projects in a *project-based polis* (Boltanski and Chiapello 2005), thus rejecting the traditional notion of a career and calculable professional life course. This constellation makes it increasingly difficult for *investment subjects* to plan ahead the payment of their premiums and the eventual value of their retirement portfolios (Langley 2007: 80).

Second, there is a contradiction, mostly observable in the US, between privatised, individualised, and in that sense *egoistic*, social security investment practices, on the one hand, and the upholding of the family as the nucleus of solidarity figuring as a core element in neo-conservatism, a particular variant of neo-liberalism. Ironically, in criticising extended welfare systems for threatening family solidarity (Friedman and Friedman 1980), the *New Right* has made an argument for individualised self-care practices that in the end also threaten the family's social cohesion (cf. O'Connor and Robinson 2008: 40-41).

The third contradiction arising in neo-liberal agendas concerns the mutually exclusive relation between the urge to invest and save for one's future financial wellbeing and the similarly notorious urge to consume. Langley points out that an often encountered resolution of this contradiction is "a rejection of saving and financial market investment altogether. […] investment as a technology of the self does not take the form envisaged under neoliberal governmentality. Indications are that large numbers of investors have turned their backs on the financial markets in favor of residential property." (Langley 2007: 81-82). In view of the present global financial crisis, which has been triggered not least by the collapse of the loan structure in the US real estate market, this contradiction within neoliberal governmentality might lead to a questioning of neo-liberalism as a doctrine.

In summary, it can be said that Langley's elaboration of a micro-centred, empirically driven notion of governmentality opens a way to expose and theorise neo-liberalism's power to penetrate society, while at the same time taking into account the often hidden precariousness of neo-liberal regimes, as it reveals itself in day-to-day social practice. In the following, I wish to push this analysis further, by suggesting that the governmentality argument should be supplemented by a focus on certain types of social relations and interactions underlying and framing people's investment practices, which are crucial for the ongoing changes in social security regimes. In particular, I will argue that it is professional relations between financial experts and their clients that ought to be taken into account in order to arrive at an even more nuanced notion of financial governmentality in contemporary societies.

A focus on professionalism in the investigation of neo-liberal social security

Paul Langley calls for closer consideration of the actual social practices that are at work in the manifestation of neo-liberal governmentality in everyday life. However, what is missing in his discussion is a thorough account of how people actually invest (or not), and which social relations are involved here. The categories of the *individual* or the *subject*, which figure prominently in much research deploying the notion of governmentality, already on the lexical level tend to neglect the dimension of financial sociality and its specific relations that are at work in investment practices. In order to fill this gap, I propose a perspective that seeks to highlight the role of professional financial experts in the fabrication of social relations that trigger practices of investment. The perspective outlined below starts out from the argument found in the governmentality literature that experts strongly contribute to the outreach of political rationalities and administrative arrangements into individuals' lives (Rose and Miller 1992: 188). It then moves beyond this argument by asking how exactly this is achieved (or not), and what the relationship between financial professional and client here entails. The following four points outline the agenda.

■ As most people do still not make their arrangements completely by themselves but rely on professional advice, social relations between financial professionals and their clients are involved in the production of an overwhelming share of private investments. The focus on hidden contradictions and mismatches in neo-liberal social security arrangements as proposed by Langley therefore does not necessarily have to start out from the claim of the individuals' privatisation or atomisation. It may also take as a point of departure the observation that neo-liberal social security involves social relations that it cannot account for by itself, but still has to silently presuppose in the absence of *financially literate* subjects.[1]

■ The relation between financial expert and customer can be regarded as a professional relation in the strict sociological sense of the term. Although the financial professions are not regularly or prominently counted among the professions, for instance, in terms of Talcott Parsons's theory of the professional complex (cf. Parsons and Platt 1973: 33-102, 225-266; Parsons 1978 [1975]),[2] it is possible to attribute some crucial sociological features of the professional relation to the encounters between, for instance, a professional investment advisor and her client (Langenohl 2007a). The advisor possesses a general knowledge about financial instruments and investment possibilities putting her into a superior position to that of the client. At the same time, the *success* of the relation – in this case, the client's investment and the fulfilment of his financial expectations – crucially depends on a trustful relation between the two, because the client can always refuse investment (cf. Abbott 1988: 65, 103). In order to secure this relation, the professional has to apply her general knowledge in a case-sensitive way, that is, take into account the client's specific wishes, needs, and conditions. Ultimately, this can lead to a form of collective action oriented toward the ideal of cooperative goal attainment. – The significance of the professional expert-client-relation in regard to neo-liberal social security arrangements consists in the critical potential residing in this relation. Although this potential is always in danger of being subordinated to the economic and strategic goals of the companies the financial professionals work for (as many public criticisms of the finance business have it these days), this does not mean that it vanishes. Rather, as interviews with financial professionals facing an enduring financial crisis have demonstrated, the ideal of a professional relation is adhered to as a constant critical potential inside of financial companies. For instance, when during the New Economy hype at the end of the 1990s investment banks urged portfolio managers and financial analysts to buy into companies or to recommend buying their stocks, the professionals (i.e. the portfolio managers and financial analysts) criticised this pressure on the grounds that it undermines their professionals' autonomy and in particular their responsibility vis-à-vis their clients. (i.e. customers investing into the portfolio or other companies buying the analyses) (Langenohl 2007b; Schmidt-Beck 2009). The professionals' insistence on the importance of expert-client relations thus claims sociality and norm-oriented action precisely for those organisations that are regularly held to be the most notorious sites of unrestrained marketisation: the banks (Langenohl 2007a).

