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The Ethics of Liberal Market Governance: Adam Smith and the Constitution of Financial Market Agency

by

Chris Clarke

A thesis submitted in partial fulfilment of the requirements for the degree of Doctor of Philosophy in Politics and International Studies

University of Warwick
Department of Politics and International Studies
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DECLARATION ----------

This thesis is my own work and has not been submitted for a degree at another university.

ABSTRACT ----------

In this thesis I provide a historicised account of the work of Adam Smith in order to reveal the essential variety of viable ethico-political commitments in liberal political economy and International Political Economy (IPE). Specifically, I draw on Quentin Skinner's approach to intellectual history in order to engage with the thought of Smith. I show how existing readings of Smith in IPE on the whole tend to fail some of Skinner's most basic methodological principles for interpreting past texts, which is problematic for IPE scholars because it reveals the distinctly 'economistic' historiography of Smith that dominates the subject field. I offer a way of escaping the limitations of the prevailing economistic historiography through providing a sustained engagement with his actual texts as read in context. In so doing, I present a novel account of Smith for IPE which emphasises the crucial role of the concept of the 'sympathy procedure' in his work, through such a mechanism people learn how to express fellow-feeling within their market-bound relationships. I argue that this recovery provides a critical lens through which to interrogate the ethics of liberal market governance today, one which animates an alternative to economistic understandings of market-oriented behaviour. Following Skinner, I do not propose a direct 'application' of a Smithian perspective, but instead use it as part of a pragmatically inspired study to reveal the historical contingency of some of the most deeply held views about subjecthood as manifested under liberal market governance today. This enables me in the empirical parts of my thesis to reflect on competing discourses of the global financial crisis at the regulatory and everyday level of global finance via a 'sympathy perspective'. I argue that through such an engagement Smith's sympathy procedure can produce novel ways of subverting the ethics of global finance as currently constituted.

ABBREVIATIONS ----------

BIS	Bank for International Settlements
CRESC	Centre for Research on Socio-Cultural Change
FCIC	Financial Crisis Inquiry Commission
FSA	Financial Services Authority
FSB	Financial Stability Board
FSF	Financial Stability Forum
GFC	Global Financial Crisis
ICB	Independent Commission on Banking
IMF	International Monetary Fund
IPE	International Political Economy
LSX	London Stock Exchange
NCRC	National Community Reinvestment Coalition
NEF	New Economics Foundation
OECD	Organisation for Economic Co-operation and Development
OWS	Occupy Wall Street
PPF	Put People First (Coalition)
SEC	Securities and Exchange Commission
SSG	Senior Supervisors Group
TMS	*The Theory of Moral Sentiments* (Part, section, chapter, paragraph)
UNCTAD	United Nations Conference on Trade and Development
WN	*The Wealth of Nations* (Book, chapter, division, paragraph)

INTRODUCTION----------

Adam Smith and the Global Financial Crisis

In discussions of the global financial crisis (GFC), appeals to the intellectual authority of Adam Smith abound. Writing a few months before the crisis was at its most acute, former Chairman of the US Federal Reserve Alan Greenspan (2008) suggested that the past decade had witnessed 'mounting global forces' which were the 'international version of Adam Smith's invisible hand'. Writing later in 2011, he claimed that 2008 marked a 'rare exception' to how Smith's invisible hand had 'created relatively stable exchange rates, interest rates, prices, and wage rates' worldwide (Greenspan 2011). Former Vice Chairman of the Federal Reserve Alan Blinder (2010), in his response to the crisis, also appealed to the invisible hand as 'one of history's great ideas'. Another former Chairman Paul Volcker (2010) invoked Smith, albeit in different terms, to lend support to his banking reforms: Smith 'advocated keeping banks small', he claimed. A leading figure in global financial reform and Nobel Laureate in Economics, Joseph Stiglitz (2010a), suggested that recent problems in the world economy are down to the fact that Smith's invisible hand 'did not hold': 'Few today would argue that bank managers, in their pursuit of their self-interest, had promoted the well-being of the global economy', he wrote. Another Nobel Laureate, Paul Krugman (2010), argued that Smith 'called for a ban on high-risk, high-interest lending, the 18th-century version of subprime'. Yet another Nobel Laureate, Gary Becker (2011), in his discussion of 'government failure' in the crisis, suggested that the 'traditional case for private competitive markets goes back to Adam Smith'. On a similar note, the influential economist writing on the crisis Robert Shiller (2009) claimed that Smith held the

‘standard “classical” theory’ that ‘people rationally pursue their own economic interests in free markets’. Yet another influential economist, Nassim Taleb (2011), alluded to how Smith ‘was wary of the effect of limiting liability, a bedrock principle of the modern corporation’. This roll call could continue, but clearly, in discussions of the worst financial crisis since the Great Depression, what Adam Smith said appears to be of great significance.

However, exactly what Smith *did* or *did not say* is subject to a considerable degree of dispute. It is no exaggeration to suggest that there is a highly complex and extremely contested historiography of Smith (e.g. Kennedy 2005; Muller 1995; Tribe 1999). This perhaps means that appeals to the intellectual authority of his name in the context of the GFC ought to be viewed as appeals to one ‘Adam Smith’ among many. Indeed, despite some slight differences in emphasis, the accounts noted above by world-leading economists (or policy-makers trained as economists) actually present a *very specific* image of Smith. It is a depiction of him which I claim is based on an ‘economistic’ historiography of his work. What is more, crucially, this image drawn from an economistic historiography of Smith is used in support of a particular mode of analysis. It is a form of analysis which itself, put simply, takes a markedly ‘economistic’ view of the crisis. In this thesis, by contrast, I attempt to provide a *more robust* historiographical reading of Smith, which then might be used to *subvert* such conspicuously economistic understandings of the GFC itself.

In essence, I contend that historiographical study allows for a deeper understanding of the contested framework of ideas which exists at the heart of modern liberalism and liberal market governance. ‘Economistic’ accounts of the GFC, represented in part

above, broadly speaking tend to focus on a conventional understanding of the crisis as a temporary breakdown in the otherwise smooth and unproblematic workings of the price structure in global finance. Such accounts typically appeal to Smith's intellectual authority for a description of how such market pricing dynamics at least ideally ought to work. By contrast, in this thesis, I show how a historiographical recovery of Smith provides for a more robust invocation of his intellectual authority. It is a renewal of Smith that draws attention to *his* understanding of market-oriented behaviour made up of 'sympathetic' market relations. Notably, the term 'sympathy' here is not the same as a modern-day definition in terms of feeling sorrow for someone's suffering. Rather, on Smith's account, sympathy refers to a device for regulating moral instincts through the activation of fellow-feeling. In turn, I argue, a sympathy perspective on markets provides a direct challenge to the ethics of liberal market governance as they are (in the main) currently constituted. In the context of the GFC, it provides a telling focus on the economistic essence of the Anglo-American financial structure and its corrosive effects on sympathetic market relations.

The remainder of this Introduction proceeds in four stages. First, I situate my historiographical engagement with Smith within the contemporary International Political Economy (IPE) literature, via particular reference to the relationship between economics and IPE, on the one hand, and interest in the history of political economy and global financial governance, on the other. Second, I detail precisely how I make a contribution to knowledge by providing IPE with a historicised account of Smith's sympathy procedure. Here, I flesh out the central arguments of my thesis and explain how an account of Smith's sympathetic understanding of market-oriented behaviour might prove effective in efforts to 'rethink' the ethics of liberal market governance. Third, I specify

the underlying research questions that drive my thesis and the way in which they have direct implications for research design and methodology, which are quite specific to my historiographical approach. Finally, I provide an outline of the chapters of my thesis.

An engagement with Adam Smith in contemporary IPE

In various ways, IPE scholars tend to consciously position themselves *against* economics. On the one hand, as a matter of *normativity*, IPE scholars, especially those on the self-styled 'critical' edge of IPE, frequently speak in terms of a presumed political project contained within economics (e.g. Cox 2000; Gill 2000a; Higgott 2002). As a result, they often attempt to differentiate themselves from economics by intentionally setting their work against a supposed 'neoliberal' bias in economics. On the other hand, as a matter of *methodology*, again largely from a 'critical' edge, IPE scholars commonly focus on the presumed 'takeover' by economics of all social science method (e.g. Gamble 1995; Murphy and Tooze 1991b; Strange 1994). In response, they often attempt to differentiate themselves from economics by intentionally positioning their work against an 'imperialistic' economic method (which is also of course a focal point of dispute in discussions of the so-called 'transatlantic divide' in IPE (e.g. Cohen 2008)). However, what I find to be particularly noteworthy is that this oppositional relationship between economics and IPE has, up to now, not been thoroughly discussed as a matter of *historiography*.

Viewed in this light, IPE scholars ('critical' or otherwise) seem to have a rather underdeveloped historiographical account of the subject field's own lineages in political economy (for notable exceptions see, for instance, Clift and Rosamond 2009; Rosow 1997; Watson 2005a), as compared to how economists (very self-confidently) deal with

their own disciplinary heritage (e.g. Fry 1992; Samuelson 1969). In IPE, the consequences of this can be shown to be especially problematic in the case of Adam Smith. Here, the underdeveloped nature of its own historiographical account of Smith means that IPE scholars actually tend to produce readings of his work *almost directly imported from economics*. That is, with only a handful of exceptions (e.g. Dunn 2009; Gamble 1983; Underhill 1997; Watson 2005a), Smith is readily identified as the straightforward originator of the 'liberal' tradition of IPE (e.g. Balaam and Veseth 2008; Kirshner 2009; Miller 2008; Payne 2005; Pettman 1996; Ravenhill 2005) – or even an early precursor of 'neoliberalism' (e.g. Bukovansky 2006; Steger 2002; Swift 1993) – using a distinctly *economistic* interpretation of his work as it is found in economics. This is the well-known reading of Smith in IPE that, just like in the accounts of a number of former Federal Reserve Chairmen and Nobel Laureates noted above, holds his name almost synonymous with the 'invisible hand' of the market (e.g. Burchill 2005; Crane and Amawi 1997; Dunne 2005; Isaak 1995; Rupert and Solomon 2006; Woods 2001).

However, this image of Smith that interprets his work as the origin of assumptions about instrumental rationality and invisible hand dynamics can only arise from a rather superficial reading of (only a small part of) his *Wealth of Nations* (WN). By contrast, 'intellectual history' scholars, working mostly outside economics and IPE, take the broader context of Smith's moral philosophy much more seriously by approaching his oeuvre 'comprehensively, as an integrated *whole*' (Recktenwald 1978: 56 emphasis in original). In other words, they read WN through the perspective of his *Theory of Moral Sentiments* (TMS) and take each book to be of equal importance. In so doing, put briefly, they pick up on a fundamental concern in his texts for questions about the

cultivation of standards of moral behaviour in the emerging commercial society of his time (e.g. Fitzgibbons 1995; Fleischacker 2004; Force 2003; Rasmussen 2008; Teichgraeber 1986). Of course this literature is very diverse, but it does contain more robust accounts of Smith's work, particularly by giving due attention to his foundational concepts of 'sympathy' and the 'impartial spectator'. In short, sympathy refers to being simultaneously conscious of both the self and the other in ethical judgement, while the impartial spectator is a means of explaining how moral principles are formed. These features of Smith's work point to how he viewed standards of appropriate behaviour as ultimately malleable (Vaggi 2004). Principally, in this regard, I would endorse Charles Griswold's (1999: 165) argument that Smith was 'consciously nonfoundationalist' in his approach to moral sentiments, refusing to ground them in anything other than historically-conditioned and historically-specific social conditions.

There are then (at least) two different 'Adam Smiths' that could potentially appear in IPE. On the one hand, there is the image of him that tends to dominate at present, which presents him quite straightforwardly as the originator of the liberal tradition in IPE and associates him with assumptions about how instrumental rationality in market-oriented behaviour, guided by an 'invisible hand', leads to the good of society. In a sense, the invisible hand here refers to some sort of natural force that serves to co-ordinate individual behaviour. This is a depiction reliant on a distinctly *economistic* historiography of Smith. On the other hand, there is an image of Smith that situates his liberal political economy within the broader context of his moral philosophy and, as he did, attaches great significance to his concept of sympathy. This is a depiction reliant on a distinctly more robust 'history of thought' historiography of Smith, which at present

does not figure predominantly in IPE (for notable exceptions see, for instance, Glaze 2008; Watson 2005a; 2012).

In the context of studies of the GFC in IPE, this is noteworthy because the two images of Smith actually serve to sustain two parallel narrations of the process of constituting financial markets. Echoing a number of former Federal Reserve Chairmen and Nobel Laureates, the first might appeal to an economistic account of Smith for an intellectual authority on how market pricing dynamics ought to work such that the crisis can be narrated as a temporary breakdown in the ordinary workings of global finance. The second might appeal to a more historiographically robust account, drawing on his understanding of 'sympathetic' market relations, such that the crisis can be interrogated as an important signifier of the limitations of the ethics of liberal market governance as currently constituted. It is the prospects for this latter image in which I am interested in this thesis.

Contribution to knowledge

My contribution in this thesis can thus be clearly stated: I provide a historicised recovery of Smith's 'sympathy procedure' for IPE. In light of existing debates indicated above, this is significant for at least two distinct reasons: (1) it provides IPE with a more historiographically robust account of Smith that does not rely on the aforementioned economistic historiography of him imported from economics; and (2) it provides IPE with a 'sympathy perspective' to extend discussions about rethinking finance in light of the GFC in ways that avoid replicating aforementioned economistic understandings of market-oriented behaviour. I detail each in turn.

Rethinking Smith

My recovery of Smith's sympathy procedure can be understood as part of an effort to address the overly economistic historiography of Smith in IPE. This is a historiography, indicated above, which produces interpretations of him quite simply as the founder of the 'liberal canon'. As Stephen Rosow (1997: 44) suggests:

> IPE considers the history of liberalism as settled and secure, as unified and static. The IPE story constructs Adam Smith as the originating founder of liberalism. The contexts, circumstances, and intellectual forebears that molded Smith's thought go unexamined … Thus, a crucial philosophical and political content of his theory remains obscured, carried through liberal IPE only as an echo.

For Rosow (1997: 43), one of the consequences of this inadequacy is that IPE scholars tend to treat 'liberalism' as essentially economistic in nature, which constructs 'artificial parameters' around liberal politics that are actually much more contestable. This is problematic, he contends, because through appeal to thinkers such as Smith, IPE scholars have a propensity to condense liberalism to a single economic meaning which reduces the interpretation of liberal civil society to 'an echo of commercial practice … an echo of self-interest, egoism, private property, and the profit motive' (Rosow 1997: 43). In endorsing this account, I certainly do not wish to present liberalism or indeed modern 'neoliberalism' as a homogenous whole. As Phillip Cerny (2010: 156) rightly notes, 'far from being a monolithic creed' neoliberalism 'is a flexible doctrine … continually evolving as both old and new actors redefine it and internalize it in their increasingly transnational political projects'.

More specifically, though, in seeking to recover a historiographically robust account of Smith, I help provide a way of avoiding an *economistic reductionism* of both liberalism and Smith in IPE. I do so through appeal to an approach to intellectual history developed by Quentin Skinner (1969; 1974; 1988a; 1988b). Often associated with the 'Cambridge School' (on which see Bell 2001), in brief, Skinner's method involves treating texts in a self-consciously historical manner and seeking to interpret them through reference to a careful examination of their socio-linguistic context. Notably, the first image of Smith that follows an economistic historiography can be shown to fall foul of some of the most basic Skinnerian principles of interpreting past text. By contrast, the account of Smith I bring to IPE takes the most successful readings from the history of thought historiography and conforms to Skinnerian interpretive principles.

In essence, I use this approach to recover a suitably *historicised* interpretation of Smith. Through this act of recovery I produce a novel account of Smith's 'sympathy' and its implications for conceptualising market-oriented behaviour in IPE. In brief, his concept of sympathy can be thought of as an imaginative 'procedure' through which people come to assess the actions, circumstance, and suffering of others and themselves (Force 2003; Peil 1999). However, this is not simply an 'other-directed' ontology of the individual. Rather, in accounting for individual agency, it refers to a continual balancing act and negotiation between an individual 'self' principally concerned, and broader societal norms and values, the 'other', which are potentially encountered and internalised through the activation of what Smith termed an 'impartial spectator' (e.g. TMS I.i.5.4). From a sympathy perspective, then, the constitution of subjecthood is understood through reference to fundamental interactivity between an individual and a system in terms of ethico-political questions (Vaggi 2004). This could be thought of in

terms of Smith providing a 'relational self' in TMS (Weinstein 2006: 82), as opposed to the atomised self imputed onto Smith by the economistic historiography of his work. Thus, on one level, my recovery of the sympathy procedure for IPE is original because it represents a crucial aspect of his thought that is currently almost completely overlooked by scholars operating with an economistic historiography of Smith (for notable exceptions see Blaney and Inayatullah 2010; Glaze 2008; Watson 2005a; 2012). On another level, a second reason why a recovery of the sympathy procedure is significant is that it can provide IPE with a novel 'sympathy perspective' to extend discussions about rethinking finance in light of the GFC.

Rethinking finance

My recovery of Smith's sympathy procedure can be used to interrogate the ethics of liberal market governance without replicating economistic understandings of market-oriented behaviour. However, following Skinner (1969), I do not approach Smith's texts with 'questions' about the GFC to which I expect to find direct 'answers'. To do so would be to fall foul of some of his most basic interpretive principles for producing historicised/situated understanding; incidentally, of course, many of the economistic readings of Smith in IPE *do* readily extrapolate him out of context (e.g. Hite and Roberts 2007; Isaak 1995; Miller 2008; Pettman 1996). Rather, I adopt an approach to study that I term 'pragmatic historiography', which builds upon a number of calls in IPE to 'historicise' the field (e.g. Amin and Palan 1996; Amoore *et al*. 2000; Germain 2000; Germain and Kenny 1998; Tooze 1997). This is furthered by a presentation of a 'dialogic conversation' on the GFC between key aspects of Smith's 'sympathetic liberalism' suitably historicised, on the one hand, and the 'economistic liberalism' of liberal market governance today, on the other. The aspects of liberal market governance

that I interrogate are those that are widely recognised as key topics of investigation for scholars in IPE and related subject areas studying the GFC: (1) 'asset-based welfare' (e.g. Finlayson 2009; French *et al*. 2011; Hay 2009; Langley 2006; 2007a; Watson 2009b; 2010); (2) 'credit risk' (e.g. Froud and Johal 2008; Nesvetailova 2010; Warwick Commission 2009); and (3) 'personal debt' (e.g. Langley 2008a; 2008b; Montgomerie 2006; 2009; Schwartz 2009).

Empirically, I use my recovery of a sympathy perspective to reflect on these significant sites of finance implicated in the GFC at both the 'regulatory' and the 'everyday' levels of global finance (a distinction borrowed from Hobson and Seabrooke 2007). My engagement with these discussions provides originality because a sympathy perspective on questions of market-oriented behaviour is fundamentally different from economistic understandings of such behaviour prevalent in liberal market governance itself. A number of scholars have offered cutting critiques of the reductive accounts of agency that tend to be employed in IPE (e.g. Griffin 2007; Murphy and Tooze 1991b; Watson 2005a) so my discussion opens up exciting lines of enquiry for IPE in terms of essential questions about how to conceptualise economic agency as anything other than instrumentally rational behaviour. Put simply, the sympathy procedure brings questions of contestable interpersonal ethics right back into the heart of discussions of individual subjecthood, which I argue is of particular significance in the context of the GFC. On this view, by recognising that market-oriented behaviour is subject to ethico-political intervention, doubt is cast on notions of individualised responsibility embedded within systems of asset-based welfare, disembodied accounts of risk in credit risk management, and depoliticised understandings of personal debt under liberal market governance.

Along these lines, my recovery of Smith's sympathy procedure also represents an invitation for IPE scholars to consider questions about liberal subjecthood outside a typically Foucauldian influenced line of thought. A growing number of IPE scholars have taken inspiration, both theoretically and methodologically, from Michel Foucault's genealogy of liberal government to better understand the character of neoliberalism in the world economy and to cast critical scrutiny on its potentially constitutive effect on the individual subject (e.g. Aitken 2005; Amoore 2004; Best 2005; Langley 2008a; 2008b; Vestergaard 2009). On the one hand, I am in accord with this line of critique in a number of respects as it is applied to liberal forms of governance, especially in relation to global finance. Indeed Jacqueline Best's (2007: 92) suggestion that the 'liberal individual is not born but is made' is one that arguably chimes particularly well with the sympathy perspective that I showcase.

However, on the other hand, although much of this work shares somewhat similar intentions to my endeavour, the interesting point from my perspective is that Foucault's own genealogy of modern neoliberalism imposes upon Smith a generative role in producing the theories that subsequently produce the modern neoliberal subject. For instance, in one of many similar invocations of Smith, Foucault (2008: 278) writes:

> So we are at the heart of the problematic of the invisible hand, which is the correlate of *homo œconomicus* if you like, or rather is that kind of bizarre mechanism which makes *homo œconomicus* function as an individual subject of interest within a totality which eludes him and which nevertheless founds the rationality of his egoistic choices.

As such, a great deal of Foucauldian IPE analysis, in replicating this basic genealogy, presents the exact image of an economistic Smith that I find so problematic in my critique of non-historicised IPE and that I show to be so defective using a Skinnerian historiographical method. Ironically, then, not only do I position a more robust historicised account of Smith against an economistic 'Smith' in IPE, but I do so, in part, in a way that turns this more robust historiographical Smith against Foucault's own critical genealogy of liberalism as it appears in IPE.

Research questions and methodological considerations

Theoretically and methodologically, to a large extent this thesis is inspired by the work of Quentin Skinner. Strictly speaking, as I come to show, in the conventional sense Skinner (see, especially, 1969) does not so much provide a strict 'method' as a series of guiding interpretive principles to consider when approaching past texts and certain warnings about the tribulations of interpretive 'mythologies'. He does so by adopting an attitude that I refer to as 'pragmatic historiography'. Put simply, this stance accepts that past texts, such as Smith's, are concerned with their own questions, and are not necessarily a source of direct 'answers' to questions of a later era. However, rather than undermining the purpose of the study of intellectual history altogether, Skinner actually celebrates this as an invitation to understand such scholarly endeavour as a means of exposing something of the multiplicity of viable ethical and political commitments across time and space. As Skinner (1969: 53 emphasis added) writes

> to learn from the past – and we cannot otherwise learn it at all – the distinction between what is necessary and what is the product merely of our own contingent arrangements, *is to learn the key to self-awareness itself*.

This stance is fleshed out and defended below, but it is a significant driver of the central research question of my thesis: *How, and to what extent, can a historicised account of Smith's sympathy procedure in IPE be used to subvert the ethics of liberal market governance?*

To ground this question – and provide this study with a tractable and immediate focus – I employ a two-pronged approach to the execution of the thesis as a whole. The first is to adopt a Skinnerian historicised approach in a direct engagement with the work of Smith to provide an account of his sympathy procedure. This exercise in conceptual genealogy offers an important means of interrogating the ethics of liberal thought, certainly as it comes to be understood by IPE scholars, from a historicised perspective. I thus use Skinnerian interpretive principles to analyse the paucity of the economistic image of Smith in IPE and then to provide a historicised account of his sympathy procedure. I frame my study on the basis of reading Smith in a particular manner that remains attentive to *his intentions* in writing his work. This provides for my more historiographically robust account of Smith.

The second element, which is still essentially a continuation of historicised study, is to use my recovery of this aspect of Smith's thought to provide a dialogic conversation between this sympathetic liberalism and the economistic liberalism that might be found in discussions of the GFC. I thus use extensive discursive analysis of representations of and responses to the crisis at the 'regulatory' and 'everyday' level in order to examine the prospects for my account of the sympathy procedure. As such, I analyse the GFC as a moment representative of prevalent trends in thinking about global financial governance. I use close textual study of representations of the crisis (see methodological

appendix) in an attempt to investigate what a recovery of Smith's sympathy procedure can offer IPE in terms of facilitating substantive forms of study.

Thesis Structure

In Chapter 1, I review the multiple calls in IPE to 'historicise' the subject field (e.g. Amin and Palan 1996; Amoore *et al*. 2000; Germain 2000; Germain and Kenny 1998; Tooze 1997). I provide an examination of the different appeals from 'thinner' forms which 'contextualise', through 'moderate' forms that recognise the 'situated' position of the scholar, to 'thicker' forms that embrace the situated position of claims to knowledge as a way of suggesting the potential 'transformatory' purpose of scholarly endeavour by engaging in 'reflexive' and 'critical' IPE. I also introduce Skinner's work and situate it within these existing discussions of historicisation in IPE. The central purpose of the chapter is to set out and defend what I term 'pragmatic historiography' as an approach to study, which can be understood through reference to Skinner's 'anthropological' justification of the study of intellectual history. It is an understanding of text drawing on ideas about the 'performative utterance' in the work of J. L. Austin (1975). Such ideas are also central to interest in performative finance in IPE and related subject areas (e.g. Brassett and Clarke 2012; Clarke 2012; Clark *et al*. 2004; De Goede 2005a; Holmes 2009; Langley 2010; MacKenzie 2005; 2006; 2007; Millo and MacKenzie 2009; Watson 2009a) and thus offer a considerable point of intersection between work in the history of political economy and contemporary interest in aspects of finance in IPE. Therefore, I make the case that intervention into debates about the history of political economy is itself foundational to what it means to be *doing* IPE, especially in light of interest in the performative aspects of political economy and knowledge about political economy.

I then use some of Skinner's (1969) key interpretive principles in Chapter 2 to provide a schematic review of accounts of Smith in IPE. This is organised around Skinnerian 'mythologies' of interpretation. I show how in terms of issues of 'doctrine' (concerning the 'invisible hand'), 'prolepsis' (viewing Smith as the 'father of economics'), and 'parochialism' (reading concepts such as 'laissez-faire' and 'capitalism' back into his work), IPE interpretations of Smith, on the whole, can be shown to quite clearly fall foul of these Skinnerian mythologies. Crucially, I argue that the paucity of IPE accounts of Smith in this regard actually indicates how IPE scholars tend to directly imitate a markedly 'economistic' historiography of Smith to be found in economics (e.g. Fry 1992; Stigler 1976; Tobin 1996). I also show that given this economistic historiography, IPE scholars have next to nothing to contribute to a number of debates about Smith in the specialist literature about locating his work in competing eighteenth-century discourses and the so-called 'Adam Smith Problem'. Even though, at times, these debates might produce interpretations which are suspect according to Skinnerian principles, in general terms this provides further evidence of the paucity of IPE accounts of Smith. I therefore argue that IPE scholars tend to be 'followers' rather than 'leaders' on matters of Smith historiography, which as noted above is problematic given that in so many other ways IPE scholars seek to differentiate themselves from economics.

In Chapter 3, I attempt to address this problem by constructing a reading of Smith which is more historiographically robust in that it more closely maps *his intentions* in writing his work and restores some of the authority of his texts. I deliver a careful direct examination of Smith's texts, appropriately located in their socio-linguistic context in order to provide the core of my recovery of his concept of sympathy. I posit that Smith's sympathy can be understood primarily as an imaginative procedure, intimately

linked to his 'impartial spectator' construct. I observe how it provides IPE with a compelling account of how there are always contestable interpersonal ethics involved in the constitution of market-oriented behaviour. This account of sympathy is essential because it is so fundamentally different from economistic understandings of market-oriented behaviour prevalent in liberal market governance today.

Then, further developing the idea of using pragmatic historiography, in Chapter 4 I begin my 'dialogic conversation' between Smith's 'sympathetic liberalism' suitably historicised, on the one hand, and the 'economistic liberalism' of liberal market governance today, on the other. I take inspiration from Smith by arranging this conversation around the themes he uses right at the beginning of TMS (I.i.1-3) to set out his concept of sympathy and juxtapose them with three significant sites of finance implicated in the GFC. In turn, these are questions about the place of 'asset-based welfare', 'credit risk', and 'personal debt' in Anglo-American societies today. This allows me to make the central suggestion that there is a potential crisis of ethics in contemporary liberalism at the heart of the GFC because contestable interpersonal ethics tend to be denied. I posit that the consequences of this might be visible, when government programmes promoting asset-based welfare go unquestioned, when risk management is normalised to the everyday, and when creditor-debtor relations are depoliticised.

In Chapter 5, I then build on these conceptual points to provide a more empirically-focussed engagement, first at the 'regulatory level' of global finance. I interrogate the proposition that the GFC can be understood as a crisis based on the denial of contestable interpersonal ethics at the regulatory level. I illustrate how in the regulatory discourse:

(1) asset-based systems of welfare enjoy a largely unquestioned position, even though issues of access to homeownership and financial security fall right at the heart of the GFC; (2) credit risk management practices persist largely unchallenged and, in fact, along with the securitisation model, are further normalised based on continued faith in the 'science' and 'perfectibility' of risk management; and (3) the view of personal debt appears to continue to depoliticise creditor-debtor relations by insisting on the normalisation of financial services and working to articulate model financialised citizens. I argue that Smith's sympathetic liberalism indicates how this economistic constitution of financial market agency is ultimately flawed because to deny contestable interpersonal ethics is to deny people the ability to fully realise market-oriented forms of behaviour in the first place. A sympathy perspective would insist that, as with all formations of market-oriented behaviour, financial market agency is inherently ethico-political and continually contestable.

Finally, in Chapter 6, I ask whether interventions into the 'everyday' GFC discourse provide a challenge to the regulatory level of finance more congruent with a Smithian sympathy perspective. Interest in IPE on 'global civil society' as a key source of ethical agency (e.g. Cox 1999; De Goede 2005b; Gill 2000b; Kaldor 2003; Scholte 2004), might lead to expectations that such interventions serve to challenge the regulatory representation of and response to the GFC. I interrogate this proposition by asking whether they provide possibilities for understanding and responding to the crisis in distinctly deeper and more thoroughgoing Smithian sympathetic terms. I illustrate: (1) how certain key interventions into the everyday discourse articulate a complex and variegated attitude with regard to systems of asset-based welfare, which at times offers a sharp critique of homeowner ideology and state restructuring towards individualised

notions of responsibility; (2) how elements of the everyday discourse present an interesting challenge to both existing understandings of credit risk management and uses of structured finance; and (3) how some sections of the everyday discourse provide an unforgiving repoliticisation of credit-debt relations by drawing attention to the sizable power of banks and other financial institutions in a financialised economy, the redistributive politics of credit-debt relations, and the underlying material or capacity struggles that personal debt might conceal. By way of conclusion, I outline how these interventions help in efforts to 'rethink' the ethics of global finance, perhaps along more sympathetic lines.

In summary, my central aim in this thesis is to provide a historicised account of Smith's sympathy procedure for IPE. This allows for a more historiographically robust recovery of Smith that does not rely on the economistic historiography of him that tends to dominate IPE. It also presents possibilities for a 'sympathy perspective' to be developed in IPE to extend discussions about reforming finance in light of the GFC, while avoiding replicating economistic understandings of market-oriented behaviour. The point is to escape the confines of market-oriented behaviour viewed and constituted solely in economistic terms. A sympathy perspective is partially embodied in the everyday GFC discourse in this sense, which may offer up fruitful lines of enquiry for efforts to rethink finance along the lines of a 'sympathetic finance'. To be sure, not all of the everyday interventions into discussions on the GFC consciously seek to reform finance along the lines of recognising contestable interpersonal ethics. However, there are agendas promoting *de-linking*, *de-financialisation*, and making financial chains more *accountable* that in important ways at least complement core themes of a sympathetic finance. As I explain, practically speaking, this points to a fundamental overhaul of

institutional market design in finance to make it more *knowable*, and not just assume that markets are the outcome of some *unknowable* 'invisible hand'. Smith demonstrates why the sympathy procedure is important for understanding market-oriented behaviour and in turn the sympathy procedure demonstrates why contestable interpersonal ethics are central to the market form, in both the abstract and embodied institutional sense.

I conclude this Introduction by noting that not all Nobel Laureates present quite the same economistic image of Smith in discussions of the GFC. Writing on the day the Bank of England, in the face of deepening recession, took the unprecedented step of commencing a policy of quantitative easing in an attempt to stimulate economic activity in Britain, Amartya Sen (2009a) pointed to how Smith stood for 'institutional diversity and motivational variety'. These are regarded by Sen as admirable ideas in the context of the crisis, as opposed to what he sees as today's structure of 'monolithic markets and the singular dominance of the profit motive'. On the one hand, I endorse his reading in the sense that he appears to link Smith with a desire to engage with the problem of the 'anti-ethicalism' that he elsewhere identifies as prevalent in many contemporary understandings of market relations (Sen 1987: 31). Yet, on the other hand, despite speaking of Smith's view of the need for '*other* values and commitments such as mutual trust' in markets, Sen (2009a emphasis added) at times still seems to present an image with distinct economistic undertones. For instance, he claims that for Smith people 'seek trade because of self-interest – nothing more is needed' (Sen 2009a) and that 'Smith discussed that to explain the motivation for economic exchange in the market, we do not have to invoke any objective other than the pursuit of self-interest' (Sen 2010). As the contestation over Smith's intellectual authority continues, so too, according to a sympathy perspective at least, do contestable interpersonal ethics in market relations.

CHAPTER 1 ----------

Pragmatic Historiography: How to Do Things with the History of IPE

> For it is the very fact that the classic texts are concerned with their own quite alien problems, and not the presumption that they are somehow concerned with our own problems as well, which seems to me to give not the lie but the key to the indispensable value of studying the history of ideas. The classic texts, especially in social, ethical, and political thought, help to reveal – if we let them – not the essential sameness, but rather the essential variety of viable moral assumptions and political commitments (Skinner 1969: 52).

In his influential *History and Theory* article 'Meaning and Understanding in the History of Ideas', Quentin Skinner makes this important statement about the purpose of studying intellectual history. For him, that past texts are concerned with their own questions, and not necessarily a source of direct 'answers' to questions of a later era, can serve to expose the multiplicity of possible ethico-political commitments across time. In other words, past texts do not simply contain 'timeless' truths that can be applied to understanding today's world, yet the very act of seeking to interpret them can be thought of as an important part of coming to terms with the situated nature of scholarly endeavour. This is no less true for the history of political economy and IPE, than it is for any other area of concern in the history of ideas (Rosow 1997). Following Skinner, then, a foundational purpose of this thesis is to help provide a historicised account of Smith as part of a process which serves to reveal the essential variety of viable ethico-political commitments in liberal IPE.

To that end, in this chapter I examine extant appeals in the IPE literature to 'historicise' the field. I review the different approaches that advocates of historicised study have put forward and provide an account of what I term a 'pragmatic historiography' might entail. After discussing the various types of historicisation, I assess the extent to which IPE can and ought to draw from Skinner. A key claim of this chapter is that although there are multiple forms of historicisation, Skinner's is a particularly significant approach for IPE as it can trace its own lineage to the concept of the 'performative utterance', first appearing in J. L. Austin's seminal *How to Do Things with Words*, which is found to have important synergies with both the history of political economy and contemporary developments at the forefront of IPE research. The loose line of pragmatic thought in contemporary IPE, coupled with Skinner's historicised approach to the study of intellectual history, provide compelling reasons to consider 'pragmatic historiography' a novel and valuable approach to IPE. I then use this in later chapters of this thesis to recover a historicised account of the work of Smith.

In IPE there are a multitude of possible meanings for the term 'historicisation', each with their own implications for how scholars could adopt a 'historicised' approach. This variety ranges from, on the 'thin' side of a possible spectrum, an 'awareness-of-history' type grounding for the conventional subject matter of IPE found in some introductory texts to the field (e.g. O'Brien and Williams 2007; Strange 1994) right through to explicit calls for a 'thick' historicisation of IPE study that stress the situated position of the scholar and the necessarily reflexive aspects of knowledge production (e.g. Amoore *et al*. 2000; Germain and Kenny 1998). The *what*, *why* and *how* of historicised study then are rather large questions for IPE scholars involving engagement with, among other things, foundational issues concerning the place of history in social study, the role of

ideas in everyday life and, ultimately, the purpose of scholarly endeavour.

Without doubt I cannot contend with all these issues exhaustively in this chapter. Nevertheless I hope to make a number of specific claims about the possibilities of and reasons for using pragmatic historiography in this thesis. First and foremost, through providing a systematic review of existing appeals to historicise IPE study, I contend that there are indeed a number of compelling reasons why IPE scholars ought to move towards the 'thicker' variety of possible historicised approaches to social study. That is to say, I argue that contemporary IPE study could be much improved if, at the very least, a greater and more widespread effort is made to place the predominant concepts and categories used in the subject field more firmly in historicised perspective and, in addition, if this process of historicisation is continued as an ongoing part of IPE research.

The second argument I wish to make is that, despite the existence of a whole host of direct appeals to historicise IPE in the literature, there are specific approaches that remain more robust than others in light of both recent moves in post-positivist philosophy of social science and longer term lineages in the study of political economy. In particular I argue that greater attention paid to the work of Skinner could equip IPE scholars with an especially forceful means of historicising the field. Finally I further support my contention that Skinner's historicised approach is uniquely important for IPE scholars by reflecting on its relationship with J. L. Austin's concept of 'performativity', which I find to be central to both the history of political economy and contemporary research agendas in IPE. I discuss this latter work, located primarily in those areas of IPE principally concerned with global finance and financialisation, in order to reveal the

significance of the relationship between the performative utterance, claims about political economy, and the study of IPE. This allows me to defend the case for a strong historicisation of IPE.

1.1 Mapping historicised approaches to IPE

In this section I review extant arguments in the literature concerned with calling for a historicised approach to IPE. Although this schematic is only really a heuristic device and remains preliminary, I attempt to organise them using the notions of 'thin', 'moderate', and 'thick' variations. Compared in such a way, I find that the most significant and convincing accounts of historicisation are those that suggest a 'thicker' historicised approach and these I use to develop my notion of pragmatic historiography.

'Thin' historicisation: Contextual awareness

The first type of historicisation in IPE is associated with how the field tends to construct its own disciplinary history. Conventionally, at least in the sense of its institutionalisation as a formal academic subject field, IPE locates its 'birth' to the 1970s (Watson 2005a: 11). Indeed John Ravenhill (2005: 15) claims that the emergence of IPE in the 1970s was a response to 'real world' changes and to trends in theorising within and outside International Relations (IR). This is the familiar account of how '[i]mportant historical and structural changes … affected the evolution of IPE' (Higgott 1994: 157) and how IPE was initially born out of concerns about 'US post-war hegemony and its aftermath' (Blyth and Spruyt 2003: 608). These types of contributions historicise IPE in the sense that they attempt to locate the development of the subject

field as a whole in some kind of historical context. Significantly, they also echo tendencies in IR in which the prevalent approach employed to explain theoretical developments is based on a form of *external* explanation in which scholars place a considerable degree of emphasis on the ways in which change in political conjunctures outside the subject field play a role in bringing about theoretical and conceptual change within it (Jørgensen 2000: 10).

In this style, Robert O'Brien and Marc Williams' *Global Political Economy: Evolution and Dynamics* (2007) is an interesting example of this form of thin historicisation. They explicitly state that they are interested in the history of how modern IPE came into being and thus to consider the historical context of the present situation (O'Brien and Williams 2007: 1). Furthermore, they suggest that their approach is 'historicist' as it is sensitive to historical change and they stress how history is 'both the context or framework within which meaning is located, and an ideological concept which is evident in various perspectives on political economy' (O'Brien and Williams 2007: 37). This means that '[t]heories about how the world works arise in particular historical contexts and need to be linked to those contexts' (O'Brien and Williams 2007: 37).

Similarly, in his intellectual history of IPE, Benjamin Cohen is keen to place the development of the subject field firmly in historical context. For Cohen (2008: 2), 'ideas and events are forever interacting and evolving', which leads him to suggest that the intellectual history of the field is significant: 'IPE is never complete … History does not mean closed'. Thus when Cohen (2008: 7) discusses his intellectual 'pioneers' of IPE, he stresses that the social and historical contexts in which they wrote 'matter' because of the historical contingency involved in theoretical developments. This

argument pointing to the importance of the historical contexts in which IPE scholars write is also reflected in George Crane and Abla Amawi's (1997: 3) suggestion that theoretical evolution is a highly situated process – theoretical development for them is a product of historical context.

Susan Strange (1994: 18) also pays some attention to the role of historical contingency when she argues that the social, political, and economic arrangements with which IPE is concerned are not 'the fortuitous outcome of blind chance … [but] the result of human decisions taken in the context of man-made institutions and sets of self-set rules and customs'. In stressing the importance of history, Strange (1994: 18) further suggests that '[o]ne important lesson that is too often forgotten when the history of thought – political thought or economic thought – is divorced from the political and economic history of events, is that perceptions of the past always have a powerful influence on perceptions of present problems and future solutions'. As such, for Strange (1994: 18), there is 'no way' that contemporary IPE can be understood 'without making some effort to dig back to its roots, to peer behind the curtain of passing time into what went before'.

However, Strange's general approach to IPE – as with those illustrated by Cohen, Crane and Amawi, and O'Brien and Williams – can only be said to have quite a weak appreciation for the role of historical *situation* in IPE scholarship. That is, although they recognise the importance of placing ideas and the authors of those ideas in historical context, such scholars cannot be said to be responding *fully* to the implications of this recognition. In other words they do not allow the importance they attach to the role of history in theoretical development to be carried through into a historicised methodology for their own approach to studying IPE. Rather, the tendency is to see history

(understood as a sequence of distinct past events) as important because it can be shown to have influenced particular scholars and modes of thought at a particular time and then to 'move on' from history to the more pressing concerns of 'current' IPE analysis. For O'Brien and Williams (2007: 408), for instance, explanatory frameworks simply alter with 'changing empirical realities and conceptual innovations'.

The role given to history in this version of 'thin' historicism is thus well summarised in Strange's (1994: 18) suggestion that '[c]onsequences today – for states, for corporations, for individuals – imply causes yesterday'. In fact, although she eschewed positivism elsewhere and denied that the social sciences could hold out much hope for prediction, this reveals the rather undemanding positivist account of history which follows from Strange's (1994: 10) contention that what can 'count as theory' has to explain a 'causal connection'. Certainly, at the very least, it implicitly assumes a separation of subject (the IPE scholar) and object (historical events in the world economy) as it leans towards a form of historical determinism with context shown to influence outcome as though an idea's origin determines its content.

This version of historicisation then might best be classed as a narrow form of 'contextualism' in which key ideas and arguments are understood through reference to the historical circumstances in which they originate. This is not to deny that it may well constitute an important corrective tool for IPE in response to the widespread problem of the particular histories of each of the three dominant 'traditions' often being 'ignored', along with 'the social and political context of their emergence' (Murphy and Tooze 1991b: 23). Nevertheless even though a scholar's situated position is recognised, this act of recognition does not alter in any fundamental sense the approach taken to IPE

study. As such, it is possible to suggest that this 'thin' form of historicisation might not constitute a genuine form of 'historicisation' at all: it attempts to incorporate into IPE a sense of history and a sense of historical specificity, but where that specificity refers to the comprehension of events rather than to the ideas which are used in order to frame attempts to derive such comprehension. In other words, this form of *historical* IPE is limited to declaring that historical details 'matter' in trying to explain the underlying character of that which is being observed and falls short of genuine *historicisation*.

This is especially apparent when considered in the light of Skinnerian notions of historicisation discussed below. In fact, John MacLean (2000: 18) finds similar tendencies in IR because although there are a number of examples of scholars providing some contextualisation for classic political theory texts, it is much rarer to find studies of classic writers that 'utilize contextualization as the basis for a continuous analytical framework which serves to structure the interpretation throughout'. Outside of IR, though, he suggests that this has been achieved by scholars associated with the Cambridge School of intellectual history, including Skinner (MacLean 2000: 19).

'Moderate' historicisation: Situating the scholar

A 'moderate' form of historicisation, I suggest, takes the implications of a recognition of the situated position of the scholar as a central starting point for IPE analysis. A key example of this form of moderate historicisation is the work of Louise Amoore *et al.* (2000: 54) who identify a 'historical deficit' in IPE in that scholars 'seldom extend their scrutiny to the problem of how the researcher is situated in relation to … knowledge, or to the broader issue of connecting a particular claim to "know" to a prior understanding of "history"'. For Amoore *et al.* (2000: 56), then, the process of 'historicising IPE'

involves much more than just being sensitive to 'history' – it also entails that emphasis is put on the 'historicity of knowledge' itself. It is not sufficient to simply 'add history and stir' because this still tends to use an 'object'/'context' distinction while overlooking the third critical dimension of the scholar *as* 'subject', 'agent', and 'context' (Amoore *et al*. 2000: 56).

This leads Amoore *et al*. (2000: 54) to point out that a historicised approach is about 'more than simply institutionalising and contextualising IPE', which might be the extent to which the contextualism discussed above attempts. Ash Amin and Ronen Palan (1996: 212) would seemingly concur as they suggest that 'the project of historicizing IPE has to go beyond the recognition of the powers of time and lineage. The project has to recognize also the powers of culture and context in shaping markets, states and whatever else IPE might investigate'. This means that, for them, a truly historicised approach constitutes more than merely providing historical referends 'to validate or disprove a preconception' as '[h]istoricizing IPE means seeing the present as a set of social practices situated in time and space' (Amin and Palan 1996: 210; 212).

Thus, the moderate historicised approach might focus on an 'awareness of oneself as a participant in the historical construction of the social world' (Amoore *et al*. 2000: 54). Indeed Amoore *et al*. (2000: 55) make the argument that a historicised IPE must account for the categories that are employed in analysis which 'forces us to question how the subjective dimension of knowledge contributes to the social construction of our world'. In this way, the moderate form of historicisation presents a challenge to positivist modes of enquiry and draws from more 'constructivist' or 'constitutive' influences. This is significant because Craig Murphy and Roger Tooze (1991b: 18-19 emphasis in original)

characterise 'orthodox IPE' as strictly 'positivist' which 'prevents the development of a *reflexive* practice, a practice of IPE that explains its own emergence and purpose'. The moderate form of historicisation, by problematising the notion of reflexivity, thus challenges the core positivist assumption of orthodox IPE that 'social action can be understood universally over time and space and therefore objectively' (Murphy and Tooze 1991b: 19; Amoore *et al*. 2000: 54).

However, in making these strong epistemological claims, moderate historicisation raises the significant issue of elucidating clearly the exact character of a historicised mode of enquiry for IPE. Given that it challenges the general tendency in the social sciences to embrace a positivist methodology, a moderate historicisation might be said to share similarities with those strands of 'critical theory' which attempt to present alternative methods for understanding the social world (Germain 1996: 202). Indeed the reflexivity present in critical theory, broadly understood, appears to hold significant sway for some IPE scholars (e.g. Abbott and Worth 2002; Cox 2000; Murphy and Tooze 1991a). Craig Murphy and Douglas Nelson (2002: 187) indicate this link by making the suggesting that critical scholars are led 'towards the epistemological foundations of history and to concern with reflectivist questions about the ways that a social science observer can shape history through her own work and the entire problem of effective persuasive communication that cannot be formalised easily'.

Yet, the most significant difficulty that a moderate historicised approach confronts in light of the more formalised (usually understood as 'rigorous') standards that dominate IPE and social science more widely is contained within the very last part of their summary: historicised approaches 'cannot be formalised easily' which leads to a number

of difficulties when trying to build from them a coherent and widely available approach to IPE study. Indeed Amoore *et al*. (2000: 57-58) appear to acknowledge this lack of coherency when they suggest that IPE, and social science more generally, is 'caught' between the 'subjective activity of interpretation and creativity' found in the arts, on the one hand, and the 'objectivity' of the sciences, on the other. Thus, a moderate historicisation takes the situated nature of the scholar more seriously than a thin historical approach, but leaves extremely ambiguous the precise nature of how IPE scholars can utilise this form of historicisation as the basis for a *continuous analytical agenda* throughout their study.

'Thick' historicisation: Historicisation as transformation

If it is possible to characterise contextualism as limited historical awareness and more moderate historicisation as contextual awareness developed into a notion of reflexivity, then a 'thick' form of historicisation might be said to constitute those approaches to IPE that attempt to develop this reflexivity into a coherent account of the *transformatory purpose* of social inquiry. The situated nature of the scholar is unavoidable, as recognised in the moderate form, but in the 'thicker' category of historicisation this condition is embraced and celebrated as a possible means of retrieving and developing alternatives to the present situation. As Barry Gills (2003: 107 emphasis in original) puts it the '"reflective turn" should lead to an emphasis on *transformative* and *emancipatory* moments and conditions in global history, and to a critical self-awareness on the part of scholars … in constructing such knowledge'. Thus, as with Amin and Palan (1996: 212), a thick historicisation is 'deeply sensitive to the influences of context on issues examined within IPE, not only in the sense of recognizing the difference and diversity, but also the potential for transformation and change'. It is this *full* recognition

of the implications of the situated nature of scholarly endeavour that make the thick form of historicisation seemingly the most forceful and coherent.

A key proponent of this form is Randall Germain (2000: 68) who suggests that a historical mode of thought 'takes its starting point to be the historicity and transformability of all human practice, including the way in which it is embedded in layers of patterned collective activity'. This is part of Germain's (1996: 220; see also Germain 1997) Braudellian perspective that he suggests provides a 'sense of history' which means that it is 'impossible to discount the possibility of alternative world-economies coming into being at some point in the future'. As such, Germain (2000: 69) suggests that the foundations of historicised approaches are built around the 'transformative possibilities of human activity in its individual and collective manifestations'. For Germain (2000: 70), then, the 'social world is a historically constructed environment rather than a given one, and our representations of it provide a powerful point of entry into considering how and where its relationships might be challenged'.

Others working with Germain, such as MacLean, have attempted to consider central IPE topics from a historicised perspective to reveal ways of challenging prevailing orthodoxies and recovering transformatory possibilities. Indeed MacLean (2000: 60) argues that the concept of 'globalisation' needs to be historicised by 'asking what kinds of conditions, necessary and contingent, were historically necessary for "globalization" to occur'. This leads him to further argue that by taking the 'deep ambiguity' involved in intellectual history 'as a central part of what initially needs to be taken into account, the possibility is opened up of reconstituting "philosophical roots" as more positive and

alternative "philosophical *routes*" to explaining globalization' (MacLean 2000: 9 emphasis in original). Furthermore, for MacLean (2000: 64), 'recognition of globalization, meaning partly the articulation of possible real alternatives, requires that the starting point for analysis is not the concept of globalization itself, but a reflexive appreciation by scholars of the possible forms of their own existing relationships with globalization'.

This form of historicisation then has as a key element an engagement with 'philosophical roots' and more widely disciplinary histories of political economy. As Gerard Holden (2002: 254) points out there are 'real' theoretical issues at stake in disciplinary history, 'not least of which are the questions of how, and to what ends, it should be pursued'. Furthermore Holden (2002: 255) suggests that '[d]isciplinary history is seen by some scholars as part of a "critical" intellectual project: its task is, they argue, to expose misconceptions about the past and thereby to open the way to more emancipatory academic practices'. Likewise, Richard Little (1999: 297) suggests that '[d]isciplinary histories are well placed to tease out the often unrecognised ideological dimension in the work of academics'.

The process of engaging with disciplinary history is also given transformatory purpose by those proposing a 'constitutive' IPE. For example, Roger Tooze (1997: 208) suggests that:

> The key move for a constitutive IPE is to reveal that claims to legitimate knowledge based upon positivist methodology and empiricist epistemology … are socially constructed … By revealing the previously hidden elements of power

> and interest in the production of knowledge and social practice, a constitutive IPE has the clear potential to delegitimize existing practices and their institutions.

This leads Tooze (1997: 211) to argue that central concepts such as 'rationality' ought to be historicised. Also in the spirit of constitutive IPE, Stephen Rosow (1997: 43 emphasis added) notes the way in which current depictions of liberalism 'marginalise alternative possibilities that demean *economic* liberalism's privileged place or invite into IPE more robust forms of *political* liberalism'. To recover these alternatives Rosow (1997: 46) uses a historicised approach and argues that the 'eighteenth-century language of commercial society suggests a broader focus and a broader conception of social order than the economic liberal and utilitarian conceptions considered unproblematic by IPE's definition of liberalism'. William Tabb (1999: 31) sums up this process historicisation imperative superbly:

> The reason Adam Smith and other canonical writers are open to multiple and conflicting readings is that the interpretation of these texts is a struggle over the construction of the discipline. The canon defines what a field is "legitimately" about. Practitioners outside the mainstream needing to redirect the discussion can do worse than to reread important contributions and attempt to reorient their accepted meaning.

Overall, therefore, it is possible to suggest that a thick form of historicisation has the potential to produce IPE scholarship that can take full account of the implications of recognising the contextual and situated nature of knowledge production. By embracing

the uncertainty involved in post-positivist accounts of philosophy of social science – often correctly associated with some forms of constructivist and constitutive IPE, but not necessarily reducible to moral relativism and a rejection of theoretically informed empiricism – those that have called for this thicker form of historicisation have been able to show the political possibilities opened up by adopting a historicised approach. This transformatory potential is also found in the work of Quentin Skinner.

1.2 Quentin Skinner's historicised approach

Skinnerian historicisation

One of Quentin Skinner's (1969: 3) central concerns is to consider which procedures allow for the interpretation of text. Skinner's approach is based on the idea that viewed pragmatically linguistic activities comprise at least two kinds of action: first, putting forward 'locutionary' meaning and, second, doing so with a 'point' or intended 'force' (Tully 1988: 8). The former refers to the idea that a writer is saying or writing something with 'propositional' meaning. The latter, of more importance for Skinner, refers to the idea that a writer will be *doing something in writing* – words, sentences and arguments will contain what J. L. Austin calls an 'illocutionary force' (Tully 1988: 8; see below). Using this distinction Skinner (1988b: 283) argues that in order to understand a particular idea or concept it is necessary to grasp not just the meanings of the terms used to express it but also the 'range of things that can be done with it'. This leads him to suggest that successful interpretation is dependent on the recovery of a particular writer's *intentions* (Skinner 1988a: 74-76). In one key statement he suggests:

> the key to excluding unhistorical meanings must lie in limiting our range of descriptions of any given text to those which the author himself might in principle have avowed, and … the key to understanding the actual historical meaning of a text must lie in recovering the complex intentions of the author in writing it (Skinner 1974: 283).

Thus it is possible to identify two principal themes in Skinner's method (Pocock 1985: 4-5). The first is the importance of the 'intention' of a writer in the act of writing a particular text. From this perspective, the task of recovering meaning is an attempt to recover intentions and there is usually some evidence for all writers which can be mobilised to this effect. What is more, this implies that any particular writer inhabits a historically given world that is only apprehensible in the ways rendered available by historically given languages. This leads John Pocock (1985: 5) to suggest that 'Skinner's method, therefore, has impelled us toward the recovery of an author's language no less than of his intentions'.

The second – and closely related – theme of Skinner's method revolves around the concept of 'performance'. In pursuing his studies, Skinner (1988b: 279) came to stress the importance of what a particular writer *was doing* when they wrote: as he puts it, 'texts are acts'. Crucially, the types of utterance with which Skinner is concerned are those that can be viewed as arguments – not just strings of propositions. The concept of intention is not undermined, therefore, but complemented by the notion of the act of writing as a *performative* 'move' (Pocock 1985: 5). In this way 'any act of communication always constitutes the taking up of some determinate position in relation to some pre-existing conversation or argument' (Skinner 1988b: 274). In all, then,

Skinner's approach entails treating texts in a self-consciously historical manner by locating them in time and place and examining them in their linguistic context. What is more, that Skinner views *texts as performative acts* is highly significant because it means that his approach contains very interesting points of intersection with interest in 'performativity' in contemporary IPE discussed below.

I now seek to show that Skinner's ideas are valuable tools that can be used when approaching the study of past texts *and* for adopting as a potential pragmatic historiographical approach to IPE. Although Skinner himself was primarily interested in the study of ideas in the history of political thought, the case can be made that his approach is available for use outside of this particular area of intellectual history (Bell 2003). My argument is that it can be productively used as a loose set of guidelines for reading historical texts without constituting a strictly defined 'method' of enquiry. As such, the Skinnerian approach is available to be used in a partial sense – that is, it does not constitute a rigid method that has to be accepted in its entirety – whilst still remaining a coherent and valuable tool for the interpretation and use of past texts. It must be stressed that in this section I am concerned with the adequacy of Skinner's historicised approach as it can be employed in the interpretation and understanding of *texts*, not its possible uses as a *direct approach* to studying IPE. However, that said, I will attempt to show in the final section that, given the prospect of the 'performativity' of knowledge about political economy, the relevant approach to the study of both text and the conventional subject matter of IPE may not be as distinct as might typically be assumed.

