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Sleeping with the enemy? On Hayek, constructivist thought, and the current economic crisis

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Abstract. The current economic crisis challenges the constitutive rules of global finance. Despite its various roots, dynamics, and consequences, the current reform debate is surprisingly limited in scope: it focuses on possible changes of Basle II and thus banking regulation only. This article suggests that the reason for this 'gap' can be found in the idea of asymmetric information. The idea that the asymmetric dispersion of information is the 'real' cause of the crisis is reiterated constantly in public documents. However, the argument rests upon two assumptions: that crises are exogenous to otherwise efficient and stable markets, and that finance is an autonomous field where the primary focus of the current reform can then concentrate on its laws. It is thought that it is enough to reform financial markets to stabilise the global economy. This article suggests that this belief is utterly misguided and argues that a more comprehensive picture of the current turmoil needs to abandon exactly these two assumptions. To pursue such an avenue, this article provids an interpretation of Hayek's social theory.

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Introduction

Although the current world economic crisis has already celebrated its fifth anniversary, we still don't know whether the worst is yet to come. It has certainly outgrown the Asian Crisis and is easily on par with the Great Depression. Whatever the post-crisis economic world will look like, the crisis will certainly be remembered as one of the key moments in the history of financial markets.[1] Thus, it is even more surprising that the very system that led to the crisis is still operational. Where are the major institutional changes that are usually associated with systemic crises? Remember the proposals for a new financial architecture that circulated around back in 2008? They all somehow disappeared. Instead, we hear the same arguments, the same stories, and the same proposed solutions as after the Asian Crisis: more transparency, more data, higher standards, and more austerity.[2] Of course, this does not mean nothing has been done. Quite to the contrary: Basle III is agreed, the G20 replaced the G8, the Financial Stability Forum has been promoted to the Financial Stability Board; there are a couple of cuts in bonuses, and a new set of transparency and standardisation initiatives are well under way.

However, instead of an emerging alternative or paradigm of global finance, we see a perpetuation of monetarist ideas: the driving force behind current reforms is

[1] See Grahame Thompson, 'What's in a frame', *Economy and Society*, 38:1 (2009), pp. 520–4.
[2] An exception is the Turner Report that did try to raise further questions. However, it is quite telling that the Turner report was quickly silenced. For the report see {www.fsa.gov.uk/pubs/other/turner_review.pdf} last accessed 15 January 2012.

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not a search for an institutional alternative, but a search for technical fixes based on the belief that the current crisis results from some *lack of regulation*. According to the G20, the IMF, the Financial Stability Board (FSB) and the Bank for International Settlement (BIS), the assemblage of new actors, financial instruments, and practices like securitisation led to an unprecedented situation where actors and regulatory authorities simply were unable to calculate risk exposures.[3] The reform debate is shot through with references to exogenous shocks, asymmetric information, or mistakes or failures that externalise the source of crises: a crisis is not an in-built phenomena of financial practices, but the unfortunate result of 'information gaps' and 'failures' demanding new and better data and higher standards. To understand crises as 'exceptions', as a failure, presupposes and perpetuates the efficient market hypothesis, that 'under normal conditions', markets are characterised by self-equilibrating forces.

However, to walk down this road means that we can only solve the last crisis and are unprepared for the next one:[4] with every crisis, we will hear the call for a new set of data and higher standards. What is needed is a *conceptual* change in our understanding of both financial practices and crises. Crises cannot be *reduced* to 'gaps', misperceptions, miscalculations or false decisions, but as burgeoning references to Galbraith, Minsky or Keynes indicate, crises are endogenous to financial practices: no institutional setting can 'secure' financial markets 'forever'. The set of regulations in place will induce avoidance strategies by market actors. They try to evade regulations by developing new techniques, models, or products. However, new financial instruments, rearrangements in the constellation of actors, and new ways of calculating prices will inevitably produce new systemic risks 'unanticipated' by authorities.[5] To accept this 'dialectics' of stability and crises, however, implies that crises actually point to a *social* dimension of global finance. Whether we look at price formation,[6] valuation processes,[7] the calculation of risks,[8] or the 'embeddedness' of financial markets: economic phenomena are not reducible to solipsistic decision-making, but rather they are constituted by the system of mutual, intersubjective expectations that inevitably touches upon questions of legitimacy, authority, and polycontextuality.[9] What is thus needed is a 'social' political economy (SPE) that breaks with the quasi-naturalistic understanding of finance that stands behind positivist mainstream approaches in political economy and economics alike.

[3] In this article, I do not deal with the EURO crisis in detail. The transformation of private into public debt that preceded the EURO crisis is a different question. This contribution focuses on the how to reform the global financial architecture debate.

[4] Grahame Thompson, 'Sources of Financial Sociability', *Journal of Cultural Economy*, 4:4 (2011), pp. 405–21.

[5] Oliver Kessler, 'Die Subprime-Krise und die Frage nach der Finanzmarktstabilität', *Zeitschrift für Internationale Beziehungen*, 16:1 (2009), pp. 161–75.

[6] See Daniel Beunza, Iain Hardie, and Donald MacKenzie, 'A Price is a Social Thing: Towards a Material Sociology of Arbitrage', *Organization Studies*, 27:5 (2006), pp. 721–45. Also Donald MacKenzie, 'The Credit Crisis as a Problem in the Sociology of Knowledge', *American Journal of Sociology*, 116 (2011), pp. 1778–1841.

[7] See in particular Jens Beckert and Patrick Aspers (eds), *The Worth of Goods: Valuation and Pricing In the Economy* (Oxford: Oxford University Press, 2011), especially part III.

[8] See Marieke de Goede, 'Repoliticising Financial Risk', *Economy and Society*, 33:2 (2004), pp. 197–217; Oliver Kessler, 'Uncertainty, Rationality, and the Study of Social Institutions', *Review of Social Economy*, 66:4 (2008), pp. 501–23; and Christopher Daase and Oliver Kessler, 'Known and Unknowns and the Political Construction of Danger', *Security Dialogue*, 38:4 (2007), pp. 411–34.

[9] For similar conclusions, see Bob Jessop, 'Critical Semiotic Analysis and Cultural Political Economy', *Critical Discourse Studies*, 1:2 (2004), pp. 159–74.

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Consequently, there is not only a need for simple technical fixes, but also a need of a conceptual analysis of 'the social' in finance and its potential regulatory consequences. Hence, there is a need to develop a social theory that allows us to see and to assess things differently before we engage in mere activism and think about scientific 'tests' or 'proofs' already. Otherwise, we are bound to repeat yesterday's mistakes and implement reforms that will be invalidated by the next crisis.

The quest for a new social theory of financial crises does not need to start from scratch. There are already promising and fruitful theoretical discussions under way. A recently published forum on constructivist approaches to the current crises aptly showed that such an endeavour has to take at least three aspects into consideration: an interest in genuine uncertainty, an acknowledgement of constitutive rules in Searle's sense, and the intersubjective quality of transactions, prices, and relations.[10] As different as the theoretical background of these authors certainly were, they shared the common intuition that there is a difference between individual and intersubjective expectations,[11] that these intersubjective expectations have constitutive effects that invalidate both the efficient market hypothesis and the idea that instability is exogenous to financial practices.[12] Yet at the same time, the forum made clear that there is a need to develop further the social theory needed to understand the continuously changing phenomenology of institutions and practices and the linkages between them.

This contribution takes up this 'task' and suggests a *possible avenue* for a *social political economy* by providing a reconsideration of Friedrich Hayek's social theory. The primary objective of this contribution is thus *conceptual.* The crisis is taken as the vantage point to explore how Hayek's thought provides us with an alternative *vocabulary* with which we can develop a different understanding of *financial systems and their crises*. This contribution neither pretends to offer any final solution or some ultimate answer, nor does it claim that a simple 'application' of Hayek itself will do the trick. Hayek wrote at a different time with different problems and discussions in mind. His writing needs to be 'interpreted' and adapted to shed light to our debates and problems today. Yet I hope to show that some aspects of Hayek's social theory do offer an interesting avenue that could help us in our current search for an alternative way to describe, frame, and conceptualise financial markets. An alternative, which emphasises the social dimension of valuation and prices, which focuses on feedback-loops and processes of 'framing' instead of 'equilibria' and 'incentives'.[13]

[10] See Jacqueline Best, 'How to Make a Bubble: Toward a Cultural Political Economy of the Financial Crisis', *International Political Sociology*, 3:4 (2009), pp. 461–65; Bruce Rodney Hall, 'Intersubjective Expectations and Performativity in Global Financial Governance', *International Political Sociology*, 3:4 (2009), pp. 453–57; Anna Leander, 'Close Range: Targeting Regulatory Reform', *International Political Sociology*, 3:4 (2009), pp. 465–68; Timothy Sinclair, 'Let's get it right this time: Why Regulation will not solve or prevent global financial crises', *International Political Sociology*, 3:4 (2009), pp. 450–3; and Eleni Tsingou and Leonard Seabrooke, 'Power Elites and Everyday Politics in International Financial Reform', *International Political Sociology*, 3:4 (2009), pp. 457–61.

[11] See in particular B. Rodney Hall, 'Intersubjective Expectations', p. 455.

[12] In contrast to the efficient market hypothesis and the focus on rational choices, this forum conceived economic inter-actions as social acts, where destabilising tendencies are *endogenous* to financial practices. See in particular T. Sinclair, 'Let's get it right', p. 452 and Seabrooke and Tsingou, 'Power Elites', p. 459.

