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Decency in Anglo-American financial centres?

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ABSTRACT

How can a partial, revisable utopia of 'decent society' be used as a yardstick for assessing today's impersonal forms of social integration? In economic life – this paper's focus – Polanyi's hopes that the 'economic system' might cease 'to lay down the law to society', is a start. Recently, financial firms sold commodified promises and obligations on the allure of democratising credit and providing financial 'choice' to millions. Yet, these 'civilities' exploited people's hopes for a dignified life. Any new, partial utopia (as Keynes's was too – to remove the egregious, humiliating features of 'the society in which we live'), is yet to be devised. Maria Markus's concept is useful to ask whether the instrumentalism of macro-economic concepts is a distortion of the institutions of money or intrinsic to them. Could solidaristic compromises through civil society minimise disrespectful relationships embedded in money to create decent institutions?

Keywords: * economic democracy * embeddedness * decent economic institutions * financial centres

Introduction

What aspects of a democratically-revisable utopia of 'decent society' and civil society could be a yardstick for assessing contemporary social/economic integration? I suggest Karl Polanyi's very different concept of 'embeddedness' in economic life *may* illuminate Maria Markus's ideal. Decent society is 'self-organisation' (solidarity) over civil society (rule of law, rights and the public sphere), and 'interests' (2001: 1014-16). I ask whether decent society as 'utopian critique' gives a preferable framework for analysing *current behaviour in key financial centres* than Keynes's utopian aim to minimise 'the outstanding faults of the economic society in which we live'. From 1933 on, a partial democratic oversight of money became institutionalised, which tempered the 'liquidity preference' (switching investment from employment) and its 'arbitrary and inequitable distribution of wealth and incomes' (Keynes 1964: 372).

One problem of today's financial management is that it is based on a revived positivism. Its assumption of autonomous subjects contradicts concerns about integration or 'embedding' financial action in 'decent institutions', I argue. Its revival was made possible by policies that claimed to democratise share-owning and credit: a simple 'civility' (Markus). The less 'decent' the risk-passing schemes, the more spectacular their failures. The 2007 credit crisis now *includes whole populations*, as workers, taxpayers, debtors and holders of speculative pensions. The result is a nightmare for the democracies and their monetary authorities because: (1) Positivist technicians cannot minimise organisational irresponsibility *under* intense financial competition and indecent institutions that 'humiliate' categories (eg 'the unemployed', the 'mortgagee'); (2) CEOs begging for bail-outs from governments (by alleging

banks are 'too big to fail') are not evidence of all-powerful corporations. Yet is there hope now for new, 'decent' institutions, given the dire effects of Anglo-American financial practices on the world, and what could they be?

So I explore the social connections with this depersonalised, mysterious *semi-global* arena, in terms of Polanyi's concept *and* decent institutions. Ignorance of money's nature certainly corrodes civil discourses: impersonal trust in financial institutions is a broken thread (since 2007) or whenever the guts of people's lives – for housing, children's education and retirement – are abused in risky financial products. Mutually-detached types of disrespect with forms of recognition emphasising personal autonomy, abstracted from stratification *and* from democratic solidarity (Markus 2001: 1019-21) or the 'moral demands of the social environment' (Honneth 2007: 190) are 'humiliating' yet 'civil'. Do we find clues in other financial centres to Markus's question (2001: 1022) about the relative influence of institutions or individuals in formulating 'decent' arrangements, where respect is an openness to listen, inspiring and 'warmer' than civic 'toleration'?

Polanyi's puzzle

The Great Transformation (1944) is justifiably celebrated. Polanyi's 'embedded' thesis alone fostered research schools to counter positivism. Some sociologists insist that economic action remains embedded in social relations, yet neglect economists' apparently disembedded 'macroeconomic' concepts, such as 'inflation' or 'interest' (Granovetter 1985; cf. Ingham 1996). Some stress networks and personal forms of recognition, where ideals of decent society can *seem* attainable, *or* impossible when excessively personalised in confidence tricksters or 'greedy fat-cats'.

Yet macro concepts must be tackled in analysing economic action. *Moreover*, what did Polanyi actually say? He explores the origins of markets and disputes orthodoxy's position that 'in the beginning there were markets'. His claim is that the *transformation* instead involved …

> no less than the running of society as an adjunct to the market. Instead of the economy being embedded in social relations, social relations are embedded in the economic system (1944: 57).

His argument to support this assertion – that status or reciprocal relations (whole ways of life) were overwhelmed by modern market relations of class – is often over-looked. Where markets *did* exist in other societies, anthropologists and non-orthodox economic historians suggest they rarely achieved more than reducing the 'seclusion' or isolation of local societies. Non-capitalist markets did not change the 'internal organization of an economy':

> The reasons are simple. Markets are not institutions functioning mainly within an economy but without. They are meeting places of long-distance trade. … [In] this doctrine … the origin of trade [is mainly found] in an external sphere unrelated to the internal organization of economy (Polanyi 1944: 58).