Skinner has received a number of direct critiques from those assessing his contribution

to the study of intellectual history (e.g. Keane 1988; Mew 1971; Parekh and Berki 1973). However, by far the most devastating criticism that has been levelled at the Skinnerian approach – and the one that is most relevant for the way in which I wish to invoke it – is centred on one fundamental argument concerning the actual *purpose* of reading historical texts. This is centred on Skinner's (1969: 50) provocative argument:

> [T]he classic texts cannot be concerned with our questions and answers, but only with their own … [t]here is in consequence simply no hope of seeking the point of studying the history of ideas in the attempt to learn directly from the classic authors by focusing on their attempted answers to supposedly timeless questions.

This key feature of the Skinnerian approach is directly based on Austin's well-received theory that illocutionary force cannot easily 'carry' across large distances of time and space (Graham 1977: 109). However, Skinner's development of this argument has led some to suggest that it undermines the reading of historical texts entirely: if nothing can be extrapolated from them in order to illuminate contemporary debates, the value of their study is seemingly lost (Parekh and Berki 1973: 180). As Joseph Femia (1988: 158) puts it, if accepted in its entirety Skinner's approach 'would reduce the history of thought to little more than a sterile celebration of intellectual pedigree'.

In response, Skinner convincingly defends his position against this charge by suggesting that it is a distorting caricature of his argument to present the implications of his work in such stark terms (Minogue 1988). Put simply, Skinner (1988b: 283) does not disagree with 'those who stress the long-standing character of many of our philosophical disputes … [His] objection is only to the practice of abstracting particular arguments from the

context of their occurrence in order to relocate them as "contributions" to such disputes'. Thus, he is able to defend his position by insisting that to deny that there are 'perennial problems' is *not* to deny that the fact that western traditions of thought have contained 'long continuities, and that these have been reflected in the stable employment of a number of key concepts and modes of argument' (Skinner 1988b: 283). Rather, intellectual history can be said to shed light on the changing applications of key concepts, which may have become 'confused or misunderstood', and in turn actually 'dissolve some of our current philosophical perplexities' (Skinner 1988b: 288).

More problematically, however, Nathan Tarcov's (1988) powerful critique of Skinner's approach focuses on his extended reply to these criticisms based on the idea that although the study of past texts cannot provide direct 'answers' to 'ahistorical' questions, it can reveal the variety of plausible moral and political assumptions that might be obscured in the contemporary period. This is based on Skinner's distinction between demanding from the history of thought a 'solution' to contemporary problems, which is imprudent in his view, and learning from it what cannot otherwise be learned at all, the difference between 'necessary' and 'contingent' commitments (Tarcov 1988: 194). Tarcov's critique starts from this point to ask if, given that there is a distinction between the *necessary* and the *contingent* in Skinner's terms here, is it not possible to separate the permanent from the transient in past texts? On first glance, Skinner does not seem to have a reply to this criticism. As such, Tarcov (1988: 194-195) finds this extremely problematic in the approach and contends that 'Skinner's warnings about the pitfalls of textualism are salutary in so far as they protect us from the assumptions that would prevent us from understanding texts, but detrimental in so far as they forbid us to learn from them'.

What I would suggest here is that the Skinnerian approach can be defended on the grounds that its important ideas about interpreting past text can be accepted as guiding principles, without the need to subscribe to steadfast assumptions that might appear to collapse into relativism. They are guidelines to enable the reader to avoid *overly* 'textual' or 'contextual' interpretations, not a barrier to all interpretation. Although he does not explicitly state this point, I think it is discernible in some of Skinner's responses to his critics. For example, Skinner (1969: 7 emphasis added) suggests that his procedures should be used 'to uncover *the extent to which* the current historical study … of ideas is contaminated by the unconscious application of paradigms whose familiarity to the historian disguises an essential inapplicability to the past'. Indeed, Skinner's focus on authorial intent ultimately speaks to the question of how much *emphasis* should be placed on certain features found in a study given the contingent relationship between text and context. Inevitably, in practice, Skinner (1974: 281) acknowledges that a somewhat *pragmatic* approach might be necessary which relies on the notion that 'the decisions we have to make about what to study must be our own decisions, arrived at by applying our own criteria for judging what is rational and significant'.

Moreover, even though Skinner's argument that language plays a limiting role on the author is a bold epistemological claim, it does not limit the reader's ability to make claims to interpretation to the extent that a strong form of relativism would (Taylor 1988). This leads James Tully (1988: 23) to suggest that 'Skinner is only in agreement with … hermeneutical convention in its negative form, as the rejection of the view that the practitioners' language of description has no influence on the practice'. What is more, Skinner (1988b: 250) makes clear he does not 'deny the existence of a mind-

independent world that furnishes us with observational evidence as the basis of our empirical beliefs'. The point is, he continues, 'there can be no observational evidence which is not to some degree shaped by our concepts and thus by the vocabulary we use to express them' (1988b: 250). Again, this seems to indicate that the Skinnerian approach can be used in a partial sense; it presents the reader with guidance concerning the importance of the linguistic context of a text, but it does not entail a relativism that might ultimately undermine reading the text in the first place. Following Skinner's somewhat pragmatic attitude, any ambiguity left between the two forms I essentially find to be creative: a space for potential further performative intervention on behalf of the interpreter.

Skinnerian historicisation and IPE

Although Skinner's historicised approach may be important for the interpretation and understanding of text, this of course does not necessarily entail that such an approach will either be appropriate or successful when applied to IPE as social study more generally (see Germain and Kenny 1998 for a direct appeal to Skinnerian principles). Indeed as Gerard Holden (2002: 264) puts it: 'a method initially applied to Renaissance and early modern Europe will need some amplification if it is to be used to deal with [a] more complex and professionalized academic environment'.

Nevertheless, Skinner has been directly invoked in contemporary social study. In fact, working loosely within IR, Duncan Bell suggests Skinner's historicised approach is particularly relevant for social study outside his own original interests given its ability in part to transcend the agent-structure dilemma (see Clarke 2009 for my view on discussions of the interdependence between social structures and agential perception; see

also Cerny 1990). Indeed Bell (2001: 13) suggests that Skinner's particular originality lies in his idea that whatever reason an agent gives for adopting a certain course of action, they will need to be able to justify it through reference to a given set of language conventions, or a 'political vocabulary' in Pocock's terms, which both constrains and enables the given agent. Thus through a focus on conceptual change and the constitutive role played by language in shaping the normative architecture of any given society, Skinner's approach allows scholars to gain a more sophisticated understanding of the role of language in both the reproduction of social norms and conventions and in the process of change itself (Bell 2001: 4). For Bell (2001: 4), 'such an understanding helps to highlight the limits and possibilities for challenging the current construction of social being'.

This locates Skinner within a thick historicisation framework described above as his historicised approach can be considered as part of a process of discovering transformatory potential in the history of conceptual and disciplinary development. Indeed Skinner (1988b: 286) actually suggests that the 'anthropological' justification for studying intellectual history is based on the idea that it allows us to stand back from 'our own prevailing assumptions and structures of thought', which further enables us to recognise that 'our own descriptions and conceptualizations are in no way uniquely privileged'. In other words, through the study of intellectual history 'we can hope to acquire a perspective from which to view our own form of life in a more self-critical way, enlarging our present horizons instead of fortifying local prejudices' (Skinner 1988b: 287). As such, the process of reflecting on alternative possibilities allows scholars to be provided 'with one of the best means of preventing our current moral and political theories from degenerating into uncritically accepted ideologies' (Skinner

1988b: 287). This anthropological justification for the study of intellectual history therefore directly complements those thick accounts of historicised IPE which look for historicisation as transformation. Skinner's approach thus has much to offer the contemporary scholar because it provides a focus on the role of history and conceptual change, as well as an account of how political legitimacy is embedded in the set of political vocabularies available at any given time (Bell 2001: 3). His approach can therefore be said to have important implications for contemporary social study, which in the final section I will account for in relation to the concept of Austinian performativity in IPE.

1.3 Performativity and political economy

Austinian performativity

J. L. Austin challenges the assumption that to 'say' something is always and simply to 'state' something. One of Austin's (1975: 5 emphasis in original) central arguments is that utterances can be found such that 'the uttering of the sentence is, or is part of, the doing of an action, which … would not *normally* be described as, or as "just", saying something'. He explains that to utter such sentences 'is not to *describe* my doing of what I should be said in so uttering to be doing or to state that I am doing it: it is to do it' (Austin 1975: 6 emphasis in original). Austin (1975: 100) thus makes a distinction between the *force* of an utterance and the *meaning* of words. The former refers to the illocutionary act being performed by the uttering of the utterance while the latter refers to meaning as equivalent to the 'sense and reference' (Austin 1975: 100). To support this contention Austin (1975: 121 emphasis in original) makes a distinction between

various features of the actual act of uttering; he points to 'the locutionary act … which has a *meaning*; the illocutionary act which has a certain *force* in saying something; [and] the perlocutionary act which is *the achieving of* certain *effects* by saying something'. This leads Austin (1975: 139 emphasis in original) to suggest that '[o]nce we realize that what we have to study is *not* the sentence but the issuing of an utterance in a speech-situation, there can hardly be any longer a possibility of not seeing that stating is performing an act'.

The relationship between uttering and performing is thus a central feature of Austin's thought resting on his understanding of illocutionary force. Some commentators have challenged Austin on the certain level of ambiguity contained within his distinction between the locutionary and the illocutionary part of an utterance based on its wider implications for issues of how to conceptualise language as the primary or essential 'bearer' of truth-value (e.g. Strawson 1973). In other words, Austin is criticised for holding a flawed 'theory of truth' given that he appears to imply that it is the actual *act of stating* which is true or false, not the propositions that make up the statement as would be more conventionally assumed (Searle 1973: 158).

However, given that Austin holds an essentially pragmatic attitude here, such a line of criticism is largely beside the point. His central argument is that the uttering of a statement *is* the performing of an act, which can only be regarded in the pragmatic sense of successful or unsuccessful, not 'true' or 'false'. Indeed that language is a 'many-sided phenomenon' like this, according to Keith Graham (1977: 109), is Austin's 'extremely important contribution to our understanding of language'. The important point for Graham (1977: 54; 85-86) is that Austin successfully 'demonstrates that in various ways

the idea of people as agents is deeply embedded in the idea of them as language-speakers', which shows that 'a sharp distinction between acting in the world and merely conceiving of it in a particular way is untenable'.

These bold claims of course contain deep implications for social study. As I have indicated, in terms of Skinner's historicised approach to the study of text they illuminate questions about the potential limits/possibilities of meaning being able to 'carry' across time. In addition, these same foundational premises of Austinian performativity have significant implications for recent developments in IPE research, particularly on the potential performativity of finance. Thus, given that they underlie both of these strands of research, and point towards interesting lines of potential integration, in this final section I will suggest that the existing use of the Austinian notion of performativity in IPE adds greater weight to the contribution that Skinner's historicised approach can make.

Performative finance and IPE

Recent years have seen a significant growth in interest in the concept of performativity within IPE and related subject fields (Brassett and Clarke 2012; Clarke 2012; Clark *et al*. 2004; De Goede 2005a; Holmes 2009; Langley 2010; MacKenzie 2005; 2006; 2007; Millo and MacKenzie 2009; Watson 2009a). The work of Donald MacKenzie (2007) is particularly influential here, who even entitles one of his co-edited books *Do Economists Make Markets? On the Performativity of Economics*. MacKenzie's (2007: 54 emphasis in original) foundational argument is that: '[t]o claim that economics is performative is to argue that it *does* things, rather than simply describing (with greater or lesser degrees of accuracy) an external reality that is not affected by economics'. This is a significant

way of conceiving knowledge about political economy because conventionally, following Milton Friedman (cited in MacKenzie 2006: 11), economic theory is viewed as 'an "engine" to analyze [the world], not a photographic reproduction of it'. MacKenzie (2006: 12), however, suggests that financial economics in particular acts as an 'engine' in a sense not intended by Friedman: it is an 'active force transforming its environment, not a camera passively recording it'. Thus, for MacKenzie (2006: 16 emphasis in original): '[t]he academic discipline of economics does not always stand outside the economy, analysing it as an external thing; sometimes it is an intrinsic part of economic processes'. Those scholars interested in performative finance in IPE, of course, draw on similar ideas about the potential performativity of knowledge about political economy more broadly.

In addition to Austin, such a perspective draws on the work of Michel Callon (1998a: 2) who seeks to defend the notion that 'economics, in the broad sense of the term, performs, shapes and formats the economy, rather than observing how it functions'. This in turn has inspired ethnographies of science and technology studies which start from the premise that '[t]echnologies reshape social action, rather than simply making existing forms of social action more efficient' (Beunza *et al*. 2006: 722). More firmly located in IPE research, Christopher Holmes (2009: 440) also invokes Callon's notion of performativity to suggest that 'the forces of supply and demand are not given, but constantly created by performances'. This is the basis of his argument that the act of investment is not separable from the price of the asset itself – it is also 'constitutive of it' (Holmes 2009: 442).

The focus on the importance of language and the notion that concept/knowledge

production is intertwined with its subject matter as a form of performative utterance can find its roots in Austin's notion of performativity. However, this is not to say that it is straightforward to make the link between Austin and contemporary interest in the performativity of knowledge about political economy. In fact MacKenzie (2007: 69) is reluctant to rely *solely* on the Austinian version of performativity because, as he points out, a problem with analysing performative utterances using only a linguistic philosophy developed from Austin is that it is to treat them in some sense as 'magic'. This follows Bourdieu's (cited in MacKenzie 2007: 69) critique of Austin's notion of performativity, which he claims does not capture the way in which the 'conditions of felicity' of a performative utterance 'are social conditions'. That is to say the social context in which an utterance is performed is crucial in determining the success of any given performance, which MacKenzie (2007: 69) believes is not fully developed by Austin. This is perhaps why many recent scholars have moved away from Austin's notion of 'self actualising' statements, to a 'thicker' version of performativity developed from Judith Butler (1993: 2) and her idea that performativity operates through the 'reiterative power of discourse to produce the phenomena that it regulates and constrains' (see Brassett and Clarke 2012).

Nevertheless, contemporary IPE can still successfully draw on the concept of Austinian performativity, especially if adequate attention is given to the contingent nature of the contextual conditions of the performative utterance. Indeed Austin (1975: 31) explicitly draws attention to the situated nature of performative utterances because '[i]t is inherent in the nature of any procedure that the limits of its applicability, and therewith, of course, the "precise" definition of the procedure, will remain vague'. In other words, Austin's conceptualisation of the performative utterance might be said to contain a

degree of uncertainty surrounding their composition, and that uncertainty cannot be 'resolved' away, but remains a situated historical specificity.

Rather than viewing this as a flaw in his theory, however, it appears to open up space for a critical line of thinking about the construction of subjectivities which actually directly mirrors recent moves in IPE and related research agendas. Just as Austin's notion of performativity involves contingency and the local construction of knowledge and subjecthood, recent research agendas associated with political economy look to the essential ambiguity of key concepts and categories. Taking inspiration from Callon, for instance, the 'markets-as-cultures' perspective 'treats rationality as a community-based, context-dependent cultural form … [it] endeavours to identify context specific cognitive limits and socially constructed local forms of rationality' (Abolafia 1998: 74). Similarly, Rob Aitken (2005: 336) is concerned with developing 'more historically situated accounts of finance and the spaces it fills' by analysing the 'cultural' programs developed by the NYSE in the postwar period to broaden share-ownership among working and middle class populations. As such, nascent work in a 'cultural economy' aims to interrogate the cultural construction of the economy by treating 'the economic' as a 'site constituted in a range of practices, knowledge and discourses' (Aitken 2005: 339). More recently, Paul Langley (2008a: 472) suggests that, rather than assuming 'unscrupulous' or 'predatory' agency on behalf of sub-prime lenders in the run up to the recent financial crisis, a cultural economy perspective is 'predisposed to ask how the historically specific agency of sub-prime lending came to be assembled'.

Thus, a cultural economy, which analyses 'how discourses of risk and new calculative technologies act upon and constitute different subject positions', could be further

incorporated into IPE (Montgomerie 2009: 1-2). Such a move might constitute a means of utilising and developing the concept of performativity to foster greater awareness in IPE of the importance of language and the notion that concept/knowledge production is intertwined with its subject matter along the lines that Austin's insights seem to suggest. Johnna Montgomerie (2008: 248) in fact concludes that the 'more established IPE critical literature could gain from moving away from its old debates with well-established categories for analysing epochal change' towards a conception of finance as 'confused, limited by constraints and constantly re-inventing itself' as the financialisation literature suggests. This draws on the work of scholars such as Julie Froud *et al*. (2007: 342) who suggest that in IPE 'much classical work … emphasises the definite role of finance within coherent political projects and complementary institutional systems, whereas more recent revisionist work instead emphasises disruption, incompleteness and incoherence'. For them, 'financial institutions and actors are not coherent wholes with stable identities and shared interests' (Froud *et al*. 2007: 343). Relatedly, from the perspective of those interested in analysing finance in such terms, the concept of 'agencement' has become particularly relevant (Pryke and du Gay 2007: 342).

In sum, it is possible to suggest that Austinian performativity reveals itself to contain a certain level of uncertainty surrounding its composition that complements many of the recent moves in the study of political economy, broadly conceived, which in turn has begun to influence contemporary IPE research agendas associated with encouraging cultural economy perspectives in the field. Although only roughly sketched here, the overlaps between Austinian performatives and cultural economy perspectives seem to be significant as they reveal something of the fixity and flow of contingent social

conditions recognised to be a crucial problematic for contemporary IPE. What I find important is not the notion that IPE needs a clarification of the concept of performativity as such, but rather, the way it allows for an emphasis on the contextual, cultural, and historical judgement required to understand and engage particular performative utterances, in particular times and places. For these reasons, I suggest, the contingent and experimental approaches of pragmatism associated with Austin and Skinner are particularly fruitful for a historicised IPE. These authors bring forward the important point that in recognising historicity an ethical responsibility arises.

Performativity and pragmatic historiography

On this account, given the unfixed nature of performative utterances and thus the unstable interaction between concept/knowledge production and objects of analysis, Skinner's use of Austinian performativity in his historicised approach can be shown to mirror significant developments in IPE that deem the very purpose of study as something of a critical and transformatory endeavour. This is Skinner's 'anthropological' justification for the study of the history of ideas indicated above and is linked with the ways in which performativity and contingency are engaged with in IPE. Returning to Austin (1975: 144), he suggests that the reference of statements: 'is limited to the known; we cannot quite make the simple statement that the truth of statements depends on facts as distinct from knowledge of facts … Reference depends on knowledge at the time of utterance'. This position can be directly compared to that of Kurt Burch (1997: 23) who is keen to stress: 'concepts, the units of language, [are] basic ontological elements'. On this basis, he draws attention to the importance of intellectual history for IPE because '[c]onceptual histories of significant concepts – constitutive principles of society – *illuminate changing limits and understandings*' (Burch 1997: 23

emphasis added).

The suggestion made here is that the study of the history of political economy can be viewed as essentially a creative and *critical* endeavour. In other words, a thick form of historicisation that casts light on conceptual/disciplinary developments might be conceived of as a route to a critical IPE in the sense of Skinner's 'anthropological' justification for studying historical text. Certainly, this is a notion picked up by Michel Callon (1998a: 51):

> The objective [of scholarly endeavour] may be to explore the diversity of calculative agencies, forms and distributions, and hence of organized markets. The market is no longer that cold, implacable and impersonal monster which imposes its laws and procedures while extending them ever further. It is a many-sided, diversified, evolving device which the social sciences as well as the actors themselves contribute to reconfigure.

Indeed for Callon (2007: 350) the notion of performativity actually suggests the opening up of alternatives: '[s]aying that the economy is performed by economics (at large) means implicitly highlighting the existence of a plurality of possible organizations of economic activity and of several programs that can be conceived of and tested, that is, (co)performed'. He adds that the notion of 'performation' in this regard 'leads to that of experimentation' (Callon 2007: 350). This is crucial for Callon (cited in Barry and Slater 2002: 290) as he claims that since the fall of the Berlin Wall there is no longer strict opposition between market economies and bureaucratically planned economies. Rather '[s]ocial actors are now aware of the fact that the notion of the market is a very

large, ambiguous, polyvalent notion and that it's possible to shape the market, and to change its roots and its institutions' (Callon cited in Barry and Slater 2002: 290). For Callon, then, this presents an opportunity to re-politicise 'the economy'.

Ironically, though, it has been suggested that Callon's 'strong focus on seeing markets in relation to science can … give a very technocratic reading of some of the social processes around the market … [and] can point away from politics' (Barry and Slater 2002: 286). Indeed, as Trevor Barnes (2008: 1444) points out, Callon's work on market performativity has been criticised for 'upholding the *status quo*' because his work 'offers no critique of markets'. However, Barnes (2008: 1444) argues that contrary to this: '[p]erformativity opens up novel possibilities … [t]here are no absolutes, inviolable strictures, or crushing necessities that produce markets of only one form'. He argues that to suggest Callon's work is apolitical is to ignore the way in which it actually opens up 'spaces of alternative market experimentation … which are quite different from those offered by neoclassicism' (Barnes 2008: 1444). In Callon's (2007: 342) terms: 'We no longer have to choose between interpreting the world and transforming it … Our work, together with the actors, is to multiply possible worlds through collective experimentations and performations'.

Austinian performativity, then, central to both Skinner's historicisation and the study of those performative aspects of political economy as found in Callon, reveals the anthropological justification and potential transformatory purposes of IPE scholarship. This is summed up well by William Tabb (1999: 30):

> Story telling needs to be taken seriously. It is the way core "truths" are conveyed

> and whilst it seems the softer side of economics, it is present in the most formalistic models which are, after all, only another rhetorical vehicle to convey values and conclusions. Many of these stories seem convincing only because we do not bother to scrutinize them closely. To take history, real history, seriously is the undoing of economics, and the starting point of political economy.

This critical line of thinking about the performative aspects of 'core truths' – and possible ways to counter them by identifying those instances in which political space has been closed down – can again be said to mirror important contemporary moves in IPE and related research agendas on finance. Addressing understandings of liquidity in the global financial crisis (GFC), for instance, Paul Langley (2010: 73) has suggested that 'questions about performativity and the materialisation of markets are necessarily questions about the operation and limits of normalising financial power'. Langley (2010: 84) shows how 'given that the performativity of liquidity in sub-prime assets affirmed and exemplified wider norms which were present throughout contemporary finance, "illiquidity" quickly became a performative utterance that enacted what it named both in sub-prime asset markets and beyond'. This allows him to conclude that:

> talk of liquidity came to define the limits of what was deemed politically possible as the crisis began to unfold. Representations of the crisis in sub-prime and beyond as caused by 'illiquidity' served to hold out the imaginary of liquidity as the ideal-type end point to be achieved through crisis management, a state to which markets must be returned: liquid markets good, illiquid markets bad. The crisis was rendered as a governable object, and particular responses were licensed and legitimated. Political space for disagreement about the place of

> securitisation techniques in the provision of mortgage finance, for example, was closed down in favour of interventions that attempted to get securitisation working again (Langley 2010: 86).

Representations of crisis are thus increasingly recognised as pivotal in determining the closing down or opening up of political 'space' for intervention. Indeed for James Brassett *et al*. (2009: 379), the government bail-outs in response to the GFC 'reflect not only a particular understanding of what has gone wrong and how it can be put right, but also a particular commentary on the political interests that were embedded in the status quo ante and that will receive privileged treatment in any attempt to restore that status quo'. Likewise, Andrew Gamble (2009: 141) suggests that it 'matters which explanation of the crisis becomes dominant, because that will shape the political response … Interpretations of the crisis become part of the politics of the crisis'.

In this way, recent interventions in IPE have cast critical scrutiny on performative representations of the GFC (e.g. Brassett and Clarke 2012) – particularly 'rational' and 'scientific' representations – and in so doing have re-politicised those aspects of economic 'story telling' previously deemed apolitical. IPE scholars have thus engaged with questions of legitimacy and legitimation surrounding crisis which, in the process of bringing into doubt ostensibly apolitical narratives, is ultimately part of the opening up of political space in which alternative representations might be conceived. Although discussed in only an indicative sense here, such interventions might be said to show how understandings of the potential performativity of political economy are increasingly becoming central to IPE scholarship, especially those which seek to challenge common sense understandings of the world economy and in turn reveal the opening up of political

alternatives. This transformatory endeavour is thus part of IPE scholarship that could further engage with Skinner's pragmatic historiography.

Concluding remarks

It is noteworthy that in my attempt to map historicised approaches to IPE the vast majority of calls for 'thicker' historicisation in the field tend to be written between 1990-2000, while those 'thinner' variants of contextualism seem to be much longer lasting in their reach. What can account for this seeming loss of interest in thicker historicised approaches? Why are IPE scholars interested in methodological questions not seeking to move these debates forward today? Of course, there are notable exceptions in which the historicisation imperative has been recognised more recently (e.g. Clift and Rosamond 2009; Watson 2005a; 2012), but for those who argue that thick historicisation should act as an *ongoing* part of IPE research this lack of attention is intensely disappointing. From this perspective, the conversation and debate that surrounds the history of IPE as a discipline – including contestation over the history of its central concepts and the construction of its theoretical lineages – is itself foundational to what it means to be *doing* IPE, especially in light of recognition of the performative aspects of political economy.

That I wish to call attention to the robustness of thicker forms of historicisation such as Skinner's is in part reflective of the present situation in which a great deal of attention is directed towards understanding the GFC. As I have indicated, recent trends in the IPE literature and related work on finance seem to be particularly ripe for accommodating a

pragmatic historiographical approach as they seek to interrogate those performative aspects of political economy both in terms of surveying its cultural aspects and using it to recover 'political space'. Much of this work, at least reflected in that which I have presented here, engages with the constitution of financial subjects and the construction of representations of financial crisis. In one sense, therefore, thicker historicised approaches could contribute to how this work attempts to escape the impossible binary choice between being for or against 'the market'. If all market societies are recognised as in some sense historically contingent, the performative aspects of political economy – the very way in which calculative agencies are formed and narratives of crisis are constructed – can increasingly become both the starting point and the driver of IPE research.

These elements of the literature reflect what I have called throughout 'pragmatic historiography' and relate to Skinner's anthropological justification for the study of intellectual history. I have argued for a greater incorporation of this very purpose of social study into IPE. This approach seizes on MacKenzie's (2006: 275) provocative suggestion that once the notion of performativity is accepted, the question irresistibly opened up is '[w]hat sort of a world do we want to see performed?'. To accept the imperative to historicise, then, is to seek *How to Do Things with IPE*.

For my part, I find one of the most exciting implications for IPE scholars preparing to draw from this line of thought is to utilise a pragmatic historiography in order to restore the authorial intent of some of the key texts in the history of political economy. Following Skinner, then, I suggest that a return to interpreting texts in context allows for a historicised account to be produced *and an account that can potentially produce a*

critical IPE. This is important in Smith's case because, as Rosow (1997: 55) argues, mainstream IPE tends to interpret liberalism from Smith as something 'between a conservative celebration of a global commercial society and a utilitarian managerialism'. The next chapter provides an account of Smith in IPE, identifying some of the ways that many interpretations fall foul of Skinnerian interpretive principles, so that his work can then be studied as part of a more historicised IPE in later chapters.

CHAPTER 2 ----------

Skinnerian Mythologies in IPE and their Foundation in an Economistic Historiography of Adam Smith

> Histories of economics are generally written by economists for other economists. They use the language and analytical approaches with which they are familiar, and in so doing convert past theories into variants of those with which they are already familiar … This is very different from the approach of a historian, whose reconstruction of past events and arguments presumes that their significance and meaning is not immediately accessible to us (Tribe 1999: 615).

For the most part, IPE scholars tend to rely on an overtly *economistic* historiography of Adam Smith. That is, I show in this chapter, they are inclined to follow in the footsteps of Keith Tribe's economists who write histories of economics for other economists, as opposed to using the 'approach of a historian' to arrive at an appropriately *historicised* understanding of his work. In turn, I suggest, this helps explain why IPE scholars provide such a poor account of Smith in terms of falling foul of some of Quentin Skinner's most basic principles for interpreting past texts.

To substantiate these claims, in this chapter I begin the process of considering Smith's thought using pragmatic historiography (Chapter 1). I draw directly from Skinner's principles in order to scrutinise representations of Smith in IPE and illustrate specifically in what ways they fail to adhere to such principles *and why*. In four parts, based on four 'mythologies' of interpretation Skinner identifies, I offer a typological characterisation

of Smith in IPE. The four mythologies I outline and identify as particularly relevant are, in turn: (1) the mythologies of 'doctrine' (consisting of two parts), (2) 'coherence', (3) 'prolepsis', and (4) 'parochialism'. Collectively, they provide basic criteria against which I assess the suitability of interpretations of Smith in IPE.

In so doing, I engage with scholars who might be referred to as 'historians of thought' who include a number of 'Smith studies' specialists. These are scholars who tend to work within the disciplinary boundaries of the study of intellectual history, publish research in specialised intellectual history outlets, and conceive of scholarly purpose and method on very *dissimilar* terms to how economists writing histories of economics might. Quite simply, historians of thought generally take Tribe's 'approach of a historian' to matters of intellectual history, which often aims at and provides more appropriately historicised accounts of past texts. This is certainly the case for many Smith studies specialists who, in a number of ways, provide very different accounts of his work compared to IPE scholars. Thus, on one level, I use key contributions to this scholarship to show the paucity of IPE understandings of Smith organised around the schematic of Skinner's four mythologies of interpretation.

Furthermore, I suggest, the precise ways in which interpretations of Smith in IPE tend to fall foul of these mythologies are highly significant. I make two key points in this respect. First, I show how in terms of issues of 'doctrine' (in relation to the 'invisible hand' metaphor), 'prolepsis', and 'parochialism', IPE interpretations of Smith, on the whole, can be shown to quite clearly succumb to Skinner's mythologies. I demonstrate this through comparison with a number of Smith studies interventions that generally serve to guard against such mythologies of interpretation. What is particularly

interesting about these three issues, though, is that IPE scholars tend to directly imitate a markedly economistic historiography of Smith, almost entirely replicating the interpretation of his work to be found in histories of economics written by economists. Specifically, with respect to each issue, this means erroneously: construing an 'invisible hand' doctrine from his text, characterising Smith as the 'father of economics', and reading concepts such as 'laissez-faire' and 'capitalism' back into his work. In following an economistic historiography, as opposed to a 'history of thought' historiography of Smith, IPE interpretations are therefore considerably flawed on these grounds.

However, evidently the study of intellectual history is not a homogenous voice in complete agreement on how to interpret past thinkers such as Smith. Although broadly speaking, as will become apparent, there actually may be a degree of agreement on the three quite basic aforementioned interpretive issues, in other areas there is much more diversity of opinion and controversy within the Smith studies literature itself. This leads me to my second central claim about precisely how IPE representations of Smith tend to fall foul of Skinner's mythologies. Essentially, it refers to debates, fervently disputed in the history of thought historiography of Smith, that can be understood through the prisms of a second potential mythology of 'doctrine', on the one hand, and a potential mythology of 'coherence' on the other. In a sense, the very existence of such debates serves as a reminder that historians of thought are of course not immune from lapsing into Skinnerian mythologies at times either. The former relates to whether or not Smith belongs to a 'jurisprudential' or a 'civic humanist' tradition of thought, while the latter whether or not Smith's *Wealth of Nations* (WN) is 'consistent' with his earlier *Theory of Moral Sentiments* (TMS), the so-called 'Adam Smith Problem'. Suffice it for now to say, what is noticeable here is that IPE scholars have *next to nothing* to contribute to

either of these debates. In turn, I suggest that this is again significant because on both counts it points towards an economistic historiography of Smith in IPE. Put simply, economists who write histories of economics do not to pick up on these debates and as a result, through (perhaps inadvertently) imitating this historiography, neither do IPE scholars.

Overall, therefore, by indicating the ways in which many interpretations of Smith fall foul of some of Skinner's most basic methodological principles, and why, it is possible to shed light on the disciplining effects of IPE as a 'discipline'. In Chapter 1, I made the case that there are compelling reasons why IPE scholars should take the study of intellectual history as a crucial component of what it means to be 'doing' IPE in the first place. I underlined the possibility of using pragmatic historiography as a way for contemporary IPE scholars to think through and imagine alternatives to the ways in which liberal market governance is understood and constituted today. Put simply, I claimed that the study of intellectual history might be used as a means of challenging dominant conceptualisations and common sense understandings of today's social world by providing an alternative frame of reference from which to interpret it. The suspect economistic historiography of Smith in IPE is therefore a foundational problem with which to engage in order to begin to problematise constructions of IPE liberalism and liberal market governance today.

2.1 The mythologies of doctrine

The 'invisible hand' doctrine

According to Skinner, the mythology of 'doctrine' tends to come in two main forms. The first, considered in this section, consists in various ways of assuming that *incidental* remarks found in a text are somehow representative of a writer's doctrine on one of the themes that the reader is *expecting* to find (Skinner 1969: 12). In this way, the reader has a 'set' expectation that a 'classic' writer will put forward some coherent doctrine on their given subject (Skinner 1969: 7). This is extremely problematic because a given writer might erroneously be 'discovered' to have held a view on a subject to which they might not have even meant to contribute often due to some chance similarity of terminology (Skinner 1969: 7). In other words, there is a danger of misreading back into a past text a coherent account of a doctrine that was no part of the author's original intention, but has come to be associated with them only *after* they wrote.

This first textual mythology is particularly relevant to those interpretations of Smith that assimilate his work to a doctrine of the 'invisible hand' of the market. On these readings, Smith is said to believe that whenever individuals are left alone to pursue their interests an invisible hand will ensure that they will benefit society as a whole (Fleischacker 2004: 138). The concept is in fact seen by many as foundational to the whole discipline of economics (e.g. Samuels *et al*. 2011). For example, the Nobel Laureate in Economics James Tobin (1996: 205) claims that the invisible hand is 'one of the Great Ideas of intellectual history' because it explains how 'market competition transmutes selfish and myopic individual actions into the wealth of nations'. Certainly, from the nineteenth-century onwards, the 'invisible hand' became synonymous with the

‘price mechanism’ in economics (Peil 1999: 157). As such, quite unambiguously, in an economistic historiography of Smith there is an overwhelming tendency to suggest that he advocated an invisible hand doctrine; in fact, it is celebrated as one of the central achievements of his work.

Similarly, in the IPE literature, there is a tendency to associate Smith with a doctrine of the invisible hand in order to explain, in a rather simplistic state-market construction, how he was *against* a role for the state in an economy and *for* letting market dynamics operate in an economy as much as possible. The invisible hand is here again presumed to represent the coordinating logic of the price system. Typically, Smith is said to have argued against the idea of the state having a role to play in economic growth/development because ‘the role would be performed much more effectively by markets guided by the invisible hand of self-interest’ (Panić 2003: 72). On this reasoning, he is presented as holding a ‘liberal’ position in IPE that essentially suggests removing ‘the state’ from ‘the economy’ in order that the free market should be left alone to automatically allocate resources to their most efficient use – a ‘*depoliticization* of production and well-being’ (Nitzan and Bichler 2000: 67 emphasis in original).

How does the invisible hand doctrine operate according to this account of Smith in IPE? The familiar depiction of the doctrine, shared by mainstream economic interpretations and dependent on an economistic historiography of Smith, is the ‘notion that markets and the pursuit of self-interest [will] lead, as if by an invisible hand, to economic efficiency’ (Stiglitz 2007: xiv). In fact, this understanding appears, at least in general terms, again and again in IPE. For instance, an invisible hand supposedly: ‘guides the economy and promotes the common good’ (Balaam and Veseth 2008: 39), ‘translates

individual pursuit of self-interest into optimal public benefit' (Steger 2002: 9), 'turns self-seeking individual behaviour into socially beneficial outcomes' (Ravenhill 2005: 19-20), leads 'self-interested individuals to produce socially useful goods and services in the most efficient possible way' (Rupert and Solomon 2006: 56), steers 'private self-interest to the public good' (Isaak 1995: 99), 'intervenes between the motives of the individual and the "ends" of society as a whole' (Dunne 2005: 190), guarantees 'that economic choices made by individuals in the pursuit of their personal interests and preferences [will] have a beneficial effect for society as a whole' (Acocella 2005: 10), and 'ensures an efficient and equitable distribution of goods and services across the world economy' (Woods 2001: 285). Thus, in this widespread doctrinaire reading of Smith, the invisible hand metaphor is used repeatedly to make the claim that the 'self-interest of one becomes the general interest of all' (Burchill 2005: 73).

For those who celebrate this account from a 'liberal' perspective in IPE, Smith is credited with 'inventing the concept of the self-regulating market' (Miller 2008: 9) and the invisible hand is identified as a 'metaphor for a coordinating mechanism of the activities of individuals who, apart from their own production and consumption, know very little of the wider economy' (Sally 1998: 19). His invisible hand is essentially thought of as a 'benevolent' force (McWilliams and Piotrowski 2001: 484), which creates 'an overall benefit to society' (Hite and Roberts 2007: 5). In this line of thinking, in making the suggestion that 'the "invisible hand" of the market naturally ensures that the pursuit of self-interest, in and of itself, will lead to the public good', Smith is credited with founding a 'new line of IPE theory' (Crane and Amawi 1997: 6).

While a handful of IPE scholars recognise that Smith's use of the term in WN actually

refers to a 'preference for domestic over foreign produce' (Dunn 2009: 28), the metaphor is also readily associated with a conception of international trade in which 'the law of supply and demand [can] work unhindered' (Palan and Cameron 2003: 115). Smith's defence of international free trade is said to even take on a religious dimension in the sense that he offers 'a theology of the global market' guided by the invisible hand (Beard 2007: 21). Based on this faith in the operation of free markets, it is further suggested that the invisible hand by the end of the nineteenth-century had become 'global' in reach (Hoogvelt 2001: 15). Likewise, although it is recognised that the concept goes well beyond Smith, Kenichi Ohmae's 'borderless world' is also associated with the workings of an invisible hand on a global scale (Schrecker 1997: 2). These interpretations of the doctrine of the invisible hand at the international level certainly point to how it has become a 'powerful and enduring metaphor' for IPE scholars (Dunn 2009: 14).

The lasting significance of the invisible hand metaphor is also evident in the work of those scholars who are more critical of Smith's ostensible 'doctrine' in defence of the price mechanism. Certainly his invisible hand is said to occupy 'an important position' to Marx 'among others' (Dasgupta 1998: 50). From this more critical perspective, the invisible hand is understood as a convenient way of abstracting away from 'asymmetric social relations' (Agathangelou 2004: 83), it is almost ridiculed as a 'magic unseen hand' (Prestowitz 2005: 210), and takes on a somewhat more sinister tone, often directly misquoted, in the form of a 'hidden hand' for others (Balaam and Veseth 2008: 12; Pettman 1996: 11; Woo-Cumings 2003: 215). Elements of these critiques of the doctrine also take further dimensions, discussed below, when the invisible hand metaphor is associated with later developments in economic thought that came after Smith's time, such as general equilibrium theory (Boyer 1996: 86; Foster 2001: 113), 'First Welfare

Theorem' (Carter 1997: 123), and 'utilitarian' outcomes (Lipschutz 2005: 45; Kline 2005: 40).

However, in *stark contrast* to this reading of Smith in IPE, many scholars working in the specialist Smith studies literature tend to represent voices that might challenge this canonical and ultimately misleading understanding of his work. From within the Smith studies literature, a strict invisible hand interpretation of Smith is actually viewed on the whole with equal wonder and disdain. Perhaps most forcefully, Emma Rothschild (2001: 116) has suggested that 'Smith did not especially esteem the invisible hand' and thus it is best interpreted as a 'mildly ironic joke'. Remarkably, for Smith scholars at least, he only used the term *three times* in the entirety of his published output and none of these usages point towards the construction of a coherent 'doctrine'. In brief, Rothschild (2001: 116) shows how his first use in *History of Astronomy* is clearly sardonic as Smith is highlighting the naivety of polytheistic societies. The second use, in TMS, describes the way in which rich proprietors who by employing a great number of poor workers to produce luxury commodities to some extent and in a particular sense advance a larger interest than their own. The third and final use, in WN, concerns the issue of international trade where Smith argues that if restrictions are removed, merchants tend to prefer to support domestic industries, in the interest of their 'own security' (Rothschild 2001: 117). Nathan Rosenberg (1979: 24) calls this final use 'unfortunate' because of the way in which 'it has been so totally misinterpreted'. Likewise, Samuel Fleischacker (2004: 139) stresses that Smith's use of the term here is in the making of a relatively small point that merchants will tend to base their trade in home ports: he does not claim that an invisible hand *always* guides individual economic decisions toward the 'good' of society.

Interestingly, while agreeing with Rothschild that the focus on the invisible hand is significantly overplayed, Matthew Watson (2005a) has a somewhat different interpretation of Smith's distinct use of the term in TMS. For him, rather than suggesting that in some way the landowning classes inadvertently promote the interests of the landless labourers, Smith is actually appealing to the invisible hand as something 'akin to a trick in nature … which overrides the price system' and prevents the former from consuming 'the vast majority of the earth's natural resources … because their consumption is limited by a finite ability to consume' (2005a: 174-175). Significantly, for Watson (2005a: 175), this means that despite their desire to revel in and means to satisfy 'gratuitous displays of opulence', put simply, 'the landowning classes can eat only what they are capable of eating'. This interpretation – exceptional in the light of the vast majority of readings in IPE – supports the important point that, for Smith, 'the mere existence of a price system to guide exchange relations does not necessarily lead to socialization into purely self-interested forms of behaviour, and neither does it explain how market relations are constituted in practice' (Watson 2005a: 175). This latter point is one to which I return in the next chapter.

Despite such disagreements over precise interpretation, most serious Smith scholars also take direct issue with the recasting of a supposed doctrine of an invisible hand to general equilibrium theories that were to come *after* his time. Donald Winch (1997: 399), for example, points to how general equilibrium theorists often erroneously speak of a 'pure theory of the invisible hand' as a 'theory that will explain how an anarchistic society based on self-interest alone is capable, under fairly restrictive conditions, of achieving an optimal allocation of resources judged in terms of Pareto optimality'. Winch (1997: 399) disparagingly compares this understanding to a 'useful mental gymnasium for

economists and a self-consistent agenda for dealing with the inevitable impurities of the real world', but in actuality, it was clearly *not* intended by Smith to represent a 'mechanical model of market operation'.

Overall, therefore, the notion that Smith advocated an invisible hand doctrine represents a rather simplistic misinterpretation of his work that can be understood in terms of a Skinnerian mythology of doctrine. To read Smith in such a way is to erroneously construct a doctrine, which was no part of his intention, on his largely incidental *three* usages of the term 'invisible hand'. Drawing from the specialist Smith studies literature though, this mythology can be easily discarded because his work tends not to be approached in such a doctrinaire manner by historians of thought. As Alec Macfie (1967: 54) argues, Smith's invisible hand also 'had a good smack of cynicism in its composition', which indicates how it did not represent a coherent doctrine for Smith, nor should such a doctrine be read back into his work. Somewhat unfortunately IPE scholars, from a 'liberal' perspective or otherwise, tend to reproduce a flawed doctrinaire reading in this regard because they appear to import their understanding directly from an economistic historiography of Smith.

The jurisprudential and civic humanist intellectual traditions

The second form of a potential mythology of doctrine occurs when a writer clearly *does fail* to put forward a coherent doctrine, but then is criticised *for their failure to do so* (Skinner 1969: 12-15). This essentially involves the reader extrapolating from what a writer *did* say to some speculation about a topic they did *not* mention, or only wrote about in inchoate terms. As such, by criticising a writer for not putting forward a doctrine, the assumption is made that they must have intended to carry out such a task in

the first place (Skinner 1969: 15). This is highly problematic in the light of Skinnerian notions of authorial intentionality (Chapter 1): it faults a past writer for not putting forward a coherent doctrine, merely based on the assumption that a doctrine *should* exist in their texts in the first place.

Notably, this form of interpretive mythology does not tend to occur in the IPE literature. This is perhaps because, as explored in the previous section, many IPE scholars claim that Smith *did* put forward an invisible hand doctrine, so the idea of criticising him for *failing* to articulate a doctrine along the lines Skinner suggests cannot really come about. However, whereas on the issue of the invisible hand doctrine historians of thought provide something of a useful corrective for IPE readings, this second mythology is actually produced *within* the history of thought historiography of Smith. Specifically, it occurs in some interpretations that aim to situate his work either within the 'jurisprudential' or the 'civic humanist' tradition of thought. Although these readings are much more attentive to socio-linguistic context than many other more conventional interpretations in IPE, it can be suggested that the attempt to situate Smith's work either *entirely* in the jurisprudential tradition or *entirely* in the civic humanist tradition is one that ultimately ends up being critical of Smith for not fitting squarely into one or the other. From a Skinnerian perspective, this is something to be avoided.

For the jurisprudential case, there is much evidence to suggest that Smith intended to write a third treatise on jurisprudence to complement TMS and WN, but he never managed to complete this task before his death (Viner 1989: 144). In the last paragraph of all six editions of TMS (VII.iv.37) he writes:

> I shall in another discourse endeavour to give an account of the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society, not only in what concerns justice, but in what concerns police, revenue, and arms, and whatever else is the object of law.

Moreover, Smith (Corr. 248) confirms his intention to write 'a sort of theory and History of Law and Government' in his letter to the Duke of Rochefoucault in which he claims that such a work is 'upon the anvil'. It is also evidenced in his published work that the theme of justice is of upmost importance to Smith. For instance, he labels justice 'the main pillar that upholds the whole edifice' of society (TMS II.ii.3.4) and it receives detailed treatment in the two sets of students' notes posthumously published as his *Lectures on Jurisprudence*.

Perhaps unsurprisingly, therefore, a number of history of thought scholars have sought to establish the notion that the theme of justice is *the* central pillar of Smith's writings. Principally in this regard, Istvan Hont and Michael Ignatieff (1983: 1-6) claim that there is one central question about modern 'commercial society' that Smith is attempting to answer in WN. In short, this question concerns the seeming paradox between the way in which commercial society is more unequal in its distribution of property than any other previous stage of society, on the one hand, and the way in which it is still capable of satisfying the basic needs of those who labour for wages, on the other. Hont and Ignatieff claim that Smith's response to this apparent paradox is based on his division of labour theory and natural price model which are set out in order to explain the compatibility of economic inequality and adequate subsistence for the wage-earner within a market system. On their reading, WN is thus able to find a market mechanism

capable of reconciling inequality of property with adequate provision for the excluded with a political argument principally framed as an issue of *justice* and *rights*. With Smith's central commitment to justice, societies were to be compared on the basis of how securely they ground rights of property and how adequately they meet the rights of their labourers. Thus, for Hont and Ignatieff (1983: 25), Smith explained how by raising productivity, commercial society could adequately provide for the needs of wage-earners without having to resort to redistributive 'meddling' in the property rights of individuals – 'growth in conditions of "natural liberty" would explode the whole antimony between needs and rights'.

This location of Smith's work within the jurisprudential tradition parallels Donald Winch's interpretation. According to sound historicised principles, Winch (1983: 256) suggests that it is necessary to return to Smith's stated intentions in which he sees his 'project' as a direct contribution to the eighteenth-century science of politics, which provides a natural link to his lectures on jurisprudence. In this sense, Smith's political economy is a branch of a more ambitious inquiry into law and government – the 'science of politics', the 'science of jurisprudence' and the 'science of the legislator' (Winch 1983: 256-257). On Winch's reading, Smith's move is to place political economy within a science of law and politics. As such, he argues that WN can be considered as a treatise on natural jurisprudence because it reveals how extensive the realm of justice must become in a modern commercial society (Winch 1978: 172-173). Along similar lines, Knud Haakonssen (1981: 2) emphasises a natural jurisprudential reading of Smith which suggests that he 'developed a whole new foundation for a system of natural jurisprudence' in response to Hume's 'speculations about justice'. On this reading, Smith shares with the other central Scottish Enlightenment figures a 'concern with

empirical studies of human nature', which subsequently meant that 'courses in natural jurisprudence became the seedbeds for empirical social science and especially for political economy' (Haakonssen 2003: 217-218).

However, in the contemporary IPE literature, Smith's jurisprudence is given very little attention compared to other features of his work. One interpretation highlights the way in which the laws of justice for Smith were essential to keep in check the 'predatory extremes' of new economic freedoms (Sally 1998: 26). Another suggests that justice for Smith served to combat those instances in which unhelpful actions such as 'the search for power … get the best of us' (Martinez 2009: 17). Yet, as alluded to above, any meaningful attempt to appreciate Smith's jurisprudence is absent in the IPE literature. This silence may be a result of the way in which IPE scholars tend to base their historiography of Smith on an economistic historiography of him, a point I return to below.

The jurisprudential tradition can be contrasted with the civic humanist tradition, which has a central commitment to 'public virtue' as opposed to justice and rights. As a paradigm, it takes as its starting point the early modern articulation of virtue understood as the practice of citizenship in the classical or Greco-Roman sense (Pocock 1983: 235). It entails civic equality among those permitted entry and the moral disposition of the self towards the maintenance of the public good. As Hont and Ignatieff (1983: 6) point out, within this discourse, inequality is only a problem insofar as the new fortunes created by commerce and speculation threaten the 'balance of the constitution'. This leads them to suggest that Smith's praise for a loose concept of independence for the individual distances him from the civic humanist nostalgia for a classical ideal of citizenship,

which was economically dependent on the delegation of productive labour to slaves (Hont and Ignatieff 1983: 13). Edward Harpham (1983: 765) agrees that Smith's

> world view does not work out of the assumptions or the logic of the traditional civic humanist language of discourse, nor does it reflect a suspicious outlook toward the modern commercial order as is found in the work of most civic humanists.

On Harpham's (1983: 766) reading, Smith discusses a distinctly negative conception of liberty in which commerce and manufacture do not create the economic conditions to enable citizens to engage politically, but merely free individuals from the dependency of the feudal system. Thus, he suggests that rather than the 'moderately upbeat and self-confident tone found in civic humanism', Smith is writing for the 'troubled world of early liberalism' (Harpham 1983: 770-771).

However, significantly, other Smith scholars have suggested that he has been too readily assimilated with the jurisprudential tradition. This position is put forward by Leonidas Montes (2004: 57), who argues that to read into Smith a level of coherence that firmly situates him in the jurisprudential tradition serves to underplay the prominence of the notion of 'self-command' – a virtue with distinctly civic humanist overtones – found in his writing. Furthermore Montes (2002: 58 emphasis added) suggests that, in actuality, the 'Smithian theory of virtues *combines* the natural jurisprudential language of rights and duties *with* a humanist tradition of thought'. This associates Smith with what John Pocock (1983: 251 emphasis added) calls the 'birth of political economy' understood to have come about through 'the alternative paradigms of civic humanism *and* natural

jurisprudence' such that it is part of 'an immensely rich and multi-faceted civil or social humanism, intimately related with the civic or military-political humanism which it was intended to replace'. Similarly, Nicholas Phillipson (1983: 195) also identifies a civic humanist theme to Smith's work in the sense that Smith hoped that a class of citizen would emerge capable of acquiring political wisdom and exercising it in order to preserve the liberties of a free commercial polity. According to these historians of thought, Smith should not be regarded as steadfastly part of the jurisprudential tradition because if this notion is accepted, there are certain parts of his work that are underplayed. This is problematic because there is at least some evidence that his work contains elements of a civic humanist discourse as well.

As such, reading a strict jurisprudential doctrine into Smith should be avoided. Indeed, perhaps the very way in which Hont and Ignatieff set up Smith's 'central paradox' allows them to offer only a problematic situation of him in the jurisprudential tradition. On the one hand, they argue that Smith did indeed attach 'immense positive significance' to the level of material abundance that the modern labourer could achieve in a system based on a liberal reward for labour, which is in contrast to civic moralist claims about the impact of rising wages upon the morals and industry of the poor (Hont and Ignatieff 1983: 8). Yet, on the other hand, Hont and Ignatieff (1983: 8) also admit that Smith believed that 'material prosperity was purchased, more often than not, at the price of a measure of what he himself called "deception"', which is a line of argument again with significant civic humanist undertones. As such, they acknowledge that it is not easy to reconcile Smith's 'evident distaste for the vulgar materialism of the "great scramble" of commercial society with his clear endorsement of economic growth' (Hont and Ignatieff 1983: 9).

Overall, therefore, perhaps the attempt to locate Smith's work *either* in the jurisprudential *or* in the civic humanist tradition is to assume that he is operating in terms of one single doctrine which is ultimately lacking in his work. In turn, there is of course the danger of then criticising Smith, or at least finding him less interesting or useful, for not fitting squarely into one or the other tradition if this attempt is made. In light of Skinner's second form of the mythology of doctrine, though, there are no grounds on which Smith can be criticised for not fitting neatly into either the jurisprudential or the civic humanist tradition.

Nevertheless, as with the first form of this mythology, there are some readings of Smith from the history of thought literature that appear to stand up to greater scrutiny when read through a Skinnerian lens. Chief amongst them is the work of Jerry Evensky (1989: 375) who presents the case that, in his 'mature' work, Smith actually spoke in 'two languages simultaneously'. In short, Evensky (1989: 374) suggests that Smith's work contains both elements of jurisprudential and civic humanist discourse because it changed over time as his 'early optimistic confidence … was undermined by his growing recognition of the dynamic degenerative impact of factions in commercial society'. That is, although Smith originally used a jurisprudential language to set out his account of justice based in an ideal society, a transformation in outlook led Smith towards adopting the language of civic humanism *at the same time* in order to speak to a potential natural aristocracy who could be enlisted to provide leadership in the attempt to realise this ideal society (Evensky 1989: 374-375). Part of this change in outlook was dependent on the addition of a foundationalist philosophical short-cut into his final edition of TMS (1790) as a means of defending the early jurisprudential optimism of the first edition (1759), namely the somewhat forced distinction between 'praise' and

‘praiseworthiness’ that can be found at various points in the last edition (e.g. TMS III.ii.1-3). Nevertheless, there *are* clearly ways in which Smith’s thought can be located within eighteenth-century political discourse without yielding to a mythology of doctrine by assuming that his work puts forward a single overriding creed.

Notably though, as with a discussion of his jurisprudence, there tends to be far fewer references to Smith’s civic humanist concerns in the IPE literature compared to in the history of thought scholarship. There are a few important exceptions: Mlada Bukovansky (2006: 78) points to how Smith engaged in a ‘critical dialogue’ with republican strands of thought such that he deployed ‘substantive notions of public good drawn from the civic humanist tradition’; and, in an excellent chapter, David Blaney and Naeem Inayatullah (2010: 40-41) argue that Smith’s ‘complicated stance’ on and concern for moral corruption signals a particular ‘wound within a wealth society’. These readings echo Jerry Muller’s (1995: 99) suggestion that ‘Smith approved of commercial society because it fosters self-control’, but at the same time he was concerned that ‘commercial society requires a degree of self-control that the market by itself cannot provide and may even threaten’. However, aside from in the work of a handful of other scholars (e.g. Watson 2012), these interventions that are even *aware* of the civic humanist elements of Smith’s work, let alone engage in the civic humanist-jurisprudential debate, are extremely rare in IPE. While on one level it might be problematic to engage in such debates about Smith’s work if it ends up producing a Skinnerian mythology of doctrine, it is surely more useful to engage with them and run the risk of doing so, than not even recognise the civic humanist and jurisprudential aspects of Smith’s thought at all, as many IPE interpretations of Smith appear to do.

2.2 The mythology of coherence: 'The Adam Smith Problem'

Skinner's (1969: 16-19) second interpretive mythology, that of 'coherence', concerns the ways in which readers attempt to find in past texts a level of *consistency* that is essentially unfounded. This flawed procedure attributes coherence to writers based on the suggestion that they present a 'closed system', even though they may have never even attempted to provide such a system (Skinner 1969: 17). In turn, problematically, this may involve discounting the actual stated intentions of a writer and even ignoring whole texts that are presumed not to fit in with an overall body of work. Also, it might include readers taking it upon themselves to demonstrate that any contradictions within or between texts are not real barriers to a coherent system because there cannot *really* be any genuine contradictions in a single author's work: the reader just has to search a little harder. At first glance, this mythology of coherence is similar to the above mythology of doctrine – and indeed clearly all the interpretive mythologies can overlap and appear at the same time – but, rather than the issue of whether or not a writer is putting forward a single overarching doctrine, it is much more concerned with issues of 'coherence' and 'consistency'.