[13] For the Keynes-based approach see in particular Jacqueline Best, *Limits of Transparency* (Ithaca: Cornell University Press, 2005); Wesley Widmaier, 'Keynesianism as a Constructivist Theory of the International Political Economy', *Millennium: Journal of International Studies*, 32:1 (2003), pp. 87–107. The Keynes-based approach analyses the ideational foundations of monetary cooperation. In situations of Keynesian uncertainty, actors fall back on conventions and norms to form their preferences and

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To make good on my claims, this article is structured in three sections. The *first* section recapitulates the contours of the current crisis to show how the current reform debate fosters a technocratic-naturalised understanding of financial markets. This includes an adherence to the efficient market hypothesis and a definition of crises in terms of *exogenous* shocks. It further shows how the social character of financial markets raises its head, but is at the same time excluded from further debate. The *second section* pursues this social dimension and provides an interpretation of Hayek's concepts of uncertainty, rules, and institutions, mirroring the three key tenets of uncertainty, intersubjectivity, and constitutional rules as mentioned above.[14] This conceptual framework allows us to pursue the question of how and what kind of knowledge is inscribed in prices. Understanding prices as a media of communication whereby actors observe themselves and others raises the theoretical question of how things are made *economic* or *financial through prices*.[15] I think everybody can agree that communications based on prices are different than those based on intimacy; truth or transcendence. The third section explores how the focus on information and knowledge, circulation and the price mechanism then redefines the concepts of order and crises. The task of this section is not to provide a fully developed empirical reconstruction of what has happened, but to point out the kinds of questions a constructivist SPE could pursue further. The conclusion points to some differences to the current reform debate and proposes future avenues to develop further such a social political economy.

The current financial crisis and the will to measure

The current crisis is certainly not a simple phenomenon, but a mix of different dynamics and problems. The first 'dimension' concerns the creation of the bubble in the American real estate market. With interest rates low, and steadily growing house prices, the market for subprime mortgages and alt-A mortgages (mortgages issued with lower standards) grew rapidly.[16] Already in 2006, Alt-A and subprime mortgages accounted for 50 per cent of the entire mortgage market. Two key dynamics seem to have fostered this growth: (a) the securitisation of credit which allowed banks to sell outstanding claims to global markets and thereby reduce their risk expose; (b) the changing landscape of the mortgage market itself. While in 2003 24 per cent of new mortgages were underwritten by private banks and 76 per cent by government-sponsored housing enterprises (GSE) like Fannie Mae and Freddie Mac, the proportion

interests. As norms are intersubjectively defined, it is thought that Keynes supports a dualist ontology (matter – ideas). That this however is simply not good enough for constituting a constructivist approach to IPE, see Oliver Kessler, 'From Agents and Structures to Minds and Bodies: on supervenience, quantum and the linguistic turn', *Journal of International Relations and Development*, 10:3 (2007), pp. 243–71.

[14] It should be emphasised that I do not engage in some exegesis of what Hayek would have said about the crisis, nor do I want to revive a new Hayek based conservatism. There is more to Hayek's thought than just 'he is a conservative'. If an author would predetermine a political position, then it would be hard to explain why the left is interested in Martin Heidegger or Carl Schmitt.

[15] I'd call these processes economisation and financialisation respectively. For a very preliminary discussion see Oliver Kessler, 'After Sectors, Before the World: Finance, Security and Risk', *Security Dialogue*, 42:2 (2011), pp. 197–215.

[16] For a terrific discussion see Herman Schwartz, *Subprime Nation: American Power, Global Capital and the Housing Bubble* (Ithaca: Cornell University Press, 2009).

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of private issuers rose to above 50 per cent in 2006.[17] With this privatisation, the standards for underwriting mortgages were reduced. While GSE issued only prime mortgages, private banks fostered the growth of the Subprime market.

The securitisation of credit by transforming mortgages into Collaterlised Debt Obligations (CDO) and the privatisation of the mortgage market linked the American market tightly to global financial structures: the slicing and dicing of subprime mortgages into tradable assets was made possible by modern financial instruments like derivates, modern practices like securitisation, new actors like Credit Rating Agencies (who provided first class ratings and thereby suggested false security in the context of a market downturn), and Hedge Funds (generating the demand for those assets).[18]

The privatisation of the mortgage market brings us to the second dimension: the 'embeddedness' of the American economy into global finance – or better: how Global Finance is part of the American economy.[19] Through these markets, surpluses from China and other countries re-entered the Amercian economy and financed consumption. The American real estate market was not simply a market, but a very strategic market in the recycling of surpluses. Third, with those assets sold world-wide, the crisis spread *globally* quickly. The global transmission of the crisis triggered world-wide bank runs and several bankruptcies of major institutions (like Northern Rock, Sächsische Landesbank, and of course Lehman Brothers). While at the onset it was believed that we were dealing with an 'American' crisis (consider the first reaction by the Chinese and Russian governments), it quickly became clear that we were facing a truly global malaise. Again, and quite similar to the financial contagion literature in the context of the Asian Crisis, the contagion of turmoil was driven by *credit* channels: in particular Hedge Funds and banks whose investments were leveraged in order to maximise potential profit. When the crisis unfolded, these credit channels worsened the situation as banks simply refused to lend money to each other.[20] The inter-bank lending system almost collapsed and even guarantees by governments could not restore the necessary trust. This was partly due to the fact that the shadow banking system is actually larger than the 'official' part. As a consequence, we witnessed a 'flight to quality' from emerging market assets into the US Dollar, leading to very substantial falls in the Russian stock market in particular, amongst others.

Fourth, the collapse of the inter-bank lending system soon captured other sectors of the economy through which the *financial turmoil was translated into a global recession*.[21]

[17] See John Kiffs and Paul Mills, 'Money For Nothing and Checks for Free: Recent Developments in U.S. Subprime Mortgage Markets', *International Monetary Fund Working Paper*, 07/188 (2007), p. 7. See also Markus Brunnermeier, 'Deciphering the Liquity and Credit Crunch 2007–2008', *Journal of Economic Perspectives*, 23:1 (2009), pp. 77–100.

[18] See T. Sinclair, 'Let's get it right'; Marcin Kacperczyk and Philipp Schnabl, 'When Safe Proved Risky: Commercial Paper during the Financial Crisis 2007–2009', *Journal of Economic Perspectives*, 24:1 (2010), pp. 29–50. See also Ismail Ertürk, Adam Leaver, and Karel Williams, 'Hedge Funds as "War Maschine": Making the Positions Work', *New Political Economy*, 15:1 (2010), pp. 9–28.

[19] See Hans-Jürgen Bieling, 'Wenn der Schneeball ins Rollen kommt: Überlegungen zur Dynamik und zum Charakter der Subprime-Krise', *Zeitschrift für Internationale Beziehungen*, 16:1 (2009), pp. 107–21.

[20] Markus Brunnermeier, 'Deciphering the Liquity and Credit Crunch 2007–2008', *Journal of Economic Perspectives*, 23:1 (2009), pp. 77–100; Paul Mizen, 'The Credit Crunch of 2007–2008: A Discussion of the Background, Market Reactions and Policy Responses', *Federal Reserve Bank of St Louis Review*. 90:5 (2008), pp. 531–67; Duncan Wigan, 'Credit Risk Transfer and Crunches: Global Finance Victorious or Vanquished?', *New Political Economy*, 15:1 (2010), pp. 109–25.

[21] For a discussion see Jonathan Eaton, Samuel Kortum, Brent Neiman, and John Romalis, 'Trade and the Global Recession', *Working Paper w16666* (Cambridge, MA: National Bureau of Economic Research, 2011).

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The Global Recession emanated from a number of causes: from a collapse of demand due to the burst of the real estate bubble to the loss of confidence by companies who postponed investments. Last but not least, we witness a discursive change on the national level: The classical crisis management mechanisms, like a concerted interventions by major central banks, could not avoid the full manifestation of the crisis and the independence of Central Banks today is increasingly questioned.[22] Instead, countries fell back on fiscal policies and saved banks with rescue packages of unprecedented proportions, including the nationalisation of vulnerable banks. The consequences of these measures, which 'socialised' the losses and increased public debt, are today widely felt in Europe. Today we have to ask ourselves whether we actually have adequate policy responses for a financialised economy?

These five 'problems' show the diversity and multiplicity of the problems, dynamics, and forces currently at play: apart from questions related to economic bubbles, we deal with questions of financialisation and a continuously changing 'network' of financial actors; the politics of financial innovation, the institutionalisation of derivatives and structured financial products, the adequacy of ratings and the politics of creditworthiness, disintermediation and banking, public debt, the shadow banking system, questions of credit channels vs. money, and face a deteriorating role of the state in contemporary capitalism up to a point where we can already see how the crisis leads to a the radicalisation of political discourses. When it comes to the question of how financial markets are to be reformed, this complexity is rarely taken into account.

Instead these dimensions are lumped together under the rubric of some 'market or government failure'. Already in 2008, publications by the BIS, IMF, and FSB[23] fostered the idea that an exogenous shock had hit Wall Street. The report produced by the FSB and the IMF on 'the Financial Crisis and Information Gaps' talks about 'vulnerability through shocks';[24] as does the FSB reports on 'Improving Financial Regulation' in 2009 and 2008.[25] The chapter on systemic risks in the IMF *Global Financial Stability Report* from April 2009 states that systemic risks result from asymmetric information and uncertainty, with the task to identify information gaps

[22] See Stephen G. Cecchetti, 'Crisis and Response: The Federal Reserve in the Early Stages of the Financial Crisis', *Journal of Economic Perspectives*, 23:1 (2009), pp. 51–75.