■ The same phenomenon – the saliency of professional relationships in financial institutions – may also be approached from the perspective of the cultural legitimisation of individualised social security and neo-liberalism more generally. Sabine Montagne (2007) has argued that the very relationship between private investor and company has changed, as the company now appears not so much as a seller but rather as a part in a trustee relationship with the client. At the same time, with the rise of professionalised self-concepts in the industry, the autonomy of the success criteria for financial performance also rises. Consequently, in contrast to the greater personal responsibility and autonomy in the planning of one's financial wellbeing in the future, called upon by neo-liberal social security discourses, the definitional power over what counts as a *good* investment shifts to the financial companies, permitting *fiduciary capitalism* (Montagne 2007: 31), and a kind of auto-legitimisation. The notion of the *order of justification* (Boltanski and Thévenot 1991) is of significance here, as it highlights the fact that economic orders and ideologies are part of society-wide or culture-wide constellations whose hierarchies and modes of distribution necessitate some sort of cultural legitimisation. For instance, the rising level of professionalism in the financial business over the last decades (cf. Lounsbury 2002, 2007) may directly contribute to the legitimisation of finance, as a discipline and subject in tertiary education (cf. also Montagne 2007: 31, and Preda 2005). Alternatively, one might challenge the outspoken aversion of neo-liberalism to sociality and ask for the particular significance of professional social relationships which, in fact, appear to be one of the functional prerequisites of individualised and privatised social security (Langenohl 2007b).

■ Lastly, a focus on relations between clients and professionals may also trigger a productive reshuffling of the politico-economic cleavages that current research into neoliberal social security postulates. Private investment has begun to be analysed by some researchers in terms of categories of consumption and consumerism, as in some places private investment has freed itself from institutional professional advice and become self-organised in private investment clubs (cf. Harrington 2008). This new direction in the social study of finance allows for drawing the lines that structure the discussion about neo-liberal social security differently: not between *social right and individual duty* (Soederberg 2007: 101) or between *insurance* and *investment* (Langley 2007: 75), but between different forms and types of collective investment practices and involved social relations, for instance, the relations between expert and client, as opposed to those between financial lay persons (cf. Preda 2008).

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Endnotes

1Cf. Langley 2007: 67-69, for an account of the US Securities and Exchange Commission's (SEC) campaign for financial literacy.
2Cf. the investigations of *bank clerks* by Lockwood (1958), Blackburn (1967), and Mumford and Banks (1967), to which the literature about professionalism refers as indicators that financial professionals are not professionals in the sociological sense (cf. Turner and Hodge 1970).

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A Conversation with Richard Sennett

Richard Sennett is Professor of Sociology at New York University and the London School of Economics and Political Science. Before becoming a sociologist, he studied music professionally. Richard Sennett was born in Chicago in 1943. He grew up in the Cabrini Green Housing Project, one of the first racially-mixed public housing projects in the United States. Richard Sennett trained at the University of Chicago and at Harvard University, receiving his Ph.D. in 1969. He then moved to New York where, in the 1970s he founded, with Susan Sontag and Joseph Brodsky, The New York Institute for the Humanities at New York University. In the 1980s he served as an advisor to UNESCO and as president of the American Council on Work. In the mid 1990s Richard Sennett began to divide his time between New York University and the London School of Economics and Political Science.

Richard Sennett is one of the world's most prominent critical sociological thinkers. He has received many prizes and honours, amongst them the Hegel Prize for lifetime achievement in the humanities and social sciences, and the Amalfi and Ebert prizes for sociology. He is a fellow of the American Academy of Arts and Sciences, the Royal Society of Literature, the Royal Society of the Arts, and the Academia Europea. He is past president of the American Council on Work and the former Director of the New York Institute for the Humanities.

His central publications include: The Craftsman *(Yale University Press, 2008),* Practicing Culture *(Routledge, 2007),* The Culture of the New Capitalism *(Yale University Press, 2006),* Respect: In a World of Inequality *(Norton, 2003),* The Corrosion of Character *(Norton 1998),* Flesh and Stone: The Body and the City in Western Civilization *(Norton, 1994).*

At the beginning of the interview I ask Richard Sennett to tell me more about how he got interested and involved in the study of sociology, and in particular the study of forms of new capitalism and its social and political consequences.

Richard Sennett: Well, I'd say two things. One was that I grew up in a rather unusual family, because all members of my family worked for the communist party in the 1930s. So, they were resolutely on the left. I just swam in this as a child. And even though my mother and my father and my uncle left the party – in 1939 my mother left, and my uncle left in 1956 – this was always there; this was social reality for me. When I started in sociology, I reacted quite strongly against some of the more doctrinaire aspects of it. This happened to many people in my generation from the extreme left, which was very tiny in the United States, a sect more than a political group. So when I was in graduate school, I was very attracted to in-depth interviewing and to ethnographic work, because it seemed so corrective on the ground that a lot of the ideological nostrums that the American communist party was able to say were the least intelligent and the most rigid of all the modern communist parties. You know, I reacted very much against that.

I suppose what's happened in my career is that I returned to the left, but from a different kind of data, and that has produced a different kind of social analysis. I have studied two things in my career: work and cities – work and place. These are the two things I am interested in. And [in the late 1960s, early 1970s] I started doing research on the sociology of work for a book called the *The Hidden Injuries of Class*, which is just about to be published again in Britain, after thirty years of being out of print. It was a book that looked rather sceptically at a proposition about the United States, and at a proposition about class. The proposition about the United States was that American workers had very low levels of class consciousness. And the proposition about class itself was about its bourgeoisification, a thesis that was in the 1970s quite dominant. The book used intensive interview data from a hundred people to combat that idea. And then in the nineties when the current phase of globalised capitalism started to become apparent, I got really interested in the subject of work. And the last four of the books I've written have taken up that interest. I still use a lot of ethnographic and intensive interview material, but I also tried to introduce more of a historical frame into the study of capitalism. But again, I focused on the labour process – that's what these last four books have all been about. And I have to say that the more I've studied the effect of modern capitalism on ordinary workers the more I feel I return to the radical roots of my childhood. This system is obscene. And I think it's really hard on ordinary workers, culturally and socially, not just in terms of familiar things like inequality gaps or wages, but also in terms of conducting a family life, relations to other people in the community, sense of life merit. It's a culturally destructive system.

How would you see your work in relation to the field of economic sociology? To what extent has your work been influenced by works that have been done within the field of economic sociology?

Well, part of the answer is a very personal one, since I am married to an economic sociologist [Saskia Sassen]. I have learned every twist and turn in this field as it were on the pillow. But more generally I've had good relations with people like Mark Granovetter, people who did network analysis, even with Harrison White. My interaction with people in this field has been about the relation in work between social networks and what you would think of as more functional productive networks, and particularly the relation between informal and formal networks. And I really learned quite a lot from Harrison White and Mark Granovetter. That was very useful work to me.