In the Smith studies literature, this particular mythology has had a significant and lasting impact in the form of a debate that came to be known as the Adam Smith Problem. On one rather simplistic level, the debate revolves around the proposition that TMS and WN fundamentally contradict each other because of the way in which the former seems to recommend and endorse 'benevolence' while the latter 'self-interest' (McLean 2006: 82). TMS is said to be aligned with the 'benevolent' moralists Francis Hutcheson and Anthony Ashley-Cooper Shaftesbury whereas, by contrast, the proper working of the

economic order set out in WN is thought to be closer to the 'egoistic' ethics of Thomas Hobbes and Bernard Mandeville (Viner 1989: 130). In Jacob Viner's (1989: 126) terms, at least with respect to the character of natural order, there is thus a 'substantial measure of irreconcilable divergence' between TMS and WN. He points to the way in which, first, a benevolent deity who is author and guide of nature is part of the former book but almost entirely missing from the latter; and second, that the novel feature of human nature presented in TMS – benevolence – is not relied upon in the proper working of the economic order set out in WN (Viner 1989, 126; 130).

Notably, in the IPE literature, the vast majority of interpretations of Smith are derived almost exclusively from his WN, while TMS is largely ignored. This means that the question of whether the two texts form a coherent whole is rarely even acknowledged, let alone examined. One exception is Razeen Sally (1998: 75-76; 87) who picks up on Viner's suggestion that Smith 'alternates between "partial models" applicable to different compartments of human action' and therefore argues that WN and TMS deal with what are essentially different 'spheres' of the social world, rather than being contradictory. Others recognise how in TMS, Smith 'avers that the power and wealth created by the division of labour is quite "contemptible and trifling"' such that the text presents at least some sort of challenge to the optimism of a wealthy society in WN (Blaney and Inayatullah 2010: 37). Along these lines, it is pointed out that in TMS he 'also stressed that in civil society, social propensities constrain egoism and help to avert discord' through a 'discussion of "fellow feeling", personal conduct, rules of justice and morality' (Mittelman 1997: 80).

However, despite these notable exceptions amongst others (e.g. Watson 2005a; 2012),

TMS is rarely given the same amount of attention as WN in IPE, so any discussion of the potential Adam Smith Problem is largely absent. On the one hand, it is potentially beneficial for IPE interpretations of Smith that scholars tend *not* to fall foul of this Skinnerian mythology of coherence: how can they have a misplaced concern for consistency between WN and TMS if the latter tends to be entirely overlooked? However, on the other hand, much more problematically, IPE scholars tend to ignore TMS while, perhaps unknowingly, routinely accepting the interpretation of WN which underpins many flawed accounts of one half the Adam Smith Problem. In other words, as discussed above in the section concerning the invisible hand, most IPE scholars understand WN to be all about how the 'self-interest of one becomes the general interest of all' (Burchill 2005: 73).

In a sense then, the way in which TMS is overlooked by the vast majority of IPE scholars serves to demonstrate the way in which IPE tends to follow an economistic historiography of Smith that emphasises the invisible hand doctrine to the detriment of a robust interpretation of Smith's actual texts. Even on those occasions when TMS is discussed in the IPE literature, the general tone of these discussions tends to echo more mainstream economic interpretations in which his 'other' (read less important) text is referred to occasionally to make the point that Smith was more than just an economist. This mirrors, for example, Joseph Stiglitz's (2007: 189-190) suggestion that in 'Smithian economics, morality played no role', but at the same time he 'was intensely concerned about moral issues' in TMS. Yet, perhaps unsurprisingly, the problem of consistency between Smith's two major published works has not been readily considered by most working in the economics mainstream either because TMS is considered to be 'psychological' or 'ethical' *rather than* an 'economic' text (Peil 1994: 280-281). On

such readings then, the inconsistencies result in Smith's first major publication – and the one he gained fame for writing during his lifetime – being ignored.

By contrast, the Smith studies literature takes TMS much more seriously and so discussions of coherence and consistency often come to centre stage. In light of ideas about the mythology of coherence, though, the *problem* with the Adam Smith Problem is not so much its identification in Smith's work – for there simply may exist subtle differences in various areas of his work which do not in any way undermine his intention – but the response of those who then attempt to find coherence, in order to solve the contradiction, where perhaps there is none or even where the subject matter itself is inherently contradictory in nature. Indeed there are various accounts in the Smith studies literature that have suggested that the Adam Smith Problem is in fact not really a contradiction at all. Most influentially D. D. Raphael and Alec Macfie (1982: 20), the editors of the Glasgow edition of TMS, have called it 'a pseudo-problem based on ignorance and misunderstanding' of the relation between the two books. Indeed the general trend in the literature is now to seek ways of synthesising his work through appeal to how TMS provides a moral basis on which to ground the chiefly economic ideas contained within WN. For example, Glenn Morrow (1989: 177) argues that Smith does not consider the individual as an absolute and irreducible entity existing prior to social existence, as could be interpreted from WN, but as a product of his social environment, clearly evidenced in TMS. In a similar way, Winch (1992: 105) reconciles a renowned passage on self-interest with Smith's concern for sympathy:

> We may have no need of the benevolence of the butcher when we appeal to his self-interest in selling us meat, but that does not mean we have no imaginative

sympathy, no capacity to understand and approve or disapprove of his behaviour.

In all, as Horst Claus Recktenwald (1978: 56) and Jan Peil (1999: 7) have identified, viewing his work as a comprehensive whole is one of the key features in the renaissance of interest in Smith over the last thirty years. As a result, recent trends might produce readings of Smith that in attempting to solve the Adam Smith Problem actually fall foul of the mythology of coherence by reading back into his work a level of consistency that might not be supported by his actual texts.

There are, however, other Smith scholars who have suggested that the Adam Smith Problem – perhaps in a modified form that moves away from its rather crude 'benevolence' versus 'self-interest' exposition – constitutes an important part of Smith's work and as such should not be explained away. For instance, Laurence Dickey (1986: 582) argues that the Adam Smith Problem has too readily been dismissed and that this dismissal serves to obscure some of the deeper issues it raises. Similarly, Richard Teichgraeber (1981: 111) suggests that the Adam Smith Problem can only be so easily rejected if it is understood in its original and somewhat oversimplified form. He points to the work of Joseph Cropsey and Robert Cumming who have considered the problem in a 'revamped form' in order to describe the 'very complex task of establishing Smith's intentions as a moral and social theorist' (Teichgraeber 1981: 111). Thus, perhaps in order to avoid the mythology of coherence in this instance, it is possible to agree with Vivienne Brown (1994: 24) who suggests that the identity of each text is not reducible to the issue of authorial coherence or consistency; and further, despite very different rhetorical styles, it does not need to be. Rather than ignoring such questions, IPE scholars might thus do well to engage with a historiography of Smith that recognises the

existence of a *potential* Adam Smith Problem. At the very least, this would allow IPE to avoid unconsciously replicating the simplistic and erroneous economistic historiography of Smith which reduces his thought to the WN side of the debate.

2.3 The mythology of prolepsis: Smith as 'father of economics'

Skinner's (1969: 22) third textual mythology, that of 'prolepsis', occurs when a reader prioritises the ostensible *significance* of a given text over its actual meaning. This occurs when the reader is more interested in the 'retrospective significance' of a given work rather than its original meaning for the writer themselves (Skinner 1969: 22). In this way, the historical significance of a work becomes conflated with an account of what the writer was doing in writing the text, which often *in principle* cannot be accurate (Skinner 1969: 23). Of course, a text can only gain accepted historical significance *after* it has been written, which produces considerable interpretive dilemmas when readers later attempt to recover the author's actual intentions in writing their text.

In this sense, the very way in which Smith is widely regarded as the 'founding father' of economics seems to involve the distorting effect of this form of mythology. Certainly, in both IPE and mainstream economics, Smith is commonly described as the 'founder' of economics (e.g. Acocella 2005: 10; Brown and Ainley 2009: 154; Miller 2008: 11; Rupert and Solomon 2006: 11; Shaw 2000: 231; Stiglitz 2007: 66; Williamson and Milner 1991: 19). In IPE, Robert Gilpin (1987: 26) makes the influential claim:

> Liberalism, which emerged from the Enlightenment in the writings of Adam

> Smith and others, was a reaction to mercantilism and has become embodied in orthodox economics. It assumes that politics and economics exist, at least ideally, in separate spheres; it argues that markets – in the interest of efficiency, growth, and consumer choice – should be free from political interference.

On this reading, based on an economistic historiography of Smith, his work represents a decisive moment at which a 'scientific' conception of the self-regulating 'economic' realm assumed dominance over what had until that time been an exclusively 'moral' and 'political' domain (Winch 1978: 7). In the IPE literature, he is said to have understood economic and political matters to be 'largely separable' (Steger 2002: 9) because he 'clearly believes that economics has a logic distinct from politics and should not be unduly hampered by political machinations' (Crane and Amawi 1997: 7). Along these lines, one interpretation holds that 'from Smith onward' there was a split in understanding human action between the 'vertical dimension' of power and the 'horizontal axis' of 'well-being, free choice, exchange and equilibrium' (Nitzan and Bichler 2000: 67). The former referring to the 'political', the latter to the 'economic' realm of social life. In short, this means that Smith is supposed to represent a 'depoliticization of resource allocation and [a] devaluation of place and social solidarity' in society (Agnew 1994: 94). On this reading, the publication of WN thus marks the all-important 'separation between public and private in economic affairs' (Haufler 2006: 89).

These readings are noticeably derived from an economistic historiography of Smith. As Jan Peil (1999: ix) suggests, the generally accepted understanding of Smith's 'contribution' to economic analysis is exemplified by Joseph Schumpeter's claim that he

is best understood as providing a Walrasian general equilibrium theory *in nucleo*. In other words, from this perspective, '[m]uch of the history of neoclassical economics can be read as a mediation on Adam Smith's "invisible hand theorem"' (Carter 1997: 122). WN is thus read as the origin of the 'ideal of markets of pure and perfect competition', which is later 'elaborated by Alfred Marshall and generalized by Leon Walras' (Boyer 1996: 100). This interpretation is very much mirrored in the IPE literature. As a supposed forerunner to economic 'science', it is emphasised how Smith was 'concerned with the natural laws of wealth' (Isaak 1995: 117), the 'laws governing the wealth of nations' (Gilpin 1987: 44), and how he understood economics as an 'imaginary machine' in the 'spirit of Newton' (Gill 1997: 53-54), which can be conceived of as the 'science' of the wealth of nations (Carlsson *et al*. 1994: 12). In this way, the claim is often made that WN is 'the foundation for modern economics' (Hite and Roberts 2007: 5).

From this perspective, significantly, Smith is also associated with the interrelated ideas of the self-interested individual and of the price mechanism that coordinates the actions of these individuals in accordance with public interest (Peil 1999: 37). In both IPE and mainstream economics, Smith is often said to have put forward the 'famous "economic man" dictum' (Miller 2008: 20). On this reading, he had a 'thin' ethical notion of the self 'as a short-term interest maximizer' (Isaak 1995: 99) and he 'embraced … self-interest and greed' (Martinez 2009: 4). Associated claims are typically that Smith thought that human beings 'are by nature economic animals' (Gilpin 1987: 27) and that 'the objective of economic activity is consumption' (Prestowitz 2005: 177). Although his conception of the individual is discussed more fully in the next chapter, in IPE Smith is very much associated with a *homo economicus* understanding of man against which a number of critical IPE scholars position themselves, particularly from a Gramscian

perspective (e.g. Beiler and Morton 2006: 164). Ironically, of course, the 'economic man' construction is actually one of J. S. Mill's and is unrelated to Smith because it post-dated him by the best part of one hundred years (Morgan 2006: 5).

Nevertheless, further illustrative of a economistic historiography of Smith, George Stigler (cited in Force 2003: 1) characterises WN as 'a stupendous palace erected upon the granite of self-interest'. Stigler (1976: 1201 emphasis added) claims:

> Smith had one overwhelmingly important triumph: he put into the center of economics the systematic analysis of the behavior of individuals pursuing their self-interest under conditions of competition. This theory was the *crown jewel* of *The Wealth of Nations*, and it became, and remains to this day, the foundation of the theory of the allocation of resources. The proposition that resources seek their most profitable uses, so that in equilibrium the rates of return to a resource in various uses will be equal, *is still the most important substantive proposition in all of economics*.

In a similar reading, Samuel Hollander (cited in Recktenwald 1978: 62) suggests that '[t]he whole Walrasian, Marshallian, and Hicksian price theory ... is clearly implicit in Adam Smith's concept of natural price'. For him, Smith showed how the price mechanism can be relied upon to clear product and factor markets, which leads him to believe it is justified to use 'the current state of knowledge regarding the general equilibrium process' in a study of Smith's work (Hollander 1973: 13). Likewise this economistic position is also reflected in Maurice Dobb's (1937: 5) suggestion that Smith's theory of value was of utmost importance because of its role as a unifying

quantitative principle that enabled the production of postulates in terms of the general equilibrium of an economic system. Such readings are representative of an economistic historiography of Smith that, on the whole, seems to suggest that there are few problems involved in reading modern economic analysis into his work.

However, problematically from the perspective of a Skinnerian mythology of prolepsis, many of these economistic interpretations of Smith rely on a focus on the first part of WN to the detriment of the rest of his work (Coats 1975: 221). Indeed, the most prominent nineteenth-century revisionist of Smith's work, J. R. McCulloch, as an admirer of 'economic science' in the modern sense is said to have 'boiled Smith's life work down to Book One of *The Wealth of Nations*' (Fitzgibbons 1995: 149-150). Stemming from this account, the economistic historiography of Smith thus has an extremely selective focus on his arguments about natural liberty, self-interest and the beneficial outcomes of market forces; which necessarily excludes the ethics, moral psychology, jurisprudence, rhetoric, and belles lettres contained within his work as a whole (Griswold 1999: 9; Tribe 1999: 609-610).

With the concept of a mythology of prolepsis in mind then, the economistic historiography of Smith that understandings him as the forerunner to general equilibrium theory and the application of a utility maximisation postulate are reflective of a flawed usage of his work that is at least in part predetermined or 'set' by an expectation that such themes can be read into his work. In actuality, it relies on a *narrow* interpretation of Smith as the founding father of economics, which can be usefully remedied through recourse to the history of thought historiography of Smith.

For instance, Donald Winch (1992: 92) correctly identifies the way in which increasingly since the nineteenth-century a number of influential schools of thought in social science have shared the belief that the advancement of economics as a science requires the separation of its subject matter from moral considerations. Yet, crucially, to read this separation in Smith is deeply problematic in Skinnerian terms because it involves a process of extrapolation from Smith's actual texts and even contradicts his intentions in writing them (Macfie 1967: 13). As Stephen Rosow (1997: 45) argues, the separation of the economy from its embeddedness in social and political practice was a 'foreign thought to Adam Smith and his contemporaries'. Indeed, an economistic depiction of Smith does not adequately characterise the larger social and political dimensions of his enquiry (Winch 1978: 70). Put simply, Smith does not apply a universal 'economic' approach as sub-rational instincts play a crucial part in both his WN and TMS; self-interest is not always motivated by economic ends because, for example, honour, vanity, social esteem, love of ease and love of domination can play a part in forming an individual's action (Winch 1978: 167). Also, Smith was aware that a simple economistic model of interaction is lacking because it does not take into account: the way (mis)perceptions are formed, social setting, interdependence between individuals and groups, and unintended consequences (Winch 1978: 167).

Moreover, in his consideration of his philosophy of science, Fleischacker (2004: 33) suggests that Smith was not presenting principles that he expected to hold as economic 'facts' available to every generation in history. As such, this implies that those who use Smith's principles to explain every economic phenomenon today are betraying their master's methodological legacy rather than preserving it (Fleischacker 2004: 33). Likewise, Anthony Endres (1991: 94) argues that given the concepts that Smith sets out

in his *Lectures on Rhetoric and Belles Lettres*, the chapter on 'bounties' in WN 'is best viewed as a disciplined exercise in advocacy rather than as a crude polemic or an illustration of applied economic analysis or "science"'. As Pierre Force (2003: 101) suggests, 'attempts to translate the language of economic science and rational choice theory into the language of early modern moral philosophy (and vice versa) should be carried out with caution'. For him, as will become clear in the next chapter, it is important to stress that concepts such as 'self-interest' and 'utility-maximizing behaviour' are two *very different* things (Force 2003: 101).

Interestingly, *some* areas of the IPE literature are rather more robust in this area than others, at least in terms of not separating the economic and the political in Smith. They thus avoid falling foul of a mythology of prolepsis. For instance, the claim is made that Smith would have been 'surprised' at the differentiation of the social sciences into separate spheres of study (Brown and Ainley 2009: 18). As Andrew Gamble (1983: 66) points out, for Smith, 'the purpose of political economy was to provide guidance to the statesman', which in turn is picked up in the suggestion that for Smith 'the economy was eminently political and politics was obviously tied to economic phenomena' (Frieden and Lake 2000: 3). In this sense, 'political economy was a "branch of the science of a statesman or legislator" and a guide to the prudent management of the national economy' (Gilpin 2001: 25). Smith is also understood to have recognised 'the interconnections of the political and the economic inherent within a conception of capital as a set of social relations of production' (Clift and Rosamond 2009: 99) and thus is part of a tradition that highlights the 'importance of treating markets as arenas of governance and decision-making arenas in their own right' (Baker 2005: 104-105). Moreover, there is a degree of recognition that Smith understood political economy to be

‘closely linked to the study of moral philosophy’ (Cohen 2008: 17) – the practical aspect of the study of moral philosophy’ (Mittelman and Pasha 1997: 16) – and that he places his work ‘within a moral and historical context’ (Crane and Amawi 1997: 7). He is also recognised to be concerned with theorising the ‘moral sentiments of economic actors’ (Santiso 2003: 2) and the philosophical quandary of the ‘relationship between individual self-interest and the collective needs of the community’ (Underhill 2000: 17). Indeed this is often accepted as part of his ‘ultimate concern’ for ‘fostering human dignity and the ethical life’ (Murphy and Tooze 1991: 27).

Overall, read through the lens of a concern with issues related to a potential mythology of prolepsis, the historiography of Smith in IPE is somewhat complex. On the one hand, there are a number of interpretations that follow an economistic historiography of his work by understanding him as the father of economics, which often includes situating a ‘break’ between the economic and the political in his work, and attributing the economic man construction to Smith. Such readings clearly fall foul of a mythology of prolepsis that can be countered through appeal to a history of thought historiography of Smith. Indeed it is pointed out that ‘the view held by most serious Smith scholars [is] that Smith was *not* an incipient neoclassical economist’ (Fitzgibbons 1995: 171 emphasis in original). Athol Fitzgibbons (1995: 152) in fact suggests that the ‘libertarian reduction’ of Smith’s work constitutes a move equivalent to attributing Darwin with a theory of evolution that stops at the amoeba. Similarly, Vivienne Brown (1994: 22) uses the Baktinian notion of ‘canonisation’ to criticise economistic readings of Smith that reduce the ‘dialogic complexity of the past to a single voice for consumption in the present’.

Nevertheless, on the other hand, other more subtle interpretations of Smith in IPE

recognise that he does not separate the economic from the political and the ethical in his work. Notably, such contributions follow more closely a history of thought historiography of Smith. This tendency might be attributed to how the discipline of IPE tends to see itself working at the intersection of the political and the economic (e.g. Strange 1994), and so it suits IPE scholars to claim that Smith was undertaking a similar scholarly endeavour by invoking the authority of his name. However, this position sits rather uncomfortably alongside how IPE tends to follow an economistic historiography of Smith when it attempts to interpret other more specific aspects of his work.

2.4 The mythology of parochialism: 'Laissez-faire' and 'capitalism'

Finally, Skinner's (1969: 24) mythology of 'parochialism' relates to interpretive attempts to understand an unfamiliar conceptual scheme found in a past text in terms that are more familiar to the current day. Such attempts are potentially problematic because they present the distinct possibility of 'misdescribing' the sense and intended reference of a text through a suspect process of 'historical foreshortening' (Skinner 1969: 24). As such, even when attention is seemingly focused entirely on a text itself, the 'very familiarity of the concepts that the historian uses may mask some essential inapplicability to the historical material' (Skinner 1969: 28). On the one hand, to an extent, the very process of interpreting past texts necessarily involves the reconceptualising of themes and concepts into terms and categories that are more familiar today. On the other hand, though, it is possible to identify a number of readings of Smith's texts that clearly approach them in such a way as to significantly underplay, or simply ignore, the historicised meanings of the concepts he used. In tending to follow

this latter route, the economistic historiography of Smith in IPE appears to fall foul of this mythology.

First and foremost, this is evidenced in many interpretations of Smith that directly 'translate' his work into contemporary political concepts and terminology. Evidently, as Fleischacker (2004: 19) points out, it is indeed possible to use Smith's work to support views of government from both the political left and right in terms of wealth redistribution, but even though both are plausible, they require considerable extrapolation from his actual work. This is because, for one thing, Smith was writing at a time when *production* was above all the central concern of political economy, not the issue of *distribution*, which later assumed such pivotal importance (Fleischacker 2004: 19). As such, it is imperative to be aware of context when attempting to view Smith's 'individualism' in a modern sense (Clark 1989: 54). Indeed even Hollander (1987: 3-4), a historian of thought who tends to use a distinctly economistic historiography of Smith, claims that Smith represents one of 'the masters' whose work has been misused by politicians and 'others with an axe to grind' for their own ends and indeed 'possibly without having read them'. He claims that Smith's work contains sustained arguments for a moderate kind of interventionism, harsh criticisms of capitalist institutions, and, equally plausibly, the roots of early British socialism (Hollander 1987: 4). Hollander (1987: 4) thus finds it entirely inappropriate that conservatives 'sporting Adam Smith neckties' frequently cite Smith as the champion of an extreme form of 'laissez faire'.

It is in this attribution of a laissez faire policy prescription to Smith that is most problematic in terms of falling foul of a interpretive mythology of prolepsis. Yet, more often than not, in IPE Smith is quite simply the 'alleged father of laissez faire' (Diaz-

Alejandro 1978: 92). On many accounts, Smith is said to have '*of course*, generally advocated laissez-faire policies' (Balaam and Veseth 2008: 104 emphasis added). 'Laissez faire' – as both a policy prescription (e.g. Cohen 1974: 23; Mittelman 1997: 80; O'Brien and Williams 2007: 83; Pettman 1996: 196; Steger 2002: 10; Swift 1993: 67; Versluysen 1981: 242) and as a normative or ideological liberal argument for free trade (e.g. Aggarwal 1985: 10; Isaak 1995: 4-5; Lal 2006: 48; Miller 2008: 245; Sally 1998: 17) – is in fact widely understood to be central to his work. These IPE readings echo Paul Samuelson's (1969: 4) economistic interpretation in which Smith is said to 'extol the role of *laissez-faire*'.

Nevertheless, some accounts in IPE do recognise that there were 'many qualifications' to his supposed laissez faire policy advocacy and point out that it was a term 'he did not coin' (Martinez 2009: 11). This latter point is of fundamental concern because Smith *did not ever use the phrase* even though it was popularised in 1750s France and thus could have been employed systematically by him if it was part of his intention to do so. Others, such as Jakob Vestergaard (2009: 185), go further by correctly highlighting:

> Recent work in the history of economic thought has challenged the widespread notion that Adam Smith may be considered the founding father of *laissez-faire* liberalism … Smith's views on the proper role of government in a market society have been severely misrepresented, it seems.

He suggests that '[f]rom the perspective of this body of research [history of thought Smith studies], it would be a gross mistake to extrapolate from Adam Smith's critique of mercantilism to a general "anti-government" or laissez-faire stance' (Vestergaard 2009:

186). Thus, despite the vast majority of IPE scholars routinely associating Smith with a laissez faire policy position, there are a few other significant contributions to IPE (e.g. Watson 2005a) that do not fall foul of this mythology by picking up on a more accurate history of thought historiography of Smith.

As opposed concepts he *did not* use, such as laissez faire, it can still be difficult to appropriately interpret some of the specific concepts Smith *did* in fact use without succumbing to a mythology of parochialism. Of particular concern here is his use of the phrase 'the system of natural liberty'. Notably, writing in the mid-to-late eighteenth-century, Smith did not refer to a system of free enterprise as 'capitalism', but as 'the system of natural liberty' in which 'things were left to follow their natural course, where there was perfect liberty' (Smith cited in Cropsey 1975: 148). As Winch (1978: 142) argues, although this point is often ignored, the rapid translation of Smith's use of the term 'commercial society' into 'capitalism' is flawed for the simple reason that the latter term was not available to him. Crucially, the relationship between capital and wage labour was not central to Smith's society, which means that the relationship between the two was merely one of a whole range of market relationships (Winch 1978: 142). Nor, incidentally, is Smith's 'system of natural liberty' interchangeable with the term 'free trade' because the former term has 'jurisprudential' connotations that the latter does not (Fitzgibbons 1995: 172). Smith's criticisms of the prevailing economic order, mercantilism, were that it did not work in accordance with the principles of natural liberty, not based on some ultimate evaluation of an idealised structure such as the perfect-competition paradigm (Buchanan 1979: 120).

In the IPE literature, however, there tends to be a straightforward link made between

Smith's work and capitalism. Typically, Smith is understood as 'the first to develop a comprehensive portrait of capitalism' (Balaam and Veseth 2008: 40) and to have provided the 'era's best description of what was the emerging capitalist system' (Hite and Roberts 2007: 4-5). On such readings, his work: explains how capitalism 'creates the wealth of nations' (Bonefeld 2006: 45), describes how 'capitalism and markets came into existence' (Harrod 2006: 32-33), and on the whole 'celebrated' capitalism (Walker 2010: 231). For Smith's critics, Mark Martinez's (2009: 8-9 emphasis added) comments on the association between his work and capitalism are typical:

> Adam Smith, the *intellectual godfather of capitalism*, argued that greedy people in competitive environments could become good and even lead moral lives. Smith argued that, freed from abusive feudal authority and stifling traditions, greed in the pursuit of profit could be transformed into a quest to please and serve others. Simply put, customers would not return to a merchant if they were treated rudely or received a shoddy product. Merchants would be forced to produce quality goods and treat people well if they wanted to succeed. Hard work and moral lives would be the end result, and society would be the beneficiary. Freedom and the pursuit of profit would replace feudal customs and traditions that obligated subservience and duty. And, 'like an invisible hand,' the moral and material needs of society would be met.

Together with the other simplistic treatments of the relationship between Smith and 'capitalism', this attribution of a 'consumer is king' in a capitalist economy idea to Smith (Balaam and Veseth 2008: 42) clearly falls foul of a Skinnerian mythology of parochialism. Put simply, it can be shown through recourse to a history of thought

historiography of Smith that he did not provide an 'ideology' of capitalism as some in IPE claim (e.g. Panić 2003: 14-15).

Notably, as a useful corrective, Gavin Kennedy's (2005: *ix*) central argument is that Smith wrote for *his* times, when religious superstition dominated the beliefs and attitudes of individuals to a degree not easily comprehended today. Moreover, Edward Harpham (1983: 766) suggests that in order to grasp the political significance of the historical arguments that Smith develops, it is necessary to situate them within his broader economic arguments and his specific critique of the mercantile system. In this endeavour, moreover, scholars must be wary of transposing nineteenth-century analytical meanings onto the less familiar eighteenth-century concepts that make up Smith's work (Winch 1978: 142). In fact, Winch (1978: 165) successfully demonstrates that applying what are basically nineteenth-century perspectives to what is 'quintessentially' a work of the eighteenth-century not only introduces artificialities but also obscures some of the essential features of Smith's work. Reading Smith's texts through the lenses of a 'laissez faire' policy position and an ideology of 'capitalism' poses exactly these sorts of problems. Overall, therefore, rather than blindly following an economistic historiography of Smith that does not attend to issues of historicised meaning, IPE scholars would do well to look to this history of thought literature – *and his texts themselves* – in order to provide their own more robust historiography of Smith.

Concluding remarks

> Against the idea of atomistic individuals acting like calculating machines driven by price signals, more recent readings typically place an emphasis on understanding behaviour in relation to its concrete socio-historical context. This means that in the new readings of Smith's economic analysis, individuals are still considered as economic agents, but their agency is no longer interpreted as atomistic, mechanistic and rationalistic. Instead, recent scholarship on Smith pays far greater attention to the ways in which his individuals act according to prevailing social values and rules (Peil 1999: 9).

Jan Peil summarises superbly the way in which recent specialist work on Smith has shaped current understandings of him as a thinker. By contrast, in the main, IPE scholars do not even get close to a historicised interpretation of his texts, which, in turn, among other things means they tend to fail to adequately understand Smith's 'individual' in the way Peil describes. In this chapter, I have used some key interpretive mythologies identified by Quentin Skinner to map out representations of Smith in IPE and expose some of the widespread problems of interpretation surrounding his work.

I showed how in terms of issues of 'doctrine' (in relation to the 'invisible hand' metaphor), 'prolepsis', and 'parochialism', IPE interpretations of Smith, on the whole, can be shown to quite clearly succumb to Skinner's mythologies. Indeed, this is exposed to be the case to a significant degree when compared to the work of Smith scholars. Specifically, by construing an 'invisible hand' doctrine from his text, characterising Smith as the 'father of economics', and reading concepts such as 'laissez-faire' and

‘capitalism’ back into his work, the paucity of the vast majority of interpretations of Smith is striking. Moreover, of perhaps even greater significance, in succumbing to such interpretive mythologies on these issues, IPE scholars tend to directly imitate a markedly economistic historiography of Smith, almost entirely replicating the interpretation of his work to be found in histories of economics written by economists as Tribe would have it. In following an economistic historiography of Smith, as opposed to a history of thought historiography of Smith, IPE interpretations are therefore considerably flawed on these grounds.

Furthermore, I illustrated that there are instructive interpretive debates about Smith in the history of thought literature that are simply, for the most part, not even noticed as issues to be debated in IPE. The disputes over whether Smith should be located within the jurisprudential or the civic humanist tradition, and whether or not there exists an ‘Adam Smith Problem’ are in some ways foundational to the history of thought historiography of Smith. On the one hand, I suggested, these disputes may at times lapse into mythologies of doctrine and coherence, which is problematic from a Skinnerian perspective. However, on the other hand, what is noticeable is that IPE scholars have *next to nothing* to contribute to either of these debates because they simply to not really come up for scrutiny in IPE. Again, on both counts, I argue that this points towards an economistic historiography of Smith in IPE.

Overall, therefore, IPE scholars are *followers* rather than *leaders* on matters of Smith historiography. This is unfortunate in itself in light of my claims about the benefits of a thick historicised approach to IPE (Chapter 1). It is also calamitous in the sense that IPE tends to produce erroneous interpretations of Smith’s texts largely because it imports its

flawed historiography of Smith from economics. In the next chapter, I continue to flesh out my concern for pragmatic historiography in order to provide a more successful account of Smith, in particular in relation to his concept of the individual and his understanding of market-oriented behaviour. That IPE holds such a suspect economistic historiography of Smith surely makes this task all the more pressing.

CHAPTER 3 ----------

The Smithian Individual and the Concept of Sympathy

> Retrospection, literally the act of looking back, is an intellectual exercise that is in some sense similar to Smith's sympathy. For Smith, sympathy is not simply fellow feeling, as it demands a process of assessing circumstances (Montes 2004: 2).

Leonidas Montes draws an interesting parallel between the task of the historian of economic thought, who might seek to interpret meaning and understand intention in past texts, and Smith's concept of sympathy because they both potentially involve an imaginative change of place and situation. In this chapter, I make the case that Smith's sympathy should be understood centrally as an *imaginative procedure*, through which people come to assess the actions, circumstance, and suffering of others and themselves. This understanding of sympathy, I suggest, offers a route to bringing questions of ethics and politics right back to the heart of discussions of liberal market governance in IPE.

That I wish to reconstruct an account of the sympathy procedure is based on my explicit intention to provide a more historicised account of Smith for IPE. As I explored in the previous chapter, the historiography of Smith in IPE tends to be very much derived from an economistic historiography of Smith. This is a fundamental dilemma, for 'critical IPE' at least, given that in so many other ways it seeks to differentiate itself from economics. Thus, through appeal to a more robust 'history of thought historiography' of his work, which is more attentive to Skinner's methodological rules, in this chapter I

present the core of my reconstruction of Smith to help to address this predicament. I present this case, so that it in next chapter I can demonstrate how Smith's sympathy procedure, seemingly almost completely overlooked by IPE scholars, can provide a complex and compelling perspective for IPE while still remaining attentive to the historicised meaning of his work.

In this latter regard, there are a number of factors that condition my interest in producing an account of Smith's understanding of the individual and his concept of sympathy. In the last chapter, I discussed some of the key Skinnerian 'mythologies' that surround his work: the mythologies of doctrine, coherence, prolepsis, and parochialism. In turn, a consideration of these ideas showed that: Smith did not advocate a singular doctrine; it is necessary to move away from crude solutions to problems of consistency in his work; economistic readings of his specific ideas are to be avoided; and it is important to pay close attention to the linguistic context in which Smith wrote so as to avoid erroneously reading present-day theories and concepts back into his work.

I suggest that collectively these points help to produce a more *methodologically* robust (in Skinnerian terms at least) interpretation of Smith. In this chapter, however, I construct a reading of Smith that might be said to be more *ontologically* robust in that it more closely maps onto *his intentions* in writing his work. In particular, I am primarily concerned with Smith's conception of the individual, so although I use the Skinnerian principles outlined in the last chapter, I move away from dealing with issues of doctrine, coherence, prolepsis, and parochialism towards a more focused attempt at understanding his conception of the individual and his concept of sympathy *in context*. I thus embark

on a careful direct examination of Smith's texts suitably located in their socio-linguistic context.

The chapter proceeds in three stages. I first consider both Smith's eighteenth-century context and his possible intellectual influences. I look to answer questions such as: *how did the context in which Smith wrote help to produce the meaning/significance of his ideas? Which other moral philosophers was Smith engaged with in writing his political economy as moral philosophy?* This is essentially a Skinnerian attempt to locate Smith in his socio-linguistic context in order to gain a deeper understanding of his thought. Second, I consider some aspects of Smith's work that might help shed light on his intervention into debates of his time. In this section, I review both Smith's 'intentions' and his 'politics', again understood in relation to his immediate socio-linguistic context.

Finally, drawing on the contextual claims made in the first two sections, I give a more detailed account of Smith's central concept of sympathy. My attempt to give a thorough reading of Smith's sympathy is based on my contention that it is vital to understanding his conception of the individual in which the economic cannot be divorced from the ethico-political. I will further develop this idea in the next chapter as it provides a key way of conceiving of the individual in a distinctly contrasting way to the *economistic* understandings of market-oriented behaviour that prevail in many liberal perspectives today. In essence, I contend that Smith's sympathy procedure illustrates how ethics and politics might come to be interactively formed at the level of the individual, which in turn shows how the economic cannot truly be divorced from the ethico-political as contemporary liberal perspectives often hold.

I thus make some foundational claims about the relationship between Smith's individual and the economistic understandings of market-oriented behaviour of today. This is because a consideration of his thought in its social and linguistic context immediately brings forth some key ideas to consider on this point that are worthy of comment. There is a preliminary point that makes this task especially important. In the last chapter, I highlighted some of the problems related to a mythology of prolepsis (in the sense that Smith has often been erroneously read as the father of liberal economics as a political economy perspective on the social world); yet, in addition to this, I suggest in this chapter that Smith actually provides a very *different* understanding of market-oriented behaviour to that of contemporary liberal perspectives, even those that claim to be based on his work. His concept of sympathy, properly historicised, provides a useful lens through which to examine economistic perspectives on market governance today.

3.1 Smith's individual in context

Eighteenth-century commercial society

Perhaps the most significant aspect to note of Smith's time was its *pre-industrial* character. It is easy to fall foul of a Skinnerian mythology of parochialism and overlook the fact that the supposed 'father of capitalism', when he was writing in the mid-to-late eighteenth-century, was living in and writing about a world that was only just starting to assume those features that would *later* be designated as 'capitalist'. Indeed it has been suggested that it was only in the last decade of the eighteenth-century or so that existing forms of economy and society in lowland Scotland started to break up under the changes brought about by industrial capitalism (Teichgraeber 1986: xvii). In Smith's (WN I.iv.1)

own terms, the 'commercial society' of his time is to be thought of as an outgrowth of an advancing level of the division of labour, not necessarily a particular mode of industrial production:

> When the division of labour has been once thoroughly established, it is but a very small part of a man's wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for. Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society.

Thus, crucially, Smith's 'commercial society' does not necessarily designate a society based on *industrial capitalist* relations of production and exchange.

Yet, despite this fact, many commentators have pointed out that Smith does not seem to anticipate how radically economy and society would be transformed after the onset of the industrial revolution. Along these lines, for example, Athol Fitzgibbons (1995: 11) points out that despite all its institutional detail, WN 'did not mention power-driven methods of production, and it made almost no reference to the cotton industry, which was about to become the leading edge of British industrial growth'. In fact Charles Kindleberger (1976: 1-6) makes the convincing case that as a 'literary economist', Smith did not have a thorough understanding of the industrial revolution, the onset of which many date to be contemporaneous with his writing of the WN, because he primarily drew his examples from books published in the first quarter of the eighteenth-century.

As such, 'Smith's discussion of the allocation, distribution, and the division of labour through the market', he continues, 'was largely related to what is now called "proto-industrialization", rather than the industrialization into large factories of the industrial revolution' (Kindleberger 1976: 24). Conceivably, then, the pre-industrial and pre-capitalist nature of Smith's time might for some present a key limiting factor on the extent to which it is possible to invoke his ideas in any meaningful sense in the industrial, or post-industrial, world of today.

Nevertheless, from a pragmatic historiographical perspective (Chapter 1), the very notion that his ideas are in some sense 'of another time' and can only be understood through undertaking a *historicised* process of interpretation allows them to hold a certain promise. They constitute different frames of understanding market-oriented behaviour compared to what would follow and thus an alternative mode of thought compared to the capitalist, and later economistic, individual. Indeed, along these lines, Mary Morgan (2006: 2) argues that Smith's 'portrait' of market-oriented behaviour acts 'as a foil to give a sharper focus to the model man constructions that come in later economics'.

In this regard, Smith's insights might be particularly notable given that he was writing at exactly the time of the onset of important world-historical developments that he was one of the first to identify as the transition from a feudal to a commercial society. As Jan Peil (1999: 49) suggests, the 'commercialization and liberalization of society' were leading moral philosophers of the time to alter their inquires in order to discuss moral problems from something of a 'new economic point of view' because it was now possible to give accounts of everyday people 'successfully making an independent living outside the traditional constraints of the feudal hierarchy'. This was in fact part of a new

focus on the 'existence of increasingly institutionalised commercial relations … deemed to be symbolic of an economy capable of producing surplus', which were understood 'to require new political and moral structures in order to contain likely flashpoints' (Watson 2012: 10). Within such structures, eighteenth-century moral philosophers tended to be interested in how 'economic agents were required to embody new subjectivities, donning masks of politeness to guard against unseemly struggles over surplus and their associated ideologies of possessive individualism' (Watson 2012: 10).

The evolving nature of inquiries undertaken by moral philosophers at this time could be located within debates, discussed in the previous chapter, about whether Smith fits into a 'jurisprudential' or a 'civic humanist' tradition. Without attempting to locate Smith *solely* within one of these supposedly coherent traditions, I would merely make the comment that although he had a central concern for questions of justice as well, Smith pays close attention to questions about commercial society that seem to have distinctly civic humanist undertones. Such questions were not new to Smith's time, but they did take on new weight and meaning, especially with regard to the constitution of individual moral behaviour. In particular, debates about the social desirability of wealth and commercial values were becoming highly relevant in eighteenth-century Britain because of the changes arising out of sustained economic growth that served to threaten traditional British social norms and culture (Fitzgibbons 1995: 12).

In fact, Smith (TMS I.iii.3.1) sought to directly contribute to this conversation when he considered the double-edged nature of the admiration of the rich:

> This disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition, though necessary both to establish and to maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments.

Thus it is possible to suggest that, especially given the prominence of the concept of 'self-command' in his work, the debates surrounding civic humanism in the latter half of the eighteenth-century were a powerful influence on Smith's thought (Montes 2004: 57). At the very least, it means that Smith's conception of the individual is likely to contain a specific concern for the *cultivation* of behaviour between people and groups that conforms to civil society. Indeed, this process of cultivation is closely linked to his concept of sympathy as a generator of standards of interpersonal ethics at the individual level discussed below. Moreover, such a conception is in direct contrast to the asocial individual of economistic understandings both of his work, often derived from an erroneous 'economistic historiography' (Chapter 2), and of liberal perspectives on market governance today.

Hutcheson, Hume, and the Scottish Enlightenment

Smith's understanding of the individual was in many ways directly influenced by his immediate predecessors and by a number of other eminent moral philosophers writing at a similar time to him. Notably, Francis Hutcheson plays an important role in the development of certain ideas that helped to set the terms of debate for moral philosophers of the Scottish Enlightenment. Principally Hutcheson's notion of 'moral sense', which held that moral judgements were not primarily matters of reason or self-

love as commonly supposed, was a key concept on which Smith and others could develop their views about individual moral behaviour (Teichgraeber 1986: 29-30). Richard Teichgraeber (1986: 36) compares Hutcheson's moral sense argument to the idea that 'moral judgements are products of a human faculty distinct from reason and analogous to the ordinary five senses' such that people are 'moved by certain feelings that in turn prompt judgements of approval or disapproval'. Rather than in some way *consciously* deciding to approve or disapprove, for Hutcheson (2002: 175-176 emphasis in original), such moral judgements are the result of an *instinctive* sense:

> If one asks 'how do we know that *our Affections are right when they are kind?*' What does the Word [right] mean? Does it mean *what we approve?* This we know by *Consciousness* of our *Sense.* Again, how do we know that our *Sense* is right, or that we *approve our Approbation?* … To answer this, we must first know that the *same Constitution* of our *Sense* shall always remain: And again, that we have applyed our selves carefully to consider the *natural Tendency* of our Actions.

Hutcheson was himself perhaps indebted to John Locke for the way in which he adapted his understanding of the workings of the five senses to the human world. As Locke had put forward the view that knowledge of the external natural world must have its origins in the working of our five senses, Hutcheson suggested that much the same was true of our moral senses. He attempted to demonstrate that judgements regarding appropriate behaviour must also derive from the operation of a 'sense' that 'instinctively comes into play when we observe the conduct of others' (Teichgraeber 1986: 40). Thus Hutcheson in many ways allowed Smith to move away from a 'predetermined ideal vision' of

appropriate individual behaviour towards a conception of what Teichgraeber (1986: 47) calls an 'internal process'. Certainly, this is supported in Smith's (TMS VII.iii.3.6) claim:

> That faculty, which Mr. Locke calls reflection, and from which he derived the simple ideas of the different passions and emotions of the human mind, was, according to Dr. Hutcheson, a direct internal sense. That faculty again by which we perceived the beauty or deformity, the virtue or vice of those different passions and emotions, was a reflex, internal sense.

This had clear ramifications for Smith as will become apparent in my discussion of Smith's *internal* device the 'impartial spectator' below. Suffice it for now to say, if it is possible to identify an important conversation that Smith contributed to in response to lines of argument about moral sense, Hutcheson helped him to move away from those values and concepts articulated by natural law theorists towards a distinctly different interest in the role of sentiments, passions, and feelings in human conduct. Such an interest is again in evident contrast to the almost un-feeling, un-sentimental as it were, economistic understanding of the individual in contemporary liberalism in which sentiments and passions, especially those of ethico-political nature, are expunged from rational economic man.

In addition to Smith's engagement with Hutcheson's moral sense theory, David Hume represents a central Scottish Enlightenment figure who built on Hutcheson's ideas and was in conversation with Smith on significant points. As Teichgraeber (1986: 89) explains, Hume's theory of justice can be 'understood as an explanation of Hutcheson's

account of non-rational psychology of moral judgement [turned] into a broader theory of social and political relationships among men'. For Hume, building on Hutcheson, moral judgements could not be reduced to either self-love or reason, as moral judgement was more the outcome of certain sentiments that were distinct from both. As Hume (1751: 8 emphasis in original) writes:

> We shall consider the Matter as an Object of Experience. We shall call *every Quality or Action of the Mind*, virtuous, *which is attended with the general Approbation of Mankind:* And we shall denominate vicious, *every Quality*, *which is the Object of general Blame or Censure*.

Hume thus constructed a critical response to a key premise in existing natural law philosophy: rather than obligations directed by 'right reason', ethical and legal codes must be explained in terms of elementary passions and instincts (Teichgraeber 1986: 101).

On the one hand, there are important points of agreement between Hume and Smith. As a 'progressive' philosopher in the eighteenth-century European Enlightenment sense, Hume saw a historic opportunity to establish society on 'science' as opposed to religious superstition. In this light, Hume can be viewed as a thinker who contributed to a gradual move away from the idealist philosophy of the Greeks towards humanism and an image of society that 'by rejecting religious superstition, would be enriched by trade and informed by science' (Fitzgibbons 1995: 27). Along these lines, it would appear that Smith followed Hume to the extent that he recognised the promise of Britain moving

away from 'its medieval mire of backwardness and superstition' (Fitzgibbons 1995: 29). For instance, Smith (TMS III.6.1) writes:

> Religion affords such strong motives to the practice of virtue, and guards us by such powerful restraints from the temptations of vice, that many have been led to suppose, that religious principles were the sole laudable motives of action … It may be a question, however, in what cases our actions ought to arise chiefly or entirely from a sense of duty, or from a regard to general rules; and in what cases some other sentiment or affection ought to concur, and have a principal influence.

However, on the other hand, Smith disagreed with Hume's view that this new society emerging in eighteenth-century Britain had to start from a sceptical rejection of *all* values. Athol Fitzgibbons (1995: 15) argues that as 'Hume's scepticism effectively undercut the traditional rationalization for a moral and political élite, it further implied that there was no ultimate justification for any social rules at all'. Smith countered this 'nihilistic version of liberal society' by constructing arguments that rejected extreme scepticism (Fitzgibbons 1995: 15). Essentially, Smith made the case that if Hume's theory of morals and psychology involved reducing everything to 'feelings and sensations' then it is possible to turn science against Hume by suggesting that these very feelings and sensations themselves have to be explained (Fitzgibbons 1995: 93).

Smith's concept of sympathy is precisely a device for explaining these sensations. Indeed, although he held that imagined experience cannot be the same as that of

immediate experience, he suggests that it is possible to gain some kind of insight into the feelings and sensations of others through an imaginative procedure:

> Though our brother is upon the rack, as long as we ourselves are at our ease, our senses will never inform us of what he suffers. They never did, and never can, carry us beyond our own person, and it is by the imagination only that we can form any conception of what are his sensations. Neither can that faculty help us to this any other way, than by representing to us what would be our own, if we were in his case. It is the impressions of our own senses only, not those of his, which our imaginations copy. By the imagination we place ourselves in his situation, we conceive ourselves enduring all the same torments, we enter as it were into his body, and become in some measure the same person with him, and thence form some idea of his sensations, and even feel something which, though weaker in degree, is not altogether unlike them (TMS I.i.1.2).

It is possible to suggest that given that Smith's sympathy is based on ideas about the operation of moral insight, there is a fundamental difference between Smith and Hume because the latter, for the large part, rejected the notion that there could even be moral insights of this kind (Fitzgibbons 1995: 21).

Consequently, the radical separation between Hume and Smith has implications for the latter's understanding of the individual. Indeed Fitzgibbons (1995: 28-29) argues that 'Smith rejected every one of Hume's major philosophical propositions, including utility, scepticism, the relativity of values, radical individualism, and the rigorous distinction between positive and normative ideas'. Notably, Smith fervently rejected the 'rational

utility maximiser' who was Hume's 'alternative ideal to the ancient philosopher who had perceived the higher world through contemplation and the mind' (Fitzgibbons 1995: 52). Smith rejected a theory of utility on a number of grounds. For a start, as has been noted, he opposed the nihilism of Hume that such a theory seemed to imply; his understanding of the individual did not divorce the economic from the ethico-political.

Moreover, and perhaps more importantly for Smith, a theory of utility could not even provide a proper explanation of individual behaviour or sensations themselves. In Smith's eyes, although there may be a certain level of admiration attached to the apparent convenience of utility in terms of means fitting ends, there is no suggestion that it can be regarded as part of an explanation of behaviour and action. Indeed there are comments made by Smith (TMS I.i.4.4) to suggest that the idea of utility is not much more than a post-hoc rationalisation of action: for instance, he calls such explanations 'plainly an after-thought'. Referring to Hume directly, Smith (TMS IV.2.3) also writes:

> The same ingenious and agreeable author who first explained why utility pleases, has been so struck with this view of things, as to resolve our whole approbation of virtue into a perception of this species of beauty which results from the appearance of utility. No qualities of the mind, he observes, are approved of as virtuous, but such as are useful or agreeable either to the person himself or to others; and no qualities are disapproved of as vicious but such as have a contrary tendency … But still I affirm, that it is not the view of this utility or hurtfulness which is either the first or principal source of our approbation and disapprobation. These sentiments are no doubt enhanced and enlivened by the perception of the beauty or deformity which results from this utility or

> hurtfulness. But still, I say, they are originally and essentially different from this perception.

In all, the intellectual relationship between Smith and Hume is complex with regards to their understanding of the individual. There are clear points of agreement: both thinkers wrote in conversation with Hutcheson's ideas about moral sense in order to move away from the idealist philosophy of the Greeks, and natural law philosophy, towards a humanism based on understanding feelings and sensations. However, a key point of divergence turns on their response to this move. For Hume, it led to scepticism and the adoption of a theory of utility. For Smith, by contrast, there was still a role for moral insight, which required an understanding of moral judgement that went beyond the misleading concept of utility. As such, I again note the stark contrast between the position that Smith took in conversation with his contemporaries and the importance that would later be attached to the concept of utility, albeit in a distinctly modified form, in later economistic understandings of market-oriented behaviour, and often erroneously imputed onto Smith himself.

Rousseau, Mandeville, and self-love

Alongside utility, contemporary economistic conceptions of the individual typically rely on some understanding of an individual's pursuit of 'self-interest', narrowly understood. Concerning this subject, it is extremely telling to examine the relationship between Smith and Jean-Jacques Rousseau. Following Pierre Force (2003: 1), it is also important to note that the *specific* term 'self-interest' occurs only *once* in WN. Incidentally, even this one single usage seems to be rather different to the common perception of what self-interest means in Smith's supposed 'system'. It appears in the context of a discussion

about education where Smith points to the problem of clergy members not being responsive to their students' needs. He writes: 'In the church of Rome, the industry and zeal of the inferior clergy is kept more alive by the powerful motive of self-interest, than perhaps in any established protestant church' (WN V.i.g.2). Thus, this single use in WN does not really have anything to say about economic coordination and certainly does not suggest that the self-interest of one leads to the good of all.

Rather than the term self-interest, in TMS as well, Smith makes much more use of the term 'self-love'. Crucially, for Force (2003: 1-2), self-love should be understood both as a term used by moral philosophers throughout the seventeenth and eighteenth centuries carrying with it a specific tradition of thought and as the 'translation of a technical term used by Renaissance humanists, *philuatia*'. Thus, the meaning of self-love needs to be negotiated in the context of its philosophical lineage rather than simply translated into ideas about self-interest. Interestingly rather than *amour-propre*, the French translation, Smith's use of the term self-love appears to carry a meaning which is closer to Rousseau's *amour de soi*: an instinct for self-preservation and immediate gratification in the Stoic sense, which in itself is 'neither vicious nor virtuous' (Force 2003: 42). In this way, Smith's (TMS II.ii.2.1) understanding of self-love refers to a basic care of oneself, which is not at odds with broader societal norms and values:

> Every man is, no doubt, by nature, first and principally recommended to his own care; and as he is fitter to take care of himself than of any other person, it is fit and right that it should be so. Every man, therefore, is much more deeply interested in whatever immediately concerns himself, than in what concerns any other man … But though the ruin of our neighbour may affect us much less than

> a very small misfortune of our own, we must not ruin him to prevent that small misfortune, nor even to prevent our own ruin. We must, here, as in all other cases, view ourselves not so much according to that light in which we may naturally appear to ourselves, as according to that in which we naturally appear to others.

In this Stoical sense, as opposed to a seemingly ruthless selfish or purely self-interested action, the understanding of self-love as a primary concern for oneself sheds a rather different light on Smith's oft-cited, and almost always misinvoked, passage about the butcher, the brewer, and the baker. In fact, the earlier part of the paragraph containing this line has one of his few mentions of self-love in the WN (as much of the discussion of self-love occurs in TMS). It reveals that even though an individual's most basic concern may simply be care for oneself, Smith's (WN I.ii.2 emphasis added) stress on the interdependence and cooperative nature of people in society is still notable:

> But *man has almost constant occasion for the help of his brethren*, and is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for their own advantage to do for him what he requires of them … *Give me that which I want, and you shall have this which you want*.

Samuel Fleischacker (2004: 91 emphasis in original) argues that the point of the butcher-brewer-baker passage is that the butcher's customer can appeal to someone else's needs and thus, regardless of whether or not the butcher is self-interested, 'the argument depends on the butcher's *customer* being able to perceive, and address himself to, *other*

people's interests'. In this sense, rather than 'an almost Ayn Randian exaltation of self-love', the passage emphasises the capacity to be '*other*-directed' (Fleischacker 2004: 91 emphasis in original).

Stephen McKenna (2006: 134) also notes the other-directed intentions of the passage by drawing attention to the way in which immediately before and after in the text Smith is not discussing the subject of benevolence per se, but 'discussing the centrality of persuasion as a means of achieving the cooperation necessary in a civil society'. In support of this more linguistic reading of the passage he refers to how in his *Lectures on Jurisprudence* Smith argues that mankind's commercial disposition is in fact founded on 'the natural inclination every one has to persuade' (Smith cited in McKenna 2006: 134). On such an account, the idea that someone is 'more likely to prevail if he can interest their self-love in his favour' is understood through the prism of communicative action rather than physical action. Either way, the passage should clearly be understood as making reference to 'other-directed' intentions.

Moreover, as Fleischacker (2004: 90) further points out, in the butcher-brewer-baker passage, Smith would surely have used a less obvious example if he were attempting to show that people are *always* motivated by self-interest. Smith could, for example, have used Mandeville's suggestion that charitable actions are really motivated by self-interest, but because he does not want to advance this Mandevillian thesis he appeals to one of the paradigmatic ways in which most people already expect self-interest – or perhaps more accurately in Smith's terms, self-love – to work (Fleischacker 2004: 90).

Nevertheless, others have sought to suggest that Smith worked with a 'compartmentalised' understanding of human life such that people can occupy different roles in different areas of life (e.g. Otteson 2002: 193). On this reading, the butcher-brewer-baker passage in WN is an instance of Smith working on an assumption of self-interest as the source of motivation, but in an arena of 'specifically economic relations' rather than implying that 'all interactions between people should be predicated on self-interest' (Otteson 2002: 193). While this interpretation serves to avoid a simplistic reduction of the account of motivation in such passages to pure self-interest, I suggest that read alongside Smith's account of self-love and in the context of his response to Mandeville, a rather different understanding can be discerned which does not 'compartmentalise' in this way.

In fact a notable point of convergence between Smith and Rousseau is that they both felt compelled to write in response to Mandeville's work on what might be termed 'the interest doctrine', or alternatively 'the selfish hypothesis', which was also associated with the Epicurean/Augustinian tradition (Force 2003: 43). Mandeville's (1732: 39) distinctly self-interested understanding of human nature might be summed up in his statement that:

> Man is so Selfish a Creature, that, whilst he is at Liberty, the greatest Part of his Time will always be bestow'd upon himself … It is obvious likewise, that he neither loves nor esteems any Thing so well as he does his own Individual; and that there is Nothing, which he has so constantly before his Eyes, as his own dear Self.

The key idea of the interest doctrine was that self-interest could act as a general explanatory principle for *all* human behaviour and action. Yet although Smith and Rousseau essentially disagree with the interest doctrine, rather than simple censure, they argue *ad hominem* by agreeing with Mandeville as a starting point in order to refute him (Force 2003: 43). On the one hand, their response to Mandeville consists in acknowledging that the description of human behaviour in the interest doctrine appears in many ways to be accurate. Smith (TMS VII.ii.4.6) writes:

> Though the notions of this author [Mandeville] are in almost every respect erroneous, there are, however, some appearances in human nature, which, when viewed in a certain manner, seem at first sight to favour them.

To be sure, Smith and Rousseau agree with Mandeville (1988: 64) to the extent that 'the true Object of Pride or Vain-glory is the Opinion of others' and this concern for the opinion of others drives most of what people do in society.

On the other hand, though, both Smith and Rousseau are highly suspicious of a theory of behaviour such as the interest doctrine that at least appears to claim to explain *all* human action (Force 2003: 261; Otteson 2002: 193). Indeed Smith (TMS VII.ii.4.12) is deeply critical of Mandeville on this point:

> It is the great fallacy of Dr. Mandeville's book to represent every passion as wholly vicious, which is so in any degree and in any direction. It is thus that he treats every thing as vanity which has any reference, either to what are, or to

> what ought to be the sentiments of others: and it is by means of this sophistry, that he establishes his favourite conclusion, that private vices are public benefits.