[23] In the current reform debate, the publications by the G20, the IMF, the FSB, and the BIS provide the core arguments and set the agenda and report on progress. Although there are plenty of other reports by NGOs and other regulatory bodies, they provide the institutional centre of the current debate, while the FSB seems to be the driving force of it all. It is here where basic conceptual questions are discussed. See in particular Financial Stability Board, 'Improving Financial Regulation', Report of the Financial Stability Board to G20 Leaders, 25 September 2009; Financial Stability Board, 'Progress Since the Pittsburgh Summit in Implementing the G20 Recommendations for Strengthening Financial Stability', 9 November 2009b; Financial Stability Board, 'Press Release: Financial Stability Board meets on the Financial Reform Agenda', 9 January 2010a; Financial Stability Board, 'Promoting Global Adherence to International Cooperation and Information Exchange Standards; Basel: Financial Stability Board', 10 March 2010b; Financial Stability Board and the International Monetary Fund, 'The Financial Crisis and Information Gaps' (Basel: FSB, May 2010); Financial Stability Board, 'International Monetary Fund, Bank for International Settlement', *Report to G20 Finance Minsters and Governance, Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations*, (Basel: Bank for International Settlement, 2010); International Monetary Fund, *Global Financial Stability Report April 2009* (Washington, DC: International Monetary Fund) as the equivalent reports from October 2009 and April 2010.

[24] See FSB and IMF, 'The Financial Crisis', p. 16.

[25] See ibid., p. 11.

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and measures that help to reduce them.[26] The FSF comes to the conclusion that the crisis can be attributed to unsound disclosure requirements:

> [B]ecause of accumulated weaknesses in risk management and underwriting standards, and the sheer scale of the adjustment required, attempts by individual institutions to contain their risk exposures have led to reinforcing dynamics in the system as a whole … Weaknesses in public disclosures by financial institutions have damaged market confidence during the turmoil. Public disclosures that were required of financial institutions did not always make clear the type and magnitude of risks associated with their on- and off-balance sheet exposures. There were also shortcomings in the other information firms provided about market and credit risk exposures, particularly as these related to structured products. Where information was disclosed, it was often not done in an easily accessible or usable way.[27]

According to this view, the breath-taking rise of *Collateralised Debt Obligations* (CDO) and complex financial instruments has led to a situation where individual actors simply had to lose sight of their risk expose. In other words: the complexity of the five dimensions of the crisis, including the interplay between new actors, instruments and practices, is reduced to a problem of information asymmetry. Thereby the social character of the crisis, including the collapse of evaluating, pricing, and trading AAA-assets that now have turned into poisoned papers, is reduced to questions of data disclosure and standardisation.

This interpretation essentially externalises the source of financial turmoil. The reason why financial markets are inefficient and turbulent from time to time is not associated with the internal operation of financial practices itself, but with insufficient regulation: the source of instability is *not endogenous but exogenous*, as the FSF confirms: 'Public authorities recognised some of the underlying vulnerabilities in the financial sector but failed to take effective countervailing action, partly because they may have overestimated the strength and resilience of the financial system.'[28] Without externalities caused by regulatory bodies, there would be no problem of asymmetric information.

This externalisation of financial turmoil helps to uphold the myth of the efficient market hypothesis. It is assumed that financial markets *could* be stable if only the regulatory infrastructure set the right incentives.[29] The reduction of turmoil to some lack of information in other words introduces a conceptual hierarchy insofar as it is assumed that financial markets *could* work if only the regulatory infrastructure were sound. In other words, crises result from some 'failure'. Regardless of whether we have to deal with a market failure or a government or regulation failure – it's the failure of regulatory bodies that causes financial turmoil. It is this interpretation that sets the boundaries of the reform debate and at the same time defines the relationship between politics and finance in a specific way: politics is reduced to the task of providing the necessary infrastructure. When it comes to understanding the crisis, however, it is not politics but *economic* expertise that tells us what is a good idea, what failure led to the crisis, and what reforms should look like. As long as it is assumed that financial markets adhere to their own laws and logic, it is also assumed that regulations have to take this internal rationality seriously and cannot work

[26] IMF (2009a), p. 114
[27] FSF (2008a), p. 8.
[28] Ibid., p. 13.
[29] Of course, there is the debate on macroprudential regulation. However, the return of macroeconomics does not come with an epistemological change and will thus not provide an alternative approach. The papers are shot through with references to measures, indicators, and the need for better data.

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'against the market'. This is an assumption that is almost cynical given that at the heart of the crisis is not the FED or SEC or any other financial authority, but the current assemblage (including the Special Investment Vehicles, CDOs or CDS) of actors, instruments and mathematical models. The crisis is the result of practices that were deeply embedded in modern finance. Without the innovation of specific financial instruments, without the ratings, without high leverages, the crisis would not have been possible.

As a summary then, we can see that the FSF as well as the IMF conceptualise the question of (in)stability of global financial markets as an information problem that can be solved by 'more data'. It is believed that as long as every actor has access to the same data, the stability problem is solved. For example the FSF emphasises that '[e]nhanced disclosure ... could help to avoid a recurrence of market uncertainties about the strength of banks' balance sheets in the event of a future episode of market turmoil'.[30]

However, what this crisis shows, maybe more than ever before, is that the basic problem is not the lack of raw data, but a change in their meaning, which inevitably refers back to social relations. CDOs with AAA-ratings turned into poisoned paper, ratings were invalidated, assets turned into ticking bombs. *The entire process of value and price determination within financial markets broke down*.[31] The problem is not just 'data', but that a financial crisis disconnects existing data from stories, myths, and narratives that stabilised their meaning in the first place. During a crisis, data is redefined and linked to new stories and narratives where the same numbers now mean something completely different. A crisis shows processes and dynamics that are beyond 'rational' adjustment along with new data, but points to the generative power of *interpretation*. Data does not have an inherent information particle that flows from actor to actor. Rather, the meaning of data is the result of an assemblage of a constellation of actors and organisations, the practical use of economic models, and institutionalisation of financial instruments. However, to focus on these social processes of price formation, valuation, and 'intersubjective expectations' invalidates the story of the 'exogenous shock' that has hit financial markets like a meteorite hits planet earth. Rather, the question of 'the social' in finance highlights that the crisis is endogenously produced – and is irremediably linked to questions of economic expertise, authorities in markets, and economic models.

At the same time, however, the strategic use of asymmetric information in official reports perpetuates a naturalised understanding of financial relations, perpetuates monetarist ideas of stability, and thus to silences more 'radical' ideas of how to reform finance. Every argument that does not takes asymmetric information seriously falls out of the accepted (and by economics constructed) and acceptable limits of reform. More radical calls for a new financial order are thereby delegitimised and do not acquire the same 'scientific' status as more moderate reforms.[32] The question to be

[30] FSF (2008a), p. 22

[31] See also in this respect Aeron Davis, 'The Limits of Metrological Performativity: Valuing Equities in the London Stock Exchange', *Competition and Change*, 10:1 (2006), pp. 3–21; Karen Ho, *Liqidated: An Ethnography of Wall Street* (Duke: Duke University Press, 2009); and David Stark, *The Sense of Dissonance* (Princeton: Princeton University Press, 2009). I thank an anonymous reviewer for pointing this out to me.

[32] Of course, one could argue that in fact Basle II is not part of the problem. That in fact Basle II is reductionist and actually not well suited for current problems see Oliver Kessler, 'Beyond the Economic Bias: the social construction of Economic Risks', in Colin Hay and Andreas Gofas (eds), *The Role of Ideas*

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asked now is thus: how can we conceptualise crises as a result of financial practices themselves? How can we challenge the story of asymmetric information being told so far and thereby highlight not only its limits, but also its political consequences? The next section suggests that Hayek's later social thought could provide such an avenue.

Friedrich Hayek's social theory

Hayek is without doubt one of the most influential and controversial economists of the twentieth century. Although his work had experienced something of a revival after the disintegration of the communist bloc, the revival focused predominantly on his writing on socialism, without further interest in his social theory.[33] However, there is more to Hayek's thought than those aspects emphasised by conservative free-market wingers.[34] This section intends to highlight a dimension of Hayek's thought that could advance the current endeavour to construct a 'constructivist SPE'. His concepts of uncertainty, rules, and institutions can shed a different light on the three tenets of uncertainty, intersubjectivity, and institutions that were emphasised in current constructivist contributions in IPE.[35]

Before I discuss these three concepts in some detail, it is useful to put Hayek in the context of Austrian economics.[36] Austrian economics provides an alternative approach to economic processes. The founder of Austrian economics, Carl Menger, rejected Smith's division of labour as an explanation for the source of the wealth of nations and measure for human progress as being too materialistic. The inherent materialism of Smith and Walras led to too prominent a role of formal reasoning in economics, limiting our understanding of economic phenomena. To counter this materialism, Menger argued that development, evolution, and wealth of societies cannot be attributed to the division of labour *per se*, but derives from the prior division of knowledge. This division of knowledge provides a different 'foundation' for economics. From here, Menger developed a subjective theory of value and inquired into the 'origins' of social institutions like the market or money.[37] For example, Menger observed that if prices would describe an objective equilibrium, every transaction

in Political Analysis (London: Routledge, 2009). See also Timothy Sinclair and Michael King, 'Private Actors and Public Policy: a Requiem For The New Basel Capital Accord', International Political Science Review, 24:3 (2003) pp. 345–62.

[33] Personally, I think the 'Road to Serfdom', the book for which Hayek is most famous for, is neither representative for his social theory nor particularly good.