In what way?

Well, because if you are a cleaner from Portugal in a British office, or a Mexican farm worker in North America, it's the informal networks you have that keep you not only on life support, but keep up your courage, your determination, your will to survive. That is a very ambiguous relation between knowing whom to call, for instance, to get work and knowing who's going to be supportive when you don't get it. I actually have a question for you. How much do you think that economic sociology has had itself a vigorous discussion with behavioural economics which has also been a field of inquiry that I found very stimulating. My sense is these are two quite different scholarly domains.

I guess they are. But I think there are more and more attempts by economic sociologists to engage with economics, and different strands in economic scholarship. For example, we had one issue in this economic sociology newsletter which looked at the interrelationship between economic sociology and economics, focussing not only on neoliberal economics but also on other strands, including behavioural economics. I actually wanted to ask you about the relation of your work with economics. Why did you find behavioural economics very fruitful and useful to engage with? And what strands in economic thinking would you say do you write against?

Well, whatever I would write against, obviously, is neoliberal economics. I'm afraid a bête noir of mine is Jeffrey Sachs. The kind of work he did, you know, did enormous harm when it was applied in the real world. As you know, I am a critic of the social and cultural consequences of neoliberalism. Against those economists I feel very strongly. And I would say my work is set against particularly rational choice forms of economics. The economists I found very sympathetic are people like Edmund Phelps and Joseph Stiglitz who are both of course critics of neoliberalism. I think Phelps for example has made enormous advances in understanding the role that skill plays in structuring work life. So, those have been really positive stimuluses for me. I've been more ambivalent about people like Richard Layard who is a friend, but – and what I say to you I have said to him endlessly – it's misplaced to confuse the respect that people get from work, and the sense of having integrity, with happiness of gratification, and that kind of economics is, it seems to me, not very sociologically sophisticated. – That basically is where I have had contact with – both positive and negative – with economics. I mean I read somebody like Galbraith, of course, as we all do, it is a great pleasure, because he is a great writer, but in my own work it has not meant that much.

Leaving economics aside, what other major works have had a major impact on your work?

The strongest reference point for me is my teacher Hannah Arendt. I sometimes felt that I've been engaged in a life-long quarrel with her, somebody who is very anti-economic. But she is a point of departure for almost everything. For all the more theoretical work I have done. I'd also say a point of departure for me was certainly Foucault who was a friend, with whom I lectured, and with whom I wrote. And in the field of what is sometimes called cultural sociology, Michel de Certeau was a big influence on me. De Certeau, by naming the forms of practice and the modalities of practice, seemed to be really useful for me and anyone who does ethnographic or in-depth interviewing work, because de Certeau is looking at all the adjacencies and unexpected turns that occur in practice. Foucault is a very interesting figure for economic sociology, or at least should be for economic sociology. You know that he was resolutely anti-Marxist, and what interested me was that dialectic in his work between agency and subjectivity. It's quite ambiguous. At the end of his life, the claims on subjectivity that appeared in the last works he did on sexuality appeared stronger in that the whole problem of the dominance of agency over subjectivity is of course what the works we read him for are about, the kind of agency that manages to mask itself as subjectivity. So philosophically that was quite interesting to me. I would say those are three points of reference for me: Arendt, Foucault and de Certeau.

I would now like to turn to specific notions and concepts that you developed in your work. One important notion is the notion of the narrative. Why is this notion so important? What does an analysis of narrative structures tell us about economic life? Why is it an important focus of analysis?

There are two reasons for that. The first has to do – from the point of view of the workers themselves, and particularly workers way down the class scale – if you are doing crappy work, one of the ways to keep yourself motivated and growing, despite the fact that you are treated badly and that you are getting poorly paid, is that you can give an account of not merely how you fed yourself during the week, but the long-term value of it – for your family or your relations. It's a kind of class contempt that would see low-wage workers as simply orientated to their pay package each week. Of course they have to be. But as I found in my research – I have done research over a long period of time with low-level workers – they have to make it narrative, and so this very crappy work has to be slaughtered into a narrative. And historically that narrative had to do with the home ownership. In 19th century, early 20th century American-British workers could organise a narrative of work around eventually being able to own a home. Immigrant workers have of course to organise a different kind of narrative: Why have they left? When you interview immigrant workers now about sending money back home, it's usually framed in terms of the story about what they are going to do later when they return, what it has done for their families and so on. So, on the side of workers one way of dealing with oppressed work is to find a narrative which gives that oppressed worker some sense of agency and purpose. So that's one answer to this.

The other part has to do with the way work itself is structured. For much of the 20th century, despite ups and downs in the business world, firms were organised around long-term employment and seniority. Unions certainly were organised around that. There was a narrative. If not jobs for life, at least the structure of businesses was organised around the notion of a narrative of moving through the firm, either up or down. And one of the things that struck me when I started studying flexible forms of organisation in the 1990s was that this kind of work structure was being taken apart. The firms viewed labour in terms of concrete jobs, rather than career patterns. And of course the firms viewed themselves as no longer having a long-term narrative of their own development. They swung radically from opportunity to opportunity. I remember Don Carter of the Harvard Business School once said: "A firm does not have an identity. It has a bank account."

What are the consequences of this?

Well, the consequences are what I tried to lay out in my various books. From a sociological point of view, they have been disastrous – set in the context that only a few people of the top benefit from this kind of denarrativised instant transaction. It makes loyalty between two firms a disaster. For instance, it profoundly weakens the sense of identity with the firm. If the firm has no long-term responsibility to you, or a design for what happens to your work – well, in my research I have found that people's sense of loyalty to the firm, when it needs its workers, is radically diminished. Correspondingly, it's hell on solidarity. If you are constantly moving in and out of jobs, the sense of solidarity with other workers is low.

One of the things I'd like to say about this, if I could, is that measuring unemployment rates is a very imperfect way of understanding flexibility in the firms. Up until this basic crisis, unemployment levels were nothing out of the ordinary during this huge capitalist boom. The real issue is the kind of changing position that people would have within firms and decisions voluntarily to change employment. These are normal employed workers. They are flexible in short-term horizons. They have very poor bonds to their firm, but they are normally employed. A lot of discussion on my work on flexibilisation somehow got derailed into the study of unemployment per se, which is not a good measure.

