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The end of an illusion

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Let me begin with a short remark concerning the figure of Eric Packer in Don DeLillo's (2003) *Cosmopolis*. In a certain way, he is not only an allegory of contemporary finance capitalism, of its "arcane workings" and "data-driven fantasies" (Samman, 2015: 24), but also the fallen angel of an illusion — the illusion that markets, and especially financial markets, tend towards equilibrium; that they assure a perfect allocation of resources and the best possible distribution of information; and finally, that they create a sort of social order. This illusion represents the kernel of liberal market theories since Adam Smith's 'invisible hand', and still characterizes what economists have named the 'efficient market hypothesis'.

This theoretical setting — which has been further developed since the 1970s and became dominant or hegemonic in the field of financial economics — holds (to put it very briefly) that it is financial markets that depict market activity in their most beautiful purity. Unburdened by transaction costs, unencumbered by transport considerations and by the tribulations of production, they are the ideal stages for pricing mechanisms and perfect competition to perform their magic. This means, first, that ideal conditions for competition reign in these markets and that all information (about companies, stocks, economic development, and so on) is equally accessible to all players. Second, this implies that all prices (for stocks, options, derivatives) in these markets exhaustively contain or reflect all available information. Third, in these prices (and in the buying decisions connected to them), rational and fully plausible expectations are expressed — i.e., there should be relative agreement about the profit expectations connected to this or that financial instrument. Finally — and this is the most important point — new (and previously unknown) information is at once used and integrated under these conditions, which is to say that all unpredictabilities are immediately absorbed by the market, and that the whole system always heads towards a balance, towards an equilibrium.

This is indeed the most prominent theory for the functioning of modern financial markets, and economists have continuously raved about the 'beauty' of this theory, the beauty of equilibrium in markets. For this theory also contains a perfect justification: the more players with more funds who participate in these markets, the more the financial markets expand, and therewith, the more stability will be produced. At the center of financial-economic knowledge thus lies a promise of order of a very special kind. We may be justified, then, in recognizing a legacy of the older doctrines of theodicy in the modern conception of financial markets. I would call this the strange survival of theodicy in economics (Vogl, 2015a).

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Just as, in the seventeenth and eighteenth centuries, theodicy — as promulgated, for example, by Leibniz (1985/1710) — attempted to justify the rational and providential workings of God in a world full of plagues and disasters, so the liberal theory of financial markets also claims that, despite all breakdowns, bankruptcies, and crashes, today's financial economy is the best of all possible economic worlds. At the center of modern economic dogma thus exists something that could be called *oikodicy* — a justificatory doctrine for all the evil and all the catastrophes that appear irreconcilable with the wise establishment of the system. The success of this doctrine lies not only in the fact that complex social processes are reduced to quite simple operations, such as acts of exchange. It is also embodied in a fundamental figure of hope, which today still remains connected to financial markets: that the market is the privileged location of social order; that it is distinguished as the exponent of practical reason; that, in the figure of the market, the old divine providence is taken over by the regularities of the system. Economic theory is not vaguely realistic here, but rather deeply moralistic, metaphysical, and — here I refer to Martijn Konings' (2015) book — *theological*. This raises the question of whether the latest financial crisis couldn't have a similar effect as the Lisbon Earthquake of 1755. The attempts at theodicy during that time were fundamentally shaken and could only survive in satirical forms, like in Voltaire's *Candide* (2006/1759).

I would thus like to bring my remarks to a point: mainstream economics must be conceived of as a sort of 'dangerous' knowledge — because its models (like the idea of efficient markets) offer no explanation for the regularity of crises and crashes in financial markets in the last decades; and because these models were also employed in the implementation and justification of these very markets. Just as the Lisbon earthquake of 1755 once shook modern theodicy to its foundations, so the financial tremors of the last twenty years threaten to undermine the scientific status of economic theory. What is at issue is nothing less than the validity, possibility, and tenability of a liberal or capitalist oikodicy, a theodicy of the economic universe. It is likely that we are dealing here with one of the greatest and most fatal of errors of modern economics.

