

Strategies of verbal administration of the economic crisis

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Introduction

The present paper focuses on the analysis of the discourse that has been generated from September 2008- that is, from the emergence of the financial system's international crisis- up to now and specifically on the way in which the discourse is articulated by the most important representatives of the political and economic field as well. What one may observe while examining the articulation of the discourse concerning economic crisis is the intense existence of a movement Αυτό που παρατηρεί κανείς μελετώντας τη συνάρθρωση του λόγου περί οικονομικής κρίσης είναι η έντονη παρουσία μιας κίνησης, a rotation of strategies (denial, acceptance, mitigation and control). Starting from this observation, we will attempt to trace and record these successive rotations in order to underline their characteristics and evaluate the nature and the direction of the path swept by the current crisis in both discourse and practices level.

More particularly, we construct four distinct research categories of the verbal administration and conceptualization of the event: i) denial of the potential economic crisis, ii) acceptance of the recession and the mistakes caused by the uncontrolled market self-regulation, iii) adoption of measures under state guidance aiming to regulate the crisis and και iv) insistence on the need to maintain the ideology of free market after the confrontation of the crisis. The data that constitute and support this specific categorization are collected from newspapers, journals, interviews and other published papers.

The theoretical schemes that will guide the interpretation of our observations are drawn from the work of Ernesto Laclau¹ and Thomas Kuhn². In Laclau's theory,

¹ Ernesto Laclau, *New Reflections on the Revolution of Our Time*, Greek edition Nisos, Athens, 1997.

history, namely the history of human constructions, is revealed as the game between the field of construction and that of dislocation. Ideally, this game takes the form of: construction- dislocation- new construction (reconstruction) etc. Although dislocations embody a radical negativity, they also contain a productive element. If on the one hand they threaten identities, ideologies and discourses, on the other hand they generate attempts of a new construction of those dislocated ideologies and discourses by creating a certain lack³.

The necessary prerequisite for the dislocation of an hegemonic discourse is the appearance of an event or a crisis of particular importance. Each event that cannot be embodied in our mental universe may lead to the adoption of new constructions, new interpretive frameworks, and new behaviors. But this alone does not suffice. "It should not be though that all events even those which are characterized by great importance necessarily lead to changes"⁴. The production of a new construction always coincides with the beginning of an hegemonic game. Thus, the administration of each event can take various and contradictory forms. Events can either be integrated and interpreted at the basis of already existing discourses, or ignored by the social actors, or lead to the creation of a new construction⁵.

Laclau is not the only one who attempted to theorize the dialectic between construction and dislocation. Particles of the same consideration can also be traced to the classic epistemological work of Thomas Kuhn "The structure of scientific revolutions". Kuhn criticizes logical empiricism and perceives scientific theories as historic entities, i.e. as a complex phenomenon with birth, peak and end which takes the following form: Paradigm (normal science) - Anomalies- Crisis- Scientific Revolution- new Paradigm etc. The parallels with Laclau's historical scheme are

Ernesto Laclau, Chantal Mouffe, *Hegemony and Socialist Strategy*, Verso, London, 1985. Ernesto Laclau, "Introduction" in Ernesto Laclau, *The Making of Political Identities*, Verso, London, 1994.

² Thomas Kuhn, *The structure of scientific revolutions*, Greek edition Sugxrona Themata (Modern Issues), Thessaloniki, 1981.

³ David Howarth, Aletta J. Norval, Yannis Stavrakakis, *Discourse theory and political analysis*, Manchester University Press, σελ 105-6.

⁴ Leonidas Louloudis, Vasiliki Georgiadou, Yannis Stavrakakis, *Nature, Society, Science in the Mad Cow Era: Risk and Uncertainty*, Nefeli, Athens, 2006, p. 165.

⁵ *Ibid.*, p. 167.

impressive. Both for Laclau and Kuhn, the collapse of a construction- despite its solvent nature- is at the same time productive. In order to use Kuhn's terminology, the change of a paradigm is characterized as "destructive-constructive"⁶.

The passing from one paradigm to the other, the driving force of paradigms' succession is the dislocation which in Kuhn's scheme takes the form of anomalies which affect the hegemony of a Paradigm⁷ and the crisis which leads to its collapse⁸. The dislocation and the resulting crisis of a paradigm causes the articulation of a new paradigm⁹, a reconstruction which modifies many of the paradigm's methods and applications¹⁰.