So, if you take apart the firm's structuring of narratives of experience, as a manager you weaken them. I mean a real world issue is whether it's possible to have jobs for life anymore – tenure, seniority and so on. It could be argued that those kinds of narratives of work which were absolutely fixed, rigid, particularly within the manual labouring classes to the extent that unions could prevail, that it was too much. But what happened during this phase of globalised capitalism was that the structures were simply removed, in place of too much fluidity. There was no structure. And firms are now paying a price for that.

Being now faced with the current crisis, what new opportunities can the crisis bring? In one book of yours, The Culture of the New Capitalism, you refer to Schumpeter's work and his notion of "creative destruction" and that this can deliver new opportunities, would you say that the current crisis can also open up new possibilities?

Well, that's what I hope. And what I hope it opens up is a different relationship between ownership, management and labour. Because firms, during the boom, were so attentive to the capital invested in them, to making their numbers every quarter in terms of share price and so on, that this tended to deal workers out of much say – they were irrelevant in a certain way to making the numbers. You could have a very unproductive firm or a firm that produced nothing at all as in the dotcom bubble, but made its numbers.

So what I am hoping that comes out of this is a couple of things. One, that the Anglo-American world will learn some lessons from German co-determination, but not others. One of them is that to make a viable firm you need some kind of worker participation. It may come through other organisations than unions. So, my hope is that we get a more participatory arrangement of firms. For instance, that people in back offices in merchant banks may actually have a say in how the banks are run.

I also hope that what comes out of this is the dethroning of finance as an image of economic growth. During the boom finance was seen to be the way in which to grow economies. And in a country like Britain you got basically a monoculture of economic growth driven by the City. And what I hope comes out of this is a more balanced economy, and in particular that the government will put money into small firms and into small shops. Small businesses tended to have a very rough time during the boom, unless they were high-tech. Your corner iron monger, your local independent pub, these were all seen as unsexy and backwards. And from the point of view of labour that's a disaster. I was appalled at the degree in which Britain has opened itself up to mega-stores. The interest of the public is in having businesses that sustain a sense of community. I would go so far to say that if, say, a local shop can't compete in terms of price against Walmart or Tesco, that there is a public interest in giving it help, to keep it alive. So what I am hoping will come out of this is a politics which focuses on the very ordinary businesses, which keep people in work, but also keep communities together. If I had a choice between giving £60bn to AIG or setting up a fund for local businesses, I would not have hesitated for a moment. To me it is an outrage that the banks have hoovered up these huge amounts of money – the same banks that were saying "all this local business is not profitable", and then they turn round and go broke. So, from a social point of view our interest is in provisioning businesses which keep communities together. And those are small.

So, those are the two things I'd like to see come out of this. More worker democracy and more government support for local business.

This actually links nicely to the next theme: your latest book on craftsmanship. Why would you say is the notion of craftsmanship that you develop in your book relevant for economic sociology and the study of economic life?

We use the term skill all the time in the social sciences. But we really understand very little about what it is to become skilled. Most of us think of it as just technique or knowledge. The actual process of acquiring it and valuing it – the self-discipline it takes, the way learning a skill is organised, the social relations that result from possessing a skill – all of this seemed to me, when I was writing this book, to be ignored by social scientists. In fact, we are creating crafts all the time. We have created them in high-tech, medicine, computing, and services obviously. And the notion of craftsmanship, the notion of wanting to do a good a job for its own sake, is not something that goes out of date. For most workers to do something well provides a profound source of pride. So, I really wanted to get into the insights of what it means to be skilled. And I did an account not from an economic point of view but from a sociological and cultural point of view of what skill means now and what it has meant in the past. In particular, I wanted to break down the dichotomy between manual and mental skills – that mental skills had nothing to do with physical skills and were superior to them. So that's what that book is about. I tried to show continuity of it. And at the end of the book I inserted something which made people very uncomfortable, which is that for the majority of jobs that exist in the labour force most people have the ability to perform them. The reason I have done that is that part of what's formed in the modern culture of work is a notion that talent is very scarce. And you need to look at one in 20 who is very talented. It's a cultural trope which means that the other 19 get rather neglected. It's founded on a long notion of matching up what most jobs do require to what we know about intelligence in the population. I guess that's really the socialist in me speaking. For instance the notion that you have to be a genius to trade commodities is wrong. It requires really very little mental understanding. But I mean the assumption has been that structural inequality reflects the structure of inequality of talent. And I believe that's fundamentally wrong.

How does that touch economic sociology? I don't think it does. Maybe this is something that will prove to economic sociologists stimulating about my work and unusual. I don't know. But I think the problem I am trying to deal with in this matter, is a "déformation professionelle", an assumption of modern culture which is that skill whatever it is – which most people don't know about – is in short supply. And terrible consequences follow from that – the most horrible legitimation of inequality.

If you look at how labour is often organised through performance measurement systems, bonus schemes, would you say that there is a danger that this displaces a focus on craftsmanship, or would you say that even within such a system you always find craftsmanship?

Well, I'd say it's a very confused thing for most workers. One way to clarify it is to look at the way in which performance is evaluated and standardised in tests, which are really a skim of right answers. But as we know, frequently a wrong answer can be very intriguing, very provocative. If somebody is taking a test who delves on a wrong answer because it's interesting, then he would score lower than somebody who just skims through superficial knowledge and got the highest score possible. But the one who sets an interesting problem and scores lower is a craftsman. – Now that also can reflect itself in the job world. One of the things about flexibilised labour in, say, the form of business consulting is that the business consultant is like that test taker – a sort of "McKinseyite" hotshot flown in – he gets a kind of superficial feel for a situation, writes his report, gets paid and leaves. He does not delve in the ambiguities of a problem. And he is certainly not practicing the remedies that he is preaching. He is not a craftsman. He is very well rewarded for a performance which is defined in another way – which is a superficial take-up for a month or two months during which you change this firm so that you can say that it worked – restructuring to raise the stock price.

