How to Make a Bubble: Towards a Cultural Political Economy of the Financial Crisis[1]

Jacqueline Best, University of Ottawa

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The news coverage of the financial crisis has presented us with two kinds of stories. The first typically features conservatively-tailored financial experts who explain the mysteries of credit default swaps and structured investment vehicles. The second starts with a long panning shot of row upon row of unsold houses, and then focuses in for a close-up of a desperate homeowner who has had to give his dream home back to the bank. The first of these news stories presents the crisis as the product of a series of highly complex financial practices. The second reminds us of the ways in which everyday activities and aspirations like buying a home were also at the centre of the crisis.

It is of course possible to try to resolve one of these stories into the other: to suggest that the homeowners are merely the victims of financialization gone wild, or to argue that consumer profligacy upset the financial balance. While both of these accounts contain some insight, they both move too quickly to resolve the productive tension between these two different worlds of professional finance and homeownership. I will suggest in this short article that it is worth taking the time to examine these two different worlds and to ask ourselves how they managed to sustain themselves for so long. To do so, it is useful to see them both as manifestations of a particular kind of cultural political economy—drawing on an approach that I have developed together with Matthew Paterson.[2]

A cultural political economy approach not only brings into international relations a rich literature on cultural economy developed by sociologists, anthropologist and geographers (Du Gay and Pryke, 2002, MacKenzie, 2006, Thrift, 1997). It also seeks to bring three different kinds of scholarship into conversation with one another: adding a cultural dimension to critical political economy, bringing economic insights to the cultural turn in IR, and emphasizing the political character of cultural economic processes.

But why talk about a cultural political economy? Why not return to the classic sociological approaches and focus instead on the role of ideas, social construction, epistemic communities or historic blocs? All of these approaches do in fact make contributions to our understanding of the financial crisis. Yet there are particular aspects of the crisis that they tend to elide: the concrete forms that symbolic practices take, the role of affect, and the centrality of powerful narratives of identity and difference.

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[1] I would like to thank Mat Paterson and Oliver Kessler for their helpful comments on earlier drafts of this article.

[2] This forum piece draws loosely on the conceptual framework for cultural political economy that Paterson and I develop in our introduction to an edited collection on the subject: (Best and Paterson, 2009).

In the remainder of this short article, I will examine each of these aspects of the crisis in turn. I will conclude by discussing how these insights combined might help us to understand how financial bubbles are made.

The symbolic practices of finance

When we think of the study of culture, it is hard not to think of anthropologists in general, and Clifford Geertz in particular. Geertz's (1973: 6) description of culture as "webs of significance" is particularly useful, as is his use of the example of the wink: "Contracting your eyelids on purpose when there exists a public code in which so doing counts as a conspiratorial signal *is* winking. That's all there is to it: a speck of behavior, a fleck of culture, and – *voilà!* – a gesture."

In the two worlds of the financial bubble that I discussed at the beginning of this article, we can find a number of such symbolic practices. The act of giving a bond or a borrower a rating is an obvious example, since not only the rankings themselves but also the underlying idea of credit rating only make sense within a social context in which these activities have been given specific meanings. Larger-scale practices such as financial speculation and risk management are also socially-constituted. As Marieke De Goede (2005) has pointed out, speculation was carefully separated out from gambling during the late nineteenth century, and has acquired a whole range of different rules, norms, and practices since then that carefully mark it off as a legitimate pursuit. The backlash against derivatives in the aftermath of the crisis (during which they were regularly described as forms of gambling) reveals just how fragile that cultural boundary remains.

Risk management is also a symbolic practice of relatively recent vintage. Risk is a concept that seeks to define the unknown as subject to probabilistic calculation (Best, 2010). In finance, the idea that investors can accurately trade off risk and return in their search for the optimal portfolio is central to the belief in market efficiency—a belief that underpinned the massive growth of the financial products designed to meet different levels of risk-preference that were at the heart of the current crisis (Markowitz, 1991).

The materiality of financial cultures

So far, this analysis would fit reasonably well within a constructivist or deconstructionist approach to political economy. Yet, as we shift from finance writ large to everyday financial practices, it becomes increasingly clear that we are not simply talking about ideas or discourse in the abstract but also of techniques and practices (Walters, 2002).