Markets only dominated when *impersonal, international relations* commodified social interactions. This commodification (land, labour, money) was driven by *haute finance*: relations of class/ money/ stratification embedded in global economic activity - affecting the hinterlands. Polanyi describes the late nineteenth century thus:

> Budgets and armaments, foreign trade and raw material supplies, national independence and sovereignty were now the functions of currency and credit. By [then]…, world commodity prices were the central reality in the lives of millions of Continental peasants; the repercussions of the London money market were daily noted by businessmen all over the world; and governments discussed plans for the future in light of the situation on the world capital markets. Only a madman would have doubted that the international economic system was the axis of the material existence of the [human] race (1944: 18).

The implication that traditional relations became driven by global markets, and modern relations were driving society, is *not* that today copies the dominance of nineteenth century finance (after post-WW2 hopes of many including Polanyi and Keynes, foundered). Market relations *today* are infinitely more extensive and impersonal – way beyond personal networks but also even beyond corporations' understandings or manipulation. True, industrial and financial Trans-National Corporations (TNCs), merely by holding financial assets in numerous currencies, can switch funds at short notice. This can increase inflation or unemployment 'to the point at which they threaten the social fabric and political stability of a country' (Panić 2003: 170). But the 2007-09 crisis is the worst since the 1930s, involving uncontrollable conflicts between creditors and debtors, and indirectly 'capital and labour'.

Financial behaviour is often neither civil *nor* decent, with practices which humiliate and deceive (honourable exceptions exist). Maintaining trust and confidence in money easily turns into a 'con' trick, often unintentionally. Schemes based on probabilistic financial models involve self-deception, that creating money is risk-free and government unnecessary for guarantees or supervision. That backfired spectacularly (2007-08) in a comedy of errors were it not so serious.

Many suggest double standards are due to the lack of a global sovereign power to impose international standards of civil behaviour (that respect rights). Corporations operate globally; conflicts occur between nation-states, industry and finance *and* over unsustainable attempts to control sources of global uncertainty. Although TNCs play off nation-states' attempts to control extremes of capital flights and stratification, and one TNC's rogue actions forces all into similar recklessness, this does not mean sovereignty is futile (Panić 2003). By 2008, global financial corporations turned to their states for 'help', from which conditions of civil fairness, even decency, *demanded* from

democratic discourses (Markus 2001), could be extracted. It is difficult to give up national sovereignty to impose international regulations, given lack of citizen trust with the 'state we're in'. Perhaps the fragile attempt to achieve a federated, democratic EU governance is a model. Mića Panić rightly suggests that the familiar option of 'a global system managed by a dominant economy … appears to be a thing of the past' (2003: 243). (US exceptionalism may be in decline.)

But how can one describe social integration involved in macro concepts like inflation, 'NAIRU'[i] and deflation? They are tools for faceless actors to attempt to predict the future, and involve social conflict and 'humiliating' arrangements. My interpretation uses Polanyi's concept critically to consider 'decent society'. As mentioned, economic sociologists leave macro concepts to economics, and study inter-personal networks. Mark Granovetter sees Polanyi's 'embeddedness position' as the submerging of economic life in social relations, whereas in modernity 'these relations become an epiphenomenon of the market' (Granovetter 1985: 482). Yet Polanyi made a different claim. The structural switch, particularly under radical *laissez-faire*, is to the domination or 'running' of the whole society by economic relations in global markets and *haute finance*. Granovetter disputes what he takes to be Polanyi's argument as an 'over-socialized conception of man'. This is an incorrect category shift. He insists that 'the overlay of social relations on *what may begin in purely economic transactions* plays a crucial role' (Granovetter 1985: 498, my emphasis). While correct to argue that instrumental/rational behaviour 'aims not only at economic goals but also at sociability, approval, status, and power' (1985: 506), Granovetter misses that 'purely economic transactions' and 'goals' *are* social relations.

The case of financial centres

Consider the behaviour of major centres like Wall Street and the City. Since the 1980s, financial risk assessments developed as attempts to predict the future via probability. Positivist verification with macro-concepts mean that responsibility is difficult to assign. Financial firms – which *move in step* – degenerate to bankruptcies and bail-outs, not the former respect of attempts to keep promises. These are, notably, Anglo-American practices and rely on newly 'financialised' populations and pro-market policies. Risk models use selected macro-concepts showing past trends, to extrapolate into the future. What social relations are involved?