Whatever this is saying to you about [craftsmanship] is that it is how you evaluate performance – good craftsmanship is not just about problem solving. It's about finding problems as well. And you have to be in a situation which is institutionally structured where you are allowed to find problems. Think about it in science. Negative results should be something that every scientist should be very friendly towards, because it's finding a problem, and getting inside something – not problem solving. You are learning, because something cannot be solved. But as we know, and scientists keep telling us, there are very few professional rewards for negative results. So it's a very superficial measure of productivity. And the reason it matters in the real world is that often times by getting this kind of skimming for quick answers, the problem solving gets worse. The instant suggestion often masks the deep, fundamental problem. For instance, this was what we saw in the British Health Service in the late 1990s. The people who were the reformers of the health service did not think at all like craftsmen. They wanted an instant fix, and the problems just got worse and worse, and they could not understand why. They'd come up with one reform after another, but they weren't fundamentally getting at the problems in the system, which were about delivery rather than about targets. So, that's why this matters.

Going back to your earlier work on narratives – do you think that craftsmanship is something like a vision, and something that would imply very specific narratives, which are more long-term?

Well, I would not put it in those terms. I wouldn't say it's a vision. I would say it's a discipline. And the essence of that discipline is a very simple one, that through repeated practice – repetition – a practice improves. Something self-evident in sports. You forget about it in the economic world. It isn't just about getting something right once according to a very superficial standard of problem solving, but about getting better. And the discipline that that involves is doing it over and over again. In technical language, that is a metamorphitic practice, and that is a narrative – that is you can mark out the stages of getting better, and you move through those stages, but in my view by only being self-critical, posing problems as well as solving them. It's not a smooth progress. If you like it's a punctuation that occurs in stages, and it is a narrative. And here this isn't in the realm of speculation, we can study how that process of repetition and metamorphosis works. We know how long it takes for instance – roughly about 10,000 hours – to acquire in a sport or in any physical activity the repertoire of the different practices necessary to deal with the problem, not simply in one mechanical way, but to have different alternatives to dealing with it. 10,000 hours is about five to six years of work four, five hours a day. It has got a very contained shape in time. There are very few institutions in the new economy that make provision for that kind of skill, for that kind of expertise to develop.

So, why is that the case?

You are moving people around. You are responding to very rapidly changing market conditions. The ideal world in which you take people with one skill, and then they apply it to a new situation, and this is the way they build up their skills, is a fantasy. This is not efficient. People learn how to do something, they are then yanked into doing something else – they start all over. So you don't get work narratives where you are building up skill upon skill. You just get ruptures. You get rupture, rather than this kind of punctuated rhythm. To make that happen you have to decide that your employees are a long-term resource, that your human capital is real for the firm.

What projects are you currently working on?

I am working on a second volume of this study, which is about performativity, but very largely redefined from the way that this term is used in the social sciences. I am looking at the ways in which people recover, resile or resist crisis by getting performative skills. I am interested in taking what I learnt in the book on craftsmanship about dealing with an unknown physical world and applying it to social relations. In the back of my mind, I am thinking that that application is applying from things to social relations, and that that's performative. In some way I have to explain to the reader, but it feels actually very much spurred on by the present crisis, because the last way to craft a different kind of social relationship is to return to what you have been doing before. It's about doing something different, rather than restore the past.

Book Reviews

Book: Robert Ellickson, 2008: *The Household: Informal Order around the Hearth.* New Haven: Yale University Press. 251 pp.

Reviewer: Richard Swedberg, Cornell University,
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According to Max Weber in *Economy and Society*, there exist two different types of economies: those that are centered around profit-making and those that are centered around the household. Modern economics has focused nearly all of its energy on analyzing the market and paid very little attention to the household. When it has looked at the household (as in *the new household economics* of Gary Becker), it has mainly done so by applying the market approach to the household.

But there also exist some exceptions to this trend; and one of these is Robert Ellickson's new and important book *The Household: Informal Order around the Hearth* (2008). Ellickson is a Professor of Law at Yale University and best known for his study *Order without Law: How Neighbours Settle Disputes* (1991), in which he applies transaction cost economics to the legal order.

What exactly is a household? Ellickson provides the following definition: "A *household* is a set of institutional arrangements, formal or informal, that govern relations among the owners and occupants of a particular dwelling space where the occupants usually sleep and share meals" (p. 1). A household, he also specifies, consists of essentially three relationships. First, there is the owner to non-owner relationship; second, there is the landlord to tenant relationship; and third, there is the occupant to occupant relationship. This means that one either owns or rents the space for the household.

According to Ellickson, there are three *core liberal entitlements* at the heart of his definition; and we may therefore be justified in calling his theory of the household a liberal theory of the household. These are: private ownership; freedom to exit from the household; and freedom of contract. Together they make possible *a robust system of decentralized household formation* (p. 14).

According to Ellickson, empirical research on the household everywhere points in the same direction: a small number of actors is good. The average number of household members in Sweden, Japan and China are 2.0, 2.5 and 3.3 respectively (2005). The numbers of owners of a household is similarly very low.

Why is this the case? Why do households tend to have few members, few owners, and why do so few people rent their houses and apartments rather than own them? According to Ellickson, transaction costs supply much of the answer. The costs associated with the transactions that go on in a household, Ellickson emphasizes, can be very high. If there are many members, reaching a decision tends to take a long time. If tastes are very different, finding the right good may be difficult. And if something important needs to be done that affects the property of the household, such as repairing the roof, a legal contract may have to be drawn up.

Small size, Ellickson argues, is much more efficient in transaction cost terms than large size. Two-three people can often decide on things without the help of the law; and a couple will typically arrange tasks in their own give-and-take way rather than draw up a contract. People who are intimate often engage in gift-exchange. Homogeneity in taste is also helpful in getting things done quickly and efficiently. The governance of the household is finally handled much more smoothly if the actors can decide the issues themselves, and do not need to take some non-resident owner into account. This is why most households are owned rather than rented.

What Ellickson accomplishes through his book, as I see it, is to breathe new life into the topic of the household; and he does this through two moves. First, he introduces a liberal theory of the market, centered around property and the right to exit. And second, he shows with the help of transaction cost economics that the number of actors has to be small for a household to operate efficiently and without assistance of the law.