Of course, according to Kuhn's view, anomalies alone are not able to lead to the abandonment of the Paradigm. The Paradigm loses its validity only when there exists an alternative Paradigm which is able to replace it. That's why, following the 'dislocation' or the 'crisis', a field of antagonism among alternative constructions (or paradigms) which attempt to fill the gap, the lack which was created by the previous dislocation, is opened. Kuhn, just like Laclau, provides three ways out of the crisis: either by the manipulation of the problem by the normal science, or by the marginalization of the problem, or by the emergence of a new paradigm¹¹.

The basic assumption of this paper is that the successive alternations of the dominant narrative on the economic crisis constitute ad hoc constructions which attempt to maintain the hegemony of the Paradigm despite the anomalies (according to Kuhn) or otherwise despite the dislocation (according to Laclau) in which it was submitted. The current crisis, in other words, does not seem to impoverish the Paradigm of the free and self-regulated market but constitutes an anomaly which is integrated in it and thus prevents the transition to a new paradigm. Economic

⁶ Thomas Kuhn, *The structure of scientific revolutions*, Greek edition Sugxrona Themata (Modern Issues), Thessaloniki, 1981, p. 137.

⁷ *Ibid.*, p. 135.

⁸ *Ibid.*, p. 139.

⁹ *Ibid.* p. 149, "Crises are a necessary precondition for the emergence of novel theories...And all crises close with the emergence of a new candidate for paradigm and with the subsequent battle over its acceptance".

¹⁰ *Ibid.*, p. 154.

¹¹ *Ibid.*, p. 158.

neoliberalism is once again mythologized (or naturalized) surpassing its historical dimension, relieved of responsibility for the recession and declared itself as the sole efficient economic system which has to be protected at all costs.¹²

However, before examining whether our assumption is correct, we should first present the stages through which the discourse about the crisis is articulated.

Analysis of verbal movement categories

The first category, which originates the discourse about the economic crisis, involves the denial of the possibility that the seemingly non-systemic crisis¹³ of 2008 can evolve into a recession¹⁴. We would say that the discourse articulated is entirely integrated in the context of the dominant- already existing- articulation. The proponents of economic liberalism do not even accept the existence of an event, a crisis which threatens the hegemony of the Paradigm.

Initially, then, before banks themselves realize the extent of ‘bad’ loans granting, they attempted to cover the problem pretending that it was not something important¹⁵. Many columnists, commentators and economists rushed to reassure investors refuting the discussions about economic recession¹⁶. I fragmentary quote certain elements of the hegemonic discourse in order to describe the prevailing mood: “last month’s crisis is no more likely than its predecessors of the past decade to interrupt the relentless progress of globalised finance. The economic logic of financial globalization will remain as compelling as ever”¹⁷. “It will be the same this time... Expert says no need

¹² George Cooper, *The origin of financial crises, central banks, credit bubbles and the efficient market fallacy*, Harriman House Ltd, Great Britain, 2008.

¹³ Petros Papakonstantinou, “1989-2009: The history of two collapses, From the Berlin wall to New York Wall Street, *Utopia*, April 2009.

¹⁴ Bill Emmott, “Crisis, what crisis? Enough kerfuffle, it's just a slowdown”, *The Guardian*, 12 August 2008.

¹⁵ Costas Lapavistas, “The credit crunch”, *Theseis*, Issue 103, April-June 2008.

¹⁶ Clare Francis, “No need to panic over bank crisis, City experts say the crisis that has forced Northern Rock to go cap in hand for a bail-out is under control and customers should not be alarmed”, *The Sunday Times*, 16-8-2007; Tom Darwin, “Loans for UK: no need to worry about financial crisis”, *IdeaMarketers*.

¹⁷ Anatole Kaletsky, “A historic crisis. But nothing to worry about”, *The Times*, 6-9-2007.

to panic over economic woes. The housing market will come back”¹⁸. “The crisis is under control and customers should not be alarmed”¹⁹.

The invocation of eminent economists’ authority²⁰ and the rationalization of the financial system’s innovations²¹ constituted the two main tools used by the dominant ideology in order to justify, at the first place, the downturn economy. What followed, when crisis and its consequences were ultimately evident, i.e. when an event of great importance which could not be explained by the already existing discourses appeared, the dislocation of the hegemonic discourse of economic liberalism began to process. The next two categories describe and analyze the anomalies that occurred and undermined the hegemony of the Paradigm.