[34] Although Milton Friedman and Friedrich Hayek got along quite well personally, there are important differences between Friedman's monetarism and Hayek's later writings, with important methodological repercussions. See Milton Friedman, 'The methodology of positive economics', *Essays in Positive Economics* (Chicago: University of Chicago Press), pp. 3–43; in contrast to Hayek's pattern recognition or discussion of complex phenomena.

[35] See Geoffrey Hodgson, *Economics and Institutions* (London: Routledge, 1999).

[36] The following discussion does not neglect the influence of Eugen von Böhm-Bawerk or Friedrich Freiherr von Wieser on Hayek's thought. However, I think that their influence is stronger on his early pieces on the business cycle and especially in his later thought came back to Menger. As it is probably well known, Menger was rather critical of von Böhm-Bawerk and considered his efforts as 'the greatest mistake ever'. For a discussion of Menger's influence on Hayek, the best piece is still Friedrich Hayek, 'Carl Menger', *Economica*, 1:4 (1934), pp. 393–420.

[37] In particular the subjective theory of value represents a milestone in economic thought and although it is widely considered as standard in economic theory, economists using mechanistic systems theory fail to understand many of its characteristics. This subjective theory of value is often enough misunderstood as constituting a marginal theory of utility. This interpretation however forgets the Kantian origin of his thought.

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would be easily reversible: in equilibrium, every actor would be indifferent between specific food baskets. Yet this is exactly what we do not observe: every contract, every trade, every decision comes with a time asymmetry: a reversal is not that easy. The seller sells only if he makes some imaginable profit. The buyer buys only if he thinks the goods are worth the money. Ultimately, there would be no transaction as every seller would reject any higher price. In terms of rational expectations: if prices would indicate the quality or 'intrinsic value' of a good, every seller should update his expectations as soon as a potential buyer would be willing to pay a higher price – and trade could not be motivated. The mistake made by Walras was that prices would not reflect 'equivalent' values and thus would not 'equalise' demand and supply. The entire concept of equilibrium or steady-state is thus rather strange. Instead, the economic sphere is an ongoing process of transactions and communications.

As will be discussed in more detail below, in contrast to a mechanistic, clock-work-like concept of institutions, Menger argued that institutions escape the single logic of 'a general will' or some design, but have to be understood as 'organic' entities.[38] Although institutions result from human action, they are not just some simple mechanism and cannot be reduced to individual cost/benefit calculus. They are inherently social and – in our parlance complex – phenomena. Indeed, many thoughts of Menger are close to what later became sociology. Menger developed an economic theory interested in the most basic social institutions based on ideas of a subjective theory of value, time-irreversibiltiy of economic transactions, and organic change of economic institutions.[39]

Hayek returned to these ideas again in his later writings when he increasingly moved away from 'mainstream' economics. He criticised economic thought for misunderstanding the very problem of economic phenomena: the reduction of institutions to individual cost/benefit motives ultimately fails to grasp their complexity. Institutions bring different individuals into contact where each actor has its own history, self-understanding, and set of expectations.

To discuss this intuition in more detail, I will first introduce the concepts of uncertainty, rules, and institutions. This takes us to the question how and what kind of knowledge is discovered, stored, and distributed in communication. The primary assumption is that within the economy, communication is shaped and formed by prices. With prices, we associate a certain set of social relations, we associate a certain temporality and range of possible objects that are considered to be 'economic'. This specific role of prices as media of communication is further explored in the third section where it is argued that financial and real markets differ in the way prices operate. This is then the first step towards a concept of economic crises that puts communication linkages, prices and knowledge at the centre.

Uncertainty

Like Menger, Hayek was predominantly interested in exploring the role of the division of knowledge which precedes any consideration of the distribution of labour. The

[38] See in particular Book III of his Untersuchungen is headed as 'The Organic Character of Social Phenomena', see his *Untersuchungen über die Methode der Sozialwissenschaften und der Politischen Ökonomie insbesondere* (Dunker, 1883).

[39] The article will return to this point later

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vantage point for Hayek was the recognition that there are many different inclinations, talents, and skills.[40] In his 1937 publication *Economics and Knowledge*, Hayek pointed out that actors always act *in time*, which stands in contrast to the concept of equilibrium that was usually assumed to exist *outside* of time.[41] *The Use of Knowledge in Society* in 1945 finally broke with neoclassic thought entirely as he realised that uncertainty is simply irrelevant for practical problems. As he notes:

> *If* we possess all the relevant information, *if* we can start out from a given system of preferences and *if* we command complete knowledge of available means, the problem which remains is purely one of logic … [t]his, however, is emphatically *not* the economic problem which society faces … [t]he peculiar character of the problem of a rational economic order is determined precisely by the fact that knowledge of the circumstances of which we must make use never exists in concentrated or integrated form, but solely as the dispersed bits of incomplete and frequently contradictory knowledge which all the separate individuals possess.[42]

Given the unlimited variety of capabilities and skills, knowledge would be necessarily dispersed in such a way that each individual in a society finds him or herself confronted with ever present uncertainty. No individual can escape or step out from his or her human condition to take up an objective position. There is no escape from uncertainty. No one could claim to be in the possession of complete knowledge. Thus, in contrast to conceptions proposed by Knight or Keynes, uncertainty cannot be reduced, bracketed, or evaded by homogenous grouping over which probabilistic assessments are then made possible.[43] Rather, uncertainty is an unavoidable fact of social relations. The subjectivity of experience and expectation formation always *reorganises* complexity in such a way that its reduction, for example through categorisations, conventions, norms, power, money, etc. inevitably reproduces uncertainty. There is a continuous need for re-evaluation and reassessments of practical problems. The focus is thus not on how uncertainty is reduced to risk, but how uncertainty is continuously reproduced and how this demarcates a certain complexity of the economic system.

This concept of uncertainty is linked to Hayek's concept of knowledge. In mainstream economics, uncertainty is always already reduced to risk up to a point where economists assume that actors are familiar with theoretical assumptions that guide rational expectation models. In this setting, the theoretical knowledge of propositions, laws, and theories is then the only legitimate description of practical problems – and 'positive science' is the only adequate philosophy of science for economics. This then provides the background through which one can assume economic institutions follow a specific design and change mechanically.

Hayek broadened the concept of knowledge to include different *forms* of knowledge. There are multiple ways of knowing and reality can be known differently. For example, next to the knowledge of cause and effect, there is the knowledge of proper behaviour, of norms, traditions, institutions, which is dispersed and unorganised. This unorganised knowledge gives a primacy to practical knowledge which cannot

[40] Friedrich August von Hayek, *Individualismus und Soziale Ordnung* (Salzburg: Wolfgang Neugebauer, 1976), p. 27.
[41] Friedrich August von Hayek, 'Economics and Knowledge', *Economica*, 4:13 (1937), pp. 33–54.
[42] Friedrich August von Hayek, 'The Use of Knowledge in Society', *The American Economic Review*, 35:4 (September 1945), p. 519.
[43] Frank Heynemann Knight, *Risk, Uncertainty and Profit*, (New York: Harper and Row, 1921); John Maynard Keynes, 'The General Theory of Employment', *Quarterly Journal of Economics*, 51:2 (1937), pp. 209–23.

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be understood in terms of propositions and laws, but only in terms of rules, conventions, and norms,[44] as Hayek reminds us: 'We need only remember how much we have to learn in any occupation after we have completed our theoretical training, ... and how valuable an asset in all walks of life is knowledge of people, of local conditions, and special circumstances.'[45] In his later work on the knowledge of the specific time and space (which can be explicit and 'known'), Hayek emphasised the tacit dimension of knowledge that cannot be expressed in words:

> A certain part at least of what we know at any moment about the external world ... is determined by the order of the apparatus of classification which has been built up by pre-sensory linkages. What we experience consciously as qualitative attributes of the external events is determined by relations of which we are not consciously aware but which are implicit in these qualitative distinctions.[46]

What we know of the world is not exhausted by sensory experience as empiricism claims, but by these qualitative judgements inscribed in the rules, norms, concepts, and semantics through which we know about the world. This tacit knowledge that directs the way what and how we know escapes rational thought. It escapes the confines of propositions and scientific statements if they refer to ahistoric truths and law-like regulations. This is also relevant for the so-called scientific method: due to its vocabulary, science can only observe a part of the relevant knowledge for economic transactions. Already in 1945 he criticised the 'pretence of knowledge' which leads to an overestimation of science's capacities:

> Today it is almost heresy to suggest that scientific knowledge is not the sum of all knowledge. But a little reflection will show that there is beyond question a body of very important but unorganized knowledge which cannot possibly be called scientific in the sense of knowledge of general rules: The knowledge of the particular circumstances of time and place. It is with respect to this that practically every individual has some advantage over all others in that he possesses unique information of which beneficial use might be made.[47]

Hayek argues here that the scientific method, including its twin-idea of rational planning (or one could say the rational design of institutions), is simply misguided for understanding and analysing the complexity of practical life.[48] Instead of asking for consistency, as rational choice models presuppose, practical life is shot through with paradoxes and contradictions needing to be taken into account.[49]

Taken together, we see that Hayek's concept of uncertainty denotes a human condition Hayek differentiates between knowledge we know in the form of propositions; the knowledge of particular space and time that shows itself in rules and

[44] Hayek quotes Michael Polanyi and later Gilbert Ryle to point to forms of tacit knowledge and knowing-how as alternative ways of knowing relevant for economic practices. Of course, there are serious differences between Polanyi and Ryle this article cannot discuss at this point. See Gilbert Ryle, *The Concept of Mind* (New York. Barnes and Noble, 1949); and Michael Polanyi, *Personal Knowledge: Towards a Post-Critical Philosohpy* (London: Routledge, 1958).