The question that Ellickson does *not* raise, but which is ultimately the most interesting, to my mind, is to what extent the household can constitute an alternative way of organizing economic activity to the market. We do know that quite a bit of work takes place in the household and also that the household is closely linked to the market, in the sense that the person in the modern economy goes from the household to the workplace and back. We also know that a small but increasing number of people these days do their *market work* in the household. The line between the household and the market is also increasingly beginning to disappear, with people taking their work home, and work becoming like a home to people.

So, minimally, it would appear that we cannot really understand the modern market economy without understanding the household. And maximally some new form of joint household/market economy may be emerging. In any case, Weber's statement that the household and the market constitute the two main ways of organizing the economy needs to be taken seriously.

Book: Guseva, Alya, 2008: *Into the Red: The Birth of the Credit Card Market in Post-communist Russia.* Stanford: Stanford University Press. Pp. 202.

Reviewer: Leontina M. Hormel, University of Idaho lhormel@uidaho.edu

Marked with economic turbulence, weak institutions, public distrust of banks, and cash oriented consumerism, conditions in Russia during the 1990s presented clear challenges for developing a market in credit cards. Yet, the credit card market has managed to steadily establish itself and grow. *Into the Red* is a unique account of how the credit card market was developed in Russia and why it took its particular shape. It draws upon interviews and archival data collected during two phases of fieldwork in Moscow, Russia, from 1998 to1999 and from 2003 to 2005. Guseva finds that socialist legacies shaped Russia's route for credit card market development and, thus, deviated from the United States' model. Russia's path-dependent market development is most evident when observing how banks and financial organizations devised credit card projects to address uncertainty and complementarity, both critical factors for a two-sided market. Equipped with a unique structural basis from which to build a credit card market, Russia's market development relied on bi-level networks.

The Russian credit card market functions within unique conditions when compared to other markets. In such a market, Guseva says, two major concerns arise for card issuers. The first concern is complementarity. Card-issuers must increase the number of cardholders as well as the number of merchants who use credit cards. If large numbers of cardholders do not exist, then it is impossible to convince merchants to accept credit cards. Likewise, if the number of merchants accepting credit cards is insufficient, then consumers will see no advantage to credit card purchases. Guseva notes that Bank of America solved this problem in the U.S. by dropping unsolicited cards in the mailboxes of several million unsuspecting consumers. Assured that a population would immediately be prepared to use cards in their stores, merchants were willing to sign up with Bank of America to accept its credit cards (p. 15). A second concern is the uncertainty associated with allowing cardholders to accumulate debt with the card issuer. In the United States, the creation of credit bureaus has served to significantly reduce the level of uncertainty for card issuers. Calculating credit scores for potential cardholders, credit bureaus provide card issuers with swift prescreening to estimate the likelihood of profitability or default (p. 19). It is through these methods that the U.S. credit card market has been able to institutionalize these practices, making it a taken-for-granted feature in its society.

These concepts lead to contradictory processes. As the case of credit card market development in the U.S. illustrates, complementarity is best reached by rapidly creating a critical mass of cardholders. At the same time, uncertainty is most effectively diminished through prescreening. Since a standardized system of prescreening requires that information regarding potential cardholders be shared, such a system necessitates cooperation between competitive organizations. Bridging these contradictions in the credit card market has presented challenges to its development in Russia.

Guseva traces three different strategies card issuers devised in Russia over the period of reforms, 1988-2005. Each of these strategies progressively handled (with varied effectiveness) complementarity and uncertainty. Focused mostly on removing uncertainty, the banks' first strategy favored in-depth screening of potential cardholders. This strategy limited cases of fraud, applicant dishonesty and established reliable modes of communication between card issuer and holder. As a result of its strict criteria, individual cardholders were mostly embedded in networks of individuals tied to each card issuing bank and its administrators. Guseva refers to this strategy as one driven by the assumption that credit cards were the vehicle for elite members, and as such could only serve to constrain market growth. Efforts to popularize the use of credit cards led to a second strategy, which issued salary cards to workers through their employers. Guseva argues this was a *stick* strategy, since banks maintained a great deal of control in card distribution through "*relational* benefits: since employers have ongoing control over workers, they facilitated both access and screening" (p. 118). This strategy came closer to addressing complementarity, while still diminishing the degree of uncertainty card issuers bore. However, Guseva also contends that the association of these cards to employee salaries meant that cardholders were unlikely to use the cards for purchases, but simply for accessing cash for purchases. The third, and most current, strategy sought to dangle a *carrot* before prospective cardholders by offering credit cards through retailers who "have the power of escalating consumers' desires to make them want more than they can afford at the moment" (p. 119). Guseva says this strategy accrues what she calls the "*locational* benefit of bi-level networks: in order to reach mass consumers, a company needs to identify a way they can be targeted as a group" (p. 39). It serves the need for complementarity, yet at the same time exposes banks to greater uncertainty than they were in the previous strategies. Since screening has yet to be supported institutionally through credit bureaus, banks are left far more exposed to default and delayed payments (p. 122).

All three strategies, according to Guseva, are responses to the conditions of social change in Russia. These conditions compelled banks to develop unique methods for developing the credit card market. Lacking the institutions and consumer culture, both of which were critical to the U.S. market's development, the bi-level networks used in employer and retailer card distribution offered strategic ways to expand Russia's credit card market. By tracing these developments, she demonstrates that the different structural features of post-Soviet Russia shaped new markets, like the credit card market, and that new markets are important in shaping societal changes. In this specific case, the credit card market brings *Russians from the communist past into the capitalist consumerist future, out of the red and into the red* (p. 157).

In studying the development of the credit card market in a newly emerging market economy like Russia, *Into the Red* contributes to broader discussions surrounding international development and economic restructuring. It demonstrates why reformers' emphasis on formal institution building in transitional societies captures only one aspect of a multi-dimensional process affected by history and by unknown consequences of action. Through her research in Russia, Guseva convincingly demonstrates that markets not only shape, but are shaped by, consumers' collective behavior.