The second category, then, of the verbal administration involves the acceptance of free market’s failure, even by its own defenders. The shift from denial to acceptance of the crisis is of particular importance because precisely those who essentially demolish the theoretical edifice of free self-regulated market (the market in conditions of free economy²²), are not its ideological opponents but the most fanatical proponents of the market ideology²³.

The statement of the neoliberal economist Alan Greenspan, former Federal Reserve chairman, to the congressional committee constitutes a typical example: “I discovered a flaw in the model that I perceived is the critical functioning structure that defines how the world works”²⁴. Ben Bernanke, the current chairman of the Federal

¹⁸ Christi Mathis, “Expert says no need to panic over economic woes”, Southern Illinois University, 2009 (“It’ll be the same this time. . . The Federal Reserve System is much better at smoothing out the fluctuations. I think their actions will preclude going into a 1930’s-style depression,” Mathur said “And, there’s no need to panic. The housing market will come back).

¹⁹ Clare Francis, “No need to panic over bank crisis”, The Sunday Times, 16-8-2007

²⁰ Jurgen Stanowsky, “No need to worry about Asset Meltdown”, Allianz Group, Frankfurt, 30 March 2007. (People are worried their savings will lose value on the capital markets as baby boomers sell off their financial assets and push down asset prices. Experts reject this hypothesis.)

²¹ Carmen M. Reinhart, Kenneth S. Rogoff, “Is the 2007 U.S. Sub-Prime Financial Crisis So Different? An International Historical Comparison”, American Economic Review, American Economic Association, vol. 98(2), pages 339-44, May 2008.

²² Milton Friedman, *Capitalism and Freedom*, University of Chicago Press, 2002.

²³ George Dourakis, “Do markets have future? The total failure of self-regulation”, *To Vima*, 9 October 2008.

²⁴ Andrew Clark, Jill Treanor, "Greenspan: I was wrong about the economy. Sort of", *The Guardian*, 24 October 2008

Reserve, also implicitly admitted the failure of self-regulated markets' economic philosophy²⁵.

What is actually dislocated is the idea that markets are self-correcting and naturally tend towards stability and thus cannot cause internal destabilizing forces capable of disturbing their equilibrium leading to a crisis²⁶. Disproving this idea which constitutes the conventional wisdom of modern economic theory, George Soros, well known speculator, investor and businessman, states that δήλωσε ότι "The salient feature of the current financial crisis is that it was not caused by some external shock...The crisis was generated by the financial system itself. This fact-that the defect was inherent in the system -contradicts the prevailing theory, which holds that financial markets tend toward equilibrium and that deviations from the equilibrium either occur in a random manner or are caused by some sudden external event to which markets have difficulty adjusting"²⁷.

According to Soros, "To understand what is going on we need a new paradigm. The current prevailing paradigm, namely that financial market tends towards equilibrium, is both false and misleading; our current troubles can be largely attributed to the fact that the international financial system has been developed on the basis of that paradigm"²⁸.

Hence, the financial crisis shook the foundations of the free market ideology and dislocated the idea that market self-regulation is inherently efficient. Although the

²⁵ Speech of Chairman Ben S. Bernanke at the Council on Foreign Relations, Washington, D.C., "Financial Reform to Address Systemic Risk", March 10, 2009.

²⁶ George Soros, *The New Paradigm for Financial Markets. The credit crisis of 2008 and what it means*, Public Affairs, U.S.A., 2008.

George Cooper, *The origin of financial crises, central banks, credit bubbles and the efficient market fallacy*, Harriman House Ltd, Great Britain, 2008, σελ. 6. The Efficient Market Hypothesis describes our financial system as a docile animal that, left to its own devices, will settle into a steady optimal equilibrium. ...The key message of the Efficient Market Hypothesis is that asset prices are *always* and *everywhere* at the correct price. That is to say, today's market prices, no matter what they are, correctly reflect assets' true values, based on both current economic conditions and the best estimate of how those conditions will evolve in the future. According to this financial theory any asset price movement must be generated by external shocks. To the Efficient Market school the constant price changes observed in financial markets are the results of those markets responding to a constant stream of new information.

²⁷ George Soros, "Regulation Revisited", *To Vima*, January 4, 2009.

²⁸ George Soros, *The new paradigm for financial markets: The credit crisis of 2008 and what it means*, Public Affairs, U.S.A., 2008, p. vii.

same thing happened both at the Great Depression and other small scale crises²⁹, the current crisis has indicated that markets tend to excess when they function without proper regulations.