[45] Friedrich Hayek, 'The Use of Knowledge in Society', p. 522.

[46] Friedrich Hayek, *The Sensory Order* (Chicago: Chicago University Press, 1952), p. 167. See also Friedrich Hayek, *The Fatal Conceit* (Chicago: Chicago University Press, 1988), p. 89.

[47] Friedrich Hayek, 'The Use of Knowledge in Society', p. 522.

[48] Friedrich Hayek, *Die Irrtümer des Konstruktivismus*, reprinted in *Anmaßung von Wissen* (Tübingen: Mohr, 1996), p. 21.

[49] Rationality as consistency is put forward by expected utility theory and is particularly rooted in the Dutch Book argument. The Dutch book argument has been subject to an intense debate which attempted to make visible implicitly made assumptions. However insightful this debate is, I have to leave it aside at the moment. For newer contributions see David Christensen, 'Dutch Book Arguments Depragmatized: Epistemic Consistency for Partial Believers', *The Journal of Philosophy*, 93:9 (1996), pp. 450–79;

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norms; and the tacit dimension of knowledge that relates to the language and concepts we use to make 'sense' of our world. He identifies and analyses these different forms of knowledge to explore the limits of the knowable, the limitedness of our ideas and concepts, and thus the prevalence of uncertainty. With uncertainty, Hayek emphasises *practical* knowledge and criticises the unreflective use of the 'scientific' method: with its emphasis on theory over practice, it only captures a small portion of our knowledge and the complexity of our life.

Rules

The last section showed that from the 1960s onwards, Hayek's work was increasingly concerned with examining the importance of the 'tacit' knowledge that is found in norms, cultural traditions, and institutions. This tacit knowledge precedes the knowledge we analyse in proposition or with common propositional logic. Rather, it is a kind of pre-predicative knowledge, that is, stuff we know already before we engage in transactions but usually not aware of. Pre-predicative knowledge is, for example, not interested in the theoretical knowledge we acquire by asking other actors, but in practical knowledge we already *have* while *asking, promising, threatening*, etc.[50]

To grasp this relationship between 'reason' and 'rules', Hayek differentiated three kinds of rules: first, there are positive rules that exist as sentences in language. These are the kind of rules we know from science and its propositional logic. Then there are rules that can be expressed in words but only express what was known already. These rules 'translate' tacitly known knowledge in knowable knowledge. Ultimately, there are also rules that cannot be expressed in words at all, like the 'feeling' we have for a language or appropriate behaviour in certain situations. Those rules are often applied and used, yet they remain hidden from what we know. These kind of rules also encompass the rules of our mind, the ways by which we are able to speak a language and refer to things. These abstract and for our thought most basic rules (in our parlance we'd say constitutive rules) escape rational thought, as Hayek notes: 'we are not in fact able to state all the rules which govern our perceptions and actions … much that we successfully do depends on presuppositions which are outside the range of what we can either state or reflect upon'.[51] Yet these rules govern our practical life:[52]

Colin Howson, 'Dutch Book Arguments and Consistency', *PSA: Proceedings of the Biennial Meeting of the Philosophy of Science Association* (1992 Volume Two: Symposia and Invited Papers, 1992), pp. 161–68; C Waidacher, 'Hidden Assumptions in the Dutch Book Argument', *Theory and Decision*, 43:3 (1997), p. 3. Of particular relevance are the 'money pump' argument, for example, Frederic Schick, 'Dutch Bookies and Money Pumps', *The Journal of Philosophy*, 83:2 (1986), pp. 112–19.

[50] Further development of this thought can be found in the metaphorology of Blumberg. See Hans Blumenberg, *Die Legitimität Der Neuzeit* (Frankfurt am Main: Suhrkamp, 1966); for cultural cognition literature see George Lakoff, *Women, Fire, and Dangerous Things: What Categories Reveal About the Mind* (Chicago: University of Chicago Press, 1987); George Lakoff and Rafael E. Nâuänez, *Where Mathematics Comes From: How the Embodied Mind Brings Mathematics into Being*, first edn (New York, NY: Basic Books, 2000); for biology of cognition see Humberto Maturana and Francesco Varela, *Complexity and Cognition* (Dordrecht: Reidel, 1980); or second order cybernetics see Heinz von Förster, *Understanding Understanding: Essays on Complexity and Cybernetics* (New York: Springer, 2003).

[51] Friedrich Hayek, 'Degrees of Explanation', in Hayek, *Studies in Philosophy, Politics and Economics* (Chicago: Chicago University Press, 1967), pp. 60–1. See also the link to modern logic a page later.

[52] See Friedrich Hayek, 'Primacy of the Abstract', in Friedrich Hayek, *New Studies in Philosophy Politics, Economics and History of Ideas* (Chicago: Chicago University Press, 1978), pp. 35–49, in particular on

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> The chief points I want to drive home here are that the primary characteristic of an organism is a capacity to govern its actions by rules which determine the properties of its particular movements; that in this sense its actions must be governed by abstract categories long before it experiences conscious mental processes, and that what we call mind is essentially a system of such rules conjointly determining particular actions.[53]

Rules guide our cognitive processes, the use of categories, and thereby the very way we think and experience the world.[54] As the *conditions of their possibility precede* the formulation of interests and preferences, they cannot be 'discovered' by simply going around and 'interviewing' actors, nor is it possible to capture their relevance in rule utilitarian terms in order to save some rational approach to science – or the dogma of empirical social science. Rather, the *primacy of the abstract* is equal to acknowledging the theory dependence of observations. These rules oppose the *error of constructivism and its pretence of knowledge*, that is, the image that humans could via reason step beyond the conditions of their culture to see society with a view from nowhere. Such an idea – even conceptually or introduced as an 'as if' hypothesis, is an illusion and potentially dangerous and it makes us over-confident in the scientific method and natural images.

As we are never in the position to construct civilisations from scratch but can only attempt to change society from *within* society,[55] scientists, as noted above, cannot claim to be in the position of bringing all this knowledge together to calculate some optimal equilibrium point. We can never reduce a system of rules or values in their entirety as to then claim they result from some conscious construction.[56] Therefore, as just discussed, the 'scientific method' is highly unscientific if recklessly applied. It is constituted as a particular kind of knowledge framed in the vocabulary of propositions and theories, it not only highlights a very specific part of relevant knowledge for organising economic practices, but it presupposes an objective position that we can never have.

As a summary, at first sight, Hayek's concept of rules is very similar to that of John Keynes as discussed in Widmaier:[57] it makes explicit reference to norms and conventions we follow due to genuine uncertainty. However, Hayek differs in an important aspect: his critique takes seriously the self-referential consequences and includes the observer scientist. The concept of rules denotes simply an inclination or disposition to act or not to act in a certain way.[58] Or as Wittgenstein once mentioned, rules are like a garden path we are used to going along.[59] We do not think about them, we just follow them.

p. 36. Of course, to argue that Hayek was influenced by Kant's philosophy of mind does not exclude more critical differences between Hayek and Kant at other points, like the possibility of an *a priori* science of history.

[53] Ibid., p. 48.

[54] F. Hayek, 'The Use of Knowledge in Society', p. 528.

[55] Friedrich von Hayek, 'Drei Quellen', p. 34.

[56] Friedrich von Hayek, *Recht, Gesetzgebung und Freiheit*, 2 (Tübingen: Mohr), p. 43. Hayek even points to an agent-structure problem when he notes that it is equally possible to say that the thinking subject has created his culture as to claim the opposite, that culture creates the thinking subject. Friedrich von Hayek, 'Drei Quellen', pp. 38–72, on p. 41.

[57] Wesley Widmaier, 'Keynesianism as a Constructivist Theory of the International Political Economy', *Millennium: Journal of International Studies*, 32:1 (2003), pp. 87–107.

[58] Ludwig Wittgenstein, *Philosophical Investigation* (Oxford: Blackwell), §85

[59] Ludwig Wittgenstein, *Vorlesungen 1930–1935* (Frankfurt/Main: Suhrkamp, 1984), p. 350.

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Institutions

The tacit dimension of knowledge and the pre-predicative rules of thought that guide the way we see things and experience the world, leads Hayek to argue that social institutions are complex social phenomena that have to be understood in 'organic' and not 'mechanic' terms. The complexity of social institutions lies beyond the scientific vocabulary of propositions, costs/benefits, and 'design', but requires an analysis of 'practical life'. Hayek then pursues his interest in institutions by separating it from neo-classical thought. While neo-classical thought entertains a mechanic understanding of institutions subject to calculations and design, social institutions are characterised by spontaneous order and cultural evolution. As Hayek explains:

> [I]t is because it was not dependent on organization but grew up as a spontaneous order that the structure of modern society has attained that degree of complexity which it possesses and which far exceeds any that could have been achieved by deliberate organization. In fact, of course, the rules which made the growth of this complex order possible were initially not designed in expectation of that result: but those people who happened to adopt suitable rules developed a complex civilization which often spread to others. To maintain that we must deliberately plan modern society because it has become so complex is therefore paradoxical, and the result of a complete misunderstanding of these circumstances. The fact is, rather, that we can preserve an order of such complexity not by the method of directing the members, but only indirectly by enforcing and improving the rules conducive to the formation of a spontaneous order.[60]

Hayek criticises neo-classic economics for its attempt to reduce the problem of '*order*' to the problem of '*organization*' whereby it postulates mechanical, mono-causal relationships. The organic nature of economic institutions, that is, that they are the result of spontaneous ordering, negates any attempt for a controlled evolution of economic institutions and the suggestive power of mechanic orders is simply misguided and false.