By way of response, both Smith's and Rousseau's reply to Mandeville is at once psychological and historical. For Rousseau, people in a commercial society tend to be driven by *amour-propre*, 'a passion that has little to do with natural selfishness, and much to do with reason, reflection, and our ability to identify with the feelings of others' (Force 2003: 261). For Smith, in commercial society *vanity* takes centre stage, 'a passion that does not originate in self-love (in the Stoic sense of concern for one's preservation) but rather in sympathy and the desire for sympathy' (Force 2003: 261). Thus for Smith and Rousseau, people in commercial society do not continually pursue the satisfaction of material wants as ends in themselves as the interest doctrine might suggest. Rather, individuals are seemingly driven by *amour-propre* or *vanity*, as they increasingly become predominant in commercial society, to 'seek wealth and material goods only as a means towards an infinitely more elusive goal: praise and approbation from others' (Force 2003: 45).

Indeed Smith (TMS III.4.7) views the constant drive to impress upon the opinion of others in the following way:

> Our continual observations upon the conduct of others, insensibly lead us to form to ourselves certain general rules concerning what is fit and proper either to be done or to be avoided. Some of their actions shock all our natural sentiments. We hear every body about us express the like detestation against them. This still further confirms, and even exasperates our natural sense of their deformity. It

> satisfies us that we view them in the proper light, when we see other people view them in the same light … Other actions, on the contrary, call forth our approbation, and we hear every body around us express the same favourable opinion concerning them. Every body is eager to honour and reward them. They excite all those sentiments for which we have by nature the strongest desire; the love, the gratitude, the admiration of mankind. We become ambitious of performing the like; and thus naturally lay down to ourselves a rule of another kind, that every opportunity of acting in this manner is carefully to be sought after.

A crucial part of Smith's response to Mandeville therefore shows remarkable similarities to that of Rousseau, rightfully understood as one of the fiercest critics of commercial society. In fact, Smith provides a laudatory account of Rousseau's work in his 'Letter to *The Edinburgh Review*' which reveals something of the proximity of their perspectives. In his review, Smith actually gives Rousseau's *Discourse on Inequality* as an example of one of the reasons why the coverage of the periodical should be extended to include more works from the Continent (Rasmussen 2008: 59-60). Smith (1980b: 250) writes:

> Whoever reads this last work [Rousseau's *Discourse on Inequality*] with attention, will observe, that the second volume of the Fable of the Bees has given occasion to the system of Mr. Rousseau, in whom however the principles of the English author are softened, improved, and embellished, and stript of all that tendency to corruption and licentiousness which has disgraced them in their original author.

The notable implication of this proximity for an understanding of Smith's individual is that, as with Rousseau, he clearly rejected the interest doctrine as holding any significant promise in terms of understanding individual behaviour and action. Likewise, as with Rousseau, Smith saw the historically conditioned nature of behaviour in his argument that it is essentially the development of 'vanity' as a driving motive, rather than naturally ingrained self-interest, which influences people in commercial society. As Force (2003: 47) surmises:

> When authors like Hirschman or Sen propose to discard the theoretical parsimony advocated by their fellow economists, they follow the path opened by Rousseau and Smith, who both believed that the 'selfish hypothesis' was too clever to be truth, and proposed systems based on principles other than self-interest. On the other hand, we have seen that Rousseau and Smith shared another belief: although it is true that the 'selfish hypothesis' cannot explain human nature, human behavior in civilized society can be described in very large part as a search for wealth and material goods. In other words, the ultimate goal of economic activity is something symbolic and intangible: approbation from others. At the same time, for historical reasons, the search for praise and approbation now manifests itself almost exclusively as a search for wealth.

This picks up on the way in which both Smith and Rousseau understood economic agency to be a 'historicised phenomenon' (Watson 2012: 16). In both of their accounts, the 'individual does not reflect any transcendent behavioural principle when making economic decisions, but instead allows the cultural norms of the surrounding society to influence choices about appropriate conduct. The interaction between the individual and

a structured system of manners is therefore inescapable, because such systems become the backdrop at any given moment to all ideas about proper and improper action' (Watson 2012: 16). Significantly, any degree of recognition on Smith's behalf of the historically and socially conditioned nature of economic agency seems to be in direct contrast to those later economistic understandings of market-oriented behaviour which, building on the premises of the interest doctrine, are noticeably *ahistorical*.

Furthermore, there are also similarities between Rousseau's analysis of 'pity' and Smith's account of sympathy which both take Mandeville's description of pity as an important starting point. For Rousseau pity 'is a pre-rational faculty, made weaker by the full use of human reason' (Force 2003: 27). Building on Mandeville, François de La Rochefoucauld, and Shaftesbury, the key 'innovation' that Rousseau made was to base pity on his concept of 'identification': the process by which people put themselves imaginatively 'in the place of the person who is suffering' (Force 2003: 25; 31). Rousseau (1997: 153) writes:

> [B]enevolence and friendship, properly understood, are the products of a steady pity focused on a particular object … commiseration is nothing but a sentiment that puts us in the place of him who suffers … Indeed commiseration will be all the more energetic in proportion as the Onlooking animal identifies more intimately with the suffering animal.

As will become clear, there are striking similarities between Rousseau's 'identification' and Smith's sympathy. Yet, at this point, it is worth considering one of Smith's key statements regarding his thoughts on sympathy and self-love as it reveals something of

the nature of his rejection of Mandeville and his proximity to Rousseau. Smith (TMS VII.iii.1.4 emphasis added) writes:

> Sympathy, however, cannot, in any sense, be regarded as a selfish principle. When I sympathize with your sorrow or your indignation, it may be pretended, indeed, that my emotion is founded in self-love, because it arises from bringing your case home to myself, from putting myself in your situation, and thence conceiving what I should feel in the like circumstances. But though sympathy is very properly said to arise from an imaginary change of situations with the person principally concerned, yet this imaginary change is not supposed to happen to me in my own person and character, but in that of the person with whom I sympathize. When I condole with you for the loss of your only son, in order to enter into your grief I do not consider what I, a person of such a character and profession, should suffer, if I had a son, and if that son was unfortunately to die: but *I consider what I should suffer if I was really you, and I not only change circumstances with you, but I change persons and characters*. My grief, therefore, is entirely upon your account, and not in the least upon my own. It is not, therefore, in the least selfish … That whole account of human nature, however, which deduces all sentiments and affections from self-love, which has made so much noise in the world, but which, as far as I know, has never yet been fully and distinctly explained, seems to me to have arisen from some confused misapprehension of the system of sympathy.

In all, as this passage attests, a focus on the relationship between Smith and Rousseau highlights their remarkably similar engagement with concepts relating to questions of

individual behaviour, action, and suffering. Their common response to Mandeville and their specific interpretation of self-love provides a cutting critique of the interest doctrine and those later perspectives that build upon its premises. As Vivienne Brown (1994: 99) points out, Smith uses a distinctly Stoic understanding of self-love in TMS which means it is 'hazardous' to read it in search of moral categories that can be used as validating devices for the economic development of a commercial society. The irony, of course, is that in holding up Smith as its intellectual forebear, the economistic understanding of the individual in many contemporary liberal perspectives takes as its first principle the interest doctrine, or the 'selfish hypothesis', which originated in its current form largely in Mandeville, who Smith and Rousseau were in fact adamantly refuting in their work. Certainly, those readings of Smith in IPE which largely depend on an economistic historiography of his work (Chapter 2), in making claims like 'self-interest leads as if by an invisible hand to the good of society' are actually exposing a doctrine much closer to Mandeville than Smith. Rather ironically, Smith (TMS III.2.27) was incredibly critical of the interest doctrine and, in his terms, considered Mandeville a 'splenetic' philosopher.

3.2 Smith's intervention

Smith's 'intentions'

According to Fitzgibbons (1995: 193), rather than present an interest-based account of liberalism, the primary aim of Smith's work appears to revolve around offering a new moral insight into early liberalism and the notion 'that a liberal society need not be undermined by its own lack of values'. As such, many have pointed to the ways in

which Smith seems to have had the intention of providing liberalism with a 'workable moral foundation' and not just in his TMS, but in WN as well (Fitzgibbons 1995: v). Yet, as mentioned above, the suggestion is often made that Smith must have in some sense 'compartmentalised' his 'ethics' and his 'economics' (e.g. Otteson 2002: 193). On this argument, his thoughts on self-love in commercial society and his virtue ethics appear to apply to two separate spheres: 'the sphere of what actually happens and the sphere of what should be' (Fitzgibbons 1995: 3).

However, in response to these accounts, Fitzgibbons (1995: 4 emphasis in original) convincingly suggests that 'the more intriguing possibility is that Smith wanted to *integrate* economics and morals, by developing a philosophy that would harness the force of self-love without being dominated by it'. This line of interpretation would seem more historically accurate given the intellectual context in which he was writing as outlined above. As Smith built on the thought of Hutcheson and Hume, he saw himself as working within the framework of their 'highest ambitions', which were to contribute to moral philosophy as broadly conceived in both its classical humanist and natural law senses (Teichgraeber 1986: 122).

Crucially, though, it is necessary to proceed with caution when attempting to give a complete account of Smith's overall intentions in writing his work. Jerry Evensky is particularly illuminating on this issue. In essence, Evensky (1987: 175-176) suggests that there are 'two voices' in which Smith writes: Smith as moral philosopher on the one hand and Smith as historian, contemporary observer, and social critic on the other. In the former, 'Smith sees the world as the Design of the Deity, a perfectly harmonious system reflecting the perfection of its designer' (Evensky 1987: 176). In the latter, by

contrast, Smith sees the world not in the Design of an ideal vision because 'human frailty leads to distortions in the Deity's Design' (Evensky 1987: 176). For Evensky (1987: 184), then, Smith intentionally makes a clear distinction between an 'ideal world' of the Design and the 'real world' for which he offers a 'practical-prescriptive perspective'. What is particularly worthy of note is that there may be an alteration in Smith's approach concerning this distinction as his thought developed over time. Indeed Evensky (1989: 378) suggests that 'in Smith's early work his moral philosophical voice represented humankind as evolving in spite of its flaws toward an approximation of an ideal society'. By contrast, in his later work, Smith 'took on the new role of social critic' as he realised that the power of factions and monopolies were not just historical artefacts, but actually continuously detrimental to the progress of commerce (Evensky 1989: 379).

I do not wish to impose on Smith a level of consistency that is unwarranted, nor do I want to suggest that he ought to be criticised if his thoughts altered due to the adoption of a different 'voice' over time. Of course to do so would be to fall foul of Skinner's mythology of coherence (Chapter 2) and might involve discounting parts of Smith's work for no good reason. What is more interesting from the perspective of recovering Smith's understanding of the individual is that if it is possible to identify a shift in his thought, or simply the presence of two voices in his work, his conception of the individual moral agent might not be completely unified and constant either. If Smith was operating as both a moral philosopher and as a social critic as Evensky suggests, he may have included a level of malleability into his conception of the individual which depended on historical circumstance, or, in other words, on the particular social rules and values of the society to which he referred. In fact, Smith (TMS III.4.11) writes:

> When these general rules [formed through attempting to impress upon the opinion of others], indeed, have been formed, when they are universally acknowledged and established, by the concurring sentiments of mankind, we frequently appeal to them as to the standards of judgment, in debating concerning the degree of praise or blame that is due to certain actions of a complicated and dubious nature. They are upon these occasions commonly cited as the ultimate foundations of what is just and unjust in human conduct; and this circumstance seems to have misled several very eminent authors, to draw up their systems in such a manner, as if they had supposed that the original judgments of mankind with regard to right and wrong, were formed like the decisions of a court of judicatory, by considering first the general rule, and then, secondly, whether the particular action under consideration fell properly within its comprehension.

This has important implications for considering individual behaviour as the outcome of a (sympathetic) procedure that takes place in society, which I later discuss, as opposed to a transcendental standard of moral judgement. As Smith (TMS VII.iv.6) himself writes, ethics is 'a science which … does not admit of the most accurate precision'. This leads Vivienne Brown (1994: 75 emphasis added) to make the interesting point that in TMS Smith's 'ideal moral agent … is not the unified, integral moral agent such as we see in the case of the ideal Stoic man, the "fully furnished and completed being" of the monologic hero, but in some respects is *a more fractured and struggling moral being*'. This is a point to which I return for it hints at how Smith's individual might be understood as *a site at which* judgement and standards of ethics come to be interactively formed and contested.

Smith's 'politics'

An attempt to get a firmer grasp of Smith's intentions does not become that much more straightforward by considering his 'politics' in the narrow sense of the term. Yet, as Donald Winch's (1978) *Adam Smith's Politics* shows, a consideration of his thought along these lines can be very revealing in terms of locating it in its linguistic and historical context. Winch (1978: 141) claims that Smith's many criticisms of all 'interest groups' in society make it extremely difficult to categorise his politics: he could be construed as anything from a 'nostalgic Tory' to 'a pioneer theorist of labour exploitation along Marxian lines'. Indeed, as Fitzgibbons (1995: 70) points out, it is possible to identify Smith as a 'revolutionary', but the issue with this is that at his time 'collectivism was a right-wing doctrine that favoured the social and religious power structure, whereas liberalism meant subverting that structure and introducing radical social change'. In any case, for Winch (1978: 142), one must not, as many economists and historians of economic thought tend to do, place meanings developed in the nineteenth-century and after to the less familiar eighteenth-century concepts that make up Smith's system.

Striking examples of this kind can be discerned in Michael Fry's (1992) edited collection *Adam Smith's Legacy: His Place in the Development of Modern Economics*, which contains a significant number of Nobel Laureates in Economics reflecting on the 'relevance' of Smith to modern economics to mark the bicentenary of his death. For instance, Paul Samuelson attempts to 'test' the 'findings' of the classical political economists 'with the aid of modern techniques' and discovers that Smith emerges with 'flying colours'; Richard Stone writes about Smith's ideas on 'public economic policy and its limits', claimed to be a 'subject of self-evident interest even two hundred years

later'; and James Tobin sets out 'to trace the presence or otherwise of the invisible hand in modern macroeconomics' (Fry 1992: xi-xiii). In light of a Skinnerian perspective (Chapter 1), the general tone of this whole collection as a celebration of Smith as the founder of modern economics appears to submit to a mythology of prolepsis. More problematically, picking up on Winch's critique, these contributions tend to fall foul of a mythology of parochialism in the sense that they engage in a process of historical foreshortening whereby ideas and concepts are deemed applicable to the contemporary world at the expense of historicised meaning.

Winch (1978: 23) further identifies the problem that there is apparent 'underlying agreement' about situating Smith's politics into arguments about an emerging 'liberal capitalist context'. This interpretation of Smith's politics locates him as part of 'a much larger story in which the strength and autonomy of a socio-economic realm variously threatens, limits, or deflects the realm of the political' (Winch 1978: 23). However, in response to this line of thinking, Winch's (1978: 26) central argument is that Smith's style of political analysis cannot be located within the language and categories of the liberal *capitalist* perspective. Indeed, on his reading, Smith's politics is far more 'problematic that it has been made to appear' (Winch 1978: 26). Most firmly, Winch (1978: 180-181) suggests that:

> Smith did not advocate the establishment of a particular economic order called capitalism; nor did he prize what he set out to analyse, namely commercial society, for the sake of its benefits in the form of democratic freedoms.

In many ways, perhaps the value of Winch's work comes from the way in which he demonstrates exactly who and what Adam Smith was *not*. At the very least, he shows that it is possible to read into Smith's politics elements of a number of political positions (Winch 1978: 182). Yet, in doing so, Winch also serves to distance Smith from those interpretations of him which suggest that he was essentially arguing for a *capitalist* system as part of a larger liberal capitalist or bourgeois 'tradition' of thought.

On Winch's (1978: 184) reading, there is a significant gulf between Smith's intellectual enterprise and those who are commonly regarded as his successors: put simply, there is not an unbroken tradition of liberalism, or bourgeois ideology, stretching from Locke through Smith and Hume to John Stuart Mill and on to present-day economic science. What is important for my consideration of Smith's understanding of the individual in this regard is that this distances him from any form of Benthamite utilitarianism. Such a position would ignore Smith's understanding of the individual and his conception of sympathy, which do not divorce the economic from the ethico-political. This helps to indicate what Smith clearly does not stand for, while the final section of this chapter presents a more constructive image of his concept of 'sympathy'.

3.3 Smith's concept of sympathy

Understanding sympathy

Building on the account of Smith's linguistic context and his intentions in writing given above, I now focus on his understanding of the individual in a more direct sense. Principally, the key concept to consider is his notion of sympathy. In many ways,

Smith's use of the term is a reinterpretation of existing uses by his immediate predecessors. In particular, it relates to a transformation of Hutcheson's ideas about moral sense as a mechanism of approbation and disapprobation to a wider theory concerning the individual in society (Peil 1999: 58). In Hutcheson's (2002: 178 emphasis in original) terms:

> If any say, 'this *moral Sense* is not a *Rule:*' What means that Word? It is not a *strait rigid Body:* It is not a *general Proposition, shewing what Means are fit to obtain an end:* It is not a *Proposition, asserting, that a Superior will make those happy who act one way, and miserable who act the contrary way.* If these be the Meanings of *Rule,* it is no *Rule;* yet by reflecting upon it our Understanding may find out a *Rule.* But what *Rule* of Actions can be formed, without Relation to some *End* proposed? Or what *End* can be proposed, without presupposing *Instincts, Desires, Affections,* or a *moral Sense,* it will not be easy to explain.

In many ways Hutcheson uses a 'traditional' conception of sympathy, which is based on a medical account in which it is a sort of 'emotional contagion, whereby the feelings of one individual are transmitted to others' (Force 2003: 31). By contrast, Smith thought that people cannot directly access the feelings of others in this way, so he placed a greater emphasis on the role of a 'mental representation of what others are feeling' (Force 2003: 31). Thus Smith moved the concept of sympathy away from an almost chance 'contagion' of feeling, as in Hutcheson, towards a conception of a more *active*, process-driven mechanism involving the mental representation of another's position and circumstance. As Smith (TMS I.i.1.2 emphasis added) writes, 'it is by the *imagination only* that we can form any conception of what are [another person's] sensations'.

It has also been suggested that Smith's use of the concept of sympathy is 'significantly more complex than the analogical inference Hume had posited' (Teichgraeber 1986: 135). Indeed in Hume's (1751: 144) understanding, sympathy appears to be a more straightforward sharing of sentiment:

> From this Influence of Cheerfulness, both to communicate itself, and to engage Approbation, we may perceive that there are another Set of Virtues, which, without any Utility or any Tendency to farther Good, either of the Community or of the Possessor, diffuse a Satisfaction on the Beholders, and conciliate Friendship and Regard. Their immediate Sensation, to the Person possessed of them, is agreeable. Others enter into the same Humour, and catch the Sentiment, by a Contagion or natural Sympathy: And as we cannot forbear loving whatever pleases, a kindly Emotion arises towards the Person who communicates so much Delight and Satisfaction.

One way to understand this altering of Hume's understanding is to consider that rather than as the starting point of moral judgement, Smith saw sympathy as 'its very essence' (Teichgraeber 1986: 135). For Smith, an expression of sympathy is not only to *respond* to a particular situation (in Hutcheson's sense) but also, and more significantly, to enter a process of *judging* what passions and feelings *ought* to be in play in that given situation. What this means, and what is not straightforward to appreciate from a present-day perspective, is that for Smith sympathy is not limited to pity and compassion for the misfortune of others (Peil 1999: 84). Rather, it has a wider meaning expressing the possibility of fellow-feeling with any sentiment (TMS I.i.1.5).

In this sense, the contemporary reader might understand Smith's sympathy as something closer to the term 'empathy' or Rousseau's 'identification' highlighted above. As Luc Boltanski (2004: 37 emphasis in original) points out:

> With this premise Smith places himself in the current of Scottish moral philosophy which, in reaction against anthropologies based on selfish interest, especially those of Hobbes and Mandeville, and also in seeking to overcome interpretations of Lockean sensualism which lead towards sceptical subjectivism, makes the 'moral sense' (Shaftesbury) a 'faculty of the human mind' (Hutcheson). *Sympathy* is the natural faculty without which an individual could not know or be interested in someone else.

In addition, it is also crucial to recognise that Smith's sympathy does not refer to specific 'motives' of behaviour or action: the fellow-feeling expressed in the term is of a different *kind* to concepts such as altruism or egoism. By contrast, it is a great deal closer to the 'intersubjective grounds' on which assessments of behaviour and action are considered in terms of *ideas about* benevolence, prudence, justice, self-control, and so on (Peil 1999: 59). Indeed the intersubjective nature of sympathy is made clear by Smith (TMS II.ii.2.1) when he emphasises the dynamics of the relationship between a concern for oneself and a concern for others:

> There can be no proper motive for hurting our neighbour, there can be no incitement to do evil to another, which mankind will go along with, except just indignation for evil which that other has done to us. To disturb his happiness merely because it stands in the way of our own, to take from him what is of real

> use to him merely because it may be of equal or of more use to us, or to indulge, in this manner, at the expence of other people, the natural preference which every man has for his own happiness above that of other people, is what no impartial spectator can go along with.

Thus, from the onset, I note that Smith's sympathy seems to contain built into it recognition of the interactivity between a concern for oneself and a concern for others. In other words, Smith views sympathy as a potential principle in people that 'fosters a continuous relationship between spectators and agents, a natural interdependence among social beings … [It] not only accounts for moral judgement, but more importantly perhaps, it influences human behaviour *ex ante*' (Montes 2004: 55). Another way of expressing this is that Smith provides an account of the 'macro-foundations of microeconomics' (Vaggi 2004: 27). People tend to be guided and constrained by a particular social or macro-structure such that, in certain important ways, 'rules and norms of human conduct derive' from society (Vaggi 2004: 27). This relationship might be understood as an interactive process between the individual, on the one hand, and broader social groups and systems, on the other, in which sympathy comes to generate both a matrix of judgement and standards of ethics at the individual level.

The individual in society

That sympathy can be understood as an interactive process also highlights the way in which Smith conceived of the individual not in an atomistic sense, but as an *individual in society*. According to Andrew Skinner (1996: 59 emphasis added), in TMS, 'Smith's argument is in large measure designed to explain the manner in which we form judgements as to the propriety or merit of actions taken by ourselves or others, *and that*

such judgements always have a "social" reference'. On Smith's account, then, 'man experiences himself as an individual in relation to society' and, at the same time, 'society itself is experienced as a whole comprised of social processes which – by means of social values and rules – give sense, meaning and guidance to the feelings, thoughts, and behaviour and actions of its individual members' (Peil 1999: 58). From this sympathy perspective, the individual and society in some sense presuppose each other as individuals experience and understand themselves only against a background of interaction with other people and society more generally (Peil 1999: 64).

However, an important question this begs is where the boundaries of any particular society lie: who is to be included and excluded? For Smith, on the one hand, there is clearly a sense that a person's sympathy can only extend so far because there are certain 'distance-decay' dynamics that limit people's ability to sympathise with others. Smith writes (TMS III.3.4):

> Let us suppose that the great empire of China, with all its myriads of inhabitants, was suddenly swallowed up by an earthquake, and let us consider how a man of humanity in Europe, who had no sort of connexion with that part of the world, would be affected upon receiving intelligence of this dreadful calamity. He would, I imagine, first of all, express very strongly his sorrow for the misfortune of that unhappy people, he would make many melancholy reflections upon the precariousness of human life, and the vanity of all the labours of man, which could thus be annihilated in a moment. He would too, perhaps, if he was a man of speculation, enter into many reasonings concerning the effects which this disaster might produce upon the commerce of Europe, and the trade and business

> of the world in general. And when all this fine philosophy was over, when all these humane sentiments had been once fairly expressed, he would pursue his business or his pleasure, take his repose or his diversion, with the same ease and tranquillity, as if no such accident had happened. The most frivolous disaster which could befal himself would occasion a more real disturbance. If he was to lose his little finger to-morrow, he would not sleep to-night; but, provided he never saw them, he will snore with the most profound security over the ruin of a hundred millions of his brethren, and the destruction of that immense multitude seems plainly an object less interesting to him, than this paltry misfortune of his own.

On the other hand, though, as this passage continues, Smith (TMS III.3.4) seems to hold out great hope for the 'impartial spectator' – a key part of the sympathy procedure discussed below – in extending the scope of sympathy:

> To prevent, therefore, this paltry misfortune to himself, would a man of humanity be willing to sacrifice the lives of a hundred millions of his brethren, provided he had never seen them? Human nature startles with horror at the thought, and the world, in its greatest depravity and corruption, never produced such a villain as could be capable of entertaining it. But what makes this difference? When our passive feelings are almost always so sordid and so selfish, how comes it that our active principles should often be so generous and so noble? When we are always so much more deeply affected by whatever concerns ourselves, than by whatever concerns other men; what is it which prompts the generous, upon all occasions, and the mean upon many, to sacrifice their own interests to the greater interests

> of others? … It is reason, principle, conscience, the inhabitant of the breast, the man within, the great judge and arbiter of our conduct. It is he who, whenever we are about to act so as to affect the happiness of others, calls to us, with a voice capable of astonishing the most presumptuous of our passions, that we are but one of the multitude, in no respect better than any other in it; and that when we prefer ourselves so shamefully and so blindly to others, we become the proper objects of resentment, abhorrence, and execration. It is from him only that we learn the real littleness of ourselves, and of whatever relates to ourselves, and the natural misrepresentations of self-love can be corrected only by the eye of this impartial spectator.

On first glance, there thus appears to be no reason why sympathy is always limited to within a particular community for Smith: it could potentially be global in reach. Yet such a suggestion contradicts Russell Nieli's (1986: 622) 'spheres of intimacy' argument, which shows, through reference to Smith's own texts, that the 'outermost circle with which a person is connected, according to Smith, is the sphere of his nation-state'. The key part of the passage Nieli refers to is when he writes:

> The state or sovereignty in which we have been born and educated, and under the protection of which we continue to live, is in ordinary cases, the greatest society upon whose happiness or misery, our good or bad conduct can have much influence (TMS VI.ii.2.1).

For Nieli (1986: 623), Smith's position is that it is 'useless' for someone to be concerned with others outside the nation-state as 'they are both physically and emotionally at a

great distance from one's own life … and one cannot naturally sympathize with such people to the same degree that one can with people within one's own sphere of action'. Nieli (1986: 623) rightly recognises that Smith was writing 'at a time when communications and transportation were considerably different from what they are today' – and it is indeed important not to read him out of context. However, the real crux of the issue appears not to be national borders or identities as such, but the ability to have (and comprehend having) an 'influence' upon the lives of others. The key restriction, then, is always *knowing* about others' actions, circumstance, or suffering: people are simply more likely to share sympathetic moments with those with whom they have more frequent interaction. Yet arguably this does not necessarily exclude an expansion of knowing others because in Smith, as in Hume, 'distance is overcome by a deliberate act of imagination' (Boltanski 2004: 38). Indeed, Boltanski (2004: 49) claims that it is this very 'possibility of accounting for a sympathy which can overcome the obstacle of distance' that leads Smith to use his Chinese earthquake example.

Furthermore, according to Boltanski (2004: 37), the imaginative act on behalf of what he frequently referred to interchangeably as a 'bystander' and 'spectator' suggests that:

> Smith did not seek to emphasise the tension between a necessarily local face to face encounter, as in the figure of compassion, and the conveyance over distance of a representation of suffering that is required by a general politics of pity, as if the second figure could be directly derived, smoothly and uninterruptedly, by extension of the first.

Particularly relevant here is the idea that individual behaviour and social processes are understood to be governed by meanings and values that are generated and observed by people as part of a longing for what Smith terms 'mutual sympathy'. In his section 'Of the Pleasure of Mutual Sympathy', Smith (TMS I.i.2.1) writes about this in terms of the potential pleasure to be derived from 'fellowfeeling', the tendency in people to feel pleased when they come to share a particular judgement. In a sense, then, mutual sympathy refers to 'the metaphor through which Smith expresses his fundamental belief that our feelings, thoughts and behaviour are related to an *intersubjectively based framework of rules and values*' (Peil 1999: 88 emphasis added). In his own words, Smith (TMS II.ii.2.1) is clear about the process through which rules and values are socially constructed among individuals in society:

> Though it may be true, therefore, that every individual, in his own breast, naturally prefers himself to all mankind, yet he dares not look mankind in the face, and avow that he acts according to this principle. He feels that in this preference they can never go along with him, and that how natural soever it may be to him, it must always appear excessive and extravagant to them. When he views himself in the light in which he is conscious that others will view him, he sees that to them he is but one of the multitude in no respect better than any other in it. If he would act so as that the impartial spectator may enter into the principles of his conduct, which is what of all things he has the greatest desire to do, he must, upon this, as upon all other occasions, humble the arrogance of his self-love, and bring it down to something which other men can go along with.

For Smith, then, '[s]ympathy forms the foundation of moral judgement by devising criteria of acceptable action after repeated similar observations and after determination of community judgement' (Weinstein 2006: 86). In this sense, Smith's sympathy is very much 'dependent on context' while being both 'contextual and perspectival' – it is a 'constant balancing act between self-knowledge and knowledge of others' (Weinstein 2006: 86).

Moreover, it is possible to suggest that for Smith, given the way in which he understands sympathy to operate as part of a process by which individuals judge their own behaviour and that of others, the rules and values that govern any particular society are subject to contestation and subject to change over time. If a process of socialisation is taken seriously in this way, behaviour is ultimately understood to be changeable according to specific historical situation: 'man is not an invariant element of nature, a stylised "agent" with a predetermined and constant behaviour' (Vaggi 2004: 31). Along these lines, Peil (1999: 63 emphasis in original) suggests that Smith's understanding of sympathy allows for ethico-political concepts such as moral behaviour or social justice to have a meaning and content that 'changes with the *ages and periods of society*'. This is also emphasised by Vivienne Brown (1994: 37) who suggests that for Smith moral discourse is very much part of 'social discourse' because 'it is learnt as part of social life and it partakes of the same motivations and forms of persuasion that constitute the socialised communication of everyday life'. Again, this is in stark contrast to the economistic idea of behaviour and action as governed by certain fundamental causal laws. Sympathy illustrates how ethics and politics might come to be interactively formed between the individual and the broader social system; yet, rather than being fixed, this interaction is

an on-going process of generating a matrix of judgement and standards of ethics still ultimately negotiated at the individual level.

Sympathy as procedure

One insightful way to think about Smith's sympathy along these lines, I suggest, is to view it as involving a 'processual' conceptualisation of the ethico-political individual rather than an understanding of the individual that outlines transcendental or ahistorical standards and laws of behaviour. This is because, as Teichgraeber (1986: 131) points out, Smith views moral judgements as essentially 'comparisons between, on the one hand, particular feelings of people whose conduct we observe, and, on the other, our own sympathetic responses as spectators of their conduct'. This is related to how he frequently speaks of the sympathetic process of entering into a position of an 'impartial spectator' in order to be able to form an opinion on the situation of others. Smith (TMS I.i.5.4) writes:

> The insolence and brutality of anger, in the same manner, when we indulge its fury without check or restraint, is, of all objects, the most detestable. But we admire that noble and generous resentment which governs its pursuit of the greatest injuries, not by the rage which they are apt to excite in the breast of the sufferer, but by the indignation which they naturally call forth in that of the impartial spectator; which allows no word, no gesture, to escape it beyond what this more equitable sentiment would dictate; which never, even in thought, attempts any greater vengeance, nor desires to inflict any greater punishment, than what every indifferent person would rejoice to see executed.

For Smith (TMS III.3.1), then, the procedural mechanism for making these judgements comes through a sympathy procedure; the interaction between the individual and broader social systems as interpersonal ethics come to be negotiated:

> But though the approbation of his own conscience can scarce, upon some extraordinary occasions, content the weakness of man; though the testimony of the supposed impartial spectator, of the great inmate of the breast, cannot always alone support him; yet the influence and authority of this principle is, upon all occasions, very great; and it is only by consulting this judge within, that we can ever see what relates to ourselves in its proper shape and dimensions; or that we can ever make any proper comparison between our own interests and those of other people.

It is possible to take Smith's sympathy in various directions. Interestingly, in his recent *The Idea of Justice*, Amartya Sen (2009b: 70) invokes Smith's reasoning here involving the impartial spectator because he claims it allows for 'incompleteness in social assessment' while 'still providing guidance in important problems of social justice'. This is part of Sen's (2009b: 70) suggestion that in contemporary questions of justice it is more important to find ways of 'dealing with comparative assessment' rather than identifying 'transcendental solutions'. There is certainly some merit in interpreting Smith's sympathy as part of an active process of comparison. Indeed, following Brown (1994: 25 emphasis added), it is possible to claim that for Smith there is an emphasis on 'seeing, observing, [and] watching from appropriate viewpoints' as these all 'constitute the essence of *an active process of moral judgment* in which the moral agent is absorbed'. The active mental process that Smith (TMS III.3.3) describes is as follows:

> Before we can make any proper comparison of those opposite interests, we must change our position. We must view them, neither from our own place nor yet from his, neither with our own eyes nor yet with his, but from the place and with the eyes of a third person, who has no particular connexion with either, and who judges with impartiality between us.

For Smith, then, this active process in which individuals in society take part is one in which imagination plays a central role. Indeed it has been suggested that the 'capacity of imagining oneself in the position of someone else, changing places and personhood, constitutes the main pillar of Smith's moral philosophy' (Montes 2004: 51). Smith (TMS I.i.1.4) writes:

> In every passion of which the mind of man is susceptible, the emotions of the by-stander always correspond to what, by bringing the case home to himself, he imagines should be the sentiments of the sufferer.

Thus Smith (TMS I.i.4.6) is very clear that sympathy is 'founded' on an 'imaginary change of situation', a theme to which I return below. As D. D. Raphael (2007: 13) has it:

> An explicit exercise of the imagination is certainly part of Smith's account of moral judgement. In that context imagining oneself in someone else's place is more pervasive than the actual experience of sympathy.

Indeed Raphael (2007: 15 emphasis in original) further suggests that for Smith imagination plays 'an elaborate double role':

> [W]e have to imagine what spectators would feel if they imagined themselves in our situation; and, while sympathy, or the lack of it, comes into the picture in characterizing the feeling of the spectators, that feeling is an *imagined* feeling; and indeed, in the end, spectators in the real world are replaced by an *imagined* impartial spectator conjured up 'in the breast'.

One consequence that might stem from this understanding of sympathy involving a process of imagining situation and circumstance is that the matrix of judgement and standards of ethics that are produced at the individual level contain within them a certain level of continuous contestability. In fact, Smith (TMS I.i.4.7) makes clear that there is always likely to be a level of variation in what might be thought of as the 'outcome' of the sympathetic process:

> What they [the spectator] feel, will, indeed, always be, in some respects, different from what he [the person principally concerned] feels, and compassion can never be exactly the same with original sorrow; because the secret consciousness that the change of situations, from which the sympathetic sentiment arises, is but imaginary, not only lowers it in degree, but, in some measure, varies it in kind, and gives it a quite different modification. These two sentiments, however, may, it is evident, have such a correspondence with one another, as is sufficient for the harmony of society. Though they will never be unisons, they may be concords, and this is all that is wanted or required.

To understand certain norms, values, passions and so on, then, as the outcome of a sympathy procedure is thus to accept the possibility of many potential variations in human behaviour (Vaggi 2004: 30). Charles Griswold's (1999: 165) point that Smith was 'consciously nonfoundationalist' in his approach to moral sentiments is illuminating here: Smith provides what is a situational account of the formation of ethical judgement. Another insightful way of expressing this is the notion that Smith held 'an essential attachment to *conventionalist* ontology: individuals discover their sense of who they are and of who they should aim to be through being called to pass judgement on the propriety of other people's conduct' (Watson 2012: 19 emphasis added).

In summary, it is possible to suggest that Smith's understanding of sympathy as constituting an active process of both conceptualising and assessing individual behaviour, action, and suffering contains within it a certain level of contestability. It relates to *other people's* opinion, to the social construction of rules and values *in society*; and is part of an *active process* of judgement and comparison. Thus, I argue, Smith's conception of sympathy allows for an understanding of the individual as a site at which ethico-political questions come to be resolved (at least temporarily) as part of the interactive generation of a matrix of judgement and standards of ethics.

Concluding remarks

In this chapter, I have constructed a reading of Smith's individual and his concept of sympathy that remains attentive to *his* intentions in writing his work. The purpose of this chapter is to show how, properly historicised, Smith's sympathy provides a very

telling way of pointing to the flaws in the economistic understanding of market-oriented behaviour that prevails in many contemporary liberal perspectives. Sympathy gives a complex and compelling account of how ethics and politics might come to be interactively formed at the level of the individual, which ultimately shows how the economic cannot truly be divorced from the ethico-political as contemporary liberal perspectives often hold, as I come to show below.

In my consideration of Smith's thought in its social and linguistic context a number of points have been highlighted. First, I considered his thought in relation to his social context and the thought of his immediate predecessors and contemporaries. Given the developments that Smith witnessed at the onset of the transition from feudalism to a commercial society, there is a noticeable concern in his work for civic humanist questions. In this sense, Smith is understood to have had a concern for individual behaviour as it is cultivated by civil society, which is in direct contrast to the asocial and ahistorical individual of economistic understandings.

Part of Smith's response to these questions was to engage with Hutcheson's ideas about 'moral sense'. This led him towards an interest in the role of sentiments, passions and feelings in human conduct, which again contrasts to the socially atomistic economistic individual. Hume also moved towards sentiments, passions, and feelings in response to Hutcheson, but Smith differed from him by rejecting Hume's scepticism and his use of the concept of utility, which proved central to the later development of economistic understandings in the nineteenth-century. For Smith, sentiments and feelings themselves had to be explained, which influenced his development of the sympathy procedure. Moreover, there are significant aspects of the relationship between Smith

and Rousseau that shed light on Smith's thought. Essentially, they both felt compelled to respond to Mandeville's 'selfish hypothesis', which led them to use a particular understanding of the term 'self-love' and develop the very similar concepts of 'amour-propre' and 'vanity' to explain behavioural tendencies in commercial society. What is more, the latter explanation was recognition of the historically conditioned nature of the rules and values that prevail in any given society, again in contrast to the ahistorical causal laws of economistic understandings.

In the second section, I explored how Smith's arguments might be further considered as a contribution to existing debates. I first considered his possible intentions in writing his texts. These were thought to be multiple and may have operated on a number of levels including the use of different 'voices'. As such, I suggested that it is possible that Smith had a conception of the individual that was not necessarily unified, constant, and absolute. This is in direct contrast to the atomistic and uniform economistic individual. Second, I considered some possible interpretations of Smith's politics, which showed that he could not be located within arguments about a liberal capitalist or bourgeois 'tradition' of thought. This distances Smith's individual from Benthamite utilitarianism on which economistic understandings later developed.

In the final section, drawing on the conceptual claims made in the first two sections, I gave a more detailed account of Smith's central concept of 'sympathy', which I find to be central to his understanding of the individual. I suggested that Smith's sympathy constitutes an active process of both conceptualising and assessing individual behaviour which contains within it a certain level of continuous contestability. It is close to Rousseau's *identification* and is essentially *other-regarding* and *self-regarding* at the

same time: it describes the interactivity between an individual and a system in terms of questions of politics and ethics. The sympathy procedure in this sense is not simply an 'other-directed' ontology, for it maintains a constant balancing act and negotiation between the individual principally concerned and broader societal norms and values that are potentially encountered and internalised. From Smith's sympathy perspective, then, individuals are understood as individuals *in society*, in which they construct, contest, and share rules and values. I will further develop this conception in the next chapter in relation to present-day understandings of the liberal individual, but I conclude that it provides a promising way of conceiving the market-oriented behaviour in a distinctly contrasting way to the economistic understandings that prevail in liberal perspectives on market governance. Sympathy illustrates how ethics and politics might come to be interactively formed at the individual level, which in turn shows how the economic cannot truly be divorced from the ethico-political as contemporary liberal perspectives often hold.

In a sense, to even be able to make this claim about Smith and his sympathy procedure, I had to move away from much of the historiography on Smith in IPE given that, for the most part, it is derived from an 'economistic historiography' of his work. I have appealed to more accurate 'history of thought historiography' of his work, which is more attentive to Skinner's methodological rules, to reconstruct and draw attention to the importance of his sympathy procedure in particular. One potential danger here is that by focussing principally on an account of Smith's sympathy procedure, I may inadvertently follow some Smith studies scholars (e.g. Macfie 1967; Raphael and Macfie 1982) who appear to fall foul of Skinner's mythologies of doctrine and coherence (Chapter 2) by suggesting that his concept of sympathy holds the 'real' essence of the entirety of his

work, to the expense of certain aspects of WN for example. However, my claim is more modest. Rather than attempting to provide a doctrinal account of his entire oeuvre, or a definitive 'solution' to the Adam Smith Problem, I merely wish to present an account of his engagement with questions about individual agency at this stage and, on this subject, when suitably historicised in its socio-linguistic context, the sympathy procedure is clearly fundamental.

The account presented here will be used in the following chapter as the basis on which to engage in a dialogic conversation between Smith's 'sympathetic liberalism' and the 'economistic liberalism' of market governance today. The former takes seriously ethico-political contestation over market-oriented behaviour while the latter tends to (re)produce instrumentally rational forms of economic agency. The contrast between the two allows IPE scholars to start to understand and intervene in the economistic implications of contemporary liberal market governance associated with the global financial crisis today.

CHAPTER 4 ----------

Sympathetic Liberalism and Economistic Liberalism: A Dialogic Conversation on the Global Financial Crisis

In this previous chapter, I constructed a reading of Smith's individual and his concept of sympathy that attempts to be attentive to *his* intentions in writing his work. Smith's concern for how individual behaviour is cultivated in society, his eighteenth-century Scottish Enlightenment interest in the role of sentiments in human conduct and, above all, his *sympathy procedure* were highlighted as central aspects of his political economy as moral philosophy. I suggest that these features are pivotal in achieving a successful *historicised* account of his work. What is more, these features also present a two-fold challenge for contemporary IPE. First, they present a 'Smith' that is in large part foreign to the canonical understanding of his work as it comes to form the liberal tradition of IPE. These aspects of his moral philosophy thus present a more ontologically robust depiction of Smith compared to the interpretations that fall foul of Skinnerian mythologies (Chapter 2).

Second, they present for IPE a platform of critique for aspects of contemporary liberalism and, in particular, the economistic liberal individual. That is, Smith's liberalism and his sympathy procedure might be understood as an alternative frame of reference from and with which to engage the 'liberal tradition'. In this chapter, I take on the task of exploring the ways in which a more robust account of Smith's liberalism might be used in such a manner. In this sense I mobilise the idea of using pragmatic

historiography, explored alongside Quentin Skinner's notion of an anthropological justification for the study of the history of ideas (Chapter 1), in order to critically engage with aspects of contemporary liberalism through the lens of a Smithian political economy.

To organise this dialogic conversation – in a further attempt *to sustain a historicised engagement* – I take inspiration directly from Smith by arranging the discussion around the themes he uses right at the beginning of *The Theory of Moral Sentiments* (TMS). Although I make use of other areas of his work as well (including *The Wealth of Nations* (WN)), this is the most important point at which Smith sets out his concept of sympathy (Otteson 2002: 13). Certainly, given my claim in the previous chapter that the cultivation of behaviour, the role of sentiments, and the sympathy procedure are central to a historicised account of Smith, these sections of TMS are an important starting point for engaging with his work. Part I is entitled '*Of the Propriety of Action Consisting of Three Sections*' and Section I of that Part is entitled '*Of the Sense of Propriety*'. The section is then divided into five chapters and I use the themes of the first three (the other two largely expand on these) to arrange this chapter. The first is '*Of Sympathy*', the second is '*Of the Pleasure of Mutual Sympathy*', and the third is '*Of the Manner In Which We Judge of the Propriety Or Impropriety of the Affections of Other Men, By Their Concord Or Dissonance With Our Own*'. Thus, somewhat abbreviated for my purposes here, I use the themes of (1) *sympathy*, (2) *mutual sympathy*, and (3) the *sympathy procedure* to organise discussion in this chapter.

In the first section, I focus directly on what Smith's sympathy implies for an understanding of the individual. By 'the individual', I refer to the individual *subject*,

understood in broad terms as both a (cultural) 'product' of a particular society (Best 2005) and as an 'analytical subject' of a perspective of thought (economistic liberalism, in this instance). A sympathy perspective, as an approach to understanding the individual, gives a complex account of how ethics and politics might come to be interactively formed at the level of the individual. By contrast, I show that the individual of economistic liberalism tends to take the form of the embodiment of instrumental rationality par excellence: *homo economicus*. In the context of the global financial crisis (GFC) as a problem of contemporary liberal governance, I use a discussion of government programmes of 'asset-based welfare' to illustrate this difference and indicate the potential crisis of ethics at the heart of economistic liberalism that will be further explored in the final two chapters.

In the second section, I focus on Smith's notion of mutual sympathy. A sympathy perspective is not simply an 'other-directed' ontology, for it maintains a constant balancing act and negotiation between the individual principally concerned and broader societal norms and values that are potentially encountered and internalised. From a sympathy perspective, then, individuals are understood as individuals in society, in which they construct, share, and contest rules and values. By contrast, the individual of economistic liberalism, tending to take the form of *homo economicus*, ultimately resolves political economy problems by *individualising* them at the expense of contestable interpersonal ethics. In the context of the GFC as a problem of contemporary liberal governance, I use a discussion of 'credit risk', broadly understood, to illustrate this claim and again indicate the potential crisis of ethics at the heart of economistic liberalism to be explored.

In the third and final section, I focus on the on-going contestability of the sympathy procedure. I suggest that Smith's sympathy constitutes an active procedure of both conceptualising and assessing individual behaviour that contains within it a certain level of contestability. By contrast, the individual of economistic liberalism ultimately *depoliticises* political economy, or at least attempts to, by denying contestable ethics at the individual level. In the context of the GFC as a problem of contemporary liberal governance, I use a discussion of 'personal debt' to illustrate this claim and indicate the potential crisis of ethics at the heart of economistic liberalism.

In all three parts of the discussion I utilise aspects of the political economy of finance – asset-based welfare, credit risk, and personal debt – as a means of interrogating the ethics of economistic liberalism in conversation with Smith's sympathetic liberalism. By engaging with these themes in the context of the GFC it is important to note that I do not expect to 'find' straightforward 'answers' in the work of Smith. As has been stressed throughout this thesis, his political economy is 'of another time' in the sense that it is simply not possible to make a direct translation of Smith's ideas to contemporary questions. Rather, I use his sympathetic liberalism – *properly historicised and celebrated as 'of another time'* – to reflect on certain contemporary issues in order to provide an alternative platform from which to understand the very way that economistic liberalism works to construct the individual of the market form and to shape market-oriented behaviour. Yet, given that all three issues relate to how individual behaviour is cultivated in society, the role of sentiments in human conduct, and the potential for liberal ethics, then they are areas of interest *at least similar in intent* to the type of inquiry with which Smith was concerned when he explored the cultivation of standards of behaviour in eighteenth-century society. In this sense, I illustrate how

sympathetic liberalism might operate in discussions of contemporary finance in IPE by presenting a conversation between it and economistic liberalism using issues surrounding the GFC as illustrative cases.

I argue throughout that the economism of contemporary liberalism can be more fully understood through the lens of Smith's sympathetic liberalism. Moreover, the way in which Smith saw the ethico-political constitution of the individual as a foundational element of the study of man and society helps explain *the crisis of ethics in contemporary liberalism* at the heart of the GFC. What is the crisis of ethics? Put simply, the individual of economistic liberalism is severely flawed. It does not allow for contestable ethics at the level of the individual and the consequences of this can be traced through the GFC as a problem of liberal governance. It posits an economistic individual in whom all questions of ethics have already been resolved or assumed away. To act rationally, after all, one needs an end, a good, one is choosing the most efficient means to attain. Yet, seemingly with an almost all-consuming focus on *economising*, the economistic individual does not need to confront questions of ethics because the ends to which they strive are already predetermined.

In this chapter, I introduce the argument – to be interrogated further in the next two chapters – that in the context of the GFC the consequences of this fundamental problem are visible when government programmes promoting asset-based welfare go *unquestioned*, when risk management is *normalised* to the everyday, and when creditor-debtor relations are *depoliticised*. All three of these sites of finance, I suggest, shed light on the crisis of ethics in economistic liberalism. Drawing inspiration from Smith's sympathetic liberalism, IPE can find a more complex account of the individual that, at

the very least, provides a platform for engagement with this potential crisis of ethics. To take account of sympathy is but one means of problematising how ethics and politics might come to be formed and contested at the individual level. Deployed as a frame of reference to examine economistic liberal market governance, Smith's sympathy perspective provides an account that ultimately shows how the economic cannot truly be divorced from the ethico-political as economistic liberalism appears to hold. The dialogic conversation undertaken in this chapter thus provides an analysis of the underpinnings of a sympathy perspective that relates them to three principal sites of finance – asset-based systems of welfare, credit risk, and personal debt – which feature right at the heart of the GFC. These sites of finance can then be interrogated through the use of a sympathy perspective at the 'regulatory' and the 'everyday' levels of finance in Chapters 5 and 6 respectively.

4.1 'Of sympathy'

The sympathetic versus economistic individual: A (further) crisis of homo economicus?

> How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. Of this kind is pity or compassion, the emotion which we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all the other original passions of human nature, is by no means confined to the

> virtuous and humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it (TMS I.i.1.1).

Alongside a gibe at the crass 'interest doctrine' of Bernard Mandeville (out of which arguably economistic liberalism finds its origin), in the opening to TMS Smith presents the essence of his sympathy perspective. The capacity for imagination is central to his account of moral sentiments:

> As we have no immediate experience of what other men feel, we can form no idea of the manner in which they are affected, but by conceiving what we ourselves should feel in the like situation (TMS I.i.1.2).

On this premise, Smith introduces his account of sympathy, which subtly shifts its meaning away from existing use:

> Pity and compassion are words appropriated to signify our fellow-feeling with the sorrow of others. Sympathy, though its meaning was, perhaps, originally the same, may now, however, without much impropriety, be made use of to denote our fellow-feeling with any passion whatever (TMS I.i.1.5).

This is Smith's introduction to the concept of sympathy that, building on the previous chapter, I suggest provides a complex and compelling account of how ethics and politics might come to be interactively formed and contested at the individual level.

How does this provide a frame of reference with which to engage economistic liberalism? As the foreword to the *Stiglitz Report* (UN 2010) attests, many of the classical political economists did not assume away the contestability of the individual subject. For them, people are not the 'socially atomistic construct' who figures in economistic approaches to the study of the world economy. Rather, they supposed, individual economic action cannot be distinguished from the broader ethico-political roles that people play and the broader ethico-political institutions prevalent in the social world. The *Stiglitz Report* (UN 2010: xxviii) is right to emphasise this point because it is important in explaining the crisis of ethics at the heart of the financial crisis:

> As the greatest economic philosophers – whose number surely includes Aquinas, Smith, Marx, and Keynes – have all recognized, homo economicus, the acquisitive, emotionally cardboard, and socially atomistic construct of academic economics is a reductio ad absurdum. They did not merely assume that the ethical vocation of human beings should inform their economic decisions and institutions; they insisted on it, and in ways that today are far out of fashion but are also therefore far more necessary today. It is difficult to read this Report and not come to the conclusion that the Commission members share this perspective.

In a sense, this aspect of the *Stiglitz Report* is indicative of the way in which there is at least a questioning of *homo economicus* from within some areas of the academic economics profession, particularly from more 'heterodox' economists. Another example might be Paul Ormerod (1994: 35), who suggests that a great merit of a socially-situated approach is that by emphasising the 'benefits of co-operative behaviour' and 'the

fundamental interdependence and interconnectedness of human actions' it provides a 'sharp contrast to the individualistic behavioural model of orthodox economics'.

In recent years, related to this sense of disgruntlement from within the economics profession, there has been significant growth in the field of behavioural economics, and the related area of behavioural finance, which also provides a sharp critique of *homo economicus* (Akerlof and Shiller 2009). Self-styled behavioural economists deliberately set out to provide explanations of economic phenomena that take account of the role of such things as sentiment, emotion, and 'the social' in their analysis. In his book on the GFC, *The Subprime Solution*, Robert Shiller (2008: 118-119) claims:

> [T]he human sciences – psychology, sociology, anthropology, and neurobiology – are increasing our understanding of the mind by leaps and bounds, and this knowledge is now being applied to finance and economics. We have a much better grasp of how and why people make economic errors, and of how we can restructure institutions to help avoid these errors.

While in general potentially a useful development for academic economics, and in many ways not necessarily a homogeneous movement, the behavioural turn is to my mind something of a red herring. For a start, the notion of taking sentiments and emotion seriously is extremely useful, but to treat them as 'factors' among competing influences on economic behaviour does not get to the crux of the issue of the cultural (re)production of standards of market-oriented behaviour. Smith's sympathy perspective certainly allows for sentiments, emotion, and 'the social' to run a little deeper into the very constitution of the individual than behavioural analysis seems to

allow. What is more, most significantly, notice how Shiller talks about grasping how and why people make economic 'errors' and how institutions might 'help' correct for them. This is a worldview that is trapped by its other: how to explain why people *do not* conform to *homo economicus* in a world in which economic ends are still already defined and so it is possible to 'help' people act more rationally (for their own good). Putting aside the inherent paternalism of such an approach, there might be reasons why Shiller does not talk of how advances in understandings of deliberative politics or ethics might be brought into economics; trapped by the need to confront instrumental rationality, it does not allow for ethico-political contestation at the level of the individual. In a sense, then, a behavioural economics perspective is just as wedded to assumptions of instrumental rationality as the economistic liberalism that the *Stiglitz Report* criticises: contestable ethics and politics at the individual level are ignored, denied, or assumed away.

However, this is not to suggest that the issues with which behavioural economics and especially behavioural finance engage are not significant. Particularly in light of the bursting of the subprime housing bubble at the onset of the GFC, much attention has been given to such ideas as 'irrational exuberance' and 'animal spirits'. The ways in which people see, observe, and base their actions on others is rightly seen as central to market-oriented behaviour (an insight going back to John Maynard Keynes). Yet, in contrast to economistic and behavioural perspectives, Smith's sympathy perspective provides an account of how market-oriented behaviour is made possible that *does not assume away contestable ethics and politics*.

The real crux of the issue here is sympathy as an *imaginative act*. How might norms of appropriate standards of behaviour come to be formed, learned and internalised? Smith writes:

> Whatever is the passion which arises from any object in the person principally concerned, an analogous emotion springs up, at the thought of his situation, in the breast of every *attentive spectator*. Our joy for the deliverance of those heroes of tragedy or romance who interest us, is as sincere as our grief for their distress, and our fellow-feeling with their misery is not more real than that with their happiness (TMS I.i.1.4 emphasis added).

Some Smith scholars have called this a 'spectator theory' of morality (Haakonssen 2003: 217; Raphael 2007: 31), yet the most important notion introduced by this 'attentive spectator' is the capacity to imagine and mentally reconstruct the situation of another person in order to engage with questions of interpersonal ethics (Fleischacker and Brown 2010: 5).

Crucially, at this point, I want to claim that this spectator theory, or sympathy perspective, is not just used by Smith in his moral philosophy, but in his political economy as well (Lamb 1974). As has been stressed in this thesis, the latter is actually part of the former for Smith; but even so, the idea of constructing and assessing standards of appropriate behaviour can be found at significant points in WN as well as TMS. I am not making the claim that sympathy provides a 'solution' to the Adam Smith Problem (Chapter 2), but merely that sympathy-type dynamics have a role to play in WN that should not be overlooked because it helps form an understanding of sympathy in the

construction of market-oriented behaviour (Macfie 1967: 75). For instance, a concern for the opinion of others is to be found in a discussion of different appropriate rates of profit:

> When a person employs only his own stock in trade, there is no trust; and the credit which he may get from other people, depends, not upon the nature of his trade, but upon their opinion of his fortune, probity, and prudence. The different rates of profit, therefore, in the different branches of trade, cannot arise from the different degrees of trust reposed in the traders (WN I.x.b.20).

Likewise, in a discussion of the legitimate gains to be had from various employment:

> There are some very agreeable and beautiful talents of which the possession commands a certain sort of admiration; but of which the exercise for the sake of gain is considered, whether from reason or prejudice, as a sort of publick prostitution. The pecuniary recompence, therefore, of those who exercise them in this manner, must be sufficient, not only to pay for the time, labour, and expence of acquiring the talents, but for the discredit which attends the employment of them as the means of subsistence. The exorbitant rewards of players, opera-singers, opera-dancers, &c. are founded upon those two principles; the rarity and beauty of the talents, and the discredit of employing them in this manner. It seems absurd at first sight that we should despise their persons, and yet reward their talents with the most profuse liberality. While we do the one, however, we must of necessity do the other. Should the publick

> opinion or prejudice ever alter with regard to such occupations, their pecuniary recompence would quickly diminish (WN I.x.b.25).