Thus, referring to appropriate regulations, we proceed to the third category of crisis' verbal administration which includes the adoptions of measures on the part of governments aiming to regulate and supervise market mechanisms (state intervention). After the *dislocation* of the certainty that self-regulation leads to equilibrium and efficiency followed the *crisis* of the idea that state intervention has to be eliminated because it distracts the system from equilibrium toward a non-desirable condition.

When the dialogue concerning the way out of the crisis commenced, there was initially a call to do nothing and "let the market regulate itself"³⁰. Very soon, however, the diametrically opposite view was adopted. Hence, in order to prevent the catastrophic scenario of a new Great Depression, the state- which according to the ideology of economic liberalism not only is unable to regulate markets but also causes cracks to a system that is perfectly self-regulated- took over³¹. But as Bernanke puts it "There are no atheists in foxholes and no ideologues in financial crises"³². It is now a fact that the last two years the governments of most states carry out the greatest monetary and fiscal intervention in human history in order to save the global economy from its worst crisis in 80 years³³.

²⁹ Petros Papakonstantinou, "1989-2009: The history of two collapses, From the Berlin wall to New York Wall Street, *Utopia*, April 2009.

³⁰ Ron Paul: "Let the market regulate itself!", Ron Paul questioned former Chairman of the Federal Reserve, Paul Volcker, at a Joint Economic Committee (JEC) hearing ominously titled "Wall Street to Main Street: Is the credit crisis over and what can the Federal Government do to prevent unnecessary systemic risk in the future?"

³¹ Raymond Plant, *The Neo-Liberal State*, Oxford University Press, USA, 2009.

³² Peter Baker, "A Professor and a Banker Bury Old Dogma on Markets", The New York Times, September 20, 2008.

"There are no atheists in foxholes and no ideologues in financial crises," Mr. Bernanke told colleagues last week, according to one meeting participant".

³³ George Dourakis, "Do the Markets Have Any Future?", To Vima, 3 January 2010.

The policy of public spending is now commonly accepted as the sole solution which seems to be able to address the current crisis³⁴. In other words, the prevailing trend is the return to Keynesian ideas which were implemented after the Great Depression of 1929³⁵. This trend does exist but in the context of the current economic predicament works partially and under complex circumstances. State intervention is limited to bank bailout packages while ignoring to support employment, wages and pensions- in line with New Deal³⁶.

Therefore, as the economist George Dourakis underlines, the current state interventions are not Keynesian. Keynes believed that capitalism needs state intervention- which will aim at the full and secure employment in a free society and the income redistribution through the welfare state- in order to survive³⁷. "The current state capitalism of bankers is not Keynesian. It is neoliberal. It constitutes a temporary solution which does not serve society's general interest but the exact same special interests which were served by the system of free market before it collapsed"³⁸.

This assumption is explicitly confirmed and proved in the fourth category of crisis' verbal administration which focuses on the persistence of certain economists and political leaders to maintain the ideology of free market after the implementation of government regulations and the end of crisis. This point is of considerable interest. As we have already mentioned, after each dislocation (according to Laclau) or crisis (according to Kuhn) there opens a field of antagonism, of hegemonic game which may lead to three possible outcomes: Events can a) either be integrated and explained by already existing discourses, b) or ignored by the social actors, c) or lead to a kind

³⁴ James K. Galbraith, "The public expenditures will put Economy Ahead", interview with Chroni Polychroniou, Eleytherotypia, 23/11/2008.

Robert Pollin, "The state interventions is a Way Out of the Crisis", interview with Chroni Polychroniou, Eleytherotypia, 18/01/2009, "The way through which the international economy can go back to normal is clear: state funding for the establishment of work places and pushing the private sector for investments..."

³⁵ Chris Giles, Ralph Atkins, Krishna Guha, "The undeniable shift to Keynes", The Financial Times, 29 December 2008; Sudeep Reddy, "The New Old Big Thing in Economics: J.M. Keynes", The Wall Street Journal, 8 January 2009; Sumita Kale, "A global Keynesian revival", livemint.com in partnership with The Wall Street Journal, 23 January 2009.

³⁶ Mario J. Rizzo, "Taking the Name of Lord Keynes in Vain", The American, 20/02/2009.