Homeowners have not only been caught up in many of these financial practices (having their credit worthiness rated before taking out a mortgage, for example), but have also been active participants. Many have come to view their home as a financial asset, and have invested a great deal of energy in increasing its value. The attempt to increase the value of a house by remodeling the kitchen is clearly a material as well as a symbolic practice. So is a wink. Attending to cultural practices reminds us of how the political economy is lodged in specific places and bodies, complicating our understanding of the relationship between the material and the ideational.

As Michel Callon (1998) has argued, market economies have to be made from the ground up: people have to learn how to calculate in particular ways. Things that were incommensurable are made both calculable and exchangeable. Investors come to see the

world through the lenses of credit ratings. Individuals take tests that tell them what their tolerance to risk is. They watch television shows that encourage them to see floor tiles and countertops as financial investments. These symbolic practices work to "make up people" to use Ian Hacking's (2002) term. They help people understand themselves in historically new ways—as particular kinds of savvy risk-managing investors, whether their portfolios are worth billions or just their retirement savings.

The centrality of affect

By thinking of these processes in cultural terms, we are also more likely to understand the visceral and affective dimensions of our collective life. When we think of culture as art or music, it is easy to see the ways in which these non-rational aspects of human life become important. But even when we think of the more mundane cultures that I have been discussing—of risk-taking, investing, consuming—we should remember their affective dimensions. Anyone who has bought a home knows that the decision to buy, however carefully planned, is ultimately as much emotional as it is rational.

Keynes may be best known for talking about the central role of "animal spirits" in finance—the unthinking optimism and pessimism of mass investors—but he was also acutely aware of the desire for reputation among professional investors. Even the most cautious investor, he suggested, would soon be cowed by the pressure to conform with short-term oriented investors, for "Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally" (Keynes, 1964). At the end of the day, most of us want to be respected, to feel included—even investment bankers.

Identity, difference and exclusion

This desire for inclusion also tells us something about the way in which political economic cultures reproduce and justify certain kinds of exclusion and inequality—and thus act as a conduit for power. Cultures tend to be particular: they are social, but generally not universal. They promise a sense of belonging, as the winker invites the observer to share an inside joke. Cultural practices work to draw the boundaries between identity and difference, between those included and those excluded.

Yet, one might argue, what defined the culture of the pre-crisis financial economy was its promise of inclusion and universality: the idea that everyone could be an investor and a homeowner. The promise of inclusion was in fact central to the neoliberal narrative. But that inclusivity was never universal: part of the power of its appeal was the possibility of being a member of the club. Someone always had to be excluded in order for the club to be desirable. The contemporary political economy rests on a myriad of such exclusions, based not on a logic of either/or but on one of gradation and degree, rather like credit ratings or classes of airplane travel. Some are first class members, some fly coach, and others are stuck in the cargo hold.

Power operates through this logic of inclusive exclusion in three different ways: by imposing different costs on different grades (subprime borrowers pay far more for their houses than more creditworthy individuals) (Langley, 2008), by excluding any alternatives that do not fit the model, and by diffusing criticism through its promise of inclusion.

Conclusions

If we put together these four cultural dimensions of the political economy, we can glean a number of insights into how the financial bubble was made and sustained. We can trace the ways in which unsustainable financial growth was enabled by certain symbolic practices, such as credit ratings and risk assessment techniques that worked to make the world calculable in particular ways. Highly particular and idiosyncratic objects like houses and individuals' economic histories were translated into standardized measurements and exchangeable assets.

These techniques helped to make up particular kinds of people, as individuals began to view themselves, their savings and even their homes through the lenses of risk and speculation. These practices and the objects and institutions that they produced were sustained not only by calculations of self-interest but also by affective attachments to particular hopes for themselves, their homes and communities. These aspirations were also fed by cultural narratives of identity and difference, which promised inclusion within the world of homeownership or high finance.

In the aftermath of the bubble's pop, it is easy to see the fragility of so many of these aspirations. Yet they were seductive enough to sustain an economy—and to paper over its inequalities—at least for a time. As we struggle to redefine ourselves and our economies, one of the questions that we need to ask ourselves is what kind of cultures of political economic practice we wish to create and sustain—what symbols will we create, what new practices we will cultivate, what hopes we will build and what forms of inclusion and exclusion we will authorize.

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