Some scholars suggest that WN 'presupposes the *framework* of justice' set out in TMS (O'Brien 2004: 37 emphasis in original), but I would take a more thoroughgoing stance and point to the centrality of the sympathy procedure as an account of the process through which institutions and norms of interpersonal ethics are internalised at the individual level (Teichgraeber 1986: 47). From such as perspective, to follow a Smithian approach to political economy, then, is to recognise that the 'conditions under which market institutions will prove operable are not economic conditions at all, but relate to the constitution of the individual as a moral being' (Watson 2005b: 144).

How is this to be done? Arguably, in contrast to economistic liberalism, it is a question of starting from the position of contestable ethics at the individual level. For Smith, as imaginative sympathy is always potentially incomplete and provisional, so too is the construction of standards of market-oriented behaviour. A moment of sympathy,

> does not hold universally, or with regard to every passion. There are some passions of which the expressions excite no sort of sympathy, but before we are acquainted with what gave occasion to them, serve rather to disgust and provoke us against them. The furious behaviour of an angry man is more likely to exasperate us against himself than against his enemies. As we are unacquainted with his provocation, we cannot bring his case home to ourselves, nor conceive any thing like the passions which it excites (TMS I.i.1.7).

For Smith, then, to exercise a capacity for sympathy is to imagine both intent and circumstance as part of an often imprecise balancing act (Montes 2004: 48):

> Even our sympathy with the grief or joy of another, before we are informed of the cause of either, is always extremely imperfect. General lamentations, which express nothing but the anguish of the sufferer, create rather a curiosity to inquire into his situation, along with some disposition to sympathize with him, than any actual sympathy that is very sensible. Sympathy, therefore, does not arise so much from the view of the passion, as from that of the situation which excites it. We sometimes feel for another, a passion of which he himself seems to be altogether incapable; because, when we put ourselves in his case, that passion arises in our breast from the imagination, though it does not in his from the reality (TMS I.i.1.9-10).

Drawing these points together, I argue that to utilise a sympathy perspective it is necessary to confront contestable ethics at the level of the individual. From such a perspective, IPE might become 'the study of individual action within the context of institutionalized economic norms' with the important recognition that '[s]ome individuals may internalize those norms to the point at which they are subject to routine reproduction within their conduct, while others will attempt to operate outside them having first accepted the legitimacy of alternative bases of behaviour' (Watson 2005a: 5). The crucial point is that, *contra* assumptions of instrumental rationality, market-oriented behaviour is understood to be both the outcome of and inherently involved with contestable interpersonal ethics at the individual level. In the context of the GFC as a problem of contemporary liberal governance, I use a discussion of recent government

programmes of asset-based welfare to illustrate the difference between Smith's sympathetic liberalism, which allows for contestable interpersonal ethics, and economistic liberalism, which does not. In the final analysis, the engagement indicates a crisis of ethics at the heart of economistic liberalism.

'Asset-based welfare' as a feature/crisis of liberal market governance

To pin down exactly what is meant by 'financialisation' is no easy task, yet the concept is useful for understanding dynamics of change in Anglo-America over the last 20 years or so. Shaun French *et al*. (2011: 2) provide an insightful bifurcation of the concept. On the one hand, they point to how financialisation is used, in basic terms, as a descriptor of a 'transformation in economy and society, whereby the financial sector and financial markets come to occupy a dominant or quasi-dominant position'. This first form mobilises the epochal idea of emergent 'finance-led economic systems' in countries such as the US and the UK. On the other hand, they point to how financialisation is also used in a 'narrower sense to describe the processes and effects of the growing power of financial values and technologies on corporations, individuals and households'. Clearly related, this second form thus emphasises how discourses, interests, and expectations come to be realigned by the increasing influence of financial values and logics. For my discussion of the character of the economistic individual in the context of the GFC, it is this second and narrower sense in which financialisation becomes important because it captures something of 'the growing reliance, directly or indirectly, on capital markets, securitized products and contracts, and institutions allied to a transaction-driven mode of financial activity' (French *et al*. 2011: 10). Another term used for this second form is 'coupon pool capitalism', which exists 'where the financial markets are no longer simple

intermediaries between household savers and investing firms but act dynamically to shape the behaviour of both firms and households' (Froud *et al*. 2002: 120).

An important part of the financialisation story is thus the (partial) restructuring of the Western state towards a greater reliance on asset-based systems of welfare. It relates to how governments use policy mechanisms to reconfigure notions of personal financial responsibility and involves the wider restructuring of the welfare state, as responsibility for basic welfare is shifted from the collective to the individual (Langley 2007a: 112). As Alan Finlayson (2009: 411) puts it:

> In the UK, asset-based welfare policies are part of a broader strategy for altering aspirations by inculcating financial literacy and shifting attitudes towards money from an old-fashioned focus on wages, cost and short-term expenditure towards a new-economy focus on wealth and assets, savings and investments for the long term. This involves the transfer of knowledge and skills but also of a certain kind of ethos or orientation towards finance and towards the self.

The individualisation of responsibility for welfare is not simply an 'ideological shift' over the last 30 years or so, but something more culturally profound: as Finlayson notes, it relates to a reconfigured *ethos* towards finance and the self. In fact, the restructuring of the UK and other Western states along asset-based welfare model lines is intimately related to how economistic liberalism comes to inform government attempts to promote market-oriented behaviour. This is because the shift from the collective to the individual relies on certain notions of *personal* financial responsibility that are deeply ingrained with assumptions about autonomous and instrumentally rational individuals. Such

attempts at reconfiguration of ethos are of course based on dominant ideas about how people *ought* to behave and see themselves in relation to wider society. Along these lines, Matthew Watson (2009b: 199) has shown how the move towards an asset-based system of welfare in Britain assumes 'autonomous selves' based on a particular construction of duty in which the individual is required to internalise nothing more than 'a technical understanding of norms of justice laid down by the broader body of law'. Essentially, then, contestable interpersonal ethics are denied by the model citizen of asset-based welfare systems. The autonomous financialised selves of such a system are not expected in anyway to mentally reconstruct the situation of others through an imaginative sympathetic act, they merely pursue their own (ostensive) financial gain through investment in housing, for example, as an asset to bring themselves personal financial security. Presumably, there simply are none of Smith's 'attentive' spectators in such a financialised society.

In this regard recent work in IPE has highlighted the importance of the performance of financial subject positions. In Paul Langley's (2006: 922) terms, this refers to those 'subjects who, self-consciously and responsibly, further their own security and freedom through the market in general and through the financial markets in particular'. Notably, it has been claimed, new 'technologies such as the securitization of mortgages, the shift from defined benefit to defined contribution occupational pension schemes, and the rise of personal pensions have helped bring forth new, investor subjectivities and financially self-disciplined subjects' (French *et al*. 2011: 7). Such research points to the ways in which the subprime era involved the cultural production of ever greater numbers of financial subjects given the spread of such products as interest-only adjustable-rate mortgages that 'enabled the inclusion of borrowers as agents within the mortgage and

housing markets' (Langley 2008a: 479). In the (contingent) context of a rising property market, this 'inclusion' seemed all the more necessary given that gaining 'a foot on the property ladder' was part of the widespread cultural performance of finance (Langley 2008a: 479). Western governments were quite happy to allow and even promote asset price inflation in housing as it satisfied an attendant homeowner ideology (Hay 2009; Ronald 2008).

Arguably, then, in the promotion of asset-based welfare (especially owning one's home as a primary asset) particular character traits are legitimised and incentivised to the exclusion of others. The shifting ethos towards the self involves internalising financial values and logics to successfully perform a financial subject position. State restructuring along these lines thus involves reconfiguring notions of responsibility more firmly towards 'autonomous' individual selves who act 'rationally' in the face of the demands of model financial citizenship. In this regard, whether in the area of retirement savings, personal investment, or homeownership, what unites the appropriate character traits of a 'good' financial citizen is an economistic emphasis on market-oriented behaviour displaying instrumental rationality. Whereas Smith's sympathy perspective provides an account of how market-oriented behaviour is made possible that does not assume away contestable ethics and politics, this outlook almost welcomes *homo economicus* as a legitimate blueprint for behaviour. In a sense, then, citizenship under asset-based systems of welfare is predefined and absolute: there can be no ethico-political contestation through the capacity to perform a sympathetic imaginative act.

However, in the GFC, this aspect of financialisation was seemingly also the most threatened. After all, it was the US subprime mortgage sector in which the crisis

originated; a site of finance deeply intertwined with the dream of homeownership (Nesvetailova 2010: 86). Therefore, in certain respects, the GFC can be read as bringing asset-based welfare and the financial subject at least potentially into doubt. In Finlayson's (2009: 416) terms, the subprime crisis 'deals a blow' to the whole ethos that the UK government sought to instil in the nation. How could excesses occur if people were acting as good financial citizens? Were people not acting responsibly?

Interestingly, the behavioural finance literature (e.g. Akerlof and Shiller 2009) that has blossomed in response to the crisis reaffirms an economistic mode of reasoning: people need to be better financial subjects, they need to act *more* like good economistic individuals, understand risks better, not take on such unsustainable levels of debt, and so on. Notably, the bottom line is that financialisation is essentially a good thing, so rather than question securitisation, the task is to make it work better. As Shiller (2008: 119-120 emphasis in original) claims: 'We have a comparable opportunity today with the advent of behavioral economics and behavioral finance, which have the potential to facilitate exciting advances in *financial* engineering'. There is thus continued faith in the 'improvement' of individual behaviour to make it conform to economistic lines: *Nudge* (Thaler and Sunstein 2008), after all, is about 'nudging' people in the 'right' direction.

Read through the lens of Smith's sympathetic liberalism, the major flaw of the economistic individual contained within financialisation tendencies, and in the financialised behavioural response to the GFC, is that it attempts to exclude contestable interpersonal ethics at the level of the individual. In the process of inducing autonomous individuals through asset-based systems of welfare, '[w]hat gets lost … are the multiple

projections of self and other which for Smith worked together in an iterative process that produced the ability to exercise real fellow-feeling' (Watson 2009b: 208). Certainly, there is a paternalistic aspect to such systems given that they are 'about being told what to do and following that advice accordingly, not learning what to do through the agential self-actuation of the relational self' (Watson 2009b: 205). This means that whereas Smith's sympathy perspective provides an account of how market-oriented behaviour is made possible that does not assume away contestable ethics and politics, asset-based systems of welfare tend to deny or ignore the capacity people have to negotiate interpersonal ethics through engaging in an imaginative act.

However, even though the economistic ethos of asset-based welfare systems can be understood to deny contestable interpersonal ethics in this way, it does not mean that market-oriented behaviour as it is actually experienced is always completely and successfully constituted in financialised terms. Indeed performances of the financial subject are best understood not as complete or final, but as the performance of one uncertain subjectivity among others: always-already revisable and open to contestation and subversion through political action. So, for example, Langley (2006: 921) rightly notes that the 'individualisation of responsibility in Anglo-American pensions remains uncertain, an ambition rather than an achievement'. Notably, the notion of uncertainty is important here, because it is actually something of a counterpoint to the uncontestabablity of economistic constructions of market-oriented behaviour. In this sense, it parallels Langley's (2007b: 85) claim that:

> Drawing attention to the contradictions present in the assembly of investor subjects is particularly important if we are to go beyond policy evaluation and

> technical solutions, and begin to genuinely repoliticize the financialization of Anglo-American capitalism. Neoliberal programs currently serve to silence political debate by presenting future economic security as a technical problem to be solved by the individual who calculates, embraces, and bears financial market risk through their investment practices.

This theme of repoliticising financialisation is one I return to (Chapter 6) because it picks up on the idea of ongoing contestable ethics at the individual level, as a sympathy perspective more adequately recognises.

Overall, asset-based systems of welfare represent an aspect of financialisation that can be read as an attempt to exclude interpersonal ethics from economic behaviour by inducing an economistic and autonomous individual detached from the rest of society. That the model financial citizen is made up by many of the character traits of *homo economicus* is no coincidence because, as I explore in the following chapter, it is economistic perspectives, behavioural or otherwise, that largely provide the blueprint for regulatory forms of governance. In a sense, then, the shift to asset-based welfare in Anglo-America embodies the ethos of economistic liberalism. Yet in the context of the GFC, Smith's sympathetic liberalism indicates how this economism is ultimately flawed. To take Smith's ideas about imaginative sympathetic acts seriously is to recognise that questions of interpersonal ethics are not predetermined as the economistic ethos of asset-based welfare appears to presume. In Chapters 5 and 6, I return to the theme of asset-based welfare at the levels of regulatory and everyday finance respectively, in order to further explore this potential crisis of ethics at the heart of economistic liberalism.

4.2 'Of the pleasure of mutual sympathy'

Constitutive interpersonal ethics: A reassertion of the social?

The last section was concerned with what a sympathy perspective means for understanding the individual and the performance of individual subject positions. I now turn to Smith's notion of mutual sympathy to explore more precisely the mechanism through which such a perspective accounts for the formation of interpersonal ethics. At one level, mutual sympathy points to the importance of shared norms and understandings, which have to be formed and experienced *in society* (Macfie 1967: 83; Skinner 1996: 59). Smith (TMS I.i.2.1) explains the experience of fellow-feeling in another attack on the interest doctrine:

> But whatever may be the cause of sympathy, or however it may be excited, nothing pleases us more than to observe in other men a fellow-feeling with all the emotions of our own breast; nor are we ever so much shocked as by the appearance of the contrary. Those who are fond of deducing all our sentiments from certain refinements of self-love, think themselves at no loss to account, according to their own principles, both for this pleasure and this pain. Man, say they, conscious of his own weakness, and of the need which he has for the assistance of others, rejoices whenever he observes that they adopt his own passions, because he is then assured of that assistance; and grieves whenever he observes the contrary, because he is then assured of their opposition. But both the pleasure and the pain are always felt so instantaneously, and often upon such frivolous occasions, that it seems evident that neither of them can be derived from any such self-interested consideration. A man is mortified when, after

> having endeavoured to divert the company, he looks round and sees that nobody laughs at his jests but himself. On the contrary, the mirth of the company is highly agreeable to him, and he regards this correspondence of their sentiments with his own as the greatest applause.

For Smith (TMS I.i.2.2), then, people derive pleasure from the 'correspondence of the sentiments of others with our own'. This possible process of constructing interpersonal ethics tends to be denied in an economistic approach. Ormerod (1994: 34) explains how 'to an economist, just as to Mrs Thatcher, there is no such thing as society, only the individuals who constitute it', but this was quite 'alien' to Smith because he believed that 'the restraint of public morality on individual behaviour was innate'. He also notes:

> In sharp contrast [to Smith's moral framework], modern economics views the economy as something which can be analysed in isolation. There are few greater insults in an orthodox economist's vocabulary than to describe someone as a sociologist. The institutional setting, the historical experience and the overall framework of behaviour are ruthlessly excluded from contemporary economic theory (Ormerod 1994: 14).

In many respects, economic sociology has come to represent a direct critique of mainstream academic economics, especially its foundations built on a narrow utilitarian conception of instrumentally rational behaviour (Hirsch *et al.* 1990). From the perspective of economic sociology, economics can only ever offer a partial account of how 'the economy' works because it is unable to explain the interactive relationship between and mutually constituted nature of economy and society (Swedberg *et al.*

1990). Indeed it is commonly said that '[w]hat unites [economic sociology's] leading exponents like Weber and Durkheim is a refusal to accept an economistic view of society founded exclusively on the assertion of economic interests and the struggle to realise economic wants' (Holton 1992: 181). Incidentally, in the process of providing a cutting critique of narrow utilitarian conceptions of economic behaviour, economic sociology tends to construct the work of Smith as its 'other'; as the archetypal and foundational work of a scholar of the mainstream economics paradigm (e.g. Block 1990; Holton 1992). In this sense, it is guilty of following some of the economistic historiography of Smith that is found in IPE and elsewhere.

Nevertheless, the way in which economic sociology provides a critique of economistic liberalism by insisting on a more socially-determined account of individual economic behaviour in many ways parallels Smith's emphasis on people's capacity for mutual sympathy taking place *within society*. After all, for Smith, such a capacity develops in society as people come into social contact with the moral standards that are embodied in current social institutions (Macfie 1967: 95). Interestingly, Smith (TMS I.i.4.9) suggests that 'the effect of sympathy is instantaneous' between people who know each other's circumstances well, there is expected to be 'less sympathy' between common acquaintances, and 'still less sympathy' between an 'assembly of strangers'. Yet, even among strangers, the presence of other people allows for the sympathy procedure to operate through imagining appropriate behaviour in any particular circumstance (TMS I.i.4.9). In Smith's account then, experience of life in society both allows for and improves the capacity for imaginative sympathy. In his own terms, he later refers to this as society as something of a 'mirror' that allows the individual to view 'the propriety and impropriety of his own passions; the beauty and deformity of his own mind' (TMS

III.i.3). In WN as well, he alludes to how 'observation' and 'censure' by others in society acts as an important conditioning influence on conduct (WN II.iii.40).

An important point, though, is that Smith's sympathy is not just about a straightforward notion of people being sociable or feeling compassion for those less well-off (Wilson 1976: 93). In fact, Thomas Wilson (1976: 94) makes the point that rather than 'opposite poles', sympathy can be the 'basis for individualism'. Smith's position in this regard is quite clearly expressed:

> Every man, as the Stoics used to say, is first and principally recommended to his own care; and every man is certainly, in every respect, fitter and abler to take care of himself than of any other person. Every man feels his own pleasures and his own pains more sensibly than those of other people. The former are the original sensations; the latter the reflected or sympathetic images of those sensations. The former may be said to be the substance; the latter the shadow (TMS VI.ii.1.1).

In a sense, then, sympathy is about balance, contestation, and moments of mutual sympathy. For Smith, the person principally concerned, 'the sufferer' in other words, is aware that an 'imaginary change of situation' does not allow for a complete appreciation of their suffering to the same 'degree of passion' (TMS I.i.4.7). Yet, because the sufferer desires 'a more complete sympathy', that is they want the observer to understand and in some sense share their suffering, they may attempt to moderate or 'flatten' their emotions by 'lowering [their] passion to that pitch … spectators are capable of going along with' (TMS I.i.4.7). This related point about understanding how

moments of mutual sympathy are arrived at again indicates how sympathy is very much a question of 'balance' or a *process* of negotiating appropriate forms of sentiment and behaviour (Weinstein 2006: 86).

Rather than as an other-directed ontology, or the more obvious point that individuals form understandings of appropriate behaviour by living in society, sympathy might be thought of in terms of the 'society in the individual'. Clearly, though, Smith is not merely referring to a respect for public opinion (Wilson 1976: 74). More fundamentally, as referred to in the previous chapter, the individual and society in some sense presuppose each other from a sympathy perspective (Peil 1999: 58). What is more, individual selfhood *and* social processes are understood to be governed by meanings and values which are generated and observed by people as part of a longing for *mutual sympathy*:

> As the person who is principally interested in any event is pleased with our sympathy, and hurt by the want of it, so we, too, seem to be pleased when we are able to sympathize with him, and to be hurt when we are unable to do so. We run not only to congratulate the successful, but to condole with the afflicted; and the pleasure which we find in the conversation of one whom in all the passions of his heart we can entirely sympathize with, seems to do more than compensate the painfulness of that sorrow with which the view of his situation affects us (TMS I.i.2.6).

Mutual sympathy is here a metaphor for an 'intersubjectively based framework of rules and values' (Peil 1999: 88). Sympathy works in a similar way in WN as well by giving

people a capacity to think in terms outside of the self (Lamb 1974: 678-679). For instance, in his discussion of basic standards of living in a society:

> Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged (WN I.viii.36).

Likewise, Smith discusses the way in which someone in the public eye must be attentive to society's mores and values:

> A man of rank and fortune is by his station the distinguished member of a great society, who attend to every part of his conduct, and who thereby oblige him to attend to every part of it himself. His authority and consideration depend very much upon the respect which this society bears to him. He dare not do any thing which would disgrace or discredit him in it, and he is obliged to a very strict observation of that species of morals, whether liberal or austere, which the general consent of this society prescribes to persons of his rank and fortune (WN V.i.g.12).

Drawing these points together, I argue that the concept of mutual sympathy presents a very different picture of interpersonal ethics compared to economistic liberalism. As economic sociologists point out well, the latter tends to build from the assumption of narrow utilitarian understandings of instrumental rationality, which ultimately means that political economy problems are solved by *individualising* them and denying society. From a sympathy perspective, though, the most pressing problem with this is that the denial of society serves to erroneously deny contestable interpersonal ethics. In the context of the GFC, a consideration of how notions of 'credit risk', broadly understood, come to be constructed and legitimised in society presents a telling example of how a sympathy perspective sheds light on the potential crisis of ethics at the heart of economistic perspectives.

'Credit risk' as a feature/crisis of liberal market governance

There is no single thing called 'risk'. For instance in the realm of finance, credit, liquidity, and market risks are conceptually distinct. More deeply, the characteristic of different levels of 'risk' does not really refer to features inherent in a financial asset itself because much depends on *who* is holding that asset and their capacity to 'manage' or 'cope' with it (Warwick Commission 2009: 16). In this sense, risk itself depends on the behaviour of holders of risk, which is arguably an inherently interpersonal matter. Tony Porter (2005: 185) notes that political conflict can be associated with financial risk practices 'in the degree to which they create individual responsibility for one's problems, transforming earlier patterns of mutual obligation into a cold statistical socialization of risks … For some this brings an exhilarating sense of freedom, while for others it can bring a terrible burden of dealing with hardships alone, without the help of others'.

How financial risk is understood, managed, and coped with has to be negotiated in society and thus might be thought of as subject to ethico-political contestation. As Ulrich Beck (1992: 23) insists, the inescapability of interpretation makes risk more broadly infinitely malleable and 'open to social definition and construction'. According to this socio-cultural understanding of risk, it is 'manufactured, not only through the application of technologies, but also in the making of sense and by the technological sensibility of a potential harm, danger or threat' (Adam and van Loon 2000: 2). What is more, this understanding of risk as 'necessarily constructed' makes the politics of 'risk definition' extremely important (Adam and van Loon 2000: 2-4). So, while the application of particular forms of expertise and knowledge (often sophisticated mathematical modelling) may furnish certain risk management practices with legitimacy, it is important to pay close attention to the contested nature of who is defining what as risk and how. In other words, according to work in the socio-cultural study of risk at least, 'disembodied information [is] a farce'; rather, 'knowledge is principally embodied, contextual and positional' and 'taking up a position and to be positioned is inevitably a question of ethics' (Adam and van Loon 2000: 4). Crucially, Smith's notion of mutual sympathy might also draw attention to the contestable place of risk in society by providing an account of the mechanism through which ethico-political norms of and attitudes towards constructions such as risk are negotiated in society.

However, by contrast, mainstream economistic approaches to understanding risk, and in particular credit risk in the subprime era, appear to deny this negotiated aspect of risk by relying upon – and having extreme faith in – ostensibly disembodied, objective, and scientistic representations of risk. Recent research in IPE and related subjects has sought to investigate this by exploring how credit risk has become something which can

be seemingly successfully managed using securitisation and risk management techniques. For instance, Langley (2008a: 472) argues that 'what matters are the ways in which the assembly of the socio-technical agency of sub-prime lending ensured that it came to appear as a legitimate part of the contemporary financial markets, that is, as calculative and scientific'. He suggests that certain 'tools and devices', such as credit scoring and risk-based pricing, 'created the capacity to act and gave meaning to action in sub-prime networks, whereby profitable lending appeared as rational and scientific' (Langley 2008a: 474). Moreover, Langley (2008a: 475) points out that '[o]nce borrowers were sorted and stratified into risk cohorts through the calculations of credit scoring, the charging of relatively high rates of interest in sub-prime lending was de-politicized and became very difficult to question'.

In a sense, then, recent theories of – and faith in – techniques of credit risk management are based on an approach to risk that *at least attempts to depoliticise risk* by propagating a 'science' of risk management. Certainly, in the main, this was the widespread approach to risk that developed in the boom period in the run-up to the GFC. Banks, financial institutions, and credit rating agencies believed that existing levels of expertise and knowledge had translated the fundamental ambivalence and indeterminacy of risk into statements of certainty and quantifiable probabilities. This led to new levels of 'financial engineering' to manufacture products such as mortgage-backed securities (MBS), which became a multitrillion-dollar market on Wall Street (Williams 2010: 91).

In important ways, credit risk *mis*management practices were thus central to the GFC. As Anastasia Nesvetailova (2010: 18) points out, '[m]ost observers concur that the major factor in the global credit crisis was the progressive underestimation, or

misunderstanding, of risk by financial agents, based in turn on the general sense of stability, economic prosperity and optimistic forecasts that pervaded North Atlantic economies and financial markets'. This of course relates to the well-known story of the place of US subprime lending in the GFC (Lanchester 2010). In his book on the fall of Lehman Brothers, *Uncontrolled Risk*, Mark T. Williams (2010: 102) writes:

> Though there is no standard definition of subprime loans, they are generally understood to be the riskiest of consumer loans. Subprime loans had always been a niche market relegated to a handful of specialty lenders who were willing to assume the greater likelihood of credit default. In the early 1990s, this was a small market segment making up less than 5 percent of home loans. By the end of the decade, securitization, government financial support, and a seal of approval from the credit rating agencies had magically legitimized investment in subprime mortgages. Unfortunately, there was only one problem: investment banks had not fulfilled their important market role of effectively pricing and managing risk. Product innovation and the race for profit had trumped strong risk management. In this atmosphere, at least initially, credit risk was allowed to grow and go little noticed.

From a mutual sympathy perspective, which recognises the place of societal construction and contestation of interpersonal ethics, the important point is that the 'atmosphere' to which Williams refers is fundamentally ethico-political. The creation and management of credit risk are endeavours that cannot be premised on merely a society of autonomous individuals because it relates to something which by its very nature is a social construction negotiated within society. In his book, *Subprime Nation*,

Herman Schwartz (2009: 201) thus rightly draws attention to the political context of US subprime lending:

> Politically, this crisis marks the high tide of the neoliberal erosion of the institutional structure of the Bretton Woods-era Keynesian welfare state in the United States. Neoliberal deregulation came late to housing. Until the 1990s, housing finance had effectively been nationalized and regulated via the effective monopoly that the GSEs [Government Sponsored Enterprises] Fannie Mae and Freddie Mac had over mortgage securitization. During the long 1990s, private MBS securitization and the creation of nonvanilla MBSs undermined the GSE monopoly and accentuated the risks of borrowing for homeowners and lending for the beneficial owners of MBSs. Housing-related risk was desocialized, particularly after 2002, when nonagency MBSs began gaining significant market share. The George W. Bush administration (2000-2008) abetted this expansion of private-sector market share by relaxing regulatory standards and suggesting that Fannie Mae and Freddie Mac reduce their presence in the market.

The *politics* of credit risk management are thus central to an understanding of the GFC. Whereas an economistic approach to risk management might make claims to scientistic and objective status, a socio-cultural or mutual sympathy perspective recognises that risk is *created* as well as managed. What is more, the process of creation is understood as an imaginative act that involves contestation of ethics, perhaps similar to Smith's sympathy procedure. For Smith, '[s]ympathy forms the foundation of moral judgement by devising criteria of acceptable action after repeated similar observations and after determination of community judgement' (Weinstein 2006: 86). In this sense, Smith's

sympathy is very much 'dependent on context' while being both 'contextual and perspectival' – it is a 'constant balancing act between self-knowledge and knowledge of others' (Weinstein 2006: 86). Mutual sympathy thus more fully problematises where the construction and contestation of risk takes place.

Read through the lens of Smith's sympathetic liberalism, the major flaw contained within an economistic understanding of credit risk is that it attempts to exclude contestable interpersonal ethics at the level of the individual. It is only through an account of financial market agency that allows for contestable interpersonal ethics, such as in Smithian mutual sympathy, that the subprime debacle can be properly understood. It makes very little sense to deny society, especially in this instance, because what counts as acceptable risk-taking as a societal norm is crucial to understanding how people view themselves, others, and how they act accordingly. So, for instance, the dream of homeownership has to exist as a cultural product in society in order for governments to legitimately promote or allow for schemes to increase homeownership, such as subprime lending. A sympathy perspective recognises that contest, whereas notions of an economistic individual cannot grasp a contestation of ethics.

Overall, widespread practices of credit risk management in the run-up to the GFC appear to be based on scientistic understandings of risk, which tend to deny the constructed and contestable place of risk in society. The GFC, by placing such practices as subprime lending under close scrutiny, can be read as a moment in which risk is re-politicised, or at least recognised as a social construct. What a sympathy perspective adds to this conversation is an account of how moments of mutual sympathy represent the negotiation of ethico-political standards and how norms come to be formed and

contested in society. In a sense then, rather than attempting to negate or eliminate all practices of risk management, a sympathy perspective might merely involve re-politicising the place of risk in society. Subprime lending may not be problematic in and of itself, but if homeownership is to be promoted by programmes of government, then it must be recognised as open to ethico-political contestation at the individual level. Yet in the context of the GFC, read through the lens of Smith's sympathetic liberalism, economistic risk management practices appear to deny this contestation. In Chapters 5 and 6, I return to the theme of credit risk at the levels of regulatory and everyday finance respectively, in order to further substantiate this claim about the potential crisis of ethics at the heart of economistic liberalism.

4.3 'Of the manner in which we judge…'

Contestable interpersonal ethics: Towards a re-politicisation of political economy?

In the first section of this chapter, I presented an account of how Smith's sympathy perspective provides a lens through which to understand the individual that differs greatly from the economistic individual. The former allows for contestable interpersonal ethics at the level of the individual, while the latter does not. In the second section, building on this claim, I suggested that Smith's notion of mutual sympathy provides a compelling account of how interpersonal ethics might be formed and contested within society, which contrasts with the seeming denial of society in perspectives of the economistic mould. The former understands ethico-political norms to be constructed in society, while the latter appears to reject this very process of construction through scientistic appeals to objective and disembodied claims to truth. In this final section, I

show how the sympathy procedure, understood by Smith as something of a continual process, draws attention to *ongoing* contestable interpersonal ethics.

Smith introduces the section on 'the manner in which we judge' by indicating how people come to approve or disapprove:

> When the original passions of the person principally concerned are in perfect concord with the sympathetic emotions of the spectator, they necessarily appear to this last just and proper, and suitable to their objects; and, on the contrary, when, upon bringing the case home to himself, he finds that they do not coincide with what he feels, they necessarily appear to him unjust and improper, and unsuitable to the causes which excite them (TMS I.i.3.1).

For Smith, the sympathy procedure involves a very *active* mental process of ethico-political judgement (Bagolini 1975: 104):

> To approve of another man's opinions is to adopt those opinions, and to adopt them is to approve of them. If the same arguments which convince you convince me likewise, I necessarily approve of your conviction; and if they do not, I necessarily disapprove of it: neither can I possibly conceive that I should do the one without the other. To approve or disapprove, therefore, of the opinions of others is acknowledged, by every body, to mean no more than to observe their agreement or disagreement with our own. But this is equally the case with regard to our approbation or disapprobation of the sentiments or passions of others (TMS I.i.3.2).

Essentially, Smith presents an account of the interactive formation of ethical standards through people's capacity to perform imaginative acts (Boltanski 2004: 38). In his account, it is through a process of imaginative reconstruction and learning from 'our preceding experience of what our sentiments would commonly correspond with' that such standards are negotiated (TMS I.i.3.4). This process of negotiation involves an imaginative internalisation of another's position so that it might be judged against existing understanding (Teichgraeber 1986: 131):

> When we judge in this manner of any affection, as proportioned or disproportioned to the cause which excites it, it is scarce possible that we should make use of any other rule or canon but the correspondent affection in ourselves. If, upon bringing the case home to our own breast, we find that the sentiments which it gives occasion to, coincide and tally with our own, we necessarily approve of them as proportioned and suitable to their objects; if otherwise, we necessarily disapprove of them, as extravagant and out of proportion. Every faculty in one man is the measure by which he judges of the like faculty in another. I judge of your sight by my sight, of your ear by my ear, of your reason by my reason, of your resentment by my resentment, of your love by my love. I neither have, nor can have, any other way of judging about them (TMS I.i.3.9-10).

Later in TMS, Smith's 'impartial spectator' construction becomes central to his account of how an individual might negotiate and construct their *own* ethico-political stance (Raphael 1975). In Smith's terms, '[w]e endeavour to examine our own conduct as we imagine any other fair and impartial spectator would examine it' (TMS III.1.2).

Crucially, it is here that he sets out the role of *self-tutoring* the imagination in his moral system:

> We begin, upon this account, to examine our own passions and conduct, and to consider how these must appear to them, by considering how they would appear to us if in their situation. We suppose ourselves the spectators of our own behaviour, and endeavour to imagine what effect it would, in this light, produce upon us. This is the only looking-glass by which we can, in some measure, with the eyes of other people, scrutinize the propriety of our own conduct (TMS III.1.5).

The self-tutoring element of the imagination is important to Smith because of how he believes in a progressive element to learning standards of appropriate behaviour. As D. D. Raphael (2007: 34-35) puts it, for Smith,

> the approval and disapproval of oneself that we call conscience is an effect of judgements made by spectators. Each of us judges others as a spectator. Each of us finds spectators judging him. We then come to judge our own conduct by imagining whether an impartial spectator would approve or disapprove of it.

In other words, one must learn how to be a spectator of others before being able to develop the capacities of an impartial spectator. Raphael (2007: 36) makes the further point that 'conscience' for Smith is not purely 'a reflection of actual social attitudes' because the impartial spectator, 'the man within', may judge *differently* from the actual spectator, 'the man without', and so the 'voice of conscience reflects what I imagine that

I, with all my knowledge of the situation, would feel if I were a spectator instead of an agent'. This leads to his argument that Smith's impartial spectator 'is disinterested, but neither omniscient nor omnipercipient, and he is certainly not dispassionate' (Raphael 2007: 44). In many ways this parallels Stephen McKenna's (2006: 139) suggestion that 'Smith's impartial spectator concept is less a metaphysics of conscience or a moral epistemology than it is a description of a kind of perpetually situated practice'.

Returning to the beginning of TMS, this theme is actually related to how Smith understands the imaginative internalisation of another's position to be always in a sense incomplete:

> After all this, however, the emotions of the spectator will still be very apt to fall short of the violence of what is felt by the sufferer. Mankind, though naturally sympathetic, never conceive, for what has befallen another, that degree of passion which naturally animates the person principally concerned. That imaginary change of situation, upon which their sympathy is founded, is but momentary. The thought of their own safety, the thought that they themselves are not really the sufferers, continually intrudes itself upon them; and though it does not hinder them from conceiving a passion somewhat analogous to what is felt by the sufferer, hinders them from conceiving any thing that approaches to the same degree of violence (TMS I.i.4.7).

In other words, as Andrew Skinner (1996: 60) explains, in a sense 'accuracy of judgement' will always be 'a function of the information available' such that the correspondence of feeling 'can never be complete'. Nevertheless, despite being

incomplete, the imaginative act is still successful enough to allow interpersonal ethics to be formed in society (TMS I.i.4.7).

To summarise, Smith's account of the sympathy procedure contains a number of related aspects. First, 'the manner in which we judge' is an *active* mental procedure. 'Situation, impartiality, and information' are elements that integrate to the form 'moral-evaluative process' of the sympathetic act (Bagolini 1975: 105). Second, as a process of negotiating standards of interpersonal ethics, it involves an imaginative *internalisation* of another's situation so that it might be judged against existing understanding (Montes 2004: 51). Third, this imaginative internalisation of another's position is *always incomplete*, yet it is *sufficient* for the formation of standards of interpersonal ethics (TMS I.i.4.7). In all, these aspects of the sympathy procedure might be thought of as pointing towards constantly contestable interpersonal ethics at the individual level: on this account, there is no 'single encompassing description of human behaviour' (Vaggi 2004: 31). This echoes Alec Macfie's (1967: 57 emphasis added) suggestion that Smith's social rules reflect 'the *constant criticism* of the "impartial spectator" and the *constant pressure* of "propriety"'.

Therefore as opposed to a static or predetermined standard of model individual behaviour alluded to above in economistic accounts of instrumental rationality, a sympathy perspective thus allows for interpersonal ethics to be formed and negotiated in particular ways at specific moments in time and space. In a sense then, for Smith, standards of appropriate behaviour develop over time as societies change and as such are relative to them, at least in the sense that the content of notions of impartiality and interpretations of 'fair play' depend on the socio-historical situation of the individual

concerned (Macfie 1967: 83-84). At certain times, particular configurations of appropriate standards of ethico-political behaviour will be formed and legitimated by feelings of mutual sympathy, but this does not rule out indeterminable contestation over appropriate standards of ethico-political behaviour. This picks up on McKenna's (2006: 139) point that:

> As Smith describes moral development, virtue is possible as an unintended consequence of rhetorical practice. This consequence is not merely random or fortuitous, but comes out of the nature of communication: humans cannot communicate intentions or sentiments directly to one another and so avail themselves of adaptations of language to speaker, audience, subject, and context to do this. Smith thus rejects the either/or fallacy of a choice between foundational knowledge (or transcendent criteria) on the one hand or pure contingency of value on the other as a basis for morality.

On the one hand, given its allowance for historical, spatial, and cultural specificity, Smith's sympathy perspective might be viewed as an imprecise and even confused understanding of interpersonal ethics for political economy. Especially in light of more rigid assumptions of instrumental rationality, to insist on contestable interpersonal ethics might appear ineffectual. However, more plausibly, on the other hand, Smith's sympathy perspective might instead be celebrated as *re-politicising* political economy by fundamentally opening up contestable interpersonal ethics at the site of the individual. In this view, the 'individual is not a purely passive actor', as it might be in an economistic approach, because market-oriented behaviour is understood to evolve from 'the existing social and institutional framework' (Vaggi 2004: 36). Rather than assume

away or deny ethico-political contestation, the sympathy procedure invites IPE to grapple with the *constitution* of market-oriented behaviour as a foundational problem of political economy.

In important ways, then, Smith's sympathy procedure leaves open some primary questions of political economy. Most forcefully, the formation and reproduction of market-oriented behaviour is left open to ethico-political contestation depending on historical circumstance and prevailing custom. For instance, in WN, as just one example of how this might be understood, Smith himself gives an account of how the problematic political economy question of the distinction between *needs* and *wants* is ultimately only resolvable based on circumstance and custom:

> By necessaries I understand, not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. The Greeks and Romans lived, I suppose, very comfortably, though they had no linen. But in the present times, through the greater part of Europe, a creditable day-labourer would be ashamed to appear in publick without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty, which, it is presumed, no body can well fall into without extreme bad conduct. Custom, in the same manner, has rendered leather shoes a necessary of life in England … Under necessaries therefore, I comprehend, not only those things which nature, but those things which the established rules of decency have rendered necessary to the lowest rank of people. All other things, I call luxuries; without meaning

> by this appellation, to throw the smallest degree of reproach upon the temperate use of them. Beer and ale, for example, in Great Britain, and wine, even in the wine countries, I call luxuries. A man of any rank may, without any reproach, abstain totally from tasting such liquors. Nature does not render them necessary for the support of life; and custom no where renders it indecent to live without them (WN V.ii.k.3).

Overall, therefore, without dwelling on the contemporary relevance of this particular discussion more pertinent to Smith's time, it is possible to see how a sympathy perspective that takes seriously the ongoing contestation of interpersonal ethics begins to open up extremely important questions for political economy that are otherwise closed down in economistic approaches. To take seriously the idea that the ethico-political constitution of market-oriented behaviour can be understood as open, reflexive, and yet to be decided, might serve to re-politicise problems of liberal market governance that are restricted under economistic liberalism by the denial of contestable ethics at the individual level. In the context of the GFC as a problem of contemporary liberal governance, I now use a discussion of 'personal debt' to illustrate this claim and indicate the potential crisis of ethics at the heart of economistic liberalism.

'Personal debt' as a feature/crisis of liberal market governance

Closely related to the issues of financialisation in general, and asset-based welfare and credit risk in particular, is the conundrum of how to understand and cope with personal debt. As indicated above, financialisation has received a great deal of attention in IPE and related literatures and, increasingly, it is recognised as a pervasive social process that extends beyond a series of relations that merely link individuals directly to capital

markets (French *et al*. 2011). In fact, Johnna Montgomerie (2009: 10) suggests that more deeply in the run-up to the GFC there was 'a consensus among policy makers that debt was a virtue, rather than a vice, for the economy as rational individuals, guided by their own preferences, responded to economic stimuli and in doing so created wealth and economic expansion'. She further argues that financialisation is 'unique' in a sense because it 'incorporated ongoing processes of socioeconomic transformation through households' use of unsecured debt' (Montgomerie 2009: 15). Moreover, 'everyday actions ultimately legitimised financialisation as a broader process of economic expansion despite deepening inequality and the intensifying financial insecurity experienced by middle-income households' (Montgomerie 2009: 15). In many ways, then, personal debt plays a significant role in debates on the constitution of market-oriented behaviour.

In the subprime era, arguably financialisation facilitated and even promoted the expansion of personal debt. Based on the explicit assumption that acquiring debt allowed households to benefit from rising asset prices in stock and property markets, practices of financialisation certainly went largely unquestioned in economistic approaches to liberal market governance. For instance, subprime mortgages themselves 'made sense only in an economic environment in which housing prices kept going up, enabling their mortgagers to refinance into a conforming mortgage at lower interest rates' (Schwartz 2009: 225). The problem, as Montgomerie (2009) alludes to, is that the prevailing view of debt as entirely virtuous if it facilitates access and even contributes to the gains of economic expansion, was based on an economistic interpretation of instrumentally rational individuals responding appropriately to external economic stimuli. In such a scenario, ethico-political questions related to such things as excess,

sustainability, or suffering do not really enter the picture because people are assumed to be acting perfectly properly, with both creditors and debtors alike proceeding as good financial citizens helping to contribute to economic expansion. Within such a framework, it appears that the sort of constant contestation over interpersonal ethics that a sympathy perspective might point towards is ignored.

Such problems are further compounded by the fact that '[r]isk-based pricing not only found form in the assembly of agency in sub-prime lending … but simultaneously extended the agglomeration of borrowers and would-be borrowers as a governable population of mass financial consumers' (Langley 2008a: 475). Again, as with government programmes that promote a move towards asset-based welfare, this assembly of economistic agency involves shifting attitudes towards finance and the self. In particular, during 'the consumer credit boom … prudence and thrift are displaced by new moral and calculative self-disciplines of responsibly and entrepreneurially meeting, managing and manipulating ever-increasing outstanding obligations' (Langley 2008b: 135). Through economistic liberal market governance, then, there is seemingly at least an attempt to depoliticise personal debt by inducing market-oriented selfhood which accepts debt as perfectly legitimate and actually part of the rational exercising of good financial citizenship.

In many ways, recent interest in cultural political economy is extremely useful in this regard as it provides the kinds of insights about the cultivation of market-oriented behaviour in which Smith was interested. Langley (2008a: 489) argues that 'while not identifying an unscrupulous or "bad" collective interest to be clearly and unambiguously opposed, cultural economy nonetheless opens up political space in sub-prime lending'.

Most significantly, such lines of thinking re-politicise debt as a problem of liberal market governance in a similar way to how a sympathy perspective might. For instance, Langley (2008b: 143-144) also rightly notes:

> The contradictions of financialized and transformed consumer credit networks are also experienced, lived and negotiated by borrowers. The performance of the subject position of the responsible and entrepreneurial borrower is necessarily partial and incomplete, and is especially problematic for those on low incomes. Representations of borrowers as disconnected figures that are disembedded from all other social relations cannot be maintained.

In this sense, as Danny Schechter (2007: xxvii) points out, the so-called 'democratization of credit' has actually led to 'the democratization of dependency'. Relatedly, Montgomerie (2006: 112) points out that the 'precipitous rise in Anglo-American household indebtedness in the mid-1990s was an inadvertent outcome of the concomitant process of wage stagnation and financial services liberalization'. Households became more dependent on debt because of political strategies to pursue 'non-inflationary growth policy', which involved significant government commitments to price stability rather than full employment, and the 'structural transformation of labour and financial services markets' (Montgomerie 2006: 112). In other words, for Montgomerie (2006: 120), 'rising household debt levels should be considered a product of the historical continuity between the growing demand for credit by households and the increased supply of credit by banks'. In the context of the ostensible financialisation of society, such arguments draw attention to the structurally unequal nature of creditor-debtor relations which might be entirely overlooked by economistic perspectives. In

contrast to an understanding of behaviour as instrumentally rational, which is unable to even engage with ethico-political contestation about the appropriate place of personal debt in society, a Smithian sympathy perspective at the very least problematises creditor-debtor relations by recognising them as part of contestable interpersonal ethics.

Interestingly, in her book *Payback*, Margaret Atwood (2008: 2) has written about debt as 'an imaginative construct' that in many ways parallels how a sympathy perspective might recognise the complex nature and ongoing contestability of creditor-debtor relations. Smith's sympathy procedure, after all, is about the imaginative internalisation of another's position in order to negotiate standards of interpersonal ethics (Teichgraeber 1986: 131). As part of this process, ideas about the role of debt in society thus might be problematised and recognised as inherently political, rather than assumed away as *normal.* Atwood (2008: 50-51 emphasis in original) writes:

> Borrowing and lending would seem to exist in a shadowland – neither 'taking' nor 'trading' – changing their natures depending on the final outcome. They're like those riddles in fairy tales: *Come to me neither naked nor clothed, neither on the road not off it, neither walking nor riding*. A borrowed object or sum is neither taken nor is it traded. It exists in a shadowland between the two: if the interest exacted for a loan is of a loan-shark magnitude, the transaction verges on theft from the debtor; if the object or sum is never returned, it also verges on theft, this time from the creditor. Thus it's 'taking,' not 'trading.' But if the object is borrowed and then returned with a reasonable amount of interest, it's clearly trading. Hostage-taking is the same kind of shadowland transaction: part theft or taking, part trade.

In sum, drawing these points together, a consideration of personal debt can be used to illustrate important differences between an economistic and a sympathetic approach to liberal market governance. The former tends to deny contestable interpersonal ethics which means that issues such as personal debt are ostensibly *depoliticised*. The latter insists on the ongoing contestability of the constitution of market-oriented behaviour such that creditor-debtor relations are understood as inherently ethico-political. So while in the run up to the GFC financialisation and debt were largely seen as unproblematic in economistic liberal approaches, a sympathy perspective that mirrors interest in cultural political economy at the very least problematises and re-politicises financialisation in general and creditor-debtor relations in particular.

Concluding remarks

I have covered a lot of ground in this chapter. My central purpose was to mobilise the idea of pragmatic historiography (Chapter 1) by using a Smithian sympathy perspective to critically engage in a dialogic conversation with certain aspects of contemporary economistic liberalism. This task will only be fully completed in the final two chapters which further analyse economistic liberalism at the regulatory and everyday levels of finance respectively. Yet, in this chapter I introduced the conceptual building blocks on which this more empirically-focussed engagement will take place. Taking direct inspiration from Smith's texts so as to maintain a historicised reading, I introduced an outline of his sympathy perspective built up in three stages: sympathy, mutual sympathy, and the sympathy procedure. Each of these, I suggest, correspond to three foundational features of contemporary liberal market governance that can be explored as potential

sites of a crisis at the heart of economistic liberalism: asset-based welfare, credit risk, and personal debt. In the following two chapters, I use these sites of crisis as the central themes on which to engage economistic liberalism in the context of the GFC in order to illustrate the use of a sympathy perspective.

In the first section introducing sympathy, I made the basic point that whereas economistic liberalism tends to build from assumptions about instrumentally rational behaviour, a sympathy perspective conceives market-oriented behaviour to be both the outcome of and inherently involved with contestable interpersonal ethics at the individual level. Then, I made the argument that asset-based systems of welfare represent a central aspect of financialisation tendencies in the GFC that can be understood as an attempt to exclude interpersonal ethics from economic behaviour by inducing an economistic and autonomous individual detached from the rest of society. Smith's sympathetic liberalism indicates how this economism is ultimately flawed because to deny contestable ethics at the individual level is to deny people the ability to realise market-oriented forms of behaviour in the first place.

In the second section, I argued that the concept of mutual sympathy presents a very different depiction of interpersonal ethics compared to economistic liberalism. The latter tends to build from the assumption of narrow utilitarian understandings of instrumental rationality, which ultimately means that political economy problems are solved by *individualising* them and denying society. From a sympathy perspective, though, the major conceptual problem with this denial of society is that it erroneously serves to deny contestable interpersonal ethics as well. Then I suggested that widespread practices of credit risk management in the run-up to the GFC appear to be

based on scientistic understandings of risk, which tend to contradict the constructed and contestable place of risk in society. What a sympathy perspective adds to this conversation, by contrast, is an account of how moments of mutual sympathy represent the negotiation of ethico-political standards and how such norms of risk come to be formed and contested in society.

Finally, in the third section, I illustrated how a sympathy perspective that takes seriously the ongoing contestation of interpersonal ethics begins to open up extremely important questions for political economy that are otherwise closed down in economistic approaches. I argued that to take full account of the idea that the ethico-political constitution of market-oriented behaviour is open, reflexive, and yet to be decided, might serve to re-politicise certain problems of liberal market governance that are restricted under economistic liberalism. Furthermore, I suggested that by attempting to deny contestable interpersonal ethics, economistic liberalism tends to depoliticise creditor-debtor relations whereas a sympathy perspective would insist that, as with all formations of market-oriented behaviour, they are inherently ethico-political and continually contestable.

Overall, this chapter can be read as an application of Smithian sympathetic liberalism in order to provide an illustrative conceptual critique of economistic liberalism. In many ways, at the conceptual level, what I have referred to as 'economistic liberalism' is essentially tied to, but is not a synonym for, mainstream academic economics and attendant approaches in IPE that tend to be categorised as part of the 'liberal tradition' of political economy. A conceptual critique of economistic liberalism of this sort in relation to the GFC is of significance for a number of reasons. For a start, it has been

suggested that 'the global meltdown … is a crisis of economics as a profession as much as it is the crisis of finance' (Nesvetailova 2010: 170). Indeed, even the University of Chicago professor and conservative author Richard Posner (2009: 260 emphasis added) has suggested that '[e]xcessive deregulation of the financial industry was a government failure *abetted by the political and ideological commitments of mainstream economists*'.

Yet, moving beyond this, I want to make the case that the GFC provides an illustration of how there is a crisis of ethics at the very heart of economistic liberalism as it comes to be embodied in liberal market governance. In the next two chapters, then, I demonstrate the potential of what might be called a 'sympathy perspective' by applying it to the issues of asset-based welfare, credit risk, and personal debt in order to substantiate this claim about the crisis of ethics. At these three sites of finance, it can be shown that the economistic approach to liberal market governance tends to deny the contestable place of interpersonal ethics at the individual level. By contrast, a Smithian sympathy perspective developed from a historicised account of his work (Chapter 3), at the very least, problematises and opens up contestable ethico-political space at these important sites of finance intimately involved with the GFC.

CHAPTER 5 ----------

Regulatory Financial Market Agency and the Global Financial Crisis

> In the same year that America declared its independence, Adam Smith published his famous treatise, *The Wealth of Nations*, in which he argued that the pursuit of self-interest would lead to the general well-being of society. A hundred and seventy-five years later, Kenneth Arrow and Gerard Debreu, using the Walrasian model, explained what was required for Smith's insight to be correct (Stiglitz 2010b: 241).

As Chairman of the United Nation's (2010) *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis*, Joseph Stiglitz is a global leader in financial market governance. Given my interest in engaging economistic liberalism in a dialogic conversation with Smith's sympathetic liberalism outlined in the previous chapter, it is of particular significance how someone in Stiglitz's position interprets Smith because, as I have argued, the contest over historiographical issues can perform a significant role in the very construction of contemporary debates themselves. Plainly, though, as the above quotation reveals, Stiglitz appears to fall foul of at least one of Skinner's basic mythologies of interpretation. In addition to the 'misdescription' of meaning in the claim that 'the pursuit of self-interest would lead to the general well-being of society', surely it is to submit to a mythology of parochialism to claim that later economists were able to prove that Smith was 'correct' through the use of a subsequent, and distinctly different, 'Walrasian model' (Watson 2005b)? This problem of 'historical foreshortening' is seemingly not discerned by economistic

interpretations such as Stiglitz's, even though it is highly imprudent to even attempt to employ Smith's ideas without seeking to provide a historicised account. In this chapter, by contrast, I want to build on my historicised account of Smith constructed in Chapters 3 and 4 to further my analysis of economistic liberalism at the regulatory level of finance.

In the previous chapter I mobilised the idea of pragmatic historiography by using a Smithian sympathy perspective to critically engage in a dialogic conversation with certain aspects of contemporary economistic liberalism. Taking direct inspiration from Smith's texts, I introduced an outline of his sympathy perspective built up in three stages: sympathy, mutual sympathy, and the sympathy process. Each of these, I suggested, correspond to three foundational (and interrelated) features of contemporary liberal market governance that can be explored as potential sites of a crisis at the heart of economistic liberalism: asset-based welfare, credit risk, and personal debt. In this chapter, I use these sites of finance as the central themes in regulatory discourse on which to engage economistic liberalism in the context of the GFC in order to illustrate the use of a sympathy perspective.

In the first section, I expand on the argument that asset-based systems of welfare represent a central aspect of financialisation tendencies involved in the GFC that can be understood as an attempt to exclude interpersonal ethics from market-oriented behaviour by inducing an *economistic* and *autonomous* individual detached from the rest of society. Smith's sympathetic liberalism indicates how this economism is ultimately flawed because to deny contestable ethics at the individual level is to deny people the ability to realise market-oriented forms of behaviour in the first place. Specifically, I

illustrate how asset-based systems of welfare, advocated by regulatory institutions even in their assessments of the GFC, are based on assumptions of instrumentally rational behaviour that serves to deny contestable interpersonal ethics. Instrumentally rational behaviour is promoted at the regulatory level as asset-based welfare is left *unquestioned* and the consequences of this are revealed in the contradictory attempts to assign responsibility for the GFC in these assessments.

In the second section, I expand on the suggestion that widespread practices of credit risk management in the run-up to and during the GFC appear to be based on *scientistic* understandings of risk, which tend to contradict the constructed and contestable place of risk in society. What a sympathy perspective adds to this conversation is an account of how moments of mutual sympathy represent the negotiation of ethico-political standards and how such norms of risk come to be formed and contested in society. Specifically, I illustrate how techniques of credit risk management, advocated by regulatory institutions both before and during the crisis, are based on assumptions of instrumentally rational behaviour that essentially exclude contestable interpersonal ethics by individualising risk. Instrumentally rational behaviour is promoted at the regulatory level as risk management is *normalised* in society and the consequences of this are revealed in the flawed scientistic approaches to understanding the crisis.

Finally, in the third section, I expand on the argument that by attempting to deny contestable interpersonal ethics, economistic liberalism tends to *depoliticise* creditor-debtor relations whereas a sympathy perspective would insist that, as with all formations of market-oriented behaviour, they are inherently ethico-political and continually contestable. Specifically, I illustrate how the ways in which regulatory institutions treat

issues of personal debt both before and during the crisis, are based on assumptions of instrumentally rational behaviour that essentially exclude contestable interpersonal ethics in credit-debt relations. Instrumentally rational behaviour is promoted at the regulatory level as debt is *depoliticised* and the consequences of this are revealed in how taking on personal debt to maintain or improve standards of living is understood as appropriate behaviour before and in response to the crisis.

This chapter takes its cue from the suggestion that the GFC is not merely a moment of instability in an otherwise well-ordered and successful political settlement for finance, but is more of a signifier event drawing attention to the deeper changes and potential contradictions related to ongoing processes of financialisation (Brassett *et al*. 2010). One such probable site of contradiction might be the construction of financial market agency that is contained within regulatory accounts of and responses to the crisis. As Andrew Gamble (2010: 6) suggests, '[a]lmost everyone agrees now that there was over-borrowing and under-saving both in the public and private sectors, and that the markets ran ahead much too far and too fast'. However, he continues, a 'growing literature analyses how national economies have become increasingly reliant on policies that promote financialisation and on the provision of cheap credit. Re-regulating the financial markets in the wake of the crash may not be easy to accomplish if it is seen as substantially weakening one of the main contributors to the growth and prosperity of the last two decades' (Gamble 2010: 7). Put another way, the GFC presents an interesting conundrum at the regulatory level: on the one hand, over-borrowing and under-regulated markets come up for potential blame for the crisis – in part the problematic summoning of *overly*-financialised individuals – while, on the other hand, re-regulating national economies in response to the crisis might involve challenging some of the very

fundamental tenets of financialisation, which is problematic in a context in which market-oriented behaviour is increasingly understood and constituted in financialised terms.