At this point, it is noteworthy how close Hayek's thoughts move to what is today considered a constructivist IPE. For one, Hayek links his idea of spontaneous order to modern complexity theory in the vein of Ludwig von Bertalanffy and Heinz von Förster. Von Förster is of course one of the founding fathers of radical constructivism.[61] Pursuing this path further does provide some common 'origins' of Hayek and constructivist thought as his concept of spontaneous order is quite similar to what is discussed today in constructivism as 'self-organisation, autopoiesis, and Eigen values.[62] Second, for Hayek, economic institutions have to be seen in conjunction with a division of knowledge in society.[63] They can never be reduced to the individual level or made subject to simple math. Still, the interaction of these actors creates an abstract order that over 'pattern recognition' can be named and studied – but not controlled

[60] Friedrich von Hayek, *Law Legislation and Liberty*, 1 (Chicago: Chicago University Press, 1973), pp. 50–1.
[61] Ludwig von Bertalanffy, *General System Theory: Foundations, Development, Application* (New York: Braziller, 1969).
[62] Explicit reference to eigen-values and autoppoiesis can for example be found in Friedrich von Hayek, 'Die Überschätze Vernunft', p. 84. For an analysis of constructivism and complexity see in particular the edited volume by Mathias Albert, Lars-Erik Cederman, and Alexander Wendt, *New Systems Theories of World Politics* (London: Macmillan, 2010).
[63] One could think about contributions on ideas in world politics that go in similar (though I would say certainly not identical) directions. See, for example, Alexander Gofas and Colin Hay (eds), *The Role of Ideas in Political Analysis* (London: Routledge, 2010).

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or constructed.[64] It is thus very close to the concept of 'emergence', as introduced by C. Llody Morgan in 1896. Morgan had already associated 'emergence' with two properties: emergent systems would be unpredictable and non-additive. In particular the non-additive character of complex systems would involve a shift from mechanic to organic metaphors.[65]

In this respect, it is noteworthy that Hayek often refers back to language and modern language philosophy, as constructivists often do, to outline key characteristics of institutions. For Hayek, spontaneous orders are like grammars in language that are not reducible to 'genes' (and here he openly criticises Chomsky), nor are they subject to individual cognition. They are social entities. As social entities, the materiality of institutions is different from the materiality of simple objects like stones, windows, or cars: institutions show their existence only within language. Acknowledging their social character then opens the way to understanding their change differently than what we can see in 'nature'. Rules are always subject to change, there *is no fixed stock of rules, customs, or traditions.* His concept of cultural evolution is located at the level of groups and leads to the emergence, change, and decay of structures and systems and civilisations.[66] Rival rules stand in competition that is motivated by a conflict of norms and actions. Neither nature nor survival of the fittest mark the selection process, but rather knowledge producing institutions understood as a set of practices and traditions.

Prices beyond demand and supply

Continuing this line of thought, Hayek saw clearly that the market *is a social institution* embedded in a great variety of other institutions in which it gains meaning:

[64] The new emphasis on system-environment interaction has existed since the rise of non-equilibrium thermodynamics and the field interpretation of quantum physics have challenged 'classic physical' systems theory. As different as these approaches are, both challenge the possibility of 'passive observation'. Increasingly, the cognitive capacities of systems – including the observer scientist – are acknowledged. One can think of Schrödinger's cat, where an observer manifests reality or paradoxical behaviour. Prigogine and Stenger Ilya Prigogine, *From Being to Becoming: Time and Complexity in the Physical Science* (New York: Freeman, 1980); Ilya Prigogine and Isabelle Stengers, *Order out of Chaos*, (New York: Bantam, 1984); Manfred Eigen, *The Hypercylce: A Principle of Natural Self-Organization* (New York: Springer Verlag, 1979); and Stanley Fox, *The Emergence of Life* (New York: Basic, 1988). showed that bifurcation branches introduce time-irreversibility and thus history in natural systems. Similarly, the *Grundlagenkrise* inaugurated by Bertrand Russell's paradox led through Gödel's proof and Wittgenstein's linguistic turn to an abandonment of logic as *a priori* and objectively given Ernest Nagel and James R. Newman, *Gödel's Proof*, rev. edn (New York: University of New York Press, 2002). No sufficiently complex system is capable of providing for its own consistency, challenging one fundamental tenet of classic logic eliminative materialism. Even physical systems are not closed.

[65] See Conwy Lloyd Morgan, *Habit and Instict* (London and New York: Edward Arnold, 1896). In particular p. 120ff. See also Conwy Lloyd Morgan, *Emergent Evolution: The Gifford Lectures* (London: Williams and Norgate, 1923). A good discussion can be found in Philip Mirowski, *Natural Images in Economic Thought* (Cambridge: Cambridge University Press, 1994); and Geoffrey Hodgson, *Economics and Institutions* (London: Routledge, 1999).

[66] It should be emphasised however, that evolution theory is not to be understood in terms of a teleological process. It is not to be confused with anything like 'survival of the fittest'. I am not quite sure whether the term of 'cultural competition' should not be replaced by some other evolutionary concept. For example, Hayek points with this concept to the different alternatives of organising societies. It simply points to the fact that 'societies' organise themselves differently and that it might be fruitful to consider categories of *social differentiation.*

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We have developed these practices and institutions by building upon habits and institutions which have proved successful in their own sphere and which have in turn become the foundation of the civilization we have built up ... The price system is just one of those formations which man has learned to use.[67]

The price system is *one*, although very dominant way of allowing the conveyance of data, information, and knowledge. This implies two things: first, he argues that the price mechanism is embedded and dependent upon a 'whole order' of institutions such as schools, universities, banks, auctions, market research institutions, actuaries, unions, etc. This continuously changing assemblage of institutions, organisations, and actors reconfigures what and how things are made known. Yet, secondly, the price mechanism is *the key* institution when it comes to economic relations and phenomena. If we want to understand the economy, we necessarily have to deal, care, and understand the role of prices. The economy without prices is hardly imaginable.

Yet Hayek's understanding of prices differs substantially from what we are accustomed to in IPE. When it comes to prices, it is still quite common to believe the story of 'mirroring' scarcity and thereby steering supply and demand. Yet not least since the rise of performativity literature, we know that prices do not simply reflect but also induce demand and supply: they create economic phenomena.[68] For Hayek, prices are conceptualised as *communication media* that order and create economic relations. Three things are important: first, prices convey specific knowledge, data, information that is explicit and observable, while other kinds of knowledge (knowing how and the tacit dimension) are 'excluded' from sight, but nevertheless provide and stabilise meaning. What knowledge is communicated or tacitly conveyed is subject to evolutionary changes. What Hayek then points at is that the 'role' prices play cannot be simply observed or put into mathematical formula, but requires a historical reconstruction of the institutional setting in which the price mechanism operates.

Second prices are not 'simple things', but complex phenomena that are continuously produced and reproduced and owe their existence to this reproduction process. Hayek understands prices as a 'telecommunication' system that later informs his conception of the market as discovery *process*.[69] What Hayek provides is an early

[67] Hayek, 'The Use of Knowledge in Society', p. 528.

[68] Still a classic statement in the context of finance is Maurice Obstfeld, 'Models of currency crises with self-fulfilling balance of payments crises', *European Economic Review*, 40:3–5 (1996), pp. 1037–47. On different models of currency crises see Oliver Kessler, *Die Internationale Politische Ökonomie des Risikos* (Wiesbaden, 2008), chap. 2. This implies that constructivist IPE still needs to develop its own language which represents its own understanding of complex phenomena like the market, firms, competition, and prices. For example, Harrison White and Niklas Luhmann put forward the idea that the market is not a place where supply and demand meet, but that it should rather be regarded as an internal mirror within the economic system: it allows for self-description and self-observation of actors by placing oneself in context to one's competitor and customers. For possible avenues see Luhmann, *Die Wirtschaft Der Gesellschaft* (Frankfurt: Suhrkamp, 1988); Harrison C. White, 'Where Do Markets Come From?', *American Journal of Sociolog*, 87:3 (1981), pp. 517–47.

[69] Friedrich Hayek, 'The Meaning of Competition', in Friedrich Hayek (ed.), *Individualism and the Economic Order* (London: Routledge and Keagan Paul, 1949); Friedrich Hayek, 'Competition as Discovery Process', *New Studies in Philosophy, Politics, Economics and the History of Ideas* (London: Routledge and Keagan Paul, 1978b). For newer contributions in a broader Hayekian way see Brian Loasby, *Choice, Complexity and Ignorance: an Inquiry into Economic Theory and the Practice of Decision Making* (Cambridge: Cambridge University Press, 1976). See also his *The Minds and Methods of Economists* (Cambridge: Cambridge University Press, 1989); Isreal Kirzner, *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973); Isreal Kirzner, *The Meaning of Market Process* (London: Routledge, 1992); and Murray Rothbard, *Man, Economy and the State*, 2 (Los Angeles: Nash, 1970).

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account of what constructivists also try to get at: a process-oriented account of institutions where they are not reduced to allocation devices or sets of incentives, but are seen as constitutive for social phenomena. Hence, when we want to understand economic phenomena like economic crises, the story of equilibria points, propositions, and rational design is simply not good enough. Rather, we need to reconstruct the institutional setting, how different forms of knowledge are conveyed, stored, and constructed in the continuous reproduction process of communication; and recognise that this reproduction process has its own dynamics, feedback loops, amplifiers, etc. The crucial point is less that Hayek provides an 'explanation' for bubbles, but that he wanted to construct a vocabulary that would allow us to capture the continuous reproduction and fluidity of economic processes.