First, when reduced to numerical signs, they are used hourly (unthinkingly?) by economic agents to make fateful decisions. Above all, second, few admit that abstractions like NAIRU (central bankers' standard still today) entail conflicting, instrumental relationships such as between debtors and creditors. These are money-class relations mediated by banks. *Against these* are 'labour-capital' relations between workers, non-paid workers, unemployed and

employers. The balance in these relations result unexpectedly in socio-political crises (like American *unemployed* households defaulting on mortgages in 2007). Geoffrey Ingham (1996: 266-7) suggests that reducing macro issues to interpersonal networks is a sociological reductionism that avoids theoretical concepts tackled by the 'invisible hand', 'organic solidarity' or 'system integration', however vague they may be. Polanyi's embedded concept also shows modern money-class driving firms and governments in unintended malign and disastrous ways.

Macro-concepts from a sociological approach

The financial sector is so competitive that its understanding of money is not so superior to populations'. Weber gives the starkest account. The value of money is defined from the outcomes of struggles 'of man against man' (Weber 1978: 93) – that is, between *debtors* – industry, services, governments and taxpayers; and *creditors* – banks and *rentiers* (those who gain unearned income from financial investments). Banks (the intermediaries) and *rentiers* are what Polanyi meant by *haute finance*. Schumpeter, Keynes and recent approaches such as Ingham's (2004) also suggest an alternative view to today's orthodoxy. In *general* all agree that money is not a neutral 'veil' that simply reflects the 'real' economy or 'real' underlying inequalities ('capital vs. labour'). Instead, money is a non-neutral, social relation which creates *separate if related* inequalities to those in the employment relationship. As short-lived sociological research on inflation in the 1970s indicated, the experience of rising inflation was better seen as an expression of conflict over income distribution (Goldthorpe 1978: 208), eased only through further inflation (Hirsch 1978). Although these conflicts over the value of money (and employer prerogatives) were resolved in favour of *rentiers*, which Fred Hirsch argued at the time would seriously undermine the democratic process, in my view the (income-regressive) anti-inflation medicine of the lash of unemployment (NAIRU) was less bitter for many more than before the 1930s. That is, conflicts changed character somewhat.

In a credit theory of money (as above) the creation of money entails promises and claims of future wealth. Money, at different periods, has been more or less trustworthy, more or less defined for public or private purposes and more or less unstable. Anglo-American 'financialisation' is marked by unsettling recurrences of unpredictable crashes, as in previous 'financial' eras. *Rentiers* chose the 'liquidity option' (Keynes 1964), not investment in stable industrial and service sectors, and *rentiers'* intermediaries, banks, became less the 'gateway to development' than 'merchants of debt' (Schumpeter 1954; Minsky 1985).

What is unique today is not money's social nature, but the massive expansion in the proportion of *rentiers* involved in superannuation, pension and mutual funds, and in direct shareholding (now about 40 per cent of Anglo

adult populations hold shares compared with three per cent in the 1920s). The other crucial change is the rise in household leverage. The Anglo-American nature of this debt is clear when compared with Germany and France which heavily restricts credit-card usage, and with much higher saving levels in other OECD countries (Tiffen & Gittins 2004).

As this 'financial' or *rentier* phase developed, two contradictory strategies were pursued, one the preservation of the value of money (anti wage-inflation policies, i.e. unemployment) and two, the 'deregulation' of finance with an inflationary increase in financial deals (Ingham 2000). Outcomes were the Mexican debacle of 1994-95; the Asian crisis, 1997-98; the dot com inflation and continual rise in the level of 'acceptable debts' (Minsky 1985: 41) until 2007. Both policies (pro-market regulations and low inflation) entail social polarisation but with a new distributive configuration.

Anti-inflation policies, with their aim to 'reduce aspirations' (Hirsch insisted then) overturned what John Smithin described as a formerly 'workable compromise' between competing financial and industrial interests during the Post-WW2 boom (Smithin 1996: 5). Hirsch suggests civil (decent?) society's strengths: 'Both Keynesianism and inflation can be seen as defensive responses by capitalist societies challenged by the new political and economic imperatives of a democratic age' (1978: 284). Smithin too, opposed the 'zero inflation' that central banks purported was a 'technical solution', proposing a democratic compromise where *rentiers* gain a reasonable but not usurious rate of return. Since 1980, *informed political debate* about what are 'fair' shares of income was rare (Smithin 1996: 5, 132) – even during recent bail-outs and collapse of modest *rentier* income.