In this chapter, I demonstrate how a sympathy perspective indicates some of the problems of continuing to treat financial market agency in economistic terms. At the three sites of finance explored at the regulatory level, the GFC is understood *as a crisis based on the denial of contestable ethics* at the individual level. When asset-based welfare goes *unquestioned*, when risk management is *normalised* to the everyday, and when creditor-debt relations are *depoliticised*, an economistic approach to financial market agency can be demonstrated to be reproduced, even though it is ultimately flawed on its own terms. By contrast, a Smithian sympathy perspective, at the very least, problematises and opens up contestable ethico-political space at these important sites of finance intimately involved with the GFC.

5.1 The regulatory governance of asset-based welfare

In this section, I show how in the regulatory governance of asset-based welfare there is an attempt to exclude interpersonal ethics from market-oriented behaviour. In other words, I illustrate how asset-based systems of welfare, advocated by regulatory institutions even in their assessment of and response to the GFC, are based on assumptions of instrumentally rational behaviour that serve to deny contestable interpersonal ethics. Such behaviour is promoted at the regulatory level as asset-based

welfare is left unquestioned and the consequences of this are revealed in the contradictory attempts to assign responsibility for the GFC.

A central feature of asset-based systems of welfare is at the heart of the GFC: homeownership. As with many previous booms and busts, US house price gyrations are understood to have inflicted significant costs on the world economy (IMF 2011a: 112). The way in which declining US house prices led to the 'subprime crisis', through the ensuing 'credit crunch', to the full-blown world recession is part of the well-known story of the GFC (Gamble 2009). Certainly, the regulatory discourse picks up on the pivotal place of homeownership – or more accurately *attempts at homeownership* – in the crisis. The Financial Crisis Inquiry Commission (FCIC) (2011: 6) notes how 'familiar market mechanisms were … transformed' as investors around the world sought to purchase securities built on US real estate: 'seemingly one of the safest bets in the world'. But as weak origination standards contributed to rising delinquencies in the US subprime market, the asset-backed security collaterised debt obligation (ABS CDO) market seized up when credit rating agencies announced widespread downgrades of subprime residential mortgage-backed securities (RMBS) in July 2007, and the problems in the credit markets spilled over into short-term money markets as banks became concerned about the adequacy of their capital and the size of their balance sheets (BIS 2008a: 12). The securitisation of 'poorly underwritten' residential mortgages, particularly US subprime loans, eventually transmitted significant losses to the banking, securities, and insurance sectors globally (FSB 2011: 6).

Financial responsibility and the character of subprime

The FCIC (2011: xxiii) stresses that the crisis cannot be put down to the actions of 'a few bad actors'. Yet, at the same time, it also points out that 'the breadth of this crisis does not mean that "everyone is at fault"' (FCIC 2011: xxiii). Who then bears responsibility for the GFC? On the one hand, the FCIC (2011: 125 emphasis added) describes how lending standards 'collapsed' because of a 'significant failure of accountability and responsibility *throughout each level of the lending system*'. In this sense, the notion of 'subprime' refers to something much wider than a particular borrower group: it represents 'an unprecedented, broad-based erosion of credit standards' (Zandi 2009: 33). Yet, on the other hand, the question of who is creditworthy and who is uncreditworthy when it comes to acquiring a residential mortgage is one that figures right at the heart of the subprime crisis. In the regulatory discourse, there is certainly an emphasis placed on the character of the subprime borrower. As is well-known, they are understood to typically have one of more of the following characteristics: 'weak credit histories that include payment delinquencies and bankruptcies; reduced repayment capacity as measured by credit scores or debt-to-income ratios; or incomplete credit histories' (IMF 2007b: 7fn).

Given these characteristics, the regulatory discourse tends to openly suggest that the extension of mortgage credit to those who were in some sense 'unworthy' was a major contributing factor to the undermining of an *otherwise successful* securitisation model. For instance, the Bank for International Settlements (BIS) (2008a: 12) points to the 'extremely weak' underwriting standards for subprime mortgages which contained 'multiple layers of risk' including 'less creditworthy borrowers, high cumulative loan-to-value ratios, and limited or no verification of the borrower's income'. This of course is

part of the 'predatory lending' phenomenon widely recognised as a foundational feature of the subprime debacle (e.g. Nesvetailova 2010: 111; Stiglitz 2010b: 175; Zandi 2009: 97). The FCIC (2011: xxiii) also notes the fundamental problem of weak origination standards: 'Many mortgage lenders set the bar so low that lenders simply took eager borrowers' qualifications on faith, often with a willful disregard for a borrower's ability to pay'. It reports how in the first half of 2005 nearly one-quarter of all mortgages made were interest-only loans, and that for the year as a whole, 68% of 'option ARM [adjustable-rate mortgage]' loans originated by Countrywide and Washington Mutual (both later bailed-out by the US Government) had 'low' or no-documentation requirements (FCIC 2011: xxiii). Similarly, the International Monetary Fund (IMF) (2008a: 5fn) states that in early 2008, the increasing rate of US foreclosures appeared to be 'a function of fraud, speculation, over-extension by borrowers, and the effects of weak underwriting standards'. It states that 'highly-leveraged nonprime lending' was driven by a combination of low interest rates and rapidly rising house prices, which 'masked the plummeting lending standards, since the overstretched borrowers found it easy to refinance or sell the house at a profit' (IMF 2009b: 92).

Moreover, the Financial Stability Board (FSB) (2011: 6) suggests that the surge in mortgage lending and house price growth experienced in the US – and the UK as well – involved more emphasis being placed on property valuations rather than assessments of a borrower's capacity to repay. These countries also witnessed the development of new 'riskier products that made use of more relaxed product terms, liberal underwriting and increased lending to higher-risk borrowers' (FSB 2011: 6). In response, the FSB (2011: 4) recommends more thorough verification processes regarding a borrower's ability to repay. Therefore it welcomes the stringent lending requirements that the US Dodd-

Frank Act 2010 imposes on lending, including the instruction that '[c]reditors are required to make a reasonable and good faith determination, based on verified and documented information, that the consumer has a reasonable ability to repay a residential mortgage loan' (FSB 2011: 15). The FSB (2011: 21-22) also champions the use of a loan-to-value cap on mortgage lending because '[m]eaningful initial down payment requirements help to validate borrower capacity as well as ensure necessary commitment to the obligation'. Furthermore, it suggests that future house price appreciation ought not to be considered in the evaluation of a borrower's ability to repay a mortgage loan (FSB 2011: 23).

What was governments' role in producing these weaker lending standards? The FCIC (2011: xxvii) reports that successive US governments set 'aggressive homeownership goals with the desire to extend credit to families previously denied access to the financial markets'. However, it continues, 'the government failed to ensure that the philosophy of opportunity was being matched by the practical realities on the ground' because the Federal Reserve and other regulators did not rein in 'irresponsible lending' (FCIC 2011: xxvii). Therefore, the FCIC (2011: xxvii) suggests that 'the talk of opportunity was tragically at odds with the reality of a financial disaster in the making'.

In terms of government participation in the US housing market, tax breaks and subsidies are widely recognised to have promoted homeownership, which in turn are thought to have encouraged higher levels of household debt, a relaxation of lending standards, and upward pressure on property prices (FCIC 2011: 424; IMF 20011a: 130; 143; OECD 2009: 49). The government-sponsored enterprises, Fannie Mae and Freddie Mac, were a key part of this government promotion of homeownership as they played a central role

in providing liquidity to the mortgage market and leading the securitisation process (IMF 2008b: 34). The Community Reinvestment Act 1979 is also singled out because it encouraged lending in low-income neighbourhoods which in turn 'promoted the purchase of more and bigger homes than would otherwise have been possible, exacerbating leverage and the severity of boom-and-bust dynamics' (IMF 2011a: 130). Crucially, the FCIC (2011: 230) notes that community lending commitments not required by the Act were 'clearly used by lending institutions for public relations purposes'.

Perhaps because of their understanding of the perfectibility of the securitisation model, a great deal of the regulatory discourse refers to the distorted 'incentives' that led lenders to extend mortgages to those who ought not to have had access. Specifically, the suggestion is frequently made that the source of these perverse incentives was strong investor demand. For instance, the BIS (2008a: 7) suggests that origination standards in newly securitised asset classes were 'driven by the requirements of investors as much as by the credit views of the firms that originate the credits': demand from investors for ABS CDO tranches therefore in some ways 'drove' the growth in the US subprime market. As such, lenders 'had weak incentives to maintain underwriting standards given the strong investor demand for subprime risk' (BIS 2008a: 12; BIS 2005: 55). The Financial Stability Forum (FSF) (2008: 8) concurs that high investor demand for securitised products 'weakened the incentives of underwriters and sponsors to maintain adequate underwriting standards'. It notes that lax loan underwriting included unverified borrower information and clear indications of fraud (FSF 2008: 36).

Reading across the regulatory account of the GFC, it is possible to discern a notable level of agreement over the fundamental *problem* of the character of the subprime borrower. Specifically, the subprime borrower displays the character traits that are potentially threatening to the securitisation model if credit is extended to them on too lenient terms. In the build up to the GFC, 'they' were extended access to homeownership based on the promise of asset-based welfare with ultimately disastrous consequences. As Federal Reserve Chairman Ben Bernanke lamented to the FCIC (2011: 423), at one point 'both lenders and borrowers became convinced that house prices would only go up'. This led to house price rises becoming a 'self-fulfilling prophecy' because borrowers were granted loans on the 'expectation that accumulating home equity would soon allow refinancing into more sustainable mortgages' (Bernanke cited in FCIC 2011: 423).

Incidentally, a few years earlier, Bernanke himself gave a rather different account of this suggestion that borrowers were at fault for expecting house prices to continue on an upward trend. In May 2007, only a matter of months before the housing market nosedived, Bernanke (2007) attempted to reassure US homeowners that there were no dangers visible to existing prices and that potential homeowners should actually assume the continued one-way trajectory of prices:

> All that said, given the fundamental factors in place that should support the demand for housing, we believe the effect of the troubles in the subprime sector on the broader housing market will likely be limited, and we do not expect significant spillovers from the subprime market to the rest of the economy or to the financial system. The vast majority of mortgages, including even subprime

> mortgages, continue to perform well. Past gains in house prices have left most homeowners with significant amounts of home equity, and growth in jobs and incomes should help keep the financial obligations of most households manageable.

Thus while lenders, regulators, and governments are identified as at least complicit in the subprime debacle, it is the subprime borrower who is ultimately subject to a large degree of 'blame'. In a sense, the behaviour of the subprime borrower is therefore highlighted as at least one significant cause of the GFC. This is the case even though for the most part the idea of a subprime borrower did not really have a defined collective personality – at least not one that existed in much of the mainstream commentary coming by market watchers – until the collapse came. The FCIC (2011: 7) reports that '[m]any people chose poorly', sometimes living 'beyond their means' and chose non-traditional mortgages 'because that was the only way they could get a foothold' in areas with high property prices. Some of these choices are said to be the result of certain inadequacies on behalf of borrowers – for instance, if they did not understand the terms of their mortgage or did not appreciate the risks attached to declining house values (FCIC 2011: 424).

A paper in a US Federal Reserve discussion series corroborates this line of argument by pointing to the role of 'borrower confusion' and how 'a sizable number of adjustable-rate borrowers … do not know the terms of their contracts' (Bucks and Pence 2006: 2). Notably, the authors suggest that 'households with low income and less education are less likely to know their mortgage terms' (Bucks and Pence 2006: 3). The Federal Reserve also expresses concern that many subprime borrowers 'may not fully

understand the risks and consequences' of obtaining certain kinds of mortgages (Board of Governors 2007: 2). In all, the regulatory depiction of the flawed subprime borrower can be summed up by the Organisation for Economic Co-operation and Development's (OECD) (2009: 64 emphasis added) suggestion that:

> Financial risks have been increasingly transferred to individuals in recent decades. Not only do defined-contribution pension plans transfer longevity and investment risks to individuals, but the crisis has exposed an array of vulnerabilities where *poorly-prepared households endangered their own financial security* by purchasing inappropriate products.

From a sympathy perspective, it is possible to note how this economistic treatment of responsibility for welfare or 'financial security' is expressed in distinctly *individualised* terms. Rather than understanding market-oriented behaviour as constituted by contestation over interpersonal ethics, the regulatory discourse tends to be deeply economistic in its outlook by reinforcing standards of instrumentally rational behaviour. The highly ethico-political contention that people should take complete personal responsibility for their own welfare and security is therefore left unquestioned. The notion that a credit-debt relation is inherently unequal and therefore an ethico-political question is entirely overlooked. By contrast, as explored in the previous chapter, Smith's conception of the sympathy procedure differs markedly from what is being suggested here in financialised terms. The crucial point is that, *contra* assumptions of instrumental rationality, by taking Smith's sympathy seriously, market-oriented behaviour is understood to be both the outcome of and inherently involved with contestable interpersonal ethics at the individual level.

Financial 'education' and the reinforcement of asset-based welfare

The potential crisis of ethics is revealed more fully in the regulatory attempt to 'educate' people out of the subprime debacle. In response to the identified problem of subprime borrower 'confusion' and 'poor' decision-making, there is an emphasis in the regulatory discourse on 'educating' people to act more rationally in their financial affairs to help prevent future crises and to 'better equip individuals to deal with a more complex world' (OECD 2009: 64). Most explicitly, the OECD (2009: 65 emphasis added) suggests that it is 'important that [government] policies are accompanied by education that promotes *rational household decision making*, in order to avoid future crises'. Stressing the benefits of this 'education', it also notes how this 'rational' behaviour serves to legitimate government responses themselves: 'Effective financial education and awareness campaigns help individuals to understand financial risks and products and thus take decisions better adapted to their personal circumstances. They also help them understand the need for policy action and reform' (OECD 2009: 65). What is more, the OECD (2009: 65) points out that: 'Informed (or financially literate) consumers also contribute to more efficient, transparent and competitive practices by financial institutions. Better educated citizens can also help in monitoring markets, and thus complement prudential supervision'.

This revolves around a discourse of an active, responsible, and well-informed financial consumer who is able (unlike the subprime borrower) to behave in an economically sound way that serves to sustain the asset-based model of welfare. In fact, the FCIC (2011: 90) explains how 'borrowers are the first defense against abusive lending': summoning up the idea of a well-informed financial individual able to act in a perfectly instrumentally rational way in order to secure/make the market. 'By shopping around',

the FCIC (2011: 90) continues, such individuals will ensure that a lender will offer them the most suitable type of loan; rather than produce a situation as occurred in the GFC in which 'many borrowers [did] not understand the most basic aspects of their mortgage'. In support of this argument, it reports that at least 38% of borrowers with ARMs in the subprime era did not understand how much their interest rates could reset at one time, and more than half underestimated how high their rates could rise (FCIC 2011: 90). This emphasis on model financial consumer action is also expressed by the Independent Commission on Banking (ICB) (2011b: 153 emphasis added) which argues:

> In banking markets as elsewhere, what matters is not competition in the abstract but competition to provide what customers want – effective competition. In markets that work well, suppliers compete vigorously with each other, and with the real threat of entry by other firms, to provide a choice of products to *well-informed customers*. Moreover, this happens without damaging side effects on others. Customers, though individually small, enjoy *the power of informed choice*.

What is more, the identified need to educate citizens to act as better financial consumers relates to other areas of asset-based systems of welfare (Froud *et al*. 2006). For instance, the OECD (2009: 97) also notes the importance of strengthening 'financial education programs for pensions'. It continues:

> The rapid growth of defined contribution plans in many countries means that individuals face more of the risk in, and assume more of the responsibility for, assuring their own long-term financial well-being. They are likely to make better

> decisions, and contribute to better overall functioning of financial markets, if they are well educated and informed about issues relating to management of personal finances (OECD 2009: 97).

An emphasis on financial 'education' arguably serves to reinforce shifts towards asset-based systems of welfare in financialised economies (Finlayson 2009). This is important in light of a sympathy perspective because it shows that such an economistic approach works to the exclusion of contestable individual ethics: there is such a thing as a good financial consumer, and ethico-political contestation at the individual level is not needed to derive what it is.

Moreover, quite remarkably given the extent to which it recognises some of the possible consequences involved in light of the crisis, the regulatory discourse still tends to reinforce asset-based systems of welfare in an almost unquestioned manner. On the one hand, the regulatory account of the GFC acknowledges the huge problem of risk shouldered by the individual – seemingly at least in part outside an individual's own control – in asset-based systems of welfare. For instance, the IMF (2007a: 5) points out that weaker mortgage collateral is partly associated with adverse employment and income trends; that tighter credit conditions fall most heavily on 'more marginally creditworthy borrowers' (2007b: 5); that the fall in property and asset prices was *the* primary reason why 2008 US household net worth fell for the first time since 2003 (2008b: 11); and that the deteriorating economy and massive job losses resulting from the crisis substantially increased levels of household debt (2009a: 66). Indeed the FCIC (2011: 391) reports that of the $17 trillion lost from 2007 to the first quarter of 2009 in US household net wealth, about $5.6 trillion was the result of declining house prices and

much of the remainder due to the decline in value of financial assets (a staggering amount given that US GDP in 2008 was $14.4 trillion).

However, on the other hand, the regulatory discourse tends to hold an enduring belief in the promise of the processes of securitisation that support asset-based welfare. The extension of homeownership and other financial assets to those who might otherwise not have access to them (itself a promotion of the financial individual) is still one of the major perceived benefits of securitisation. The *Stiglitz Report* (UN 2010: 65), for instance, suggests that government financial policy-making needs to continue to promote securitisation to provide for 'mortgages that help individuals manage the risks of home ownership better, student loans with lower transaction costs, banking the un-banked, or insuring the uninsured'. In this manner, the US Federal Reserve (Board of Governors 2007: 11) points out that subprime lending is not necessarily predatory in nature and the IMF (2010b: 21) expresses concern that high unemployment, waning consumer confidence, and tighter underwriting standards could have the undesirable impact of discouraging new entrants into the property market. In terms of pensions, the IMF (2009b: 74) also seems to suggest that the 'increasing transfer of portfolio risk to households through defined-contribution schemes' should be welcomed because it fosters 'an increase in savings in order to achieve a target minimum income in retirement'. On a similar note, the OECD (2009: 92) celebrates the fact that younger workers with defined contribution plans may 'suffer less damage' than older workers or retirees because they 'have many years to wait for recovery, and most of their contributions to the plans lie in the future'.

The UK Financial Services Authority (FSA) follows a similar line of thinking by expressing, at least in part, the continued promise of asset-based welfare. It suggests that, in both the UK and the US, 'rapid growth in mortgage credit was seen as driving a *democratisation* of home ownership' (FSA 2009: 108 emphasis added). Moreover, the FSA (2009: 14) points out that simple forms of securitised credit have existed for 'almost as long as modern banking'. It also recounts how since the creation of Fannie Mae in the 1930s, securitised credit has played a major role in US mortgage lending and this position steadily increased until the explosive growth in both scale and complexity in the mid-1990s (FSA 2009: 14). Even if not explicitly articulated, there is a definite sense presented that asset-based welfare, here in the case of homeownership, is an undisputable good.

Of course in important ways, the regulatory discourse does not enunciate straightforward and unanimous support for asset-based welfare. For instance, the IMF (2011a: 124) notes that there is some recognition of renewed interest in 'alternative mortgage products' such as shared equity models because they 'encourage better risk management'. Likewise, it suggests that some countries 'might want to reconsider their policies' in regard to promoting homeownership by recognising that rental housing could be a 'better option for low-income households' and introducing a more level tax treatment of rental compared to owner-occupied housing to help reduce 'the current bias toward homeownership' (IMF 2011a: 143). Yet arguably, with these types of caveat aside, the regulatory discourse on the whole tends to reinforce existing understandings as to the appropriateness of asset-based welfare, particularly with regard to homeownership.

Overall, therefore, in the regulatory discourse on the GFC it is possible to identify a distinct sense in which asset-based systems of welfare continue to be promoted as an appropriate model for a financialised economy. Even in light of the recognised disastrous consequences of extending credit and the dream of homeownership to those who display the 'flawed' characteristics of the subprime borrower, the regulatory discourse still articulates a deep-seated support for asset-based welfare. Particularly in the area of financial 'education', this can be shown to contain entrenched assumptions about instrumentally rational behaviour. In fact, the governance of asset-based welfare certainly continues to endorse an economistic and autonomous individual detached from the rest of society who is responsible for securing their future wellbeing through the financial markets and asset price inflation (Langley 2006).

From a sympathy perspective, which by contrast might attempt to open up the contestable nature of financial market agency in this regard, the regulatory discourse here appears to close down contestation over interpersonal ethics by fostering an economistic conception of market-oriented behaviour. Even after a degree of responsibility is put at the doorstep of the irrational subprime borrower and their problematic inclusion in such systems, asset-based welfare is left almost completely unquestioned. The notion that a borrower might be in a vulnerable position compared to a lender is entirely overlooked. As explored in the previous chapter, Smith's conception of sympathy gives a more complex account of how ethics and politics might come to be interactively formed at the level of the individual. For Smith (TMS I.i.1.9-10), after all, to exercise a capacity for sympathy, which is inherently involved in all market-oriented forms of behaviour, is to imagine both intent and circumstance as part of an often imprecise balancing act (Montes 2004). This provides a means of understanding

market-based behaviour that avoids the economistic implications of the regulatory discourse which here can be shown to close down contestation over interpersonal ethics.

5.2 The regulatory governance of credit risk

In this section, I show how in the regulatory governance of credit risk there is again an attempt to exclude interpersonal ethics from economic behaviour. Specifically, I illustrate how techniques of credit risk management, advocated by regulatory institutions both before and during the crisis, are based on assumptions of instrumentally rational behaviour that essentially excludes contestable interpersonal ethics by individualising risk. Instrumentally rational behaviour is promoted at the regulatory level as risk management is *normalised* in society and the consequences of this are revealed in the flawed *scientistic* approaches to understanding the place of risk in the crisis.

The IMF (2011a: 10) reports that:

> At the heart of the global financial crisis was an abrupt rediscovery of credit risk. Following a period of almost indiscriminate availability of cheap credit, lenders suddenly took a fresh look at borrowers' capacity to repay debt and found reasons for concern. Focused initially on problems in the U.S. subprime mortgage sector, the reassessment of credit risk broadened over time, affecting households, nonfinancial corporations, banks, and sovereigns across much of the industrialized world.

Even though the 'growth and prosperity of recent years gave ample illustration of the benefits of financial innovation', the IMF (2008a: xii) further notes that the GFC has 'also shown that there are costs': 'Credit risk transfer products – innovations that were meant to disperse risk broadly – were not always used to move risk to those best able to bear it'. Mark Zandi (2009: 2-3 emphasis in original) describes the condition at the heart of the crisis: 'At every point in the financial system, there was a belief that someone – *someone else* – would catch mistakes and preserve the integrity of the process'. Moreover, there is a sense in which the GFC actually followed a recognised pattern of crisis: 'the mechanism that leads to the crisis is always the same: a positive shock generates a wave of optimism which feeds into lower risk aversion, greater leverage and higher asset prices which then feed back into even more optimism, leverage and higher asset prices' (UNCTAD 2009: 20). Despite a general recognition of crisis dynamics based on extant understandings of risk management, in the regulatory discourse on the GFC there is arguably a reproduction of scientistic treatments of risk and a continuation of trends that tend to normalise the place of risk in society to the exclusion of contestable ethics.

The normalisation of credit risk management and structured finance

A number of IMF reports give an interesting account of how credit risk management appears to be increasingly 'normalised' as part of the regulatory discourse surrounding the GFC. That is to say, the reports indicate how risk management seems to be an ever-more pervasive activity in contemporary financialised societies and fundamental to how financial market agency is constituted. This appears to be the case even during the height of the crisis and remains largely unquestioned in the IMF's response. For instance, in 2006, the IMF (2006: 48) welcomed financial innovation because it

contributes to growth in household credit. Indeed it celebrates how '[n]ew consumer lending technologies permit lenders to reach more consumers, better assess market and lending risks, price loans more accurately, and reduce the cost of lending' (IMF 2006: 48). Then in 2007, as the credit crunch started in earnest, the IMF (2007b: 74) opined that:

> One should not lose sight of the improvements in risk measurement and control over the last decade and the positive role of these improvements in reducing the likelihood of idiosyncratic failure from uninformed risk-taking. These advances should induce greater risk sensitivity on the part of financial institutions, leading to early unwinding of unanticipated exposures and better risk control.

Although at this time it also suggested that 'it is important not to place undue confidence in all aspects of firms' risk management systems' (IMF 2007b: 74), the IMF (2008a: 81) still reported in 2008 that structured products retain their utility if they can be 'standardised' in some way in order to facilitate 'the development of liquid secondary markets'. It reports: 'structured finance will recover, but … the products will likely be more standardized and transparent to both investors and regulators' (IMF 2008a: 54). By 2009, the IMF (2009b: 77) submits that '[m]obilizing illiquid assets and transferring credit risk away from the banking system to a more diversified set of holders continues to be an important objective of securitization'. That is, even after the observable impact of structured finance at the height of the crisis in 2008, there is a firm belief held by the IMF (2009b: 77) that 'structuring technology in which different tranches are sold to various investors' helps to 'more finely tailor the distribution of risks and returns to potential end investors'. Further indicative of this outlook it suggests:

> Securitization technologies have also been instrumental in supporting a stable supply of housing funding and consumer credit in many emerging market countries. Several governments have pursued and continue to pursue securitization as a way to fund agency programs aimed at overcoming credit constraints for housing and consumer finance. In particular, mortgage securitization has removed constraints on domestic fixed-income markets by accommodating a growing investor base, particularly pension and insurance fund investors with the need for long-term, highly-rated local currency bond investments priced to a more liquid yield curve (IMF 2009b: 79).

In 2010, the position appears to remain largely the same: 'Starting securitization on a safer basis is … essential to support credit, particularly for households and small and medium-size enterprises' (IMF 2010a: xii). In 2011, again securitisation is understood as perfectly suitable for creating 'a strong housing finance system' as long as countries 'go back to basics' by 'ensuring safe loan origination and encouraging simple and transparent mortgage contracts' (IMF 2011a: xii).

Other areas of the regulatory discourse on the GFC appear to reinforce this normalisation of credit risk management in general, and structured finance in particular, in the constitution of financial market agency. For instance, the UK's ICB (2011a: 7) argues that, '[f]or the most part, retail customers have no effective alternatives to their banks for vital financial services; hence the imperative to avert disruption to the system for their continuous provision'. It notes how important it is that 'ordinary depositors are protected' (ICB 2011b: 8) and suggests that one of the great merits of a ring-fencing of retail from commercial banking is that it would 'isolate those banking activities where

continuous provision of service is vital to the economy and to a bank's customers' (ICB 2011b: 11). At first sight, these references to 'ordinary' depositors may seem far removed from the risk management techniques involved with structured finance, until the ICB makes clear that such activities could seemingly sit quite comfortably *inside* the retail ring-fence. It writes:

> The fourth principle would not prevent a banking group from offering a 'one-stop shop' for customers who required services both from the ring-fenced bank and the rest of the group. One entity could sell products as an agent for other entities in the group. For example, *the ring-fenced bank could sell to its customers complex risk management products originated in the non-ring-fenced bank* (ICB 2011b: 68 emphasis added).

This position chimes with the FSA's (2009: 43) position that a 'future system for credit intermediation will and should involve a combination of traditional on-balance sheet mechanisms and securitisation'.

Overall, the regulatory discourse tends to echo the FSF's (2009: 15) outlook that while regulators will need to develop greater supervisory responsiveness to risk assessments, there is no urgent need to jettison or even roll-back on recent evolution and innovation in structured financial products and markets. As revealed in the G20 (2009: 3) London Summit statement, the promotion of 'standardisation' and 'resilience' appears to be the length to which reform is acknowledged to be required: not a questioning of extant credit risk management or a halting of the normalisation of associated structured finance techniques. The general stance is summed up well by the FCIC's (2011: 425) statement:

> Some argue that the conversion of a bundle of simple mortgages to a mortgage-backed security, and then to a collateralized debt obligation, was a problem. They argue that complex financial derivatives caused the crisis. We conclude that the details of this engineering are incidental to understanding the essential causes of the crisis. If the system works properly, reconfiguring streams of mortgage payments has little effect. The total amount of risk in a mortgage is unchanged if the pieces are put together in a different way.

From a sympathy perspective, it is highly problematic that the regulatory discourse here appears to normalise the place of credit risk management and structured finance in Anglo-American societies. Even in the face of widely recognised forms of credit *mis*management in the build up to GFC (Nesvetailova 2010; Zandi 2009), current approaches to and techniques of risk management appear to have avoided full scrutiny from within the regulatory discourse. This might be because it continues to embody an economistic understanding of credit risk, which seemingly operates to exclude contestable interpersonal ethics at the level of the individual. By contrast, Smith's conception of mutual sympathy might draw attention to the way in which notions of 'risk' are constructed and contested within society as a matter of interpersonal ethics related to the inherently unequal nature of a credit-debt relation. The 'constant balancing act' (Weinstein 2006: 86) involved in the sympathy procedure thus more fully problematises the place of risk in society. Read through the lens of Smith's sympathetic liberalism, the major flaw contained within an economistic understanding of credit risk is that it attempts to exclude contestable interpersonal ethics at the level of the individual.

Scientistic risk management and the promise of structured finance

On what basis is the belief in structured finance maintained? Although it is recognised that the GFC 'represents the first significant test of several categories of innovative financial instruments' (IMF 2007b: 1), there appears to be continued admiration within the regulatory discourse as to the benefits of extant risk management practices and the promise of structured finance based on a scientistic understanding of risk. One might suppose that faith in recent financial innovations in general and the securitisation model in particular would have been questioned in regulatory discourse in light of the subprime crisis. As Julie Froud and Sukhdev Johal (2008: 107 emphasis added) suggest, 'much to the surprise of many whom had previously considered that the growth and reach of finance was a manifestation of its ability to manage risk, the global credit crunch that began in mid-2007 provides a reminder that *finance is unstable* and that *uncertainty has not been eliminated* by more complex financial innovations and models'.

However, by contrast, the regulatory discourse on the crisis seemingly contains little by way of a fundamental questioning of the 'science' of risk management. The FSF (2008: 9) provides an early response to the crisis which maintains great confidence in a key plank of recent securitisation trends, the originate-to-distribute model:

> When accompanied by adequate risk management and incentives, the OTD [originate-to-distribute] model offers a number of benefits to loan originators, investors and borrowers. Originators can benefit from greater capital efficiency, enhanced funding availability, and lower earnings volatility since the OTD model disperses credit and interest rate risks to the capital markets. Investors can benefit from a greater choice of investments, allowing them to diversify and to

> match their investment profile more closely to their risk preferences. Borrowers can benefit from expanded credit availability and product choice, as well as lower borrowing costs.

The FSF is thus still highly supportive of the OTD model and, in its eyes, the response to the crisis then becomes a question of how to ensure that the individuals and firms involved in securitisation can *make the model work better*. Originators, investors, and borrowers just need to become better skilled at risk management. As it points out, 'some firms seem to have handled … challenges better than others. This suggests that it is not the OTD model or securitisation per se that are problematic. Rather, these problems, and the underlying weaknesses that gave rise to them, show that *the underpinnings of the OTD model need to be strengthened*.' (FSF 2008: 10 emphasis added). Although this is the response of the FSF which was disbanded and replaced by the FSB (2009: 11), the latter still holds essentially the same position in this regard: quite simply, it states that the 'revival of securitisation markets is needed in many countries to support the provision of credit to the real economy'.

The FSA (2009: 43 emphasis added) echoes the sustained belief in recent securitisation practices:

> The challenge is to design regulatory responses which will produce a safer version of the securitised credit model – less complex, more transparent to end investors, with less packaging and trading of securitised credit through multiple balance sheets, *more true distribution* to end investors and *more real risk diversification*.

Interestingly, rather than cast doubt on the securitisation model itself, regulatory responses tend to explicitly attach blame to the inadequate risk management practices of individuals and firms. So, the narrative goes, it was a failure on behalf of market participants 'to understand and manage' some of the new risks associated with CRT and securitisation that contributed to the market turmoil (BIS 2008: 1). Examples of this kind of blame game targeted at the failings of market participants abound in regulatory discourse. The FSF (2008: 5; 7 emphasis added) reports how 'banks, investors and CRAs [credit rating agencies] *misjudged the level of risks*' involved in the US subprime mortgage market and that 'benign macroeconomic conditions gave rise to *complacency among many market participants* and led to *an erosion of sound practices* in important financial market segments'.

Crucially, I suggest, the explanation of the crisis actually starts to sound like a pointed attack on market participants for not living up to the standard of an 'optimal' market participant in risk management (G20 2008: 1). Doubt is cast on the actual *ability* of market participants to perform their proper role as optimal risk managers:

> Some firms retained large exposures to super-senior tranches of CDOs that *far exceeded the firms' understanding of the risks* inherent in such instruments, and failed to take appropriate steps to control or mitigate those risks. When the turbulence started, *firms and investors misjudged or were unable* to rapidly assess their exposures (FSF 2008: 7 emphasis added).

Thus, for the FSF (2008: 8; 20), investors were at fault for being *unwilling* (even those with the 'capacity' to undertake their own credit analysis, 'did not sufficiently examine

the assets underlying structured investments') and *unable* (they 'seem to have had insufficient understanding of the risks of structured products in which they invested') to appropriately measure and manage credit risk.

The BIS (2008a: 13 emphasis added) concurs that '[s]ome investors appear to have entered the CRT market despite *lacking the capacity* to independently evaluate the risks of complex CRT products', which essentially meant that they were over-reliant on the CRAs. Moreover, blame is again attached to market participants because, although the CRAs clarified that their ratings are 'not intended to capture the risk of a decline in market value or liquidity, nor should it be considered an investment recommendation … *some investors do not seem to understand this point or simply ignore it*' (BIS 2008a: 13 emphasis added). As such, 'many market participants appeared not fully to appreciate how one type of risk (eg liquidity) can quickly evolve into another type (eg market and credit risk) in CRT' (BIS 2008a: 24).

Likewise, the Senior Supervisors Group (SSG) (2009: 4) also seems to maintain ultimate faith in pre-crisis risk management practices provided that market participants weed out that which prevents securitisation living up to its promise. Specifically, it points to market participant level problems including 'the *unwillingness or inability* of boards of directors and senior managers to articulate, measure, and adhere to a level of risk acceptable to the firm' and 'arrangements that favored risk takers at the expense of independent risk managers and control personnel' (SSG 2009: 4 emphasis added). In the case of the Royal Bank of Scotland, the FSA (2011: 21) reports that both its supervisory approach and the bank's strategy 'underestimated how bad losses associated with structured credit might be'. The problem was, it continues, that there was 'a

consensus, among practitioners and policy-makers, which confidently asserted that financial innovation and complexity had made the financial system more stable' (FSA 2011: 29).

Notably, before the GFC proper, the BIS (2005: 3) recognised that 'the most important credit risk management issue' associated with credit risk transfer activity is 'the assessment of default correlation across different reference entities'. 'Correlation', it suggests, 'is critical to evaluating the risk of a portfolio of credit default swaps or the risk associated with CDO tranches' (BIS 2005: 3). Yet the BIS (2005: 14) understood the tranching of risk associated with synthetic CDOs to be 'appealing because it allows the credit risk associated with a pool of exposures to be divided up and allocated to parties based on their underlying risk preferences'. It later explains in a 2008 report how:

> CDOs are designed to diversify risk. The laws of probability imply that the average credit performance of a pool of similar assets will be less volatile and more predictable than the performance of a typical asset in the pool. Indeed, if the pool consists of a large number of relatively small assets, uncertainty in the pool-wide credit loss rate will arise almost entirely from correlations in default losses across assets. In this setting, idiosyncratic risk is diversified away. Only systematic risk factors that influence many assets at once are likely to influence pool-wide credit losses (BIS 2008a: 49).

Somewhat calamitously, such a view allowed market participants to understand the poor performance of subprime loans as a 'low-probability economic event' (BIS 2008b: 5).

However in contradiction of this outlook, the problem was, the FSA (2009: 22 emphasis added) reports:

> The very complexity of the mathematics used to measure and manage risk, moreover, made it increasingly difficult for top management and boards to assess and exercise judgement over the risks being taken. *Mathematical sophistication ended up not containing risk*, but providing false assurance that other prima facie indicators of increasing *risk* (e.g. rapid credit extension and balance sheet growth) *could be safely ignored*.

On a similar note, the FCIC (2011: xix emphasis added) suggests that '[f]inancial institutions and credit rating agencies embraced mathematical models as reliable predictors of risks, replacing judgment in too many instances. Too often, *risk management became risk justification*'. Likewise, the FSF (2008: 34) also points to how many investors erroneously 'took CRAs' ratings opinion of structured credit products as a seal of approval and looked no further' without recognising how 'structured finance ratings differ from traditional corporate debt ratings in that they are model-based and to a larger degree assumption-driven'. Nevertheless, this is not a questioning of the securitisation processes per se, just the flawed market participants using such processes inappropriately.

In sum, a striking feature of the regulatory discourse on the GFC is that there is little sense of a fundamental questioning of the securitisation model. Essentially, explanations of the crisis tend to point blame at the specific (in)action of market participants rather than criticise features of securitisation, such as the OTD model or

CRT more broadly. Interestingly, such an understanding of the crisis contains remarkable implications for the constitution of financial market agency contained within the regulatory discourse on the GFC. That is to say, in pointing blame at market participants for not living up to the crowning promise of the model, the regulatory discourse appears to be indicating that individuals and firms ought to better perform the roles that securitisation dictates for them. So, in order to avoid future financial crises, market participants should become more *willing* and more *able* to carry out the kind of risk management practices that the securitisation model requires in order for it to operate 'properly'. In terms of financial market agency, this essentially suggests that people ought to become better and more efficient risk managing machines. The notion that there might ethico-political contestation over a credit-debt relation is therefore entirely overlooked. Put simply, in the regulatory discourse surrounding the GFC, there is nothing wrong with the securitisation model – so the task then becomes making market participants more capable of performing the subject position of optimal risk manager.

In certain ways, the articulation of this form of financial market agency might be successful, and an appropriate response to the GFC. Yet, alongside the ostensible promotion of optimal risk managers, much of the regulatory discourse also points to the significance of information problems in the practices associated with securitisation. Crucially, such problems might hinder the success of the market participant as optimal risk manager and, in the very same regulatory discourse, show some of the limitations and contradictions that come with a scientistic understanding of risk management. In fact, the *Stiglitz Report* (UN 2010: 90) states that securitisation 'opened up new information asymmetries' and the models used to assess risk 'overestimated the benefits of risk diversification and underestimated the costs of the information asymmetries and

herd behavior by investors'. This echoes the concern mentioned by the BIS (2008: 27) which states that some products, such as ABS CDOs, may contain little or no 'credit message' because market pricing cannot operate properly in the face of an opaque dispersal of underlying credit risk. It also chimes with the SSG's (2009: ii) view that 'inadequate and often fragmented technological infrastructures … hindered effective risk identification and measurement' in the build up to the crisis.

Overall, reading across the regulatory discourse on the GFC, the governance of credit risk appears to contain a rather problematic articulation of individual market agency as optimal risk management. This is because, on the one hand, the regulatory response seems to continue its strong support for securitisation and belief in the benefits of the science of risk management. It is in this sense that the regulatory discourse calls forth financial market agency in the form of the ultra-*able* risk manager. Yet, on the other hand, in these very same regulatory responses, among other limitations to complete success, significant problems associated with access to information and information asymmetries are highlighted. On one level, then, financial market agency as optimal risk management is brought into doubt by the contradictory articulation of the market participant as necessarily limited in their access to information, or their ability to deal with immeasurable uncertainty.

Furthermore, significantly, the regulatory discourse holds on to a belief in the benefits of the securitisation model such that it still places confidence in the perfectibility of risk management. In this sense, it is possible to suggest that the regulatory discourse appears to be dominated by a shared understanding as to the appropriateness of promoting financial market agency as optimal risk management. This prevailing view of the

perfectibility of the science of risk management is sustained by a narrow scientistic understanding which accepts a legitimate focus on risk rather than immeasurable uncertainty (Blyth 2002), even though the promotion of individuals and firms as optimal risk managers is shot through with contradiction based on such uncertainty. Whereas a sympathy perspective might call into question the place of risk in society by recognising it as a negotiated construct formulated as part of contestation over mutual sympathy (explored in the previous chapter), an economistic governance of credit risk relies on a scientistic and disembodied understanding of risk. This is perhaps why the regulatory discourse appears to foster optimal risk managers in order to perfect risk management, rather than fundamentally problematise contemporary risk management practices such as securitisation. In all, faith in the science of credit risk management remains strong in the regulatory discourse. Yet, more generally concerning risk, there is continued belief in the promise of structured finance: the task is to just make the scientistic systems work more efficiently. Notably, this becomes embodied in constructs like 'Early Warning Exercises' that seek to identify the build up of macroeconomic and financial risks and the actions needed to address them (G20 2009: 1).

Read through the lens of Smith's sympathetic liberalism, the major flaw contained within this economistic understanding of credit risk is that it attempts to exclude contestable interpersonal ethics at the level of the individual. For Smith, 'the manner in which we judge' is an *imaginative* mental procedure and a process of negotiating and internalising standards of interpersonal ethics. In one sense, therefore, it is possible to contrast the ultra-able modern risk manager with the eighteenth-century Smithian subject. The former demonstrates ability through the development of their calculative rationalities, whereas the latter does so through the development of their moral faculties

and their impartial spectator. The former is conceived in terms of the ability to embody a position of perfect calculation in terms of how to act in market-oriented behaviour, whereas the latter while engaging in market-oriented behaviour, recognises it as negotiated and constructed through ongoing contestation over interpersonal ethics. In other words, as opposed to a static or predetermined standard of model individual behaviour alluded to above in economistic accounts of instrumental rationality, a sympathy perspective thus allows for interpersonal ethics to be formed and negotiated in particular ways at specific moments in time and space. This can be seen as a way of politicising risk and risk management by more fully problematising how the construction and contestation of risk takes place in society.

5.3 The regulatory governance of personal debt

In this final section, I show how in the regulatory governance of personal debt there is again an attempt to exclude interpersonal ethics from market-oriented behaviour. Specifically, I illustrate how the ways in which regulatory institutions treat issues of personal debt – both before and during the crisis – are based on assumptions of instrumentally rational behaviour that essentially excludes contestable interpersonal ethics in creditor-debtor relations. Instrumentally rational behaviour is promoted at the regulatory level as personal debt is *depoliticised* and the consequences of this are revealed in how the amassing of debt is understood as entirely appropriate in order to maintain living standards before and during the crisis (Montgomerie 2009).

There is little doubt about the tremendous growth in levels of debt in Anglo-American economies in the subprime era. The ICB (2011b: 50) reports that between 1998 and 2008, sterling loans made by UK banks to households and private non-financial companies relative to GDP rose 50% and 60% respectively, while loans to financial companies grew by over 200%. As the United Nations Conference on Trade and Development (UNCTAD) (2009: 5) suggests, 'stocks led households in the United States and in the United Kingdom to borrow and consume far beyond the real incomes that they could realistically expect, given the productivity growth of the real economy and the dismal trends in personal income distribution'. Despite a general recognition of crisis dynamics based on the problem of too much debt in financialised societies, in the regulatory discourse on the GFC there is arguably a depoliticisation of the place of debt in society to the exclusion of contestable interpersonal ethics. The notion that a credit-debt relation is inherently unequal and therefore an ethico-political question is disregarded.

Standards of appropriate financial market agency

On the one hand, the regulatory discourse clearly recognises that the enormous build up of debt in the subprime era was highly problematic because when 'credit quality deterioration' occurred and exposed the risky nature of some credit, even 'previously credit worthy customers' were affected (FSA 2009: 35). Yet more profusely, on the other hand, in the regulatory discourse there is a sense in which the taking on of relatively high levels of personal debt remains to be seen as an entirely appropriate form of behaviour in order to secure a certain standard of living. For instance, the FCIC (2011: 83 emphasis added) remarks:

> Increased access to *credit meant a more stable, secure life* for those who managed their finances prudently. It meant families could borrow during temporary income drops, pay for unexpected expenses, or buy major appliances and cars. It allowed other families to borrow and spend beyond their means. Most of all, *it meant a shot at homeownership, with all its benefits*; and for some, an opportunity to speculate in the real estate market.

This outlook appears to echo a 2006 IMF (2006: 46 emphasis added) report which suggests that:

> Better access to credit reduces household consumption volatility, improves investment opportunities, eases the constraints on small and family businesses, and diversifies household and financial sector assets. The welfare gains from such expansion can be sizable, *making further growth of household credit desirable*.

The rationale behind this thinking appears to be that '[g]reater access to a varied range of household credit products improves the consumption and investment opportunities for households and enables better diversification of household wealth' (IMF 2006: 47). This is based on the 'life cycle income hypothesis' which states that 'the availability of credit allows households to overcome liquidity constraints and permits consumption to be smoothed over periods of high and low income' (Ando and Modigliani cited in IMF 2006: 47).

The extension of household credit should therefore be celebrated, according to some of the regulatory discourse, especially if it 'frees household equity tied in housing and other consumer durables' that can then be reinvested (IMF 2006: 47). Quite simply, good 'access to loans is advantageous to borrowers – and to the economy in general – because capital is able to circulate, and be used in an efficient manner' (ICB 2011a: 16). Indeed something of the 'normalisation' of finance in general and of credit-debt relations in particular is articulated by the UNCTAD (2009: 11 emphasis added):

> The financial sector acts as the central nervous system of modern market economies. It distributes liquidity and mobilizes the capital necessary to finance large investment projects; it allocates funds to the most dynamic sectors of the economy; *it provides households with the necessary funds to smooth consumption over time*; and, through its payment system, it allows managing the complex web of economic relationships that are necessary for economies characterized by a high degree of division and specialization of labour.

Picking up on the notion of the 'normalisation' of asset-based welfare outlined above, there is also a normalisation of the use of credit in the regulatory discourse with claims made about the importance of protecting banking services against disruption in order that financial services to customers are constantly maintained (ICB 2011b: 36-37). In fact, the ICB (2011a: 97) objects to the 'social costs' of a narrow banking model because the prevention of deposit-taking banks from lending to individuals and businesses 'destroys the synergies of such financial intermediation'. It sees this as undesirable because it might result in 'increasing lending rates and credit rationing' (ICB 2011a: 97). The ICB (2011b: 7) also expresses the need to ensure that the banking system can fulfil

its central role in 'efficiently channelling savings to productive investments' and 'managing financial risk'. It continues:

> The most visible function that banks undertake is to receive deposits from savers, including the general public. Households in the UK are the ultimate holders of wealth in the UK, yet they are not well placed to look after that wealth safely themselves and use it effectively. Furthermore, money that is not engaged in productive activity will devalue over time as a consequence of inflation. Interest-bearing deposit facilities therefore act to store value (ICB 2011a: 16).

Moreover, in perhaps another indicative step towards normalising household debt, the IMF (2006: 70) suggests:

> The regulation of household credit does not entail a fundamentally different approach from that for other credits, and the standard prudential apparatus – risk-weighting, capital adequacy, classification, and provisioning – should suffice. Household credit is also somewhat easier to evaluate and classify than corporate credit.

Arguably, the very processes of debt evaluation and classification serve to normalise the use of personal debt within a financialised economy. The IMF (2006: 61) reports that household debt is generally considered 'sustainable' if a borrower has 'positive net worth' and 'can service debt at contractual terms'. The characteristics of a borrower which determine such factors include 'future income; savings, interest, and exchange rates; access to refinancing; and whether loans are used purely for consumption, durable

assets (such as housing), or productivity-enhancing investments (e.g., education)' (IMF 2006: 61). One problem noted in the assessment of credit histories is the difficulty of distinguishing between a 'life event' (understood as incidents such as 'divorce, illness or involuntary redundancy'), on the one hand, and a borrower using credit to maintain an 'unaffordable lifestyle', on the other (FSB 2011: 18). Seemingly quite controversial and contestable questions, the FSB (2011: 18) suggests that although an automated underwriting process might not pick this up, an 'expert risk assessment' is presumed to be capable. Notably, though, the FSB (2011: 34) maintains that debt service 'metrics' can still appropriately assess affordability in order to ensure that the amount of discretionary income a borrower has is 'sufficient to maintain an adequate standard of living'.

Furthermore, as detailed above, the regulatory response to the crisis points to the well-known 'problem' of extending credit to borrowers who, in other circumstances not in the subprime era, would not have been granted mortgage credit. Some of the blame for this excessive risk-taking in the form of over-risky lending is attached to strong investor demand and the excessive compensation structures of the period. Yet, one of the most significant aspects of the regulatory representations of the GFC is that they appear to suggest that there is a way of distinguishing between those who deserve to be extended credit and those who do not. Seemingly, the creditworthy and the uncreditworthy can and should be clearly demarcated in a properly functioning financial system. So the interesting question then becomes, who are those creditworthy individuals? Who represents the model citizen of a credit-based, but not *overly* indebted, financialised economy?

One possible answer is contained within the regulatory discourse in the form of those groups who are presented as the 'victims' of the crisis: they are those who have successfully performed the subject position of the financially responsible individual. Incidentally, from a Smithian sympathy perspective, it is not really possible to attribute the personality of 'innocent victim' to a whole group of people in this way. This is because under the terms of a sympathy procedure, which emphasises the moral learning required for an *individual* to partake in market-oriented behavuour, the constitution of ethico-political categories such as 'blame' and 'victimhood' are involved with contestation over appropriate forms of market-oriented behaviour at the individual level. So, if anything, to attribute these categories to groups in this way might close down contestation over appropriate standards of market-oriented behaviour rather than adequately problematise such standards as a response to the GFC.

Nevertheless, it is quite remarkable just how explicitly the regulatory discourse puts forward certain people and groups as the *innocent* victims of the subprime crisis. The promotion of particular constructions of financial market agency might be unintentional, but a clear indication is given as to who is considered to be the 'prime' financially responsible individual who is suffering because of the subprime debacle. On this issue, the *Stiglitz Report* is particularly noteworthy. It refers to the need for continued efforts to identify those 'institutional innovations that might contribute to improvements in the well-being of ordinary citizens and to the functioning of the global economic system' (UN 2010: 198). Who are these 'ordinary citizens' to be protected? There are in fact numerous passages throughout the report that appear to indicate the character traits of these deserving groups. It notes how the crisis 'has shown how the failures of the financial system have imposed costs on others, such as *taxpayers, homeowners, and*

workers, who were not directly party to the excessive risk-taking' (UN 2010: 68 emphasis added). Then, again, it reports that the 'failure of the financial system to perform its core functions has imposed huge costs on society – on the economy, *on taxpayers, on homeowners, on workers, on retirees*, on virtually everyone … Well-functioning globalization might have protected *them'* (UN 2010: 197 emphasis added).

Moreover, the *Stiglitz Report* (UN 2010: 59) suggests that '[w]hile "blame" should rest on the financial sector, government failed to protect the market from itself and to protect society from the kinds of excesses that have repeatedly imposed high costs on taxpayers, workers, homeowners, and retirees'. When considering some of the immediate effects of policy responses to the crisis, the latter group come up for special mention as 'the unprecedented lowering of interest rates may have been the correct macroeconomic response to the crisis, but it has produced a sharp reduction in the incomes of retirees who did not gamble on risky securities and invested prudently in short- or medium-term government securities' and 'who are likely to see their *hard-earned pension funds* disappear' (UN 2010: 13; 106 emphasis added).

Overall, therefore, it is possible to discern in some of the regulatory discourse on the GFC a characterisation of the financially responsible individual who constitutes the 'prime' (as opposed to the subprime) individual. Essentially, they are depicted as a taxpayer, employed, a homeowner, and with a pension fund (and they are thus not in receipt of benefits, unemployed, unmortgaged, or without financial assets). In this manner, the regulatory discourse ostensibly promotes a financialised individual who in many ways lives up to the financially responsible individual who acted prudently in the subprime era and ended up as a 'victim'. Seemingly a financialised individual is thus

fostered both *before* the GFC (as part of asset-based welfare agendas) and as part of the regulatory *response* to the GFC (as part of the process of attributing blame for the crisis which is clearly not focussed on the financialised individual but more likely directed at the subprime borrower). This is a fundamental point to which I return in the next chapter to consider whether the everyday GFC discourse offers any challenges to this enduring aspect of financialisation.

Moreover, although the disastrous consequences of extending credit (to the subprime borrower) might be quite clear in the regulatory discourse, it is telling that the construction of financial market agency in terms of a financialised individual is still very much promoted. In this sense, there is very little shift in outlook on appropriate standards of behaviour from before the GFC. The sphere of sympathy in which there is a shared understanding about appropriate standards of 'good' financial behaviour is thus limited to the financialised individual: the regulatory discourse extends its condolences to people who display the character traits of instrumental rationality by appropriately assuming personal responsibility for their wellbeing and attempt to secure it through systems of credit and debt. This arguably leaves little room for contestable interpersonal ethics at the level of the individual and a recognition of the ethico-political nature of creditor-debt relations given that they are inherently unequal.

The depoliticisation of creditor-debtor relations

The regulatory discourse on the GFC gives a clear sense that financial and banking services are central to the maintenance of a modern advanced economy. For instance, the BIS (2011: 1) argues that a 'strong and resilient banking system is the foundation for sustainable economic growth, as banks are at the centre of the credit intermediation

process between savers and investors'. Similarly, the FSA (2009: 47) reports that the relative importance of financial services tends to increase as incomes grow because the wealthier people become, 'the more life cycle consumption smoothing occurs, and the more diverse they become in their preferences for consumption at different points in their life'. In turn, it suggests, this leads to an increase in demand for both savings and borrowing products (FSA 2009: 47).

A pertinent issue in this regard though, especially in light of the GFC, is that if the place of financial services is recognised as increasingly important to an advanced financialised economy, then the highly politicised nature of creditor-debtor relations underneath the financial services industry is potentially overlooked (Langley 2009). As discussed in the previous chapter, from a sympathy perspective such relations are part of contestable interpersonal ethics; after all, in basic terms, they are inherently unequal and have to be negotiated given that creditors own (financial) assets that debtors desire and do not. Yet, on the whole, the regulatory discourse on the GFC tends to deny the politicised nature of credit-debt relations by treating all instances of market-oriented behaviour as merely the expression of supposedly innate instrumental rationality, whichever side of the relationship an individual happens to be situated. In the recognition and reinforcement of the centrality of financial services to Anglo-American economies, therefore, the regulatory discourse may erroneously serve to deny the politics of debt because to foster instrumental rationality is to exclude the ongoing contestable ethics of financial market agency as revealed in a sympathy perspective.

In the first instance, there is a definite sense in the regulatory discourse that the ostensibly vital services provided by banks and other financial institutions ought not to

be threatened by such potential dangers as over-regulation or government interference. For instance, the ICB (2011b: 44) stresses the 'core economic function' of banks and so wants to avoid the 'high' economic costs of imposing too many restrictions on their activities. Perhaps for this reason, rather than call for more onerous regulation, as in much of the discussion on international banking reform, it places a good degree of confidence in capital buffers being a suitable response to prevent (or cushion the impact of) further crises. The ICB (2011b: 163) writes:

> A theme emphasised throughout this report has been that making banks better able to absorb losses, and easier to resolve if they still get into trouble, will help curb incentives for excessive risk taking in the first place. This was manifestly not the case in the run-up to the crisis.

When it does make slightly more onerous demands on banks for reform, such as the ring-fencing of retail operations, the ICB is still cautious about not taking this reform too far. Notably, both secured and *unsecured* lending is still allowed within the ring-fence proposal, including mortgage lending and credit cards (ICB 2011b: 54). What is more, the ICB (2011b: 18 emphasis added) openly admits on its terms 'banking reform':

> In many respects … *would be restorative of what went before in the recent past* – better-capitalised, less leveraged banking more focused on the needs of savers and borrowers in the domestic economy. Banks are at the heart of the financial system and hence of the market economy.

Other regulatory institutions appear guarded in making burdensome claims on banks and other financial institutions based on their supposed importance to a properly functioning economy. On the one hand, the FSB (2009: 1) claims in 2009 that:

> In recent months, expectations have taken hold in some parts of the private financial sector that the financial and regulatory system will remain little changed from its pre-crisis contours. These expectations – that business will be able to go on just as before – need to be dispelled.