Third, prices provide a *specific form* of communication. Prices are associated with the economy and a specific set of social relations, a specific temporality of the market, and a specific set of economic phenomena. The price mechanism makes things economic. This raises the question how this happens: what happens when this happens and what social consequences result from there? At the same time, the specific boundary drawn between global finance and the real sector, the widely observed transformation of the state system, the emergence of transnational spaces, private authorities like credit rating agencies, and supranational organisations like the European Union, all impact on the way in which knowledge is communicated through prices.[70] At the same time, this constellation constantly changes, something that can be described as social contingency: the realm of possible alternatives, options, or futures is conditioned by social relations. The question then is how contingency is produced and controlled through prices.

As a summary, we can see how the conceptual framework of uncertainty, rules, and institutions led Hayek to focus on processes, communication patterns, and the conveyance of knowledge. In particular prices delimit the range of economic relations and introduce a specific economic rationality that, however, does not constitute some ahistoric truth, but that is always 'embedded' within social relations. The analysis of prices thus escapes the simple logic of mathematical abstraction, but is always a reconstruction and an inquiry into the social of a specific time and place. The next section continues along these lines by pursuing two interrelated questions: how are things made economic through prices and what is the consequence for understanding economic crises differently?

Reconstructing financial crises: economisation, prices, and the quest for financial stability

The previous section argued that for Hayek societies are characterised by the distribution of knowledge and not by the division of labour. He takes on key ideas of Carl Menger and develops them further by turning to complexity theory. Through a necessarily short discussion of his concepts of uncertainty, rules, and institutions that were suppose mirror the constructivist tenets of uncertainty, intersubjectivity, and constitutive rules, it was shown that he challenges not only the 'scientific'

[70] See in particular Timothy J. Sinclair, *The New Masters of Capital: American Bond Rating Agencies and the Politics of Creditworthiness.*, ed. Peter Katzenstein (Ithaca: Cornell University Press, 2005).

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method, but also develops a process-oriented concept of the economy where prices are understood as media of communication. The focus is thus not on equilibrium conditions or propositions, but pattern recognition and the continuous reproduction of statements, practices, or communication.

To continue this line of thought for a reconstruction of today's problems, a Hayekian reconstruction then highlights that there is no 'essence' of finance that could be known. Finance is a specific 'discourse' with its own processes of inclusion and exclusion.[71] It has its own peculiar semantic net of distinctions; it creates a specific field of knowledge (*doxa*) and creates a specific set of possible identities. Finance is not a closed system, but inscribes itself on bodies and behaviours; it forms desires and guarantees that there are future needs that need to be satisfied.

This leads us to two further questions that are not fully developed by Hayek himself, but that appear to be necessary for a better understanding of our contemporary conditions: if prices are key for understanding economic relations and serve as communication devices, then the question arises of how prices are linked to processes of economisation, that is, the structuring of reality as economic relations. Sure, the kinds of things, social relations, and temporalities considered to be economic are different from the ones considered with law, politics, science, or the health system.[72] Yet, what is this difference? Also, if prices do play such a prominent role, how can we differentiate financial from real markets and thus move back from the general discussion of economic relations to questions of financial stability. Once we address these questions, we are in a position to address the question of how financial crises constitute a distinct rationality that is linked to the question of order. The next two sections provide tentative answers to these two questions.

Economisation: prices, quantification, and memory

To address the first question, Hayek points us to communication patterns and thus the role of prices within the economic system. Prices are at the core of economic relations and point out the specific way in which actors observe each other. They point to the range of identities related to the economy and show how expertise needs to be structured to be particularly relevant.[73] Through prices, events, situations, problems are economised. Thereby, they are endowed with a specific spatiality and temporality. Prices move much faster than norms – they are enacted without memory (in contrast to norms). The memory of prices through graphs, tables, and diagrams is artificially produced. Much of the expertise of economists then circles around the production, storage, and rewriting of this kind of memory. A very good economist will always produce new numbers or has their own set of indicators, measures, and numbers.

The crucial point then is to understand that prices are *produced*, they have a specific materiality and temporality and they are never innocent. Yet at the same

[71] Some may identify some resemblance to Michel Foucault's *Order of Discourse.* Indeed, I am convinced that much of what Hayek's and Foucault's recourse to complexity theory is not accidental and that much of what Hayek tries to get at is potentially interesting for Foucauldians. However, there are crucial semantic differences that require a longer justification than can be provided in this context.

[72] Sociologists often refer to social differentiation to highlight the coexistence of different rationalities.

[73] For a similar discussion see Kessler, 'After Sectors'.

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time we can see that the closure of the economic through prices is always incomplete. Prices constitute a specific 'contingency' within the economy. They are located at the boundary of closure and openness of the system. However, there are always countermemories, stories, and alternative ways of knowing the economy: especially within economic crises, one can observe processes that are beyond the rational adaptation of data along new information. Rather, unquantifiable rumours, stories of trades, and specific histories of past disasters are often re-enacted and the previous closure through prices collapses. Think for example about the spread of the Russian crisis to Brazil: there was no rationality in the numbers, only one in the history of financial crises. In the moment in which expectations collapse and previous narratives are questioned, the need for a restructuring of the past, present, and future leads to decisions that are not informed by numbers, but that are related to the process of categorisation of the current situation. This is exactly the continuous reproduction of explicit and tacit forms of knowledge that from time to time collapses, is renegotiated and contested. However, this implies that *crises have a systemic dimension insofar as they refer to a collapse in the reproduction process of prices: in a crisis, expectations collapse, structures disconnect, valuation becomes problematic (if not impossible,) and the connectivity of prices becomes problematic. The naturalised meaning of prices collapses and a plethora of alternative stories, narratives, and visions of possible futures are then up in the air.*

Starting from prices allows us also to explore some particularities of financial markets: we said that prices are continuously produced, which constitutes a specific spatiality and temporality of financial and real markets. However, what seems to have happened with the decoupling of financial from real markets over the last twenty years, is that the *function of prices has changed in financial markets.* Take our standard 'model' as starting point: in economics as in IPE more generally, it is believed that prices relate to goods, like words refer to objects. There is a certain materiality of the car, a house, food, etc. that somehow 'provides the backup' of a price. There might be quality differences between cars, different kinds of oils that somehow give rise to different prices. I don't say that these prices are 'just' or that the 'materiality' of the goods cannot be questioned or that it is given 'naturally'. However, there seems to be a specific link between a good and a price. Now it seems that the very *function of financial markets* is to make things priceable: prices are the very goods financial markets produce. Hence, as in constructivist language philosophy, words don't refer to objects, but there is a basic self-referentiality of language that cannot be avoided. Similarly, in finance, it seems that prices show the same self-referentiality.[74]

With the rise of derivatives and other financial produces, this decoupling of financial markets from the real market is even more evident: derivatives need not refer to goods, but can refer to essentially everything: they can be built around indexes, relations between financial streams, etc. (think in this context about synthetic CDOs for example). This implies, however, that the temporality of finance is not determined by real markets, that is, production chains, generation of profits and labour, but simply by the rhythm of extinction days. Financial markets were able to decouple themselves by 'accelerating' the rhythm of finance. Not generated profits, but the

[74] See also Patrick Aspers, 'Knowledge and Valuation in Markets', *Theory and Society*, 39:2 (2009), pp. 111–31; Andreas Langenohl, 'Finanzmarktkrisen als Deutungskrisen' (mimeo, 2010).

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expectations over possible profits triggers sell or buy decisions. Once expectations materialise – they are already past and outdated and irrelevant. Financial markets have become much more future-oriented to an extent that prices in finance and prices in the real economy somehow incorporate different temporalities and different relations of the past, present, and the future.

If the self-referentiality of prices in financial markets is correct (which does not exclude similar dynamics in the real markets), then there is no physical 'counterpart' which could serve as an anchor for qualitative judgements. The values of financial products (prices) are 'constructed' independently from labour, exploitation, or false consciousness. Rather, as Patrick Aspers has pointed out, the quality of products is inherently intertwined with *who* the actors are. 'What is traded in this kind of market is a function of the participant actors.'[75] This constitutes a specific sociality of financial products, value, and prices based on epistemic uncertainty, expertise, and ascription of authority.[76]

When we look at recent debates, the reform of Rating Agencies is legitimised by the belief that their behaviour can be understood by some conflict of interest.[77] As bond issuers, states, and companies have to pay for their ratings, Rating Agencies are said to be torn between the objective representations of economic facts and the creation and continuing of long term business relations. No Rating Agency wants to lose its clients and many might therefore be willing to grade bonds better than the pure economic data suggests. From what has been said, the problem of Rating Agencies seems to be slightly different. Rating agencies are not simply guided by a conflict of interest, rather they inscribe themselves in the fabric of finance. Ratings have inscribed themselves in the social processes of financial markets. They do not stand next to financial practices, but bring them about by making things priceable. Ratings facilitate communication and allow actors to form expectations about other actors' behaviour. In this sense, Rating Agencies are exactly one of these 'quality' machines that determine value and prices. It's less important what they say or how they grade a specific bond, but that it is them who say it: that's why they are associated as private authority.[78] The same can be said about mass media. Today, the call for more timely information and data is constituted on the idea that information is just a passive representation of some 'economic' fact. However, the way data is produced is never innocent and passive. Mass media may not simply mirror economic conditions, but structure and direct expectations, they provide a vision and imagination of the future that then companies and other actors have to adhere to.