Only a while ago, Ingham argued (2000) that the Mathew principle operated in credit relations. For those who hath, more is lent and made, whereas from those who have not, more shall be taken away. Then, aspirations were expanded. After the collapse of the dot com boom in 2000, banks aggressively marketed a 'democratisation of debt' – under the euphemism 'sub-prime mortgages' – to unemployed and asset-free groups in the USA. This *most* foolish home goal triggered *the crisis*. Fund managers' demands for higher returns – under perverse competitive performance benchmarks – were a major impetus for corporate downsizing, privatisations, private equity takeovers to mid-2007. More middle income categories were said to make money with money (*rentiers*) as a sweetener, say, for lay-offs from a leveraged merger. Warnings about whether this rise in modest *rentiers* – locked in financial institutions' short-term, expensive schemes – was sustainable, continued. Unadmitted uncertainties and pressures for higher returns, led to vicious cycles in the City, Wall Street and elsewhere, of further passing of risks onto populations, further risky products and further humiliation of 'losers' – 'the community'. Many banks probably

were 'too big to fail' and monetary authorities, albeit craven under pro-market rules, felt obliged to socialise losses.

What was Keynes' vision?

Keynes' work at Bretton Woods aimed for greater control by governments over their national economies to counteract the logic ('liquidity preference') of the *rentier*. For Keynes, the egregious problem with capitalism was *rentiers'* options about where to invest. For *rentiers*, capital should be invested in trade and production only as long as returns are higher than from financial deals. Banks are the intermediaries in *risking* investment choices ('for a consideration' said Keynes: cited Galbraith 2008). Was Keynes' solution – jokingly the 'euthanasia of rentiers' – a lack of respect for plurality and now an impossibility with so many modest, fearful *rentiers,* also China, Japan and other creditors? What are decent, non-humiliating arrangements?

Decent institutions or decent individuals?

Answers must acknowledge impersonal attachments. Use of macro-economic concepts to commodify (alienate) promises and obligations, transferred financial risks to the community and increased state intervention. Monetary authorities used the unemployed as categories to aid the social relations driving economies: low wage-price inflation. Governments also hounded the unemployed to 'work-for-the-dole'. Claims that a guaranteed/ basic income – i.e. *money* – could improve people's attachments to economic life, or build economic and industrial democracy, were disputable (Pixley 1993). Populations *now* are attached to social wholes via dubious debt schemes and speculative pension funds. Links to workplaces are intermittent, unlikely sources of solidarity.

The situation is dire because so few understand that money is an uncertain social relation. Every top-down attempt to control future promises has backfired badly. Spurious, probabilistic certainties provided by low inflation, through abolishing employment for all seeking secure, reasonably-paid work, backfired into spurious long-term assumptions about short-term trends like rising house prices. The Anglo-American financial sector courted the thing most hated: in begging for taxpayers' money, they courted strict regulation. Yet just because NINJA loans – based on reckless assumptions that those with 'no income, no jobs, no assets' (NINJA) could service shadily-promoted mortgages – were disastrous, does not ensure against a repeat some time soon. Within financial firms, pre-socialisation to attain the top jobs can change people's values and behaviour. They learn to act the part and hence, become the part. Turnover is too fast to ensure decency is institutionalised or responsibility assigned. Low turnover and *high job security* are common in France and Germany, however, suggesting more decent institutions and decent people

(perhaps). Impersonal relations are unavoidable today, so excessive personalising is equally disastrous (eg US confidence trickster Madoff was internationally 'trusted').

To conclude: a utopian hope for decent society?

We cannot see the social movements to generate solidarity in favour of decent standards in governments and finance, at this moment, but visibility may return. Social relations are inscrutably embedded in a global economy and, while we know that economic life was previously subsumed in 'decent institutions' and therefore possible, new ones are needed. Perhaps the democracies will listen to their electorates – civil societies – in creative ways that subordinate markets *and* nationalism to respectful recognition of diverse hopes. Financial positivism has been disastrous for those most subscribing to it, yet their unforced errors are committed on 'categories' – modest shareowners and flexible workers – with forced options. Has both earned and unearned income, let alone welfare, lost all security? If banks are partially nationalised, that *could* create officials bound by their promises and fiduciary duties. Can banking become embedded in new, 'decent' arrangements – with lay boards and re-mutualisations? It was distrust of the state that created trust in the market, no source of solidarity.

Democracy, still via individual states, was weakened when social relations were debased into fictitious commodities, labour and money – *again*. Governments became dependent upon financial firms, and must help them, because *democratising* credit and *rentiers* created a mountain of 'near money' that became unbelievable. Assumptions that the future is predictable and, ironically, of autonomous subjects, are partly to blame. But even if leaders (and electorates) understood social relations of money – which they do not in civil discourse – is it possible to overcome the mutual disrespect, blame and fear of individuals, governments and corporations? Consensus among governments (like global warming) is inspired by impersonal, global respect.

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[i] NAIRU = Non-Accelerating Inflation Rate of Unemployment: like 'teaser interest rates' for mortgages, the full name gives the fiction or game away.