Yet, on the other hand, its recommendations for reform in light of the GFC do not stray very far away from a 'business as usual' scenario. For instance, the FSB (2011: 29) recommends a 'principles-based framework' rather than set international standards because it claims that households across jurisdictions will face 'different degrees of idiosyncratic risk' based on different systems of welfare, healthcare, and employment protection. It therefore advocates that national regulators monitor lending standards 'across a range of dimensions' that take account of particular 'national circumstances' regarding lenders' funding patterns, housing supply flexibility, household 'resilience', and access to welfare (FSB 2011: 29). Indeed the FSB's overall message seems to be one of very *mild reform*, rather than a thorough questioning of the place of debt in Anglo-American society. It suggests:

> Innovation in the mortgage market to increase affordability for borrowers will likely continue but the layering of risks should be avoided. In particular, practices that combine aggressive underwriting parameters with aggressive mortgage products should be discouraged: for example, low-doc loans coupled

> with teaser rate or interest-only products, or loans with high LTV [loan-to-value] ratios that include negative amortisation (FSB 2011: 20).

In a sense, then, the regulatory discourse on the GFC is about removing the 'aggressive' edge to lending, not altering in any significant way the financial systems through which credit and debt are allocated.

This position seems to be similar to the IMF's (2006: 68) suggestion that there are 'no easily identifiable global "best practice" parameters with respect to prudential regulation of household credit' so national regulators, although they may look to international benchmarks for guidance, should design 'country-specific rules' on issues like loan-to-value ratios. Along similar lines, rather than perhaps a downsizing of the place of banks in society, the BIS (2011: 5) speaks of making them 'more resilient' to procyclical dynamics and helping them serve as a 'shock absorber'. Principally in this respect it merely recommends increasing capital buffers (BIS 2011: 7).

Moreover, there are other aspects of the regulatory discourse on the GFC that appear to reinforce existing creditor-debtor relations and further deny ethico-political contestation over appropriate forms of financial market agency. For instance, on the one hand, the IMF (2009a: 27) recognises that the economic 'stress' put on 'household balance sheets and debt servicing' at the start of the crisis meant that US households 'borrowed more heavily on credit cards and other forms of consumer credit as other credit channels began to close'. Indeed, at times it expresses a significant degree of concern:

> Subprime mortgages are especially exposed to … payment shocks, since a disproportionate share originated as ARMs. Once faced with payment shock, borrowers with limited built-up equity may be unable to avoid default by extracting that equity to meet monthly payments. Similarly, they may be unable to pay off a mortgage by selling their home, particularly in an environment of weak home price appreciation (IMF 2007a: 6).

Yet, on the other hand, the IMF is careful not to speak too harshly of existing creditor-debtor relations in its reform recommendations. Indeed the IMF (2008a: 38) actually expresses concern that the US moratorium on interest rate resets for subprime borrowers, which seeks to limit foreclosures, might 'redistribute the cost from borrowers to lenders, servicers, and investors'. It also notes that responsive measures to the GFC will need to be 'weighed carefully' to ensure that a balance is struck between legitimate issues of consumer protection and the 'protection of legal contracts that underpin modern finance, as some of these measures may undermine existing contracts' (IMF 2008a: 38). Finally, the IMF (2010b: 21) also expresses surprise at the rise in 'strategic defaults' in which borrowers were up-to-date on their mortgage loan payments, but chose to default because they were in negative equity. As such action became 'more socially acceptable', it laments, lenders were 'ill-prepared for this risk, which is not well captured in most risk models and provisioning rules' (IMF 2010b: 23).

Perhaps in an attempt to 'correct' for such financially deviant behaviour, the IMF (2006: 62) expresses admiration for the way in which in some countries the collection of household debt is linked to payroll deductions. It views this as useful because it serves to 'inculcate a habit of prompt debt service' and also 'adjust consumption to post-debt

service disposable income, thereby enabling lenders to offer more household credit' (IMF 2006: 62). In another similar move with paternalistic undertones, the FSB (2011: 36) recommends that regulators should allow lenders to 'consider combining easier terms in some dimensions with repayment arrangements that encourage extra principal repayments so as to encourage borrowers to build up equity more quickly than would normally be required'.

Overall, drawing these points together, I argue that in the regulatory governance of personal debt there is again an attempt to exclude interpersonal ethics from market-oriented behaviour. The ways in which the regulatory discourse of the GFC serves to reinforce the dominant position of financial and banking services in Anglo-America is complicit in the exclusion of contestable ethics in terms of creditor-debtor relations (discussed in the previous chapter). In fact, a sizeable extension of credit in society even to simply maintain existing living standards is on the whole viewed as quite appropriate for a modern advanced economy. In turn, the regulatory discourse works to give a clear indication of the model citizen of such an economy: they are the people who are identified as innocent 'victims' of the crisis and essentially embody the characteristics of the financialised individual. The protection of 'normal' financial and banking services for these model citizens also serves to normalise creditor-debtor relations to the exclusion of any meaningful discussion of fundamental banking reform in response to the GFC. This is especially problematic in the face of the idea that a credit-debt relation is inherently unequal. From a sympathy perspective, the regulatory governance of personal debt appears to rely heavily on a flawed economistic treatment of market-oriented behaviour, which might be improved by, at the very least, re-politicising

questions of personal debt so as not to deny the contestable nature of the ethics of financial market agency.

Concluding remarks

I began this chapter by reflecting on the way in which Stiglitz, a global leader in financial market governance, appears to fall foul of at least one of Skinner's basic mythologies in his interpretation of Smith. Based on my contention that historiographical matters can perform a significant role in the very construction of contemporary issues themselves, it is notable that Stiglitz's *economistic* outlook on the GFC, in this chapter represented in his UN *Report*, mirrors a distinctly *economistic* interpretation of the work of Smith. By contrast, in this chapter I built on my historicised account of Smith constructed in previous chapters to analyse the place of economistic approaches to liberal market governance at the regulatory level of finance. I have shown how a sympathy perspective, built up from an historicised account of Smith, might indicate some of the problems of continuing to treat financial market agency in economistic terms.

Specifically, at the three sites of finance explored at the regulatory level, the GFC has been explained as a crisis based on the denial of contestable ethics at the individual level. In the first section, I illustrated how asset-based systems of welfare enjoy a largely unquestioned position in the regulatory discourse. Even with the issues of access to homeownership and financial security falling right at the heart of the financial crisis, the regulatory discourse on the GFC tends to reinforce and rearticulate the need for

asset-based welfare. In the second section, I argued that credit risk management practices remain largely unchallenged in the regulatory discourse. If anything, along with the securitisation model, they are further normalised based on a continued faith in the 'science' and perfectibility of risk management. In the final section, I suggested that the regulatory view of personal debt appears to continue to depoliticise creditor-debtor relations by insisting on the normalisation of financial services in an advanced economy and works to articulate model financialised citizens. Again, despite the possible challenge to such an outlook posed by the GFC, a denial of the ethico-political contestability of debt appears to remain.

What unites the crisis of ethics at each of these sites of finance is that on the whole the regulatory account of and response to the GFC relies on an economistic understanding of financial market agency that attempts to exclude contestable ethics at the individual level. Asset-based systems of welfare are based on societies made up of instrumentally rational individuals acting autonomously to secure their wellbeing through financial markets (Langley 2006); extant risk management practices rely on assumptions about the individualisation of disembodied risk in society again dependent on instrumentally rational and autonomous individuals (Adam and van Loon 2000); and contemporary treatments of issues of debt depoliticise the creditor-debtor relation by assuming that all market-oriented behaviour is instrumentally rational on either side (Montgomerie 2009). By contrast, a Smithian sympathy perspective, at the very least, problematises and opens up contestable ethico-political space at these important sites of regulatory finance intimately involved with the GFC. An important point I return to in the conclusion is that market-oriented behaviour necessarily contains and is constituted by contestable

ethics at the individual level. From a sympathy perspective, then, the economistic treatments of the GFC contained within the regulatory discourse are ultimately flawed.

Furthemore, in one rare but extremely insightful comment, the president and CEO of the National Community Reinvestment Coalition (NCRC), John Taylor, sums up impeccably the lingering problem for the regulatory account of the GFC to the FCIC (2011: 404 emphasis added):

> a few hundred thousand people, even a million people going into foreclosure, you can kind of blame and say, 'Well they should have known better.' But 15 [or] 16 million American families can't all be wrong. *They can't all be greedy and they can't all be stupid*.

In many ways, this intervention highlights the problem of assuming away ethico-political contestation at the individual level: it is simply unacceptable to explain the problem of subprime borrowing as one caused by *all* subprime borrowers acting in a 'greedy' or 'stupid' way. In this chapter, I have demonstrated how a sympathy perspective indicates some of the many problems of continuing to treat financial market agency in economistic terms. When asset-based welfare goes *unquestioned*, when risk management is *normalised* to the everyday, and when creditor-debt relations are *depoliticised*, an economistic approach to financial market agency can be demonstrated to be reproduced, even though it is ultimately flawed on its own terms. In the next and final chapter, I explore the extent to which the everyday discourse on the GFC – represented by interventions from organisations such as the NCRC – provides a challenge to the regulatory level of finance more congruent with a Smithian sympathy

perspective by problematising and opening up contestable ethico-political space at these important sites of finance.

CHAPTER 6 ----------

Everyday Financial Market Agency and the Global Financial Crisis

> Adam Smith, wrongly cited as the father of free-market economics, constantly cautioned against the unregulated power of big business, warning that unchecked 'trade or manufacture' would engage in 'conspiracy against the public or in some other contrivance to raise prices', since business interest 'is always in some respects different from, and even opposite to, that of the public' (Smith cited in *The Occupied Times* 2012a: 12).

It is quite remarkable that members of the Occupy movement claim Smith's name for their cause in protest against economic and political elites. Here, Smith is appealed to in fairly historicised terms: that is, *not* as 'the father of free-market economics' (as an economistic reading of Smith might have it), but as a thinker concerned about how monopolistic business practices can be harmful to wider society (as a more historicised reading might have it). Notably, the occupiers' appeal is almost diametrically opposed to Joseph Stiglitz's interpretation of Smith. For instance, he makes the claim that 'Smith, *the founder of modern economics*, was a strong champion of both free markets and free trade' (Stiglitz 2006: 66 emphasis added). In a sense, then, the competing interpretations here in a fascinating way mirror the competing and drastically different responses to the global financial crisis (GFC): for while Stiglitz is very much embedded in the regulatory level of financial governance discussed in the previous chapter, the occupiers who claim Smith's name in *The Occupied Times of London* have an ostensibly radical and anti-elite driven agenda which is deliberately positioned in opposition to this

very same regulatory level of finance. Thus, again, I note the importance of Smith's ideas – and the contest over Smith's ideas – to regulatory and everyday discourses of the GFC.

That which is interesting from the perspective of this thesis is whether it is possible to identify within the everyday GFC discourse, such as in interventions by members of the Occupy movement, possibilities for understanding and responding to the crisis in distinctly deeper and more thoroughgoing Smithian terms. Building on an interest in a sympathy perspective, is it possible to identify elements of the everyday discourse that successfully challenge the regulatory representation of and response to the GFC? In the previous chapter I showed how a sympathy perspective, developed from a historicised reading of Smith in earlier chapters, indicates some of the problems of treating financial market agency in economistic terms. At three sites of finance explored at the regulatory level, the GFC is understood as a crisis partly based on the denial of contestable ethics at the individual level. When asset-based welfare goes *unquestioned*, when risk management is *normalised* to the everyday, and when creditor-debt relations are *depoliticised*, an economistic approach to financial market agency is (re)produced, even though it is ultimately flawed on its own terms. By contrast a Smithian sympathy perspective, at the very least, might problematise and open up contestable ethico-political space at these important regulatory sites of finance intimately involved with the GFC. So, the question then becomes, does the everyday GFC discourse offer alternative representations and/or interventions along more sympathetic lines?

I employ the term 'everyday' in this chapter to refer to the 'non-elite' in opposition to the 'regulatory' level discussed in the previous chapter. In part, this draws upon John

Hobson and Leonard Seabrooke's influential division of IPE. They suggest that 'everyday' actions are defined as:

> acts by those who are subordinate within a broader power relationship but, whether through negotiation, resistance or non-resistance, either incrementally or suddenly, shape, constitute and transform the political and economic environment around and beyond them (Hobson and Seabrooke 2007: 15-16).

In outlining the everyday approach, Seabrooke (2007: 83) further suggests that everyday political economy actions are those associated with questioning the legitimacy of government policies, complaining in public or private about how the economy should work, and a general sense that government tends to intervene in the economy on behalf of the narrow interests of rentiers rather than the broader population. The structures of the world economy at the 'macro-level' often constrain choices, but the everyday IPE approach attempts to highlight the ways in which 'everyday actors also have agency in transforming the world economy through the contestation of policies and institutions' (Seabrooke 2007: 84).

Especially viewed in the light of the advocacy and campaign groups that Seabrooke (2007: 95) uses to illustrate his approach, I think it is certainly fair to consider the Occupy movement a form of 'everyday' agency. It certainly seems to fit earlier discussions of 'global civil society' understood by many as a key source of ethical agency (e.g. Cox 1999; De Goede 2005b; Gill 2000b; Kaldor 2003; Scholte 2004). In one important statement, London occupiers claim that they are 'part of a global movement against corporate greed and unregulated banking systems, subverting

hierarchies and creating a space where people are encouraged to join' (*The Occupied Times* 2011a: 1). It is also claimed that the Occupy movement is 'a soulful expression of a moral outrage at the ugly corporate greed that pushes our society and world to the brink of catastrophe' (*The Occupied Wall Street [OWS] Journal* 2011c: 1). In their 'Declaration of the Occupation of New York City' occupiers state '[w]e come to you at a time when corporations, which place profit over people, self-interest over justice, and oppression over equality, run our governments' (Occupy Wall Street [OWS] 2011a). They claim they are allied to 'all people who feel wronged by the corporate forces of the world' (OWS 2011a) and they 'protest the blatant injustices of our times perpetuated by the economic and political elites' (OWS 2011b).

Incidentally, a common refrain in retort to the Occupy movement revolves around the idea that 'it lacks focus', fails to articulate a 'unified, coherent program', and does not put forward a 'single set of grievances or demands' (*The Occupied Times* 2011b: 6; Jickling and Hoskins 2011: i; 1). However, despite being also largely beside the point, this criticism is flawed on a number of accounts. For a start, among numerous other examples, the very first page of the very first edition of *The OWS Journal* (2011a: 1) lists some of the sophisticated ideas put forward by occupiers generated through consensus decision making. Somewhat ironically, London occupiers even managed to get an op-ed piece published in *The Financial Times* (Occupy London 2012) with a statement of their proposals by claiming that they were drawing on Friedrich Hayek's observation that 'distributed intelligence in a voluntary co-operative is a hallmark of real economy'. What is more, 'Occupy the SEC' is a group within the OWS movement that has submitted a 325-page letter to the regulatory agencies involved in considering the proposed 'Volcker Rule' in the US. They do not claim to represent the viewpoints of

OWS as a whole, but such activities surely mark a substantial achievement by those who self-identify as part of the Occupy movement (Occupy the SEC 2012: 1 fn1).

The point I wish to make here is that the Occupy movement is fully worthy of consideration as a voice of everyday resistance or non-elite politics. When considered alongside (more traditionally-structured) Anglo-American activist movements and groups who have formulated substantial accounts of the GFC, such as, among others, the New Economics Foundation (NEF), the National Community Reinvestment Coalition (NCRC), the Put People First (PPF) coalition of NGOs, and Wall Street Watch, together with more critical academic studies by the Centre for Research on Socio-Cultural Change (CRESC) and Democratic Audit, it is possible to piece together a sketch of the everyday GFC discourse. Paralleling the previous chapter, then, I present an alternative representation of and response to the crisis investigated at the same three sites of finance explored at the regulatory level.

In the first section, I survey the place of asset-based systems of welfare in the everyday politics of the GFC. Essentially, I assess the extent to which everyday representations of and responses to the GFC articulate a challenge to such systems. In the previous chapter, I illustrated how asset-based welfare enjoys a largely *unquestioned* position in the regulatory discourse. Even in the face of issues of access to homeownership and financial security falling right at the heart of the financial crisis, the regulatory GFC discourse still tends to rearticulate and reinforce the need for asset-based welfare. What is more, I showed that the regulatory discourse can be understood as an attempt to exclude interpersonal ethics from market-oriented behaviour by inducing an economistic and autonomous individual detached from the rest of society. In this chapter, then, I

look to the everyday politics of the GFC for articulations that open up ethico-political questions at the level of the individual in a way that echoes a Smithian sympathy perspective.

In the second section, I investigate the issue of credit risk management in light of the everyday politics of the GFC. In the previous chapter, I argued that credit risk management practices remain largely unchallenged in the regulatory discourse. If anything, along with the securitisation model, they are further *normalised* based on a continued faith in the 'science' and perfectibility of risk management. I showed how the regulatory discourse tends to construct scientistic understandings of risk that contradict the contestable place of risk in society. In this chapter, I assess the extent to which the everyday politics of the GFC presents an alternative account of risk. I ask if such representations are more congruent with a Smithian sympathy perspective that accounts for how norms of risk come to be formed and contested in society through moments of mutual sympathy as part of the negotiation of ethico-political standards. Whereas the regulatory discourse tends to advocate techniques of credit risk management based on assumptions of instrumentally rational behaviour, I look to the everyday politics of GFC for challenges to the normalisation of risk management in society.

Finally, in the third section, I examine treatments of personal debt in the everyday politics of the GFC. In the previous chapter, I suggested that the regulatory view of personal debt appears to continue to *depoliticise* creditor-debtor relations by insisting on the normalisation of financial services in an advanced economy and working to articulate model financialised citizens. Again, despite the possible challenge to such an outlook posed by the GFC, a denial of the ethico-political contestability of debt appears

to endure. Looking to a Smithian sympathy perspective, I explore the extent to which everyday representations of and responses to the GFC offer a reimagining of issues of credit and debt. I ask whether this discourse provides a challenge to the depoliticisation of debt and whether it offers a fuller recognition of the contestable interpersonal ethics that make up credit-debt relations according to a sympathy perspective.

If the everyday GFC discourse does indeed offer up alternatives to the economistic liberal outlook in terms of ethico-political contestation at the level of the individual, this would surely be something of a significant success for those who seek to challenge existing regulatory financial market governance. Members of the Occupy movement, for instance, consciously position themselves as part of an attempt to reimagine and seek alternatives to the elitist and, in their eyes at least, failed 'system' of regulatory financial governance (*The Occupied Times* 2011a: 2; 2012b: 11). The fact that they occupy financial space as part of an *intentional performative act*, which seeks to repoliticise finance by subverting the spaces it fills, draws attention to this line of challenging existing structures of finance. Offering alternatives to an economistic liberal outlook thus might offer them, and others who provide exacting critiques of Anglo-American regulatory financial governance of the last 30 years or so, a substantial way to make the claim that the GFC was a crisis of ethics that calls for a radical rethinking of finance. This is based on my notion that, from a Smithian sympathy perspective at least, a denial of contestable ethics at the individual level *is a crisis of ethics*. The question for this chapter, then, is whether or not the everyday GFC discourse contains a substantial challenge to the economistic liberalism embodied at the regulatory level of financial governance.

6.1 The everyday politics of asset-based welfare

> The roots of the subprime financial shock begin in the American psyche and run through the typical household's balance sheet. Most of us define financial success by the size and quality of our home. The pecuniary and psychological benefits we attach to home ownership are unique; no other country values hearth and home more highly. Most of us spend far more on housing than we do on anything else, and American wealth is critically linked to the home – a house is the typical family's largest asset, and the mortgage is the largest liability (Zandi 2009: 49).

In this section, I illustrate the ways in which the everyday GFC discourse offers a challenge to the kind of 'homeowner ideology' based on a system of asset-based welfare to which Mark Zandi alludes. In the previous chapter, I argued that asset-based welfare enjoys a largely unquestioned position in the regulatory discourse. In turn, I suggested, this has the effect of potentially excluding interpersonal ethics from market-oriented behaviour by inducing an economistic and autonomous individual detached from the rest of society. Might the everyday GFC discourse avoid such an economistic treatment of market-oriented behaviour, which from a sympathy perspective is deeply flawed because it excludes contestable interpersonal ethics? Does the everyday politics of the GFC then open up ethico-political questions at the level of the individual in a way that echoes a Smithian sympathetic understanding of market-oriented behaviour?

Financial responsibility and challenges to asset-based welfare

In the everyday GFC discourse there is a sustained critique of the housing finance systems found in Anglo-America often expressed in terms of condemnation of the place of financiers in those systems. A somewhat typical denunciation of financiers in general is that '[*t*]*hey have taken our houses* through an illegal foreclosure process, despite not having the original mortgage' (OWS 2011a emphasis added). Indeed occupiers frequently condemn the place of mortgage-related debt and speak of attempting to 'reclaim our *mortgaged* future' (OWS 2011b emphasis added). This line of criticism is echoed by the advocacy project Wall Street Watch (2009: 14 emphasis added) in their account of the GFC:

> *They engaged in unconscionable predatory lending* that offered huge profits for a time, but led to dire consequences when the loans proved unpayable. And *they created, maintained and justified a housing bubble*, the bursting of which has thrown the United States and the world into a deep recession.

The direct vilification of financiers sits alongside a critique of the homeowner ideology also identified as playing a fundamental role in the subprime debacle (Langley 2008a: 479; Nesvetailova 2010: 86). For Wall Street Watch (2009: 65):

> There were reasons why [former Chair of the Federal Reserve Alan] Greenspan and other top officials did not act to pop the bubble. They advanced expanded home ownership as an ideological goal. While this objective is broadly shared across the political spectrum, the Bush administration and Greenspan's ideological commitment to the goal biased them to embrace growing home

> buying uncritically – without regard to whether new buyers could afford the homes they were buying, or the loans they were getting.

It further suggests that 'Wall Street grew rich on mortgage-related securities and exotic financial instruments' and 'people borrowed en masse against the rising value of their homes to spend more and keep the economy functioning' (Wall Street Watch 2009: 66).

Notably, though, in direct contrast to the regulatory discourse, in the everyday discourse there is much less blame attached to the 'subprime' borrower, much less emphasis put on the 'flawed' characteristics that the subprime borrower displayed in the period preceding the crisis and how they might be financially 'educated' out of displaying such characteristics again. Instead, attention tends to be focused on financiers, as well as on the governments and regulatory bodies that promote systems of asset-based welfare (Finlayson 2009). For instance in the pages of *Tidal* (2011: 17 emphasis added), a publication of the Occupy movement, there is an account of how borrowers were in a sense *cheated* by a homeowner ideology, with the argument made that '[s]uburban sprawl and home ownership have *deceived us into debt* and a twisted sense of control, success, and identity'. Moreover in another instance of blaming mortgage lenders, but not mortgage borrowers, the NCRC (2008: 3) reports that significant numbers of adjustable-rate mortgage borrowers were defaulting even before the first interest rate adjustment on their loans, which clearly points towards 'unsatisfactory underwriting practices'. In a further attribution of blame, it also documents that nearly 35% of subprime loans were issued to borrowers who could have qualified for fixed rate 'prime' loans (NCRC 2010c: 3).

Similarly, in the UK, the ills of asset-based welfare also seem to get attached to the financial sector itself, rather than borrowers specifically (unlike with the 'problem' of the subprime borrower identified in the last chapter). For instance, CRESC (2009: 64) suggests that '[i]ndiscriminate lending for consumers loaded revolving debt onto the household balance sheet and caused the housing bubble'. In turn, it notes that the debt burden was pushed up for new entrants and low income households who spent 40% of disposable income on mortgages, while those already 'on the [property] ladder' were encouraged to withdraw equity to fuel further consumption (CRESC 2009: 64). For CRESC (2009: 68), then, the GFC represents a 'social turning point', a 'change in the economic conjuncture', and something of a direct challenge to the asset-based welfare model. It suggests:

> The crisis finally *discredited the social promise* that the mass of the population could find security through property because funded saving and/or home ownership would provide ordinary wage earners with security in old age. The stock market crash in 2000 and the subsequent closure of defined benefit schemes had dramatised the limited long term benefits of holding ordinary shares; and the subsequent years showed that employers would not honour social obligations which had any economic cost. The housing market crash after 2007 showed that sustained *gains in house prices would not compensate for non-existent pensions* (CRESC 2009: 68 emphasis added).

Echoing Wall Street Watch and members of the Occupy movement, CRESC (2009: 40) is of the opinion that '[t]wenty years of innovation in wholesale finance did very little for anybody outside finance, except for those who wanted to trade assets and through

luck or judgement took their money off the table before the asset price bubble popped'. Ben Dyson *et al*. (2011: 21) seemingly concur, as they report that in the UK the house price boom and excessive lending 'more than doubled the cost of housing relative to income': a huge problem in terms of affordability which ultimately means that households have to pay much more, via mortgage interest, to the banking sector.

Given these complaints, it is perhaps unsurprising that the everyday discourse contains significant direct (performative) challenges to asset-based welfare more broadly. In direct defiance of property as financial asset, occupiers claim:

> The space we are occupying in the heart of London has huge financial value, but we've shown that it has a value to people beyond money. Most property, space and buildings have become merely 'assets', acquired for their value or used for the production of wealth. Occupy is reinstating some of the human value back into buildings and spaces by making them democratic, inclusive political spaces (*The Occupied Times* 2012a: 4).

The challenge to asset-based welfare is articulated by the Occupy movement in a number of ways. For instance, one contributor calls for 'networked community based investment in housing' (Cook 2012) and it is suggested that the Occupy movement should move from its outside occupations to indoor spaces 'such as foreclosed houses and abandoned buildings' because this 'politicizes individual struggles' (*Tidal* 2011: 10) – a direct performative act of subversion. The call for networked, collective action also echoes PPF's (2009a: 5) suggestion that it is necessary to 'work towards universal achievement of the human right to adequate housing'. It argues that the role of private

finance and reduced social provision in housing markets has prompted 'insecurity and indebtedness for low and middle-income earners' and looks to investment in social housing as a remedy (PPF 2009a: 5). Seemingly, the outcome of sympathetic moral structures are here activated to suggest that the 'right to housing' ought to be a central aspect of the welfare state given that the social provision of housing has dignifying effects.

Moreover, one interviewee for occupiers recommends that if someone is in negative equity they should 'stop being a debt slave to [their] banker and default on [their] mortgage and become a renter' (Interview with James G. Rickards in *The Occupied Times* 2011d: 8). Further, they claim that homeownership 'is a myth perpetuated by bankers who profit from mortgages' and that renting 'is a perfectly acceptable economic arrangement between those who need housing and those who provide it' (Interview with James G. Rickards in *The Occupied Times* 2011d: 8). The NCRC (2010e: 10) also picks up on renting as an important alternative to homeownership by welcoming calls in the US for 'right to rent' arrangements, which allow owner-occupiers to stay in their homes even if they are threatened with foreclosure. These 'sale-leaseback' arrangements are uncommon in the residential sector, but provide an alternative form of financing if bank loans are difficult to obtain (NCRC 2010e: 10).

Alongside a focus on the role of homeowner ideology in the inflation of the subprime bubble and the destructive consequences of foreclosure, there are also criticisms made in the everyday discourse directly related to other forms of state restructuring towards asset-based welfare systems. Most explicitly, asset-based pension provision is identified as a significant problem related to the GFC. As Wall Street Watch (2009: 6) points out,

in the US, even those 'lucky enough to have had pensions or retirement funds have watched helplessly as 25 percent of their value evaporated in 2008'. Writing in *The Occupied Times*, Owen Jones (2011) claims that in the UK private sector pension restructuring is 'one of the great scandals of our age'. He reports how for the low-paid, only 20% of private sector workers have an employer sponsored pension scheme and notes the problem of how this is used by some as justification for reforming public sector pensions in a 'race to the bottom' (Jones 2011). More broadly, occupiers complain that pensions, alongside other social goods such as health, housing, and education, are currently 'controlled by global banks, markets, tax havens, corporations and financial crises' (Occupy LSX 2011b).

Asset-based systems of welfare are also criticised by CRESC (2009: 8) which suggests that at the regulatory level the 'language of social innovation' is often used to 'argue that new financial products can address "unmet social needs" such as care in old age'. It claims that this implies 'more funds routed through the wholesale markets which would benefit the senior workforce, but could well increase economic instability without solving our social problems' (CRESC 2009: 8). For CRESC (2009: 69), pension contributions from low-paid individuals often represent a 'failure' in terms of not building a sufficient personal fund for security through 'property in coupons'. It contrasts this *individualised* asset-based welfare system with a more 'social' arrangement, which might include 'pooled contributions' that could be organised along more collective lines to build a 'social fund for infrastructure renewal' (CRESC 2009: 69). In all, CRESC (2009: 68) finds the denial of 'comfortable retirement in the UK' based on employment history and status 'entirely unacceptable'. Again, it appears that on this account of the 'right' to an adequate pension the outcome of sympathetic moral

structures are here activated to stress the need for the social provision of pensions because of their dignifying effects.

Likewise, in her contribution to the Occupy literature, Judith Butler (2011) criticises 'prevailing attitudes toward health insurance and social security' in the US that suggest that 'market rationality should decide whose health and life should be protected, and whose health and life should not'. She writes:

> For if each of us is responsible only for ourselves, and not for others, and if that responsibility is first and foremost a responsibility to become economically self-sufficient under conditions when self-sufficiency is structurally undermined, then we can see that this neo-liberal morality, as it were, demands self-sufficiency as a moral ideal at the same time that it works to destroy that very possibility at an economic level. Those who cannot afford to pay into health care constitute but one version of population deemed disposable (Butler 2011).

This argument also appears to stress a right to adequate healthcare based on an appeal to the outcome of sympathetic moral structures which are activated to stress the need for the social provision of healthcare because of its dignifying effects: people cannot be just left without healthcare based on individualised market rationale.

Drawing these points together, I suggest that there are clear ways in which the everyday GFC discourse offers sharp criticisms of asset-based welfare. The roles of homeowner ideology and state restructuring towards individualised responsibility in particular both seem to form central parts of the everyday account of the GFC. Interestingly, unlike in

the regulatory discourse, there is little blame attached to the subprime borrower because culpability for the crisis, as might be expected from movements like Occupy, is much more directly attributed to financiers and regulators. In the previous chapter, I argued that asset-based systems of welfare enjoy a largely *unquestioned* position in the regulatory discourse, even though they are widely identified as so central to the crisis itself. By contrast, from a sympathy perspective interested in the contestation of interpersonal ethics at the individual level, in the everyday GFC discourse there is a greater degree of questioning of asset-based welfare, which means there is also *potentially* more space for ethico-political contestation at the individual level.

In turn, this might suggest that the everyday discourse is able to avoid an economistic treatment of market-oriented behaviour by bringing into doubt hitherto accepted forms of state restructuring in Anglo-America. Such a position is at least seemingly much more congruent with a Smithian sympathetic approach to questions of political economy, especially compared to the economistic liberalism of the regulatory GFC discourse that tends to encourage the (re)production of atomistic and instrumentally rational market-oriented behaviour. However, it is also important to interrogate the limits of this questioning, particularly with regard to how financialisation trends and asset-based welfare systems might still be partially reinforced in the everyday discourse itself. What are the limits of the everyday challenge to economistic liberalism?

Financialised citizenship and the reinforcement of asset-based welfare

It is possible to discern elements of support for asset-based systems of welfare – including a nascent homeowner ideology – in parts of the everyday discourse. As with the regulatory discourse, one way in which this is articulated is in the identification of

innocent 'victims' of the GFC. Notably, it is the very same groups in society that display certain financialised character traits which tend to be identified. For instance, writing in *The Occupied Times*, Matt Taibbi (2011) argues that the GFC and its response from governments represent 'the biggest heist in the history of robberies' with *homeowners*, *pensioners*, *taxpayers*, and *savers* all singled out as victims who have been 'fleeced'. Again directing blame at financiers in particular, Wall Street Watch (2009: 9 emphasis added) claims that 'the enemies of American *consumers, taxpayers and small investors* live in multimillion-dollar palaces and pull down seven-, eight- or even nine-figure annual paychecks'. It claims that '*consumers are not to blame* for this debacle', certainly not those who used credit 'in an attempt to have a decent quality of life', and US subprime borrowers should not be blamed simply because they faced misleading loan conditions (Wall Street Watch 2009: 9 emphasis added). Likewise, Wall Street Watch (2009: 110) argues that 'the American economy cannot be based on finance and the trading of paper' because rather than increase national wealth, Wall Street 'siphoned profits from the real economy' and from '*consumers, workers and investors*' who were then 'asked to foot the bill' of the GFC. Thus as with the regulatory GFC discourse, at least in part, a particular financialised depiction of citizenship (Langley 2006) appears to be articulated by the everyday discourse.

Moreover, the NCRC presents a very interesting intervention with regard to tendencies to reinforce financialised citizenship and asset-based welfare. On the one hand, given that it considers itself the 'nation's trade association for economic justice whose members consist of local community based organizations' and claims to have since its inception in 1990 'spearheaded the economic justice movement', it might be expected that its views would depart quite significantly from the regulatory discourse, especially

on issues such as subprime lending right at the heart of the GFC (NCRC 2003: 2). However, on the other hand, the NCRC (2003: 2) views its 'mission' as building 'wealth in traditionally underserved communities' and bringing low- and moderate-income populations 'into the financial mainstream'. Seemingly, it is this latter mission that tends to take precedence and set the limits of its critique of existing systems of finance. This is because in a number of important ways it promotes asset-based welfare in much the same way as the regulatory discourse in response to the crisis and in fact reinforces something of a homeowner ideology.

As discussed above, despite presenting renting as an alternative to homeownership, the NCRC (2010e: 18 emphasis added) also appears to suggest that it is merely a step on the way to the ultimate goal of owner-occupation:

> For residents not ready for homeownership, whether due to credit or down payment deficiencies, and in areas where lenders are tightening home purchase loans, lease-to-purchase (or rent-to-own) programs can offer an intermediate step in which *renters gradually build towards ownership*. By offering *a stepping stone between renting and buying*, a lease-to-purchase (or rent-to-own) option is an effective tool to rebuild the homeownership market. Since families that have experienced a foreclosure cannot become owners again for five to seven years due to credit score damage, this tool provides an alternative that helps former – or new – *homeowners build up the credit and capital needed to buy a home*.

Such suggestions are part of the NCRC's overall position on homeownership, which it seems to promote almost above all else. It speaks approvingly of shared equity schemes

because they provide an 'opportunity for *wealth building creation* [that] can be passed on to countless future generations' (NCRC 2010e: 20 emphasis added). It welcomes 'resident ownership mechanisms' that provide 'low- and moderate-income residents with opportunities to *enhance their financial assets* and gain ownership stakes in redevelopment initiatives' (NCRC 2010e: 32 emphasis added). What is more, the NCRC (2011a: 1-3) expresses concern about 'shutting out future generations of working Americans from homeownership' on a number of counts, including issues of private credit provision, debt-to-income ratios, and down payment criteria.

In many ways the NCRC (2011a: 2) appears to prefer an improved system of, but not a distinct departure from, relatively easy credit conditions: a move away from the 'risk factors such as no income documentation, prepayment penalties and adjustable rates that plagued subprime loans', yet not a fundamental and thoroughgoing rethink of subprime finance. In fact, it claims that the Community Reinvestment Act 'ensured that lending conducted by banks is safe and sound' and it speaks highly of the US Government Sponsored Enterprises which it claims 'encouraged the origination of safe and sustainable loans' (NCRC 2010d: 1; 2010c: 3). Perhaps most revealingly, it suggests that '[r]esponsible subprime lending has an important role to play in the marketplace' and if a significantly increased level of advice can be offered to customers, it would prevent them 'falling victim to predatory lending' (NCRC 2008: 30).

This line of thinking actually echoes a number of other interventions in the everyday GFC discourse. One contributor to *The Occupied Times* appears to suggest that in the UK the problem was not subprime lending per se, but the distortion of credit provision through criminal practice. He writes: 'the single most important factor behind the

catastrophic global insolvency of the banking industry' was a 'failure to enforce existing laws' because it was the 'systematic resort to mortgage fraud perpetrated by the financial sector' that caused the massive accumulation of bad debts (Shutt 2011). Moreover, Stiglitz (2012) speaks enthusiastically about homeownership in *The Occupied Times* (perhaps somewhat blurring the lines between the regulatory and the everyday) by pointing to the 87% owner-occupation rate in Mauritius that has been achieved without fuelling a housing bubble.

Overall, therefore, the everyday GFC discourse articulates a complex and variegated attitude with regard to systems of asset-based welfare. On the one hand, it offers a sharp critique of homeowner ideology and state restructuring towards individualised responsibility. As such, it *potentially* avoids an economistic treatment of market-oriented behaviour and enunciates representations much more in line with a Smithian sympathy perspective than the regulatory discourse. This is found most forcefully in interventions that question an 'atomistic view of society' (*The Occupied Times* 2011b: 3). However, on the other hand, there are certain limits to the reimagining of financial market agency in which the everyday discourse engages. In important ways, it still displays notable instances where there is a perceived *need* for asset-based welfare and a reproduction of a homeowner ideology. Even the NEF (2011b: 21 emphasis added), otherwise extremely critical of extant financialised citizenship, identifies the ability to 'build assets' and tools and services, such as insurance and pensions, '*to protect aspects of life*' as financial needs that are 'equally valid for Joe Public and Vulnerable Groups'.

From a Smithian sympathy perspective, ethico-political contestation at the individual level is closed down if asset-based welfare and systems of individualised financial

responsibility go unquestioned. This is what makes it so remarkable that even in the face of issues of access to homeownership and financial security falling right at the heart of the financial crisis, asset-based welfare systems still seem to be (re)produced certainly at the regulatory level and, at least in part, at the everyday level. Outside a financialised society, it might be possible for the sympathy procedure to be unhindered by the ethos of individualised financial responsibility such that more collective forms of welfare provision become important to meet the demands of the outcome of negotiation of interpersonal ethics between people, as some of the everyday interventions imply. Within parts of the everyday discourse, though, it appears as though a commitment to asset-based welfare still produces a somewhat financialised outcome for any sympathetic reimagining of finance.

However, it is important to note the argument I wish to make here is not that there is anything necessarily 'wrong' with the promotion of homeownership by associations such as NCRC, nor indeed with asset-based welfare more broadly, especially perhaps when the very explicit intention is to further the position of low-income groups. Rather, the point is to dig a little deeper to question what ethico-political space is being opened up or closed down in this very act of fostering asset-based welfare and financialised citizenship. On the one hand, it might be that the deeply ingrained aspects of financialisation in contemporary Anglo-American societies simply limit the possibilities of the operation of the sympathy procedure in the current era. That is, even if everyday interventions do provide political space to rethink notions of financial responsibility in less individualised terms, they still ask people to perform the imaginative act of sympathy in terms which are shot through with ideas that are implicated in a financialised society, such as asset-based welfare.

Conversely, on the other hand, more empowering for a sympathy perspective, the use of sympathy here might actually serve as a form of immanent critique. That is, given that the everyday discourse provides opportunities to rethink finance in less financialised terms, while still speaking to ideas such as homeownership that people recognise as so central to their lives, it could provide an even more important feature of a counter-political culture to transcend economistic liberalism. Thus everyday interventions might serve to challenge the economistic understanding of market-oriented behaviour, while still speaking to ideas about empowerment in terms of homeownership, pension provision, and healthcare. In a sense, the sympathy procedure here works not to provide collective resistance to finance, but subversion (De Goede 2005b). This is a significant point to which I return in the concluding chapter because it speaks directly to the issue of how economistic market-oriented behaviour might be challenged under liberal market governance.

6.2 The everyday politics of credit risk

> Market finance became a new form of worship: What would the market think? What would the market say? Without even knowing why, the common person was suddenly exhorted to care very deeply about how the market 'felt' about something. If the market was upset, something so unspeakably terrible would happen! (*The Occupied Times* 2011b: 3).

This intervention is illustrative of how, in some discussions of the power of financial markets, occupiers work to denaturalise the market. This is actually something that

chimes well with Smith's sympathetic liberalism. As opposed to being naturally occurring between innately instrumentally rational individuals, *markets are made* as people perform the character traits of market-oriented behaviour: there is no such thing as 'the market' itself *saying*, *doing*, or *feeling* anything from such a perspective (Watson 2005a: 163). People embody the roles of market makers when they engage in market-oriented behaviour, but such behaviour is always contingent, contestable, and involved in the negotiation of interpersonal ethics; it is not a uniform and homogenous process that results in a dogmatic structured outcome called 'the market'. Yet, are there other deeper ways in which the everyday discourse offers distinctly Smithian insights into the ethics of financial market agency? Are there forms of resistance to liberal financial market governance that serve to open up ethico-political contestability about the place of risk in society?

In this section, I argue that the everyday discourse offers significant forms of resistance to current risk management practices and structured finance. In the previous chapter, I discussed how credit risk management practices remain largely unchallenged in the regulatory discourse. If anything, along with the securitisation model, they are further normalised based on a continued faith in the 'science' and perfectibility of risk management. Whereas such a position serves to deny the contestable place of risk in society, I suggest that in the everyday discourse certain challenges to the normalisation of risk management are articulated which are more congruent with a Smithian sympathy perspective. While an economistic understanding of the place of credit risk in financial markets tends to contradict contestable interpersonal ethics, the everyday discourse, in part, avoids the assumptions of instrumentally rational and uniform behaviour on which such a position rests.

Resistance to the normalisation of credit risk management and structured finance

> There is a shared feeling on the streets around the world that the global economy is a Ponzi scheme run by and for Big Finance. People everywhere are waking up to the realisation that there is something fundamentally wrong with a system in which speculative financial transactions add up, each day, to $1.3tn (50 times more than the sum of all the commercial transactions) (White and Lasn 2011).

In the everyday discourse there are many indictments levelled at finance in general and practices associated with risk management systems and structured finance in particular. For instance, in the UK, occupiers state '[w]e refuse to pay for the banks' crisis' and therefore 'do not accept the cuts as either necessary or inevitable' (Occupy LSX 2011a). Occupiers protest that the 'complex gambling inherent in today's institutions of high finance is also all about using money to beget money' and that 'the gamblers risk not their own livelihoods but ours' (*The Occupied Times* 2011e: 10). They ask how it is acceptable for large financial institutions to benefit from staggering government bailouts 'after handing out countless high-risk loans', while the 'recipients of these loans have to default' (*The OWS Journal* 2011a: 2). Adopting a similar perspective, the NEF (2011b: 8) claims that the activities that 'created' the GFC 'deliver little social value' because those in the banking sector 'operated for themselves'. Specifically, it blames the way in which they 'created a new sectoral business model that fused retail and wholesale through securitization and turned banking into a giant "transaction generating machine"' (NEF 2011b: 8; see Froud *et al*. 2002).

Along related lines, another aspect of contemporary finance criticised is the fact that while major investment banks used to operate as partnerships, they now tend to utilise a public company structure which, as discussed in the regulatory discourse, 'leads to a striking moral hazard in the manner in which these banks conduct trades' (Occupy the SEC 2012: 78). In essence, the problem is that since traders have no personal liability in such a structure, there is 'little real downside [for them] to incurring monumental losses' (Occupy the SEC 2012: 78). This of course relates to the widely discussed issue of 'moral hazard' in the crisis (Wade 2008: 32-33). Speculation using structured financial products is effectively encouraged because '[p]rovided that no fraud occurs, the worst-case scenario for a trader who loses millions or billions of dollars of depositor-backed money is the loss of a job' (Occupy the SEC 2012: 78). 'In effect', as Dyson *et al*. (2011: 12) also suggest, this means that 'while the potential upside of an investment goes to the bank and the saver/investor, the potential losses fall upon the taxpayer'.

In the everyday discourse, such appraisals of the banking and financial services sectors tend to sit alongside attempts at a fundamental 'rethink' of the desired function and place of banks and other financial institutions in society. David Beetham (2011: 7) argues, for instance, that the 'dominance of the financial sector has been detrimental to other sectors of the economy, since it has generally been more profitable to invest in financial trading than in domestic businesses'. Likewise the NEF (2010: 14) suggests that 'it stretches credulity to imagine that trading in assets can ever be an engine of economic growth as it does not add much to the productive capacity of the economy'. It is in fact a 'fallacy', the NEF (2010: 25) claims, to suggest that 'banks are middlemen between depositors and borrowers' because in actuality while banks do instigate lending, 'they are not constrained by deposits'.

Notably, this is an element of recent banking practices identified as hugely problematic in the everyday discourse based on the argument that when a loan is made, it 'doesn't actually come from anyone else's savings', but rather is a simple process of *creating* an account on a computer system (Interview with Ben Dyson in *The Occupied Times* 2011b: 7). From this perspective, Ben Dyson reports that the creation of 'brand new money' by banks, shown in Bank of England figures, largely goes towards 'pushing up house prices and speculating on commodities' (Interview with Ben Dyson in *The Occupied Times* 2011b: 7). On this issue, the NEF (2010: 25 emphasis in original) further explains:

> As many have understood, th[e] ability to *create* lending (i.e. to create *credit*) has both enormous benefits and enormous dangers. The dangers arise from a conflict of interest between the owners of the banking system and the economy as a whole. Nothing is closer to alchemy than the creation of credit. With very little effort and cost, banks can create a huge amount of lending which generates interest income and profit. There will always be a temptation to over-lend: to lend beyond borrowers' ability to repay from future earnings or the banks' liquidity and capital resources. It is a powerful temptation: the major crises of economic history have at root cause over-lending.

By way of response, Dyson *et al.* (2011: 9 emphasis in original) look to a 'full-reserve' system, in which banks 'would continue to play an allocatory and maturity transformation role but as genuine intermediaries that transfer existing purchasing power, not as credit *creating* entities that expand the money supply'. This criticism is part of NEF's (2010: 6) general argument that the 'economic history of the world

indicates that crisis after crisis arises from financial failures' and that these failures 'follow from one simple cause: the over-extension of credit'.

Concerning over-lending, CRESC (2009: 44) agrees that the banking sector made 'easy loans for non-productive purposes' on residential and commercial property or to other financial firms 'because property and finance were the only sectors which had an insatiable demand for loans'. It argues that central banks and regulatory agencies in the UK and the US were 'as culpable as everybody else' because their 'experts and technocrats had accepted the wholesale bankers' story about the benefits of financial innovation, credited Black-Scholes algebra with a heroic role and misrepresented derivatives as a "marketisation of risk" which made the financial system more robust' (CRESC 2009: 19; for a critique see De Goede 2001). Remarkably in this regard, as the NEF reports, the current Chair of the Federal Reserve, Ben Bernanke, boasted in 2006 that the 'management of market risk and credit risk has become increasingly sophisticated … Banking organizations of all sizes have made substantial strides over the past two decades in their ability to measure and manage risks' (Ben Bernanke cited in NEF 2010: 6). In stark contrast, CRESC (2009: 54) actually calls the idea that 'traders at a node in a complex circuit can calculate the risks of what they do' a 'fundamental misapprehension'. In its view, risk calculation is much more inexact, uncertain, and characterised by a 'system which is smart at the links and dumb through the chains' (CRESC 2009: 54). Along similar lines, Wall Street Watch (2009: 40) claims that the GFC has, quite simply, 'exposed how poorly the sellers and the buyers understood the value of the derivatives they were trading'.

That there was a fundamental mismanagement of risk in the subprime era (Nesvetailova 2010), according to the everyday discourse at least, did not inhibit financiers from making significant use of structured finance. The NCRC (2011b: 2) reports that many US lenders operated 'almost without regard to risk' because when they made loans it was solely 'to sell the loan to other market players'. Taibbi (2011) seems to suggest that the financial system was much healthier 20 years ago when 'banks didn't make risky loans because they worried about collecting on them', as opposed to more recently when 'the loans were designed to be sold off as soon as the ink was dry'. Wall Street Watch (2009: 74) complains that acquirers of a mortgage did not have 'any duty to investigate the terms of the loan and [were] effectively immunized … from liability for the initial loan'. All these ideas seem to point towards agreement with the NEF's (2011b: 4) lament that surely a 'criterion' of 'good banking' is that financiers 'take responsibility for what they do'.

In some of its recommendations for reform and response, the everyday discourse contains further significant damning assessments of extant credit risk management practices and the use of structured finance. The NCRC (2011a: 1), for instance, notes that if Fannie Mae and Freddie Mac were abolished and large private banks assumed the functions of securitising and guaranteeing mortgages, it would be 'like the fox running the hen house' because it was exactly 'the securitization practices of Wall Street banks financing toxic mortgages that was a major factor plunging this country into the current foreclosure crisis'. Furthermore, Occupy the SEC (2012: 131) claims that credit derivatives, which constitute 'insurance products free from the protections of insurance regulation', and synthetic securities, which 'derive their value from other assets or liabilities', should be designated as 'high risk assets' because of the threats they pose.

For such reasons, Max Keiser (a former Wall Street broker, financial analyst, and broadcaster interviewed in *The Occupied Times*) identifies the subprime bubble as one 'of swapped and re-swapped risk, floating around above the 'real world'', which became 'utterly abstracted from the layer of asset-value which actually determines the value of the derivatives' (Max Keiser cited in *The Occupied Times* 2012c: 9). In a sense, as the NEF (2010: 28) argues, it is 'highly complex to even ascertain where associated securities ended up' because of opaque structured financial products and more broadly because, as the subprime debacle reveals, 'some assets simply go round and round the banking system'.

In terms of ways to address such problems, a number of aspects of the everyday GFC discourse look to fundamental reform of the regulation of structured finance. PPF (2009a: 3) calls for greater control of derivatives trading, credit securitisation, and other complex financial instruments in a 'globally coordinated way'. Specifically, it demands rules that 'discourage or ban short-term, non-productive or damaging investment, while promoting longer term socially productive and environmentally sustainable investment' (PPF 2009a: 3). Likewise, Wall Street Watch (2009: 112) claims financial institutions 'should be specifically required to explain why [an] instrument does not worsen financial systemic risk, taking into account recent experience where purported diversification of risk led to its spread and exponential increase'. In other words, it suggests that a 'precautionary principle' should be adopted for 'exotic financial instruments' such that the 'burden should be placed on those urging the creation or trade of exotic financial instruments – existing and those yet to be invented – to show why they should be permitted' (Wall Street Watch 2009: 112). In addition, one interviewee in the Occupy literature suggests banning 'derivatives and other structured financial

products that serve no purpose other than to deceive customers and enrich bankers' (Interview with James G. Rickards in *The Occupied Times* 2011d: 8). This chimes with the broader demand made by occupiers for '[i]ndependent and effective regulation' that works for 'the good of our society' given that the GFC shows that '[d]angerous and highly leveraged trading practices have not been regulated properly' (Occupy LSX 2011c). Similarly, for Occupy the SEC (2012: 220):

> Financial innovation goes hand-in-hand with increased concentrations of risk and pricing opacity. The banking model has shifted away from 'old-fashioned' prudential banking of the George Bailey variety, in favor of an 'originate and distribute' model that revels in risk-taking … From a Pareto-optimal, macroeconomic perspective, the markets would actually benefit if the Volcker Rule were to reduce 'financial innovation' by government-backstopped banking entities.

In this spirit, CRESC makes a number of interesting demands for regulatory reform. Essentially, it argues for 'a presumption in favour of simplification' on the issue of derivatives regulation (CRESC 2009: 55). It notes how financial innovation is 'mutable', so the object of reform should be 'to simplify wholesale finance' by encouraging 'short, direct chains' in finance 'where the location of risk and the identity of the holder is *much more knowable*' (CRESC 2009: 55 emphasis added). This is part of CRESC's (2009: 66) 'structural circuits explanation of the pre-2007 bubble', which it sees as resisting many of the very definitions of the GFC to be found in regulatory discourse. It claims that the crisis in the financialised economy of the UK needs to be fundamentally rethought:

> Our problem is not a socio-technical problem of wealth management and portfolio allocation between classes of coupons in which funded savings or insurance premia might be invested according to some financial calculation of yield and risk. The UK's problem is a socio-economic problem about co-ordinating investment in production and infrastructure with flows of savings so as to ensure sustainability and stability by increasing material resources (CRESC 2009: 66).

Drawing these points together, in many ways CRESC's arguments point towards *simplifying* securitisation, *de-linking* chains of finance, and more broadly almost a sense of *de-financialisation*. Crucially, this position appears to represent and embody a number of the interventions in the everyday GFC discourse. Broadly speaking, such ideas certainly speak to the concerns discussed in this section about taking *responsibility* for financial market actions, reducing the *powerful place of banks* in society, and making credit risk more *knowable*. This is no panacea, and certainly some everyday voices would want to go much further: for instance, proposals for 'full-reserve' banking might require an even larger 'rethinking' of finance.

Yet, collectively, I would argue that the everyday discourse articulates a promising form of resistance to economistic treatments of issues of credit risk and structured finance along these lines. Simplification, de-linking, and de-financialisation are certainly aspirant themes that are much more congruent with a sympathy perspective than an economistic liberal market governance agenda that serves to normalise the place of risk and risk management in society. Specifically, the crucial point here is that simplification, de-linking, and de-financialisation in general terms make finance more

knowable in the sense of people knowing with whom they are in a market relationship when they perform market-oriented behaviour. Put simply, without knowing about the content of this relationship – or at least the possibility of 'imagining' that relationship because finance is deemed too 'complex' to think about such things – then it becomes difficult for people to engage in a sympathetic procedure, to activate their impartial spectator at all. *Making finance more knowable* would thus seem to be a basic demand of reorienting finance towards recognising the (contestable) interpersonal relations that make up markets according to a sympathy perspective.

Moreover, by challenging the dominant place of 'risk' in Anglo-American finance, the everyday discourse at the very least opens up ethico-political space in which the desired place of 'risk management' in society can be contested. At the individual level, this starts to recognise the contestable nature of interpersonal ethics, as a Smithian sympathy perspective insists, rather than assuming a society of atomised instrumentally rational individuals all working to 'perfect' risk management. What is more, the outcome of more space for negotiations over appropriate forms of market-oriented behaviour might result in novel ways of rethinking finance, perhaps in terms of finding ways of financial market participants exercising more *responsibility* for their actions. Certainly, to challenge the way in which the powerful place of banks in Anglo-American societies allows them to avoid responsibility would appear to be an important outcome of the activation of a sympathy procedure in this regard, at least according to the everyday discourse. However, as with asset-based welfare, it is also important to interrogate the limits of this questioning of risk, particularly with regard to the extent to which securitisation and structured finance can be tamed, regulated, or abolished in a financialised economy.

Reinforcement of credit risk management practices

> To facilitate the allocation and deployment of economic resources, both spatially and temporally, to ecological sustainable activities that maximise long-term financial and social returns under conditions of uncertainty (NEF 2011b: 2).

This is the NEF's (2011b: 2) response to the question of 'what do we expect the financial system to deliver?'. On one level, it appears to be a fairly uncontroversial and standard account of what might be expected of an Anglo-American financial system, broadly understood. Yet, on another level, even this short statement is full of allusions to a position that, at least in part, serves to reinforce existing approaches to and practices of credit risk management. First, most obviously, as might be expected to some degree, if the financial system (here presumably made up of *private* financial institutions if they are maximising financial returns) is still responsible for facilitating the 'allocation and deployment of economic resources', there is no radical change proposed in terms of socialising risk or fostering collectivised sources of credit, for example. Second, it is difficult to envisage a great departure from existing structures of credit allocation if banks and other financial institutions are understood to be seeking to 'maximise' financial returns. The words 'long-term' and ecologically 'sustainable' are obviously important here, but if this is part of the agreed purpose of a financial system, it still appears that 'financial' and 'social' 'returns' are understood to be at least complementary, if not equivalent; this is a point which would surely be contested by other everyday interventions. Finally, the phrase 'under conditions of uncertainty' might provide a significant qualification for the definition. Put simply it suggests that it is expected that an ideal financial system, if operating properly, will be able to successfully

measure and manage 'uncertainty', or 'risk' proper, and will not be operating within or producing conditions of 'Knightian uncertainty' (Blyth 2002) or even 'radical ambiguity' (Best 2005).

I highlight these points not necessarily to suggest that the NEF is somehow misguided in its understanding of how a financial system might work, but to stress the point that even one of the most critical voices in the everyday discourse contains elements of reasoning in its position that serve to reinforce existing credit risk management practices. The question then becomes one of how much the everyday discourse as a whole tends to be limited in its reimagining of risk. One issue clearly concerns the extent of envisaged reform and the degree to which a radical 'rethinking' of systems of credit emerges. As noted, the NEF (2010: 72) clearly wishes to revisit the question of the desired 'function' of banks and other financial firms, but its views of how a financial system needs to facilitate exchange, allocate capital, and '[r]edistribute and share risk' do not mark a radical departure, at least not in terms of how credit risk is understood and presumed to be managed.