³⁷ Keynes M.J., *The General Theory of Employment Interest and Money*, Papazisis, Athens 2001.

³⁸ George Dourakis, "Do the Markets Have Any Future?", To Vima, 3 January 2010.

of social change creating a new articulation or a new Paradigm. In the case we are examining, the possibility that seems to prevail is the integration of the event in the already existing discourse.

Alan Greenspan, for instance, while admitting the need for the imposition of protectionist measures, he adds: “It is important, indeed crucial, that any reforms in, and adjustments to, the structure of markets and regulation not inhibit our most reliable and effective safeguards against cumulative economic failure: market flexibility and open competition”³⁹.

The political elites of USA and United Kingdom also made it clear that any nationalization of banks or other institutions will be temporary and should not be confused with those of the past which aimed at expanding social control. The current nationalizations will last until the achievement of the goals of “repairing and reforming our financial system and thereby restoring prosperity to our economy”⁴⁰.

Both at the summit at Camp David (October 2008) and at London (April 2009), there was a unanimous acceptance of capitalism⁴¹. The meetings aimed to strengthen the foundations of capitalism and leaders’ commitment to open, competitive economies, and to liberalize trade and investments⁴². “The government intervention”, in other words, “is not a government takeover. Its purpose is not to weaken the free market. It is to preserve the free market”⁴³.

The wider consensus on the definition of regulation’s limitations is summarized in the following position: “While international regulation must be strengthened for the global financial system to survive we must also beware of going too far. Markets are imperfect but regulations are even more so... Regulations should be kept to the minimum necessary to maintain stability”⁴⁴.

³⁹ Alan Greenspan, “We will never have a perfect model of risk”, *The Financial Times*, March 16 2008

⁴⁰ <http://www.federalreserve.gov/newsevents/speech/bernanke20081014a.htm>.

⁴¹ George Dourakis, *The capitalism that is leaving and the one that is coming*, To Vima, April 12, 2009.

⁴² Statement by Press Secretary Dana Perino (22/10/2008).

⁴³ Steve Lohr, “Government’s Leap Into Banking Has Its Perils”, *The New York Times*, October 17 2008.

⁴⁴ George Soros, “Regulation revisited”, Project syndicate, 1 December 2008

The fourth category of the crisis' verbal administration leads us to the conclusion that there is a sense of optimism about the future of capitalism⁴⁵. Even though, admittedly, the current crisis is a systemic crisis and addressing it requires the structural reconstruction and radical transformation of economy⁴⁶, none of the policy makers seems to share this view.

Conclusion

The above stage analysis creates a cycle that opens and closes with the same premise: either through the denial of the crisis (first stage) or through the faith that the system of free markets should be back in operation after the recovery of the economy (fourth stage). The premise is clear: the system of free self-regulated markets constitutes the hegemonic economic model. Despite its apparent failure, it does not seem to collapse but, on the contrary, tends to redominate as the sole system which ensures economic growth and efficiency.

What we observe through the discourse analysis in economic crisis is a movement which starts from the articulation of economic neoliberalism, passes through dislocation and leads to the restoration of the already existing articulation. Hence, the Paradigm seems to integrate the anomalies, neutralize their opposition and be subjected to gradual changes which do not threaten the reproduction of the terms of its hegemony. In our case, the ideology of free market appears to successfully manage both crisis and state intervention, receding in certain issues and restoring the old way of economic activity.

⁴⁵ Martin Wolf, "This crisis is a moment, but may not be a defining one", *Financial Times*, 19 May 2009; Leszek Balcerowicz, "This has not been a pure failure of markets", *Financial Times*, 13 May 2009; Samuel Brittain, "A catechism for a system that endures", *Financial Times*, 30 April 2009; Edmund Phelps, "Uncertainty bedevils the best system", *Financial Times*, 14 April 2009; Martin Sorrell, "The pendulum will swing back", *Financial Times*, 8 April 2009.

⁴⁶ Dominique Strauss-Kahn, "A *Systemic Crisis* Demands Systemic Solutions", *Le Monde*, 25 September 2008.

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In closing, what is extremely important and needs to be emphasized is the fact that economic crisis is still ongoing and our conclusions are drawn from the data we have so far at our disposal. We are not in a position to acknowledge the final state of the global economy after the crisis. What remains to be seen is whether a new articulation will emerge from a discourse competitive to the ideology of free market or whether the paradigm will ultimately manage to maintain itself.