Towards a social theory of crises? Communication, endogenous heterogeneity, and construction of prices

From this perspective, and turning to the second question, the idea of 'exogenous shocks' or of crises coming from *ex nihilo* is simply misleading. The tensions and crises

[75] P. Aspers 'Knowledge and Valuation in Markets', p. 117
[76] This includes economic models. Donald MacKenzie, *An Engine Not A Camera* (Cambridge: Cambridge University Press, 2006).
[77] See also T. Sinclair, 'Let's get it right', for an interpretation that highlights a similar point.
[78] Ibid.

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of an economic system are always internal to an economic system: what can count as a shock, what actually would have the capacity to cause irritation and resonance, is always already the product of a 'system': the discovery of quantum mechanics caused much irritation and resonance in physics, but is of less interest to other systems like law, economy, or politics in so far as the consequences would need to be translated in the language of other systems beforehand: legal claims, market chances, changes of power structures. Crises are internal to systems, regimes and social orders.[79] Systemic risks are not ahistoric givens, but are produced by and change with underlying temporal and spatial conditions of economic practices and thus the dispersion of knowledge and non-knowledge among actors.[80] Central to this approach are not mechanisms of uncertainty absorption or conventions, but the continuing processes of absorption and reproduction of complexity through prices, quantities, graphs, and new instruments and products.

In contrast to mainstream economics, economic stability cannot be defined in static 'in equilibrium' but has to be conceptualised in dynamic terms as ongoing processes.[81] In this sense, a constructivist SPE reconstructs the constitutive albeit changing conditions of economic stability and its breakdown. The current economic crisis especially shows how relations between financial and the economic system changed in ways beyond what standard economic models envisage: money does not have some kind of supra-neutrality or just short term impact on the real economy. This crisis shows that the emergence of derivates and securitisation as a crucial ingredient to the crisis (and the associated production of contingencies and non-knowledge) altered the risk structure that now feed back on the real economy – from the real estate to the art market.

For example, the horizon of the possible today is structured differently than during Bretton Woods. However, the particular institutional setting of Bretton Woods structured the way in which change could take place via the development of the Eurodollar market. Contingency is linked to the particular form of how practices stabilise and structure interaction and thus to the particular way in which expectations are formed. This creation and destruction of social order is, given its contradictory and conflictual characteristics always unstable and rather improbable. This

[79] For a longer discussion see Kessler, 'Uncertainty, Rationality, and the Study of Social Institutions'.

[80] To emphasise these social dimensions, the social theory of risk has undergone a radical transformation where today different approaches from psychology, cultural theory, sociology, and post-structuralism coexist. For a general overview see Ulrich Beck, *Risikogesellschaft: Auf Dem Weg in Eine Andere Moderne* (Frankfurt am Main: Suhrkamp, 1986); Ulrich Beck, *World Risk Society* (Malden, Mass: Polity Press, 1999); Mary Douglas, *Risk and Blame: Essays in Cultural Theory* (London; New York: Routledge, 1992); François Ewald, 'Insurance and Risk', in Graham Burchell, Colin Gordon, and Peter Miller (eds), *The Foucault Effect: Studies in Governmentality* (Chicago: Chicago University Press, 1991); Sheldon Krimsky and Dominic Golding (eds), *Social Theories of Risk* (Westport, Conn.: Praeger, 1992); Niklas Luhmann, *Soziologie Des Risikos* (Berlin: W. de Gruyter, 1991); Deborah Lupton, *Risk and Everyday Life* (Thousand Oaks, CA: Sage Publications, 2003).

[81] Ironically, the need to change from a static to a dynamic conception of stability is exactly the lesson of recent currency crises and bank runs. See Olivier De Bandt and Philipp Hartmann, 'Systemic Risk: A Survey', *European Central Bank Working Paper Series* (2000); Charles A. E. Goodhart, 'Some New Directions for Financial Stability', *Per Jacobson Lecture* (2004); Aerdt Houben, Jan Kakes, and Garry J. Schinasi, 'Toward a Framework for Safeguarding Financial Stability', *IMF Working Papers*, no. WP/04/101 (2004); Garry J. Schinasi, 'Defining Financial Stability', *IMF Working Papers*, no. WP/04/187 (2004).

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implies that every attempt to stabilise order creates new contingencies and crises. The result is an ongoing process of stabilisation, crises and restabilisation where attempts to create homogeneity by legal rules creates new heterogeneity by deviant behaviour, where the production of new knowledge creates at the same time via new problems, anomalies, inconsistencies – new non-knowledge.

This holds true for all economic orders: some cause for a crisis is remembered and answered by the transformation or construction of a new order which then provides the space for future crises. The construction of the post-World War II economic order is a case in point. It was a direct answer to the failures of the second Gold Standard regime 1925–31 and in particular the role the great depression played in the emergence of the Nazi Regime. Yet these institutional decisions created their own contradictions, paradoxes, new contingencies and thus paved the way for new crises to emerge: the Bretton Woods system became fragile through the emergence of Eurodollar markets. The specific form of Eurodollar markets was determined by loopholes within the complex web of this post-war financial regulation. Within the political order of the Cold War, these markets served as a means for the Eastern Bloc to hold Dollar beyond the jurisdiction of the USA. Increasingly, specific knowledge of how to work these markets led subsequently to the rise of private short term speculative capital which eventually undermined the spatial and temporal preconditions of the Bretton-Woods system.

What becomes evident at this point is how every regime produces internal distinctions and new norms and thus mechanisms of inclusion and exclusion. Every regime thus produces particular knowledge about its environment which at the same time determines what cannot be known. Indeed, it seems that not only what is known, but also what is not known is socially constructed. And this social nature of non-knowledge is constitutive for the evolutionary dynamics. Certainly, the emergence of regimes like WTO and Basle II were responses to particular perceived crises or a malfunctioning of current state of affairs. But at the same time, those regimes created new knowledge about how to interact with the social world. At the very same time, they produce new blind spots, contingencies, and new non-knowledge which creates the conditions of possibility for new crises and structural changes. Stability and crises are mutually constitutive.

For example, such an interpretation would surely point out how the US current account deficit and the surplus of 'emerging' counties were repackaged within the US real estate market. It would point out how derivatives, rating agencies, hedge funds, investment banks but also regulations and governments, provided specific constellations and channels of refinancing surpluses and deficits – and that this assemblage provided the background for valuation processes that then collapsed. When we want to understand the current financial instability, it is simply not good enough to look at state cooperation, rather it is necessary to analyse how the system was reproduced: where were the feedback loops and where were the amplifiers? Indeed, it is even misguided to talk about finance as a stand alone social field. As Hayek pointed out, social spheres are 'connected' and the current crisis shows that a solution to the financial crisis will be incomplete as long as an answer is not found as to what to do with trade surpluses. Otherwise, we will witness the emergence of new feedback loops and speculative bubbles where these surpluses are recycled and re-enter the real economy.

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Conclusion

The current search for regulatory fixes does not address some crucial questions concerning financial markets. The current reform debate is characterised by the conviction that at the heart of financial turmoil is some kind of lack of regulation due to information asymmetry. Consequently, it is believed that crises result from information problems that can be solved by an enhanced provision of data. From a Hayekian perspective, crises cannot be solved by data alone. Data in and of itself does not provide any information, nor does it constitute knowledge. Rather, data must be put into some narrative, story, or theoretical framework to *make sense.* And only when this information is referred back to practices does it constitute knowledge. So before we assume that data solves knowledge problems, we actually need to answer the question first of how knowledge is communicated and memorised in financial markets through prices. From this perspective, the current attempt at solving the crisis by improving disclosure requirements misses exactly the point. Much of the implemented solutions have nothing to do with the crisis at all. What needs to be taken into account is the change of meaning and production of prices. The analysis above is only a first step towards such a direction. But already at this stage it is almost self-evident that financial practices are social phenomena and it is simply not good enough to focus on states, regimes, or transparency. We might need a different kind of regulation, not more of the same.

To pursue such an avenue, this article provided an interpretation of Hayek's social theory. One caveat is in order. Hayek is often associated with methodological individualism because of his emphasis on the subjectivity of information, experience, and knowledge. It should be kept in mind, however, that methodological individualism as we know it today in standard microeconomics has nothing to do with Hayek's research programme. Hayek uses subjective mainly in a Weberian sense to analyse the importance of ideas and the subjectivity of experience. With the emphasis of uncertainty, Hayek tries to recognise the individual as a living subject finding him or herself in a historical and cultural context. Of course, the functionalism we sometimes find in Hayek's reasoning needs to be abandoned as well as the Weberian context which stands in conflict to his interest in complexity theory. Rather, this article suggested that a Hayekian perspective raises in particular two issues that are of central concern for a constructivist SPE more generally: first, the question of economisation, such as the way things are *made* economic, including the range of social relations, temporalities, practices, and specific objects considered to be 'economic'. Second, he helps us to construct a different vocabulary and understanding of prices: prices are not simple objects that mediate between supply and demand, instead they are complex phenomena. This allows us for example to tackle the question of financialisation, that is, the way in which prices operate differently in financial markets than in the real economy.

These questions also raise a subsequent question about the politics of finance and financial crises: according to the view outlined in this contribution, the politics of finance is not linked to the state, regimes, or the lack of cooperation. Instread, political questions arise on the level of sense and world making, when for example experts can tell us what is the case and what needs to be done. This implies that political questions also take into consideration the extent to which disciplinary defined knowledge (economics) can actually tell us what a good idea for reform is,

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what the relationship between finance and politics should look like, and the structure of their argumentation and expertise.

Of course, this contribution can only hope to constitute a first step towards a different understanding of financial markets and much more needs to be done before we can come to a completely different and fully developed picture of how financial markets operate. However, already at this rather preliminary stage, basic convictions of today's reform debate seem to miss important questions and fail to see the social dimension of finance.

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