Moreover, in its proposals, the NEF (2011a: 16; 2011b: 21) advocates the introduction of a 'Statement of Purpose' requirement and 'a social contract element' for banks and banking activities. This might be a useful and progressive reform in response to the GFC, but it is also notable that it depends on a 'consumer protection' agenda that does not differ that markedly from that which is found in the regulatory discourse. The NEF (2011a: 16 emphasis added) suggests that such measures would 'allow regulators and *customers* to assess' the activities of financial institutions. In a similar suggestion that places faith in informed consumers, the NEF (2011b: 18 emphasis added) also calls for

the introduction of 'licensing of financial products that are stress tested and *given a kite mark like food*'. Notably, Wall Street Watch (2009: 110) also advocates a new framework for financial sector regulation organised around a consumer protection agenda. It calls for a new 'financial consumer protection agency' to be established and suggests giving 'consumers the tools to organize themselves' in order to produce independent financial consumers associations that could 'hire their own independent representatives to review financial players' activities, scour their books, and advocate for appropriate public policies' (Wall Street Watch 2009: 113-114). As such, a consumer protection agenda might sit quite comfortably within existing understandings of risk (Langley 2008a). In fact, it could even serve to induce a model form of financialised consumer citizen able to behave in an instrumentally rational way to ensure that the market provides 'good' and 'safe' financial products. That it does fit within such a vision might be part of the reason why, as Sarah Anderson (2010: 4) reports, one area in which '[p]ublic interest advocates overcame intense Wall Street lobbying to win some important reforms through the Dodd-Frank legislation' was in the area of 'consumer protection'.

Overall, the everyday discourse presents an interesting challenge to both existing understandings of credit risk management and uses of structured finance. On the one hand, ideas about taking *responsibility* for financial market actions, reducing the *powerful place of banks* in society, and making credit risk more *knowable* all work against the normalisation of 'risk' in Anglo-America. By problematising risk management, the everyday discourse begins to provide a means of recognising the contestable nature of interpersonal ethics on which a Smithian sympathy perspective insists. In particular, proposals based on notions of simplification, de-linking, and de-

financialisation are more congruent with a sympathy perspective, especially compared to an economistic liberal market governance that serves to normalise the place of risk and risk management in society. From a Smithian sympathy perspective, ethico-political contestation at the individual level is closed down if a scientistic understanding of risk is reinforced and an ethic of risk management is normalised in society. To a large extent, the everyday discourse is successful in resisting such tendencies, perhaps because credit risk *mis*management played such a central role in the GFC. At the very least, it presents fruitful ideas that are worthy of consideration, especially with regard to proposals for making finance more *knowable* which seems to be desirable and realisable from a sympathy perspective.

However, on the other hand, there are clearly limits to the level of resistance that the everyday discourse offers. In this regard, even at the most critical edge of the everyday interventions, it is possible to identify the persistence of economistic ways of thinking about risk in reform agendas. This is especially the case when there is a tendency to rearticulate the existing architecture of credit allocation systems and posit mild reform proposals based on a consumer protection agenda. Outside a financialised society, it might be possible for the sympathy procedure to be less restricted by existing understandings of risk in society such that alternative forms of credit provision become important to meet the demands of the outcome of negotiation of interpersonal ethics between people, as some of the everyday interventions imply. The basic demand of *making finance more knowable* would certainly seem to be fundamental to reorienting finance towards recognising the (contestable) interpersonal relations that make up markets according to a sympathy perspective in the first place. Within parts of the everyday discourse, though, it appears as though a commitment to the extant ethos of

risk management still produces a somewhat economistic outlook for any sympathetic reimagining of finance.

In a sense, though, this might still provide the operation of sympathy working within the everyday discourse a way of intervening quite directly into existing understandings of finance. Indeed on a pragmatic note, CRESC (2009: 56) claims it wishes to avoid 'Luddism about securitisation of loans', which is 'an entirely acceptable practice as long as transaction chains are short and transparent': the point is to moderate in some way the 'national supply of feedstock from retail savers and their funds'. Likewise, Occupy the SEC (2012: 85) supports the implementation of the Volcker Rule because it envisions a 'shift in banking' towards a focus on more 'safe, "plain vanilla," customer-focused transactions'. Such proposals are not flawless, but they at least speak more directly to issues of concern from a sympathy perspective. I return to them in the concluding chapter.

6.3 The everyday politics of personal debt

> The tuition-fee generation will limp into the world owing tens of thousands of pounds. And they are not alone. More and more of us – through a combination of college loans, credit cards, mortgages and bank loans – are being stealthily habituated to debt. We end up feeling that it's an inevitable and mundane part of life – *like blisters and bus stops* (*The Occupied Times* 2011c: 8 emphasis added).

In the UK, occupiers protest that '[m]any within society are burdened with crippling debt' (Occupy LSX 2011c). In the US, occupiers claim that their efforts 'will not stop until foreclosures and bank repossessions stop … and families no longer have to plunge into bankruptcy to pay medical bills' (*The OWS Journal* 2011b: 1).

The way in which occupiers draw attention to and politicise questions of personal debt is highly significant from a Smithian sympathy perspective. Rather than treat issues of credit and debt as a necessary and normal part of life, devoid of political content, a sympathy perspective might be expected to draw attention to how the negotiation of positions of debt is part of the contestable interpersonal ethics of market-oriented behaviour. In the previous chapter, I suggested that the regulatory discourse tends to depoliticise creditor-debtor relations by insisting on the normalisation of financial services in an advanced economy and working to articulate model financialised citizens. In this section, I make the case that the everyday discourse, by contrast, repoliticises such questions and in turn offers a fuller recognition of the contestable interpersonal ethics that make up credit-debt relations.

The (re)politicisation of credit-debt relations

> We must forge our own ethics and our own future. This is an ethic opposed to rights and wrongs and fairness. This is an ethic that says, 'end all debt,' and the other concrete material conditions of our existence that oppress us. We must stress a revolutionary character (*The Occupied Times* 2012c: 7).

In the everyday discourse, an important way in which issues of credit and debt are politicised is through discussions of democracy and finance, broadly understood. Such discussions are clearly more thoroughgoing than notions of the 'promise' of 'financial democracy' put forward by more mainstream commentators (Shiller 2008). In terms of the Occupy movement, occupiers claim to be taking on the 'global Mubarak' of 'undemocratic global institutions and financialised capitalism' (*The Occupied Times* 2011a: 7). For some, this effort involves a very direct politicisation of questions relating to financial market governance. As David Wearing (2011) points out, '[t]he protesters understand that neoliberal capitalism is not ordained by God, but sustained by human beings through a series of choices'. Occupiers have thus 'taken up the duty abrogated by the political class to subject those choices, and that system, to proper critical scrutiny and challenge' (Wearing 2011). A similar point is made by Michael Richmond (2012), who suggests that there 'are choices to be made in political economy, not that you'd know it from most politicians and the media'. On one level then, the Occupy movement is involved in a process of constructing discursive democratic space to treat issues of financial market governance, which before the GFC tended to be increasingly depoliticised, in much more overtly politicised terms by recognising that there are 'choices' to be made. This might be viewed in relation to how the production of economic and financial knowledge is an important site where power is exercised (De Goede 2003).

Prominently, occupiers posit a deeply political critique of the rise of finance in the UK, or what some refer to as the financialisation of economy and society (Froud *et al*. 2002). They claim that financialisation 'did not arise as an aberration of capitalism; it was instead a necessary outgrowth' (*The Occupied Times* 2011d: 9). This is based on the

idea that there were clear 'systemic' pressures leading to the rise of finance from the 1970s onwards when 'investment in productive sectors of the economy was becoming increasingly difficult to generate a profit from' and so finance 'arose precisely to resolve the problems of declining manufacturing profits and declining profitable investments' (*The Occupied Times* 2011d: 9). Occupiers claim that these original problems 'have not been solved, but only displaced into the financial sector' (*The Occupied Times* 2011d: 9).

Incidentally, CRESC (2009: 21) gives a very similar account of financialisation in the UK by suggesting that 'every UK government since Thatcher in the second half of the 1980s has presided over an anaemic private sector and needs economic success stories so that it can claim to preside over a strong, successful economy, thereby justifying the pain of marketisation and growing inequality'. Since that time, it claims, sectors like finance have had 'an opportunity to tell stories of economic purpose and social achievement to politicians and civil servants, who wanted to believe and deferred to business success' (CRESC 2009: 21). However, CRESC (2009: 8) also reports that the financial sector in actuality 'undermined sustainable growth by inflating asset price bubbles rather than underwriting any kind of productive investment'. Specifically, it notes how '[p]roductive business investment remained at a steady 10% of GDP between 1996-2008, but declined sharply from 30% of all bank lending towards 10% as banks expanded their lending on property and to other financial institutions' (CRESC 2009: 8). For this reason, CRESC (2009: 8) argues that the UK has 'an economic co-ordination problem' because the financial sector 'allocated capital to (leveraged and unsustainable) asset price growth and not into productive, socially useful investment that might generate the sustainable returns to support debt repayments'.

In addition to this account of the rise of finance, the everyday discourse also suggests that financialisation brings about significant questions in terms of the size and power of banks and other financial institutions in society. For instance, occupiers protest that financial institutions 'have increased in size to dominate our economy but have not become socially accountable in line with their increased power' (Occupy LSX 2011c). The 'accent of free-market or neoliberal conceptions of capitalism' is said to have meant that 'social control over banks and corporations became virtually impossible, and we are now paying the costs' (Interview with David Ruccio in *The Occupied Times* 2012a: 13). This echoes PPF's (2009a: 1) argument that '[b]lind faith in the virtues of markets, and inadequate public control, regulation and accountability of finance are at the heart of the financial crisis'. Of considerable concern, CRESC (2009: 5) claims that 'inaction' on behalf of the UK Government actually 'results from the influence of the "distributive coalition" in and around the City of London, which has co-opted the political leadership of both major parties'. In a similar claim, Beetham (2011: 21) reports how the levels of lobbying involved in the Independent Commission on Banking's interim report mean that ultimately, rather than providing significant proposals on bank restructuring in the UK, it was 'dismissed as a victory for the banks'. This actually echoes Paul Volcker's opinion that in the US, his Volcker Rule as it eventually made its way into the Dodd-Frank bill had been significantly diluted and made much more complex than it needed to be. On the topic, Volcker (cited in Reuters 2011) stated: 'There is no set of lobbyists in the United States bigger, more important and more rewarded than the financial lobbyists'.

As discussed in the previous section, major criticisms are also levelled at Anglo-American systems of credit based on the way in which banks are said to enjoy a 'virtual

monopoly' in creating the credit supply (NEF 2011b: 14). Yet this is not just a critique based on the problem of the overextension of credit and how it is an easy way of profiteering by lending institutions: it is also highlighted as potentially emblematic of a highly unequal set of power relations in Anglo-American economies. This is a foundational element of NEF's (2010: 17) call to review the monetary system 'that puts the power of credit creation almost entirely in the hands of commercial banks'. As Chris Cook (2012) describes, the unequal relation is unmistakeable in such a system because as soon as a loan is 'provided out of thin air by the bank … interest will start to be charged'. One interviewee thus claims that occupiers must 'fight … until fractional reserve banking' is eliminated (Interview with Mike Ruppert in *The Occupied Times* 2011f: 8).

In 2010, the Positive Money campaign was launched in an attempt to address the perceived problems of fractional reserve banking, which detractors claim 'underpins the global economy' but is little understood by politicians, the media, and the authorities (Dyson *et al.* 2011: 2-4). In its place, it is claimed that a system of full-reserve banking 'would be more stable and robust' and in which, in basic terms, 'the transactional function of banking (the payments system) is separated from the lending function' (Dyson *et al.* 2011: 2-4). In support of full-reserve banking, Dyson *et al.* (2011: 23) criticise fractional reserve banking very much in terms of the redistributive politics of debt:

> Because the entire money supply is created as a debt by commercial banks, in effect interest must be paid to the banks on every single pound of bank deposits that exists in the economy. A part of this interest is redistributed back to

> depositors via interest on savings accounts, etc., but by far the bulk of it is distributed to the workers of the banks, via salaries and bonuses.

A redistributive effect of this, they claim, is that:

> This ships the 'baseline' of poverty down to zero or negative, rather than a low but positive bank balance. Because it is those on below-average incomes that end up with much of the debt, they end up paying interest to the banking sector, in effect meaning that the poor subsidise the middle class or rich (Dyson *et al.* 2011: 23).

I do not seek to fully assess the veracity of these claims here, nor the merits or otherwise of full-reserve banking. The point is that this marks a clear example of an attempt to repoliticise credit-debt relations in the everyday discourse. From a sympathy perspective, this repoliticisation is important because it makes clear that credit-debt relations are between at least two market participants who are involved in an unequal relationship. What is more, usually, the creditor will have ethico-political *choice* over how they act in the marketplace and so their capacity to activate an imaginative reconstruction of the situation of a debtor is crucial in coming to their understanding of appropriate market-oriented behaviour.

Another similar case of politicising these relations would be Max Keiser's argument that if someone is 'at the top of the tree' they 'can borrow money at close to zero, and in some cases below zero percent' while for 'everyone else, interest costs are considerably higher, reaching annualized rates of over 300% for "payday" loans' (Interview with Max

Keiser in *The Occupied Times* 2011a: 8). This is the case even though Wall Street banks and top clients who have low borrowing costs 'have a horrible track record paying back their loans', while for micro-lending shops serving 'the poorest of the poor' the rate of paying back loans 'is over 97%', which he claims is 'financial apartheid' (Interview with Max Keiser in *The Occupied Times* 2011a: 8). In light of the GFC, the redistributive politics of debt (Schechter 2007) are brought to the fore here in a way that is distinctly lacking in the regulatory discourse.

Other elements of the everyday politics of the GFC also present significant challenges to current regulatory understandings of credit and debt (Montgomerie 2009). For example, Sarah Anderson (2010: 8) reports how the Move Your Money Campaign estimates that two million people 'pulled out of big banks' in the first three months of 2010. In the US, occupiers have also been involved in promoting the relocation of private funds away from large financial institutions towards local credit unions (*The OWS Journal* 2011c: 3). In fact, the Credit Union National Association reports that nationwide '650,000 people have joined credit unions and have added $4.5 billion in new savings accounts in the past month [October 2011, during OWS]' (*The OWS Journal* 2011c: 3). Given the higher level of banking consolidation in the UK compared with the US, there are not as many alternatives available to savers, but the NEF (2010: 71) speaks approvingly of the existence of 'deep ethical' banks such as Triodos, the Co-operative Bank, and some credit unions.

However, despite the presence of such campaigns and 'alternatives' to mainstream financial institutions, other aspects of the everyday discourse suggest that it 'is difficult to develop a radical alternative vision of what finance could and should do' because this

‘requires some fundamental thought about the nature of credit and debt, their function in financialized capitalism and their role in the present conjuncture in the UK’ (CRESC 2009: 60). In its attempt, though, CRESC (2009: 62 emphasis in original) states:

> *Our central perception is that, if all debt is a claim on future resources, the sustainability of debt is linked to the amount of resources that an economy can create, and this resource quantum depends partly on how credit is applied.* From this point of view, the financial crisis of 2007 was also a crisis of the ‘real economy’ because on the one hand the markets were unable to sustain the belief that debt would not be repudiated at some point in the future and on the other hand the real economy was increasingly unable to generate the resource growth required to pay down liabilities (on rising asset prices).

Seemingly CRESC advances a materialistic and production-based conception of value, yet its account undeniably serves to repoliticise the place of debt in society. It points to one of the problems of a financialised economy as the simple fact that ‘[a]s debt accumulates without any commensurate increase in the economy’s capacity to generate material resources, only increasingly unjustified confidence stands in the way of bust’ (CRESC 2009: 63). Crucially, CRESC (2009: 57) recognises that this can be disastrous given that in a financialised economy, people are likely to be increasingly dependent on banking and finance for ‘welfare critical products’. The problem is, of course, ‘revolving loans on plastic cards that consumers cannot repay or savings and pension plans that deliver little retirement income are not like a mobile phone device that does not work reliably’ (CRESC 2009: 57).

Notably, occupiers appear to echo critiques of the place of debt in a financialised economy (Montgomerie 2009). They claim that 'there is an underlying story at play within the kind of debt-oriented transactions engulfing our lives: the extension of the role of debt commitments on both the individual and on wider society' (*The Occupied Times* 2011g: 11). What is more, occupiers argue, unlike money spent on more 'tangible' goods and services, money spent on debt-related transactions such as mortgages, credit cards, and student loans, 'represents an agreement by the consumer to honour these commitments throughout the course of their lives' (*The Occupied Times* 2011g: 11). In this light, 'debt can be seen to be a part of the environment of our future' (*The Occupied Times* 2011g: 11). Relatedly, the NEF (2011: 21) also politicises such claims by making the suggestion that 'the basic question … of what it costs to live in society' must also be addressed because '[i]f people are living on such low income that they have to rely on credit to live, there is a broader political and economic failure to do with basic levels of poverty to correct'.

Drawing these points together, I argue that the everyday discourse offers sharp criticisms of the place of debt in a financialised economy and in many cases serves to repoliticise questions of credit and debt. Specifically the politicised treatment of debt involves, among other aspects, drawing attention to: the sizable power of banks and other financial institutions in a financialised economy; the redistributive politics of credit-debt relations; and something of the underlying material or resource capacity struggles that debt might conceal. These interventions are highly significant from a Smithian sympathy perspective because, rather than treat debt as a necessary part of life devoid of political content, they serve to highlight how the negotiation of debt is part of the contestable interpersonal ethics of market-oriented behaviour. Whereas the regulatory

discourse tends to depoliticise creditor-debtor relations by insisting on the normalisation of finance and works to articulate model financialised and even indebted citizens, the everyday discourse repoliticises debt and potentially offers a fuller recognition of the contestable interpersonal ethics that make up credit-debt relations.

From a sympathy perspective this matters because it allows for the potential imaginative reconstruction of another's position in the credit-debt relationship, which could lead people to reorient their market-oriented behaviour, especially on the creditor side, along more progressive lines. For instance, at least according to a number of everyday interventions, there is a need to rethink finance because of the way in which taking on personal debt merely serves to conceal the disparities of material capabilities that exist in Anglo-America. Allowing for a fuller operation of sympathy might produce further challenges to these political dilemmas. Nevertheless, as with the previous two sections, it is necessary to interrogate the limits of this repoliticisation, particularly in relation to how the everyday discourse may still serve, perhaps inadvertently, to promote certain financialised forms of citizenship and also reinforce structures of creditor-debtor relations as they currently stand.

Standards of financial market agency and the reinforcement of credit-debt relations

> The starting point has to be that retail banking is *a utility* because households and firms must have access to reasonable payment services, deposit facilities, and savings and loans which are *as socially and economically necessary as electricity supply or telephony* (CRESC 2009: 56 emphasis added).

This is CRESC's 'starting point' in a search for effective financial regulation in response to the GFC. On the one hand, the general view that retail banking facilities are an undemanding 'utility' is not particularly contentious. As the Governor of the Bank of England Mervyn King (2009) suggests, utility aspects of banking are 'quite different in nature from some of the riskier financial activities that banks undertake, such as proprietary trading'. Yet, on the other hand, although this *might* hold true for 'payment services' and 'deposit facilities', as soon as the move is made to 'savings and loans' the question of whether retail services are 'as necessary as electricity supply or telephony' starts to become a little more thorny, especially in light of some of the other politicising moves made in the everyday discourse. The problem is that in enunciating saving and borrowing as somehow 'necessary', credit-debt relations with regard to personal debt might start to be depoliticised and rearticulated as a normal feature of everyday life once again: merely one of those 'inevitable and mundane' parts of life, '*like blisters and bus stops*' (*The Occupied Times* 2011c: 8 emphasis added).

That CRESC (2009: 39) views retail banking as 'a worthy utility which provides essential services for all households' does not necessarily undermine its otherwise highly politicised critique of the place of debt in a financialised economy, but it does blunt it somewhat by serving, in part, to naturalise personal debt. Other areas of the everyday discourse follow a somewhat similar trajectory. For instance, the NEF (2011b: 2 emphasis added) bemoans a 'lack of consumer choice and universal service in high street banking' because '*as with utility companies, all citizens need a banking service*'. Moreover the NCRC (2008: 7 emphasis added) claims that 'responsible high-cost lending often serves *legitimate credit needs of borrowers* with credit imperfections, thus, high-cost lending does not always constitute a predatory lending practice'. While

seemingly utterly harmless when framed in terms of progressive politics and concerns about marginalised groups, the point is that these standpoints on the 'necessity' of access to credit, at least in part, serve to dampen the repoliticising of credit-debt relations by naturalising the place of debt in everyday life.

Moreover, a significant related limitation to the challenge presented to the depoliticisation of debt centres on the implicit endorsement of certain forms of model financialised citizenship within the everyday discourse. In a direct mirroring of the regulatory discourse, 'savers, retirees, annuity and insurance policy holders and others living on fixed incomes' are singled out as *innocent victims* as they are 'robbed while the financial mavens are properly hedged' (Interview with James G. Rickards in *The Occupied Times* 2011d: 8). Moreover, notably, Occupy the SEC (2012: 1-2 emphasis added) reports that '[l]ike much of the 99%, *we have bank deposits and retirement accounts that are in need of protection* of the Volcker Rule'. Furthermore, Occupy the SEC (2012: 81) offers its support partly because if an 'expansive' interpretation of proprietary trading is used, this 'would reduce the risk of bank failure because only the most basic, customer-focused trades would make it through the Volcker Rule's gauntlet'. In turn, this would serve to '*increase both depositor and investor confidence* in banking entities, which in turn would increase real liquidity in the banking industry, and as a consequence, the overall market for credit' (Occupy the SEC 2012: 81 emphasis added).

Overall, therefore, the everyday discourse articulates a significant, cutting, yet partially limited encounter with the politics of personal debt. On one level, it offers an unforgiving repoliticisation of credit-debt relations by drawing attention to, among other

things, the sizable power of banks and other financial institutions in a financialised economy, the redistributive politics of credit-debt relations, and the underlying material or resource capacity struggles that personal debt might conceal. A typical intervention in this regard is made by occupiers who ask, given that 'housing is increasingly unaffordable and the social costs of homelessness are enormous', why the Bank of England does not use 'quantitative easing' to fund housebuilding as it does to prop up the financial system (Occupy London 2012). As such, the everyday discourse tends to repoliticise issues of debt and potentially offers a fuller recognition of the contestable interpersonal ethics that make up credit-debt relations. In this regard, such interventions are highly significant from a Smithian sympathy perspective because, rather than treating debt as a necessary and inevitable part of life devoid of political content, they serve to highlight how the negotiation of debt is part of the contestable interpersonal ethics of market-oriented behaviour.

However, on another level, there are certain limits to this repoliticisation particularly in relation to how the everyday discourse may still serve, perhaps inadvertently, to promote certain model forms of citizenship and reinforce creditor-debtor relations as they currently stand. In particular, there are elements of the everyday discourse that work to normalise the place of personal debt in everyday life through appeal to its 'necessity' and almost unquestionably 'legitimate' place in a financialised economy. What is more, at times, certain forms of model financialised citizenship are endorsed in the everyday discourse, which although not on the same scale as in the regulatory discourse, does blunt somewhat the otherwise highly charged politicalised critique of credit-debt relations.

Perhaps the activation of the sympathy procedure outside the confines of existing forms of financialisation and widespread uses of debt is to a large extent extremely difficult in the present era. Outside a financialised society, it might be possible for the sympathy procedure to escape such boundaries by reimagining finance along more radical lines: a full implementation of 'debt-free' money as Positive Money advocates might be one route forward here. Within parts of the everyday discourse, though, it appears as though an acceptance of the inevitability of debt still produces a somewhat economistic outlook for any sympathetic reimagining of finance. This might seem entirely appropriate given a pragmatic acceptance that reform has to start from within financialised capitalism: it is unlikely that debt can be removed altogether from society – the point is to repoliticise finance in this regard. Given the partial successes of this politicisation in the everyday discourse – actually embodied of course in the Occupy movement itself – I return to the foundational issue of contestation over the nature of debt in the concluding chapter.

Concluding remarks

> The problem is not capitalism, the problem is financial rape by bankers. Capitalism, the Adam Smith kind, grew out of the Enlightenment which gave birth to the ideals shared by all #occupy participants. Keep in mind that in 1776, we have the birth of America, but also the publication of Wealth of Nations (Interview with Max Keiser in *The Occupied Times* 2011a: 8).

I end this chapter in the same way I began it: an appeal to Smith made in the Occupy literature. This time, the invocation appears to fall foul of one of Skinner's mythologies.

For surely it is to submit to a mythology of parochialism to associate Smith with a 'kind' of 'capitalism', even though he was writing in a manifestly *pre*-capitalist era? Nonetheless, the invocation is fascinating given the way in which Max Keiser seemingly appeals to a kind of capitalism, before the onset of recent processes associated with financialisation 30 years ago or so, that is in some sense less dominated by 'bankers': a pre-financialised or de-financialised reimagining of economy and society perhaps? From the perspective of this thesis, the association of this as one of the 'ideals' of occupiers with Smith is very thought-provoking because it alludes to exactly the point on which I wish to conclude this chapter: the prospects for an everyday politics of finance congruent with a Smithian sympathy perspective.

In this chapter, I have shown how the everyday GFC discourse challenges the crisis of ethics identified at the three sites of finance explored at the regulatory level in the previous chapter. In the first section, I illustrated how the everyday discourse articulates a complex and variegated attitude with regard to systems of asset-based welfare, which offers a sharp critique of homeowner ideology and state restructuring towards individualised responsibility. While there are certain limits to the reimagining of financial market agency based on notable instances of where there is a need expressed for asset-based welfare and a partial reproduction of a homeowner ideology, on the whole it avoids an economistic treatment of market-oriented behaviour and enunciates a representation much more in line with a Smithian sympathy perspective than the regulatory discourse. Given that it appears to be so fundamental to economistic approaches to financial market agency, it is significant that the everyday discourse even partially manages to question the place of individualised financial responsibility.

In the second section, I argued that the everyday discourse presents an interesting challenge to both existing understandings of credit risk management and uses of structured finance. Crucially, ideas about taking responsibility for financial market actions, reducing the powerful place of banks in society, and making credit risk more 'knowable' all work against the normalisation of 'risk' in Anglo-America. Even though there is a tendency to rearticulate the existing architecture of credit allocation systems and posit somewhat mild reform proposals, by problematising risk management the everyday discourse begins to provide a means of recognising the contestable nature of market-oriented behaviour on which a Smithian sympathy perspective insists. At the very least, it presents fruitful ideas that are worthy of consideration from a sympathy perspective, especially with regard to simplification, de-linking, and de-financialisation. Such proposals are not flawless; occupiers themselves for instance claim that the 'upshot of the necessary turn to financialisation is that it is simply not possible to turn back the clocks and revert to a form of capitalism premised upon manufacturing and a chastened financial sector' (*The Occupied Times* 2011d: 9). Nonetheless, they at least speak more directly to issues of concern from a sympathy perspective. In general terms, they make finance more *knowable* in the sense of people knowing with whom they are in a market relationship when they perform market-oriented behaviour. In turn, put simply, this makes it more likely that people can perform the imaginative act of sympathy which, according to many everyday interventions at least, ought to lead market participants to re-orientate their behaviour in ways that ensures they take more responsibility for their actions.

In the final section, I suggested that the everyday discourse provides a significant, cutting, yet partially limited encounter with the politics of personal debt. It offers an

unforgiving repoliticisation of credit-debt relations by drawing attention to, among other things, the sizable power of banks and other financial institutions in a financialised economy, the redistributive politics of credit-debt relations, and the underlying material or resource capacity struggles that personal debt might conceal. Such interventions, although tempered somewhat at times by tendencies to reinforce the 'necessity' of debt and certain model forms of financialised citizenship, are highly significant from a sympathy perspective. This is because, rather than treating debt as a necessary and inevitable part of life devoid of political content, they serve to highlight how the negotiation of debt is part of the contestable interpersonal ethics of market-oriented behaviour.

Overall, a sympathy perspective is at least partially embodied in the everyday GFC discourse and it offers up fruitful lines of enquiry for efforts to rethink finance along Smithian sympathy lines. Such a task is not too far removed from certain stated aspirations associated with the Occupy movement: some speak of 'changing the underlying values that govern our society' (Klein 2011); others 'a total rethinking of western consumerism that throws into question how we measure progress' (White and Lasn 2011); and yet others still a move to 'occupy the teaching of economics' to rubbish economic theory that is 'based on a singular methodology' and 'divorced from ethical concerns' (Interview with David Ruccio in *The Occupied Times* 2012a: 13). The important point is that some of these interventions might work towards a fuller recognition of ethico-political contestation at the individual level.

CONCLUSION ----------

Rethinking the Ethics of Liberal Market Governance

In this thesis, I have offered an innovative account of Smith's 'sympathy procedure'. By way of conclusion, after a restatement of my contribution to literature, I provide an overview of what I have accomplished in this thesis in order to make this contribution. I then give an account of why this is significant for IPE and rethinking finance by exploring the notion of a 'sympathetic finance'. Finally, I briefly indicate some possible questions for future research.

My contribution has been to provide IPE with a historicised recovery of Smith's sympathy procedure. As I have suggested, this is valuable in two distinct ways. First, it attends to the distinctly 'economistic' historiography of Smith that dominates the subject field by offering a more historiographically robust account of his thought. As I have shown, IPE scholars tend to produce interpretations that quite straightforwardly locate him as the founder of the 'liberal canon'. In so doing, as Stephen Rosow (1997: 44) notes, much of the crucial philosophical and political content of his ideas gets lost, appearing in liberal IPE 'only as an echo'. What remains of Smith is a distinctly reductive account that is seemingly directly imported from the image of him to be found in economics: one that is contained, for example, within the interpretations provided by many former US Federal Reserve Chairmen, world-leading economists, and Nobel Laureates in Economics (e.g. Becker 2011; Greenspan 2008; 2011; Krugman 2010; Shiller 2009; Stiglitz 2010a; Taleb 2011; Volcker 2010). Given that in many other ways IPE appears to hold such an oppositional attitude towards economics (e.g. Cox 2000;

Gamble 1995; Gill 2000a; Higgott 2002; Murphy and Tooze 1991b; Strange 1994), it is deeply problematic that IPE scholars for the most part simply replicate this defective image of Smith from economics, rather than develop their own more historiographical robust account of his work. My recovery of the sympathy procedure helps address this problem.

Second, my account of Smith's sympathy procedure presents IPE with a critical lens through which to interrogate the ethics of liberal market governance today, one which animates an alternative to economistic understandings of market-oriented behaviour. This is notable in itself because, as a number of scholars have argued, IPE tends to employ rather reductive accounts of economic agency (e.g. Griffin 2007; Murphy and Tooze 1991b; Watson 2005a). As I have shown, a sympathy perspective can be used to extend discussions about rethinking finance in light of the GFC. My presentation of a 'dialogic conversation' between key aspects of Smith's 'sympathetic liberalism' suitably historicised, on the one hand, and the 'economistic liberalism' of liberal market governance, casts critical scrutiny on three sites of Anglo-American finance implicated in the crisis. Put simply, it brings questions of contestable interpersonal ethics right back into the heart of discussions of individual subjecthood, which I argue is of particular significance in the context of the GFC. It does so in a way that shares some synergies with a Foucauldian inspired IPE (e.g. Aitken 2005; Amoore 2004; Best 2005; Langley 2008a; 2008b; Vestergaard 2009), but operates outside of this line of thought because, if for no other reason, Michel Foucault's own genealogy of modern neoliberalism imposes upon Smith an economistic image inconsistent with my Skinnerian historiographical approach. Again, this adds novelty to my recovery of a

sympathy procedure, which I argue can produce innovative ways of subverting the ethics of liberal market governance as currently constituted.

A historicised recovery of Smith's sympathy procedure for IPE

Following Quentin Skinner, a foundational purpose of this thesis was to provide a historicised account of Adam Smith as part of a process which serves to reveal the essential variety of viable ethico-political commitments in political economy and IPE. For Skinner (1969), the fact that past texts are concerned with their own questions, and not necessarily a source of direct 'answers' to questions of a later era, can serve to uncover the multiplicity of such commitments across time and space. On this account, while avoiding complete relativism, the very act of seeking to interpret past text can be thought of as an important part of coming to terms with the situated nature of scholarly endeavour. For Skinner (1969: 53 emphasis added) the purpose of intellectual history then becomes key to learning 'self-awareness'. This I termed 'pragmatic historiography' (Chapter 1) and suggested it speaks to emergent interest in historiographical issues in IPE (e.g. Clift and Rosamond 2009; Watson 2005a; 2012).

In IPE there have in fact been numerous calls to 'historicise' the field, with a range of arguments mobilised to that end (e.g. Amin and Palan 1996; Amoore *et al*. 2000; Germain 2000; Germain and Kenny 1998; Tooze 1997). I mapped out the various petitions to historicisation in IPE from thinner forms which 'contextualise', through moderate forms that make claims about the 'situated' position of the scholar, to thicker forms that celebrate the situated position of claims to knowledge as a way of

highlighting the 'transformatory' purpose of scholarly endeavour and recognising the need for a 'reflexive' and 'critical' IPE (Chapter 1). In so doing, I argued that 'thicker' forms of historicised study appear to be most compelling in light of both recent moves in post-positivist social science and longer-term lineages in the study of political economy when viewed through a history of ideas lens.

I argued that Skinner's approach provides an especially persuasive means of historicising IPE. He puts forward the exciting proposition that 'texts are acts' (Skinner 1988b: 279). This understanding of texts draws on ideas about the performative utterance that can be shown to share a pragmatic attitude with research interests in IPE developing on the work of J. L. Austin (1975). Broadly speaking, these approaches are increasingly influential in discussions about performative finance, among other areas (e.g. Brassett and Clarke 2012; Clarke 2012; Clark *et al*. 2004; De Goede 2005a; Holmes 2009; Langley 2010; MacKenzie 2005; 2006; 2007; Millo and MacKenzie 2009; Watson 2009a). While work in the history of political economy and contemporary interest in performative finance might at first seem far removed, the idea of the performative utterance actually offers significant complementarities. The loose line of pragmatic thought in contemporary IPE coupled with Skinner's historicised approach, provide compelling reasons to consider 'pragmatic historiography' a novel and valuable approach to IPE (Chapter 1). In light of mounting recognition of the performative aspects of political economy and knowledge about political economy, intervention into debates about the history of political economy is itself a crucial part to what it means to be *doing* IPE.

This thesis aimed to make one such intervention. Skinner's approach directly helps locate past texts such as Smith's in their appropriate socio-linguistic context, while in so doing restoring some of the authority of the texts themselves. This is of critical importance because IPE scholars tend to fall foul of some of the most basic Skinnerian principles for interpreting text when providing accounts of Smith. In fact, I argued that many of the major problems of interpretation relating to Smith can be understood through reference to Skinner's ideas about different interpretive 'mythologies' (Chapter 2). IPE interpretations of Smith, in the main, can be shown to quite clearly succumb to the Skinnerian mythologies 'doctrine' (concerning the 'invisible hand'), 'prolepsis' (viewing Smith as the 'father of economics'), and 'parochialism' (reading concepts such as 'laissez-faire' and 'capitalism' back into his work). I explored this through comparison with the work of 'Smith studies' scholars operating more firmly in intellectual history who generally serve to guard against these particular mythologies of interpretation. I argued that the shortcomings of IPE representations of Smith shows how IPE scholars tend to imitate a decidedly 'economistic' historiography of Smith, almost entirely replicating interpretations of his work to be found in histories of economics written by economists (e.g. Fry 1992; Stigler 1976; Tobin 1996).

However, intellectual history Smith scholars are not completely immune from falling foul of Skinnerian interpretive mythologies either. Debates about whether Smith belongs to a 'jurisprudential' or a 'civic humanist' tradition of thought, on the one hand, and the Adam Smith Problem, on the other, *can* produce interpretations of him that succumb to a second mythology of 'doctrine' and a mythology of 'coherence' respectively. What is significant here is that IPE scholars have very little to contribute to either of these debates. Essentially, I argued, this again reveals something of the

economistic historiography of Smith in IPE (Chapter 2). Economists writing histories of economics do not in general pick up on debates in the specialist Smith studies literature and, as a result, through imitating this historiography, neither do IPE scholars. At most, they pay fleeting attention to his civic humanist concerns, albeit very rarely describing it specifically as such, and more often they tend to replicate only one half of the Adam Smith Problem by offering selective interpretations drawn from WN. Therefore, I argued, the precise ways that IPE representations of Smith tend to fall foul of Skinner's mythologies point towards the way in which on matters of Smith historiography IPE scholars are 'followers' rather than 'leaders'. This is a fundamental dilemma for those interested in a more historiographically-aware IPE and, moreover, given that in a number of other ways IPE scholars seek to differentiate themselves from economics, especially problematic for a 'critical IPE'.

In an effort to rectify this deficiency, then, I used a Skinnerian approach to begin to provide a more historicised account of Smith for IPE (Chapter 3). I constructed a reading of Smith that might be said to be more robust in that it attempts to pay close attention to *his intentions* in writing his work. I suggested that a careful examination of Smith's texts, suitably located in their socio-linguistic context, can provide an account of his concept of sympathy. Put briefly, in Smith's texts, there is a noticeable concern for questions about the cultivation of standards of moral behaviour in the emerging commercial society of his time (Fitzgibbons 1995; Force 2003; Teichgraeber 1986). Along with Hume, Smith responded to Hutcheson's ideas about 'moral sense' by pursuing an interest in the role of sentiments, passions, and feelings in human conduct. Yet, Smith differed from Hume by rejecting his scepticism and use of the concept of utility. Smith thought that sentiments themselves had to be explained, which certainly

influenced the development of his concept of sympathy. In important ways, Smith can here be shown to share a similar response to Mandeville's 'selfish hypothesis' to that of Rousseau (Watson 2012). It is in *this* immediate socio-linguistic context that Smith's 'intentions' and his 'politics' are best negotiated – *not* based on the assumption that he is a forerunner to Benthamite utilitarianism or Mill's economic man dictum (Winch 1978).

I argued that this act of recovery of Smith's texts actually provides IPE with a highly illuminating account of his 'sympathy' (Chapter 3). I suggested that Smith's concept of sympathy, suitably historicised, can be understood most appropriately as an *imaginative procedure* through which people come to assess action, circumstance, and suffering in terms of both others and themselves (Force 2003; Peil 1999). As a contestable procedure, sympathy is not simply an 'other-directed' ontology of the individual. It invokes the idea of a constant balancing act and negotiation between an individual 'self' principally concerned and broader societal norms and values, the 'other'. Smith termed the process through which the latter are potentially encountered and internalised the activation of an 'impartial spectator' (e.g. TMS I.i.5.4). From Smith's sympathy perspective, then, individuals are understood as *individuals in society*, in which they construct, contest, and share rules and values: there is interactivity between an individual and a system in terms of questions of politics and ethics (Vaggi 2004; Weinstein 2006). On one level, this account is novel because it represents a crucial aspect of Smith's thought that is currently almost completely overlooked by IPE scholars (although for notable exceptions see, for example, Blaney and Inayatullah 2010; Glaze 2008; Sally 1998) operating with an economistic historiography of his work.

On another level, drawing on the idea of using pragmatic historiography in IPE, this account of sympathy is novel because it is so fundamentally *different* from economistic understandings of market-oriented behaviour prevalent in liberal market governance today. This opens up a number of exciting lines of enquiry for IPE in terms of essential questions about how to conceptualise economic agency as anything other than instrumentally rational behaviour (e.g. Griffin 2007; Murphy and Tooze 1991b; Watson 2005a). It brings notions of contestable interpersonal ethics right back into the heart of discussions of individual subjecthood under liberal market governance. To be clear, though, I firmly *did not* propose some sort of direct 'theory building' or an 'application' of Smith's concept of sympathy to today's social world: to do so would be to submit to my own critique of ahistorical IPE. Rather, more creatively I hope, I proposed a 'dialogic conversation' between Smith's 'sympathetic liberalism' suitably historicised, on the one hand, and the 'economistic liberalism' of liberal market governance today, on the other (Chapter 4).

In an attempt to sustain a historicised engagement, I took direct inspiration from Smith by organising this conversation around the themes he uses right at the beginning of TMS to introduce his concept of sympathy (TMS I.i.1-3). I therefore juxtaposed the three themes of 'sympathy', 'mutual sympathy', and the 'sympathy procedure' from TMS, with three principal sites of finance implicated in the global financial crisis (GFC) understood as a problem of liberal market governance: 'asset-based welfare', 'credit risk', and 'personal debt' in Anglo-American societies today. In all three parts of the discussion, the aim was to interrogate the ethics of economistic liberalism in conversation with Smith's sympathetic liberalism. This permitted me to draw attention to a potential crisis of ethics in contemporary liberalism at the heart of the GFC (Chapter

4). Put simply, I suggested, economistic liberalism is severely flawed because it does not allow for contestable ethics at the level of the individual and the consequences of this can be traced through the GFC as a problematic of liberal market governance. In the context of the GFC, the consequences of this problem might be discernible, I argued, when government programmes promoting asset-based welfare go *unquestioned*, when risk management is *normalised* to the everyday, and when creditor-debtor relations are *depoliticised*.

In presenting this dialogic conversation I introduced the conceptual building blocks of a sympathy perspective on which a more empirically-focussed engagement could take place. This was first undertaken at the 'regulatory' level of global finance (Chapter 5). Essentially, by critically analysing the regulatory GFC discourse, I explored the notion that at the three sites of finance it can be understood as a crisis based on the denial of contestable interpersonal ethics. I showed how: (1) even though issues of access to homeownership and financial security fall right at the heart of the GFC (Finlayson 2009; Schwartz and Seabrooke 2009), asset-based systems of welfare remain largely unquestioned; (2) despite widespread criticism of securitisation (Gowan 2008; Nesvetailova 2010), credit risk management practices remain essentially unchallenged and, in fact, are further normalised based on continued faith in the 'science' and 'perfectibility' of risk management; and (3) even though the politics of debt are central to the crisis (Langley 2009; Schwartz 2009), the regulatory view of personal debt continues to depoliticise creditor-debtor relations by insisting on the normalisation of financial services and operating to induce model financialised citizens.

What is significant here, I argued, is that at each of these sites of finance the regulatory account of and response to the GFC relies on an economistic understanding of financial market agency that serves to exclude contestable interpersonal ethics (Chapter 5). In short, (1) asset-based systems of welfare are based on societies made up of instrumentally rational individuals acting autonomously to secure their wellbeing through financial markets (Langley 2006); (2) extant risk management practices rely on assumptions about disembodied risk in society again dependent on instrumentally rational and autonomous individuals (Adam and van Loon 2000); and (3) regulatory treatments of issues of debt depoliticise the creditor-debtor relation by assuming that all market-oriented behaviour is pure instrumental rationality (Montgomerie 2009). Smith's sympathetic liberalism indicates how this economistic constitution of financial market agency is defective because to deny contestable interpersonal ethics is to deny full realisation of market-oriented forms of behaviour. As with all other formations of market-oriented behaviour, a sympathy perspective would insist that financial market agency is intrinsically ethico-political. Therefore, I argued, a Smithian sympathy perspective, at the very least, problematises and opens up ethico-political space at these important sites of finance intimately involved with the GFC.

I could then pose the question as to whether or not interventions into the 'everyday' GFC discourse provide a subversion of the regulatory level of finance more congruent with a Smithian sympathy perspective by problematising these same sites of finance (Chapter 6). Picking up on interest in IPE on 'global civil society' as a key source of ethical agency (e.g. Cox 1999; De Goede 2005b; Gill 2000b; Kaldor 2003; Scholte 2004), it might be anticipated that these interventions serve to contest the regulatory representation of and response to the GFC. What is interesting from the perspective of

this thesis is whether such challenges provide possibilities for comprehending and responding to the crisis in distinctly deeper and more thoroughgoing Smithian sympathetic terms: (1) I illustrated how some interventions hold an oppositional attitude with regard to systems of asset-based welfare, which offers a severe critique of homeowner ideology and state restructuring towards notions of individual financial responsibility; (2) I showed how features of the everyday discourse present an destabilising encounter with the current theory and practice of credit risk management; and (3) I demonstrated how key aspects of the everyday discourse provide a remorseless repoliticisation of credit-debt relations by providing a critique of the sizable power of banks and other financial institutions in a financialised economy, the redistributive politics of credit-debt relations, and the underlying material or capacity struggles obscured by personal debt.

If the everyday GFC discourse does indeed offer up alternatives in this way, this would surely be something of a significant success for those who seek to challenge existing forms of regulatory financial market governance (Chapter 6). In what ways, though, might the everyday discourse contain challenges specifically more congruent with a sympathy perspective? How might such interventions help in efforts to 'rethink' the ethics of global finance, perhaps along more sympathetic lines?

Towards a 'sympathetic finance'

A restatement of sympathy may prove useful here. In short, for Smith, sympathy refers to a procedure in which 'self' engages in an imaginative reconstruction of the situation

of 'other' in order to internalise ethical judgement of both self and other (Chapter 3). It denotes 'fellow-feeling' with the situation of another (TMS I.i.1.5) and suggests a route to a conventionalist-relational (non-relativist) interpersonal ethics. Other routes might include Hume's broadly conventionalist account, but as I have shown Smith did not share his views entirely. For Smith, as a continuous process dependent on the activation of an 'impartial spectator', sympathy can be both tutored and improved, on the one hand, and also corrupted and deactivated, on the other. The central point for rethinking the ethics of global finance is the notion that financial market agency is made up of contestable interpersonal ethics, not economistic instrumentally rational and uniform behaviour.

From a sympathy perspective, then, the potential 'crisis of ethics' of economistic liberalism I identified as being at the heart of the GFC relates to the idea that such a form of liberalism essentially denies the very existence of contestable interpersonal ethics. The possible tension is that in serving to ignore this feature of market-oriented behaviour questions of contestable ethics and politics are suppressed, even though they still form a foundational part of the constitution of individual selfhood in a market economy. My suggestion, then, is not that by adopting a sympathy perspective it is possible to produce a 'tension-free' ethics of finance. Rather, almost to the contrary, a sympathy perspective recognises the very possibility of tensions existing in the ethics of finance that need to be negotiated. The question of whether 'finance' itself is always crisis/tension-prone is not really at stake here, the point is that economistic forms of liberal market governance conceptualise and constitute financial market agency in terms that deny contestable interpersonal ethics, in the form of economistic instrumentally rational and uniform behaviour.

Ironically, of course, ideas about instrumentally rational forms of economic agency are often attributed to Smith himself. Yet these interpretations can only be sustained through an economistic historiography of his work (Chapter 2). The work of Stiglitz (2006: 66; 2010) comes to mind here in his attempts to use Smith in response to the GFC, while viewing him as 'the founder of modern economics'. Notably, as I have indicated, occupiers appeal to Smith in almost a diametrically opposed way. In a sense, on this occasion as on so many others, the competing historiographies of Smith in a fascinating way mirror the competing and drastically different responses to the GFC. This somewhat affirms my contention that historiographical matters in political economy can perform a significant role in the very construction and negotiation of contemporary issues of IPE.

As opposed to an economistic historiography of his work, though, a more appropriate history of thought historiography of Smith produces a very different account that draws attention to his sympathy procedure. *The fundamental way in which the challenge presented in the everyday GFC discourse is consistent with a sympathy perspective is that, at the very least, it opens up space for ethico-political contestation at the level of the individual*. It does so by challenging the fundamental tenets of the economistic liberalism of regulatory financial market governance, here investigated at the sites of asset-based welfare, credit risk management, and ideas about personal debt. A sympathy perspective is at least partially embodied in the everyday GFC discourse in this sense and it offers up fruitful lines of enquiry for efforts to rethink finance along the lines of a 'sympathetic finance'.

The enticing question then becomes what fills this space opened up in a rethinking of the ethics of liberal market governance. First and foremost, I would argue, everyday interventions that serve to confront individualised financial responsibility, disembodied risk for which no-one assumes responsibility, and the production of financialised subjects and the normalised place of debt, at the very least, *can conceive of allowing the sympathy procedure to operate*. That is, they conceptualise financial market agency in a way that allows for people to act as attentive impartial spectators, rather than as atomised and *unsighted onlookers*. The very sentiment 'We are the 99 per cent', for instance, invokes an imaginative capacity to relate to others and negotiate standards of appropriate ethics (*The Occupied Times* 2011c: 9).

Drawing from my sketch of everyday interventions, then, I suggest a sympathetic finance might involve, but is not limited too, the following features: (1) in terms of individual responsibility, fostering a recognition that in market-oriented behaviour it is necessary to think 'outside of the self' given that financial market agency always has consequences for others; (2) in terms of credit risk and structured finance, fostering a recognition that risks are always 'embodied' risks borne by people who potentially suffer (or profit) in an interdependent society; and (3) in terms of personal debt, fostering a recognition that creditor-debtor relations are always inherently unequal 'positions of power' and that an imaginative act might be involved in terms of setting the appropriate standards for and place of debt in society. In some of the everyday interventions, notions of *de-linking*, *de-financialisation*, and making financial chains more *accountable* speak to this theme of a sympathetic finance. Practically speaking, this points to a fundamental overhaul of institutional market design in finance to make it more *knowable*. Though a huge shift in ethos, simplifying chains in personal banking,

for instance, might be as straightforward as breaking up monopolies and cultivating more *direct* forms of savings and loans between people.

Beyond 'recognition' and 'opening up', what might be the possible *content* of the outcome of the sympathy procedure(s) operating in a more 'sympathetic finance'? On the one hand, Smith's conventionalist-relational ethics does not necessarily produce straightforward solutions in this regard. Yet, on the other hand, cautiously adopting a sympathy perspective on questions of financial market agency, what might be the most likely outcomes for liberal market governance today? Much of the answer here relates to Smith's sympathy attending to people's psychological capacities, as well as their economic or material needs. For example, from a sympathy perspective, market-oriented behaviour is not just about securing 'enough' of something, but being able to imaginatively reconstruct the situation of another in order to decide upon what 'enough' is in the first place.

Notably, in this regard, a sympathetic finance *does not* have to commit to the ideas: (1) that given the calamitous outcome of homeowner ideology in the GFC, homeownership is *necessarily a bad thing*; (2) that given the abuses of securitisation in the GFC, structured finance should be *prohibited completely*; or (3) that given the unequal positions of power that lie behind all credit-debt relations revealed in the GFC, that *all debt and usury must be ended*. Everyday interventions do not challenge asset-based welfare, structured finance, and personal debt *entirely* – that is, they still operate within certain limits of 'reimagining' finance, certain relational boundaries of the sympathy procedure – but they *do* make the more modest attempt to *repoliticise* these issues and

serve to make them *a question of ethics*. The point is to escape the confines of market-oriented behaviour viewed and constituted *solely* in economistic terms.

In finance, this might most productively be sought in institutional arrangements that allow one market participant to *know* the situation of another. That way, imaginative acts of sympathy can be performed that foster the psychological endeavour that people have to undertake in order to produce and make markets sustainable anyway. Put simply, Smith's sympathy perspective indicates that it is *not* ingrained into 'human nature' that people *have* to act in one particular way in order to make markets, however much people are told by economistic forms of liberal market governance that this *is* the case. Ways of *knowing* finance then become routes to reform.

I now raise some issues that might be involved in such reform, practically speaking, based on this agenda. First, a challenge to the current regulatory architecture might be quite simply driven by continuing efforts to *democratise* global finance and make it more *inclusive*, which at the very least, would help serve to repoliticise liberal market governance. Notably, as Sarah Anderson (2010: 16) reports, the Stiglitz Commission actually proposed the establishment of a 'UN Global Economic Coordination Council' as a more democratic alternative to the G20. It has not yet materialised, she notes, but groups such as the Jubilee USA Network and the New Rules for Global Finance Coalition represent key coalitions that continue to pursue this agenda (Anderson 2010: 17).

Second, another reform imperative holding synergies with a sympathy perspective might be to find ways to *simplify* finance so that it can be made more knowable. This of course

is no small task, but there are increasingly influential voices in the contemporary politics of financial restructuring that offer interesting prospects along these lines. One might be, as my account has shown, the policy-oriented forms of academic analysis that organisations like CRESC (2009) produces in its 'public interest report'. For his part, Paul Volcker's proposed banking reforms also essentially look to reduce financial innovation (at least in government-backed institutions), which might also serve this agenda. Although, as noted, the kinds of resistance that banks and other financial institutions are able to mobilise may well curb the impact of such regulatory proposals (and clearly they already have according to Volcker (Reuters 2011)). Again, though, despite a degree of inaction at the regulatory level, as Occupy the SEC shows, there are (radical) everyday voices demanding more robust and thoroughgoing regulatory reforms willing to work within the existing regulatory architecture. These voices are embellished by action groups such as the Move Your Money Campaign (Anderson 2010), which also might be endorsed from a sympathy perspective given that it serves to simplify finance through encouraging people to pull their money from large banks and put it into local credit unions and smaller financial institutions. I offer these thoughts only as speculative illustrations, but certainly it is possible to identify existing political action that might help to re-orient finance, at least implicitly, along more sympathetic lines.

Future questions (for a possible sympathetic IPE)

The prospects for a 'sympathetic finance' might be extended by carrying out further academic research into how 'simplification' and 'de-linking' imperatives can be

introduced in practice. One aspect of this could be to start by, to borrow a phrase from Donald MacKenzie (2005), 'opening the black boxes of global finance' to show how claims to technical/specialist knowledge might serve to sustain technocratic/elite structures of finance. A sympathetic finance is furthered when these claims are brought into doubt so people can see the ethico-political aspects of financial markets themselves, can understand how their economic agency is involved in sustaining the structural power of markets, and can be provided with the opportunity to exercise their *own judgement*. In brief, further research might therefore ask: how can participation in decision making in financial market governance be improved? How can the entrenched power of large financial institutions be reduced to allow for other forms of localised participatory finance? How can financial 'education' agendas be shifted from a focus on producing financialised citizens to making the structures of finance (and how to change them) more knowable?

My presentation of a conversation between Smith's sympathetic liberalism and economistic liberalism read through the GFC could of course be extended to other areas of IPE going well beyond finance. After all, the way in which the sympathy procedure helps account for the contestable interpersonal ethics of market-oriented behaviour could be investigated in relation to other forms of market-making than in finance. In trade, development, consumption, and so on, how can IPE account for the ways that market-making acts are more than just mere responses to price signals? Can the problematic of the market economy be shifted from one of an abstract price system to one of the formation and contestation of interpersonal relations? These are questions for future work, but tentatively I would suggest that at the regulatory and everyday level they

involve similar institutional imperatives to make market relations, and their impact, more knowable.

Finally, further historiographical research in IPE might build on the interests driving this thesis. On the one hand, my focus has been on using a pragmatic historiography in relation to the 'Crisis in the Heartland' (Gowan 2008) of Anglo-American financial capitalism. This form of study could of course equally be built into approaches that scrutinise other areas/aspects of the world economy to allow IPE scholars to 'stand outside' their current disciplinary structures. On the other hand, future historiographical work could help firm up exactly what a sympathetic IPE might entail. Indeed there is certainly scope for IPE scholars to consider Smith's work in relation to other thinkers of his time, aside from the major Enlightenment figures I focused on in the recovery of his work presented here. The study of more of his intellectual influences, adding more and more depth to the Skinnerian endeavour, might provide for an expanded historicised account of what his 'sympathy perspective' can offer IPE.

This latter point is particularly exciting given that a 'sympathetic IPE', as I have shown in this thesis in relation to finance, can provide a novel rethinking of market economy and society. In short, it is a rethinking that works to recognise and make known that there are *decisions* to be made in political economy and, therefore, market-oriented behaviour is always subject to ethico-political *intervention*. As occupiers claim:

> The economic and political are dovetailing together once more … we are rediscovering the economic sphere as a political project – something that can be altered and *shaped by our hands* (*The Occupied Times* 2012c: 7 emphasis added).

I have now come full circle back to the performative utterance and the situated position of knowledge about political economy. As I have argued, a foundational purpose of this thesis was to provide a historicised account of Smith as part of a process which serves to reveal the essential variety of viable ethico-political commitments in political economy and IPE. Returning to Smith does just that. Smith demonstrates why the sympathy procedure is important for understanding market-oriented behaviour. The sympathy procedure demonstrates why contestable interpersonal ethics are central to the market form, in both the abstract and embodied institutional sense. Ethico-political intervention into market-oriented behaviour is not only possible, *it is* market-oriented behaviour. Rather than the natural outgrowth of instrumentally rational behaviour deeply inbuilt in human nature, markets are made by people, by us – and, as Adam Smith might help remind us, are *not* the outcome of some unknowable invisible hand.

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METHODOLOGICAL APPENDIX ----------

A note on CAQDAS

CAQDAS stands for Computer Assisted/Aided Qualitative Data Analysis Software, which I have used extensively in preparing Chapters 5 and 6 of this thesis. In June 2011, I attended a number of specialist training sessions organised by The University of Warwick's IT Services. These provided me with the necessary skills to operate such software in the sorting and analysing of all the 'regulatory' and 'everyday' documents I used in these chapters. Essentially the software helps systematise data and proved particularly useful in handling large amounts of text for my discourse analysis research. All of the documents consulted in these chapters are listed in the Bibliography.