Book: Filippo Barbera and Nicola Negri, 2008: *Mercati, reti sociali, istituzioni. Una mappa per la sociologia economica.* Bologna: Il Mulino.

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In this book, Barbera and Negri have two ambitious aims – to paint a single, coherent picture of the heterogeneous discipline (and moving target) that is economic sociology and to provide insights for strategies of empirical research in economic sociology. To this ends, the book's main merit is its identification of ways of arguing across the different subdisciplines of economic sociology – potentially minimizing the growing complexity and removing the seemingly insurmountable barriers to dialogue between these subdisciplines. It also accounts for some new trends within economic sociology. In order to bring more structure to the discipline, the authors offer a typology to classify different studies in economic sociology more precisely and to identify the convergences between them. The dimensions of the typology follow economic sociology's three main approaches – new economic sociology, comparative political economy and new sociological institutionalism – and three rhetorical styles that cut across these approaches – the rhetoric of extension, the rhetoric of context and the rhetoric of the alternative.

The rhetoric of extension *stretches* the logic of the *homo oeconomicus* to non-economic topics (like family studies) or to topics that are economic in nature but not generally addressed by traditional economics, such as communities instead of markets. The rational choice-based model of behaviour and the network's configuration explain the generation of more complex social formations like norms and institutions, whereas, at least initially, agency is supposed to be independent from those norms and institutions. The rhetoric of context "identifies those characteristics of social and political organization that enable the *functioning* of economic and market action" (pg. 32). Here, agency depends on political and institutional context. Finally, the rhetoric of the alternative differs from that of context in that it conceives markets and economic exchange as intrinsically and constitutively social and political and not as simply externally influenced by politics and institutions. More important, it is offered as the alternative to economics under the philosophy that a market theory cannot be limited to one of optimal allocation of resources and equilibrium prices; a theory of real market functioning has to account for the political, cultural, structural and cognitive embeddedness of economic exchange (Zukin and DiMaggio 1990).

By emphasizing the importance of the analysis of networks and institutions, the book pleads for a dialogue between approaches and for strategies of empirical research that transcend the borders, combine rhetorical approaches, and provide less partisan – and hence more accurate – explanations of economic phenomena. To this aim, the authors conclude the book with a typology of markets framed by one institutional dimension (degree of institutional intensity) and one structural dimension (degree of network density); they also include suggestions for which approaches/rhetorics – alone or in combination – tend to be more suitable in the study of a particular market. For example, they argue that markets characterized by low-density networks and low institutional intensity are best studied through the rhetoric of extension, while markets with high-density networks and high institutional intensity should be the domain of the rhetoric of the alternative. The authors contend that mixed cases should use a combination of approaches and rhetorics.

Chapter 1 deals with the problem of markets in economic sociology and presents the three kinds of rhetoric described above. Chapter 2 illustrates two institutional approaches, neo-institutionalism and comparative political economy, while Chapter 3 is devoted to structural approaches. Chapters 4 and 5 deal with the interaction between networks and institutions in the real economy and provide examples of studies that demonstrate the relevance of those interactions. The authors devote Chapter 6 to the role of models in economic sociology, suggesting that models should not be rejected *a priori* but should be selectively applied, because using the tools of economics would be an effective way to point out the weaknesses of economic reasoning. In the epilogue, the authors offer a final typology that spans all approaches and rhetorics in economic sociology and the typology of markets.

While this might be a relevant book that every concerned economic sociologist should read, and it might even respond to a real necessity for order in a fragmented discipline, the book also has three significant weaknesses. First, the authors should have more systematically framed their position in the larger context of the directions and challenges of economic sociology, in order to give the reader a better sense of the importance of their claim. Second, the reader is left with the impression of having read texts that would fit into a handbook of economic sociology but that have not been adequately related to each other according to the general question the book seeks to answer.

Third, while it is valuable to identify common lines of argument across the discipline, to emphasize the benefit in combining different approaches and to underline the theoretical and empirical relationships between networks and institutions, crossing rhetorics with traditional approaches results in redundancies and unnecessary complexity reflected in the authors' guidelines for researchers. First, authors create further sub-approaches that have to be recombined anyway in the study of most of the market pure types and hybrids. Second, it is basically left to the reader to grasp how to deal concretely with all the distinctions and combinations proposed for the empirical analysis of markets. This creates more confusion than clarity.

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PhD Projects in Economic Sociology

Competition and Competitiveness: A Cultural Political Economy

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It is convenient to use the term *neo-liberalism* to refer to the rise of laissez-faire economic policies, starting in the US and UK during the 1980s, then spreading through various Western and non-Western states in the years following. There has been ample attention paid to the political and philosophical influences of neo-liberal thinkers such as Friedrich Hayek and Milton Friedman. What is less well understood is how the associated economic categories and methodologies move from the realm of theory and research into the bureaucratic and political practices of government.

My thesis takes two fields of economic knowledge, both of which rose to prominence in and around the state from the late 1970s onwards, and explores how they traverse the space between academia and the state, then how they are applied by policy experts. They each offer a distinct vision of the *competitive* dynamic of capitalism, and imply subtly divergent accounts of what the appropriate role for the state in that process should be. This way I challenge the assumption that neo-liberalism is a homogeneous and consistent doctrine, and open up a schism in our understanding of how a neo-liberal state necessarily behaves.

The first field of economic knowledge derives from the Chicago School Law & Economics movement, whose influence revolutionised antitrust policy in the United States from the late 1970s onwards, and has since been felt in the European Commission. As a direct consequence of the Chicago School intervention, the authority of neo-classical economists over antitrust decisions has risen dramatically. This expert culture is characterised by a strictly scientific vocation, the production of falsifiable knowledge claims and an esoteric commitment to the tradition of neo-classical price theory. While the Chicago approach is relatively agnostic as to the structure of competition, the default assumption is that competition should produce lower prices or higher output for consumers. And while various innovations have occurred to account for dynamic effects, there is a default priority attached to short-term efficiency gains, for instance within a two-year time horizon.