But time and again there were advocates of the devil who doubted that markets — and financial markets in particular — tend towards balance, that figures of social order actualize themselves in markets, that markets are determined by beautiful regularities, or that markets promote societal welfare at all. It is not surprising, then, that at the perimeter of the last crisis an American economist who attempted to develop a completely divergent theory of financial markets, and whose voice had been ignored in the economic doctrines of the last forty years, was rediscovered. In his hypothesis about financial instability, Hyman P. Minksy, a disciple of Keynes, followed the intuition that the tumult of financial markets cannot simply be assimilated by the balancing interaction of rational actors and systemic reason, or by the delightful mechanisms of equilibrium. Crises and crashes, according to Minsky, are not the exception but the rule in the financial-capitalist system. Financial markets, according to Minsky's (1986) 'financial instability hypothesis', function neither rationally nor irrationally. They deal with time-critical uncertainties and risks, and are distinguished through a dynamic in which rational (that is, profit-oriented) models lead to unforeseeable storms of events and incalculable systemic risks.

Against this backdrop, all of the authors in this forum — despite their diverse perspectives and approaches — are in agreement that an analysis of money and finance must rid itself of a fixation upon the market system. In this they join Sombart (1969/1902), Weber (2011/1904), and Braudel (1973/1967), who conceived of capitalism not just as an economic system, but as a heterogeneous fabric consisting of business practices, mentalities, manners of conduct, institutions, and social relations — in short, as a socio-cultural phenomenon.

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This line of thinking represents a critique of liberal orthodoxy, and its ahistorical character in particular. Today, though, it also registers an attempt to avoid the implicit monetarism that characterizes mainstream conceptions and theories of money. Besides the fact that it is debatable whether the rise of money as a means of payment can be reduced to its function as a medium of exchange or as a measure of liabilities (cf. Graeber, 2011), the financial economy today is confronted by a lack of clarity in its definitions of money and currency. It is also confronted by a multiplication of money-forms that include all possible kinds of 'near moneys' (such as assets or derivatives), in addition to cash, bank, check, deposit, and credit money. "To label something as 'money'", a central banker once said, "is to build on shifting ground" (Sayers, 1982/1957: 5).

It is therefore only logical to avoid economic definitions of currency and money and to instead focus on the social and cultural *effects* of money, as Martijn Konings (2015) and Noam Yuran (2015) have done. The most important aspects concern the agency of those fetishisms, beliefs, faiths, and emotional or affective charges through which a circulation of money has become the motor of a dominant social desiring-machine. This includes those functions in which money itself creates a specific social bond, such as with our participation in communities of consumers. It is no surprise, then, that since the institution of public credit through the Bank of England at the end of the seventeenth century, the circulation of bank notes, debts, and credit could be conceived of as a kind of social contract — as the "great social bond of obligation and faith" (Müller, 1816: 89, my translation).

This also implies that the 'economic' or 'financial' spheres cannot be understood as autonomous and independent. On the one hand, this concerns the origin and status of economic knowledge as such. Mike Hill and Warren Montag (2015) provide us with an alternative perspective on Adam Smith by pointing out the close entanglement between his notion of the market and moral philosophy, anthropological concerns, and political theory, as well as aesthetics and literary criticism. If we go one step further and take Foucault's (2008/2004) studies on 'governmentality' into consideration, we could then ask about the link between the emergence of political economy and the economization of government, as well as the reinvention of governance per se. Precisely because economic knowledge developed as a specific knowledge of governance, the usual oppositions between state and market or political and economic systems do not suffice to fully describe or comprehend their workings.

This becomes especially obvious in the case of finance. Early modern states already purposely involved private financiers in executing governmental power, and the example of the foundation of modern financial institutions, such as central banks, demonstrates how crucial financial forces and actors were able to install themselves as the 'fourth power' of governance. This is still the case. Since the 1970s, even processes of financialization emerged from a close cooperation — or more precisely, symbiosis — between state bodies, international organizations, private companies, and financial markets (see Vogl, 2015b).

The opposition of state and market, of political structures and economic dynamics, is therefore at best a liberal legend — a legend that likely originated in the battle of liberalism against feudal and absolutist dependencies, and which functioned as a polemical narrative in the struggle for individual freedoms and civil emancipation. This battle was no doubt justified. The opposition between state and market, however, obscures our view of concrete power relations in 'democratic capitalism'. In contrast one should focus on the functioning of a bipolar governance machine, in which politics and economy consistently act on and interact with one another. The practice of governance can today only be grasped as a politico-economic complex, which forms itself in a series of continual transitions, alliances, fluctuations, and mutual reinforcements between both poles. Our economic system and our financial system

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thus appear to require a stereoscopic perspective that pursues the co-evolution of states and markets, of political structures and economic dynamics. I would like to propose this as a challenge for a realistic political — and economic — theory: the question of how the organization of power is entangled with the production and circulation of values.

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