The second field of economic knowledge is oriented around national (or regional) *competitiveness*, and emerged from the World Economic Forum in the 1970s and the work of Michael Porter and Harvard Business School in the 1980s. The influence of this analysis is more amorphous, as it travels via a circuit of think tanks, business schools and the media. One of the critical outcomes of this account is that the perspective and challenges facing politicians and policy-makers are comparable to those facing managers, and both need to develop long-term *strategies* in order to remain competitive. This expert culture is characterised by a hybrid scientific-political vocation, which pragmatically constructs new and flexible measuring devices, to assist decision-makers in identifying and asserting their political-economic priorities. Politicians are encouraged to look beyond short-term political and economic indicators, and focus on the sources of wealth which take many years to acquire. The *factors* in competitiveness are diverse, including a range of economic, cultural, legal and social entities, which are then measured in the aggregate in terms of their contribution to wealth creation.

My research involves tracing these bodies of knowledge over time, in academic and policy literature, but also studying them in the contemporary contexts of US and EU government agencies. I have conducted over 50 interviews with economists, advisors and experts in relevant government departments and universities. This represents a *cultural political economy*, in the sense that it pursues an ethnographic immersion in the expert economic knowledge cultures of particular US and EU state apparatuses.

The central argument of the thesis is that the economic rationalisation of the state occurs differently depending on which part of the state is being rationalised. There is no *a priori* definition of efficiency, but rather means of calculation are embedded in rival normative and cultural frameworks. The Chicago School attempt to rationalise the judicial branch of the state with neo-classical economics is ultimately incommensurable with the competitiveness agenda of rationalising the executive branch of the state. I show how compromises are struck between these two paradigms, for example in the European Commission's revised State Aid framework. But neo-liberal antitrust policy positions the state as an economic *referee* over the competitive arena, while neo-liberal competitiveness strategies position it as the *coach* within a broader arena. These two roles are potentially and occasionally conflicting.

Political Anthropology of Contemporary Finance: Valuing, Investing, Innovating

(original French title: Anthropologie politique de la finance contemporaine: evaluer, investir, innover)

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This work is the result of fieldwork carried out doing three internships in financial companies between 2002 and 2004, and about 100 interviews with professionals. The companies observed were *Brokers Inc.*, a brokerage company selling financial information on stocks listed in Europe to US based investment managers (New York, 2002); *Hedge Consulting*, a consulting company in "alternative management" (hedge funds) (Paris, 2003); and a team of investment managers investing in asset backed securities within *Acme*, a major French investment management multinational firm (Paris, 2004). The aim of the research was to understand the everyday logics of the practices that constitute financial power ("pouvoir financier") today, through three main activities that were observed within the companies: valuing, investing and innovating.

Valuing: Today, financial valuation is done by the employees of financial companies. Situated in hierarchical organisations, they mobilise an ontology defining the objects of investment, such as stocks and credit derivatives. According to this imaginary, objects have an intrinsic or fundamental value, defined by the free and unmediated relation between the valuating subject and the object; a relative value, defined by comparing several objects; and a market value, defined in the act of exchange. In the liberal philosophies that organise this ontology, these three kinds of value come together when the subject is free to exchange, and can thereby constitute herself as a free moral and political subject. In the everyday practice of the financial analysts, salesmen, and traders of *Brokers Inc.* and in the practices of the funds managers that were observed, these approaches to value and the figure of the free subject as *investor* define and legitimise the procedures of valuation and investment, organising the professional tasks and the social relations within and between the companies. The legitimacy of the process can be found in the definition of the professional tasks in which the free subject as investor and her definition of value are present everywhere as *characters of intentionality* (in Michel Foucault's words, "une figure intentionnelle"). The power of valuation ("pouvoir d'evaluer") of contemporary finance is only such in as much as it organises the distribution of resources made through the investment practices.

Investing: The distribution of resources by contemporary finance, especially in fund management, is accomplished through the buying and selling of assets in accordance with the rules of valuation defined above. Within the same liberal philosophies, exchange, insofar as it is seen as the deed of a *free subject*, allows for the *creation of value*, which meant for the employees observed making profits for their clients, their employers and themselves. This *classic* approach to investment, called "buy and hold", implies buying assets according to their fundamental value and keeping them for a long time. This was done by the team working for *Acme*, who invested funds coming mainly from French insurance companies in mainly mortgage backed securities (MBSs) issued in the US. Each act of buying thus involved the global distribution of resources that interlinked financially, and across several jurisdictions, people who were far apart. The logics of investment, the legal definitions of the MBSs and interest rates defined the rights and the duties of the *investor*, i.e. the rules of this everyday distribution of resources. At the time of the observations, these rules had started to change, as a shift in interest rates made the "buy and hold" approach less profitable, and the managers had to adopt a more speculative approach based on market value. This implied a different position towards value, a change that produced tensions within the team and their hierarchy within Acme, where people began to adhere to different and conflicting approaches. The decision of investing was distributed in the professional tasks of the employees in hierarchical ways along the 'intentional figure' ("figure intentionnelle") of the free subject and the liberal political and moral philosophies of the definition and creation of value. This imaginary set the multiple and limited possibilities for the distribution of resources by the professionals.

Innovating: The investment approaches of hedge funds are usually negatively defined by not following the rules of the classic approach of "buy and hold". The members of *Hedge Consulting* tried to develop new ways of investing and valuing, and to sell these to investment fund companies. Their attempts were nevertheless organised by the fractures and tensions of the financial imaginary of the definition and creation of value defined above, which they mobilised to promote their product and exist as a financial company. These imaginaries were thus the institutional limit to change in the approaches to value and investment.

Contemporary finance can be understood as consisting of specific institutions, and financial companies, which define value and distribute financial resources according to specific organisational rules and financial imaginaries. Following Max Weber and Michel Foucault, contemporary finance can thus be understood as the application of political and moral philosophies in procedures in which the subject of the exchange is never embodied but nevertheless everywhere present as an "intentional figure" ("figure intentionnelle") defining professional tasks. As with Marcel Mauss' "kula", these imaginaries constitute the ontology and the rules that define and legitimise the objects that are exchanged (stocks, credit derivatives) as well as the rights and duties of the participants in the exchange. That is, they organise the hierarchical social possibilities of a very unequal distribution of resources on a world-wide scale and, thereby, contribute to the constitution of a global political space.

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