Forget Neoliberalism: Its Financialization, Stupid!

Interview with Aeron Davis (London)

Daniel Cuonz:

In your recent work you argue that public debates on the economy (and on the reasons for the crisis of 2008 in particular) have been focused all too one-sidedly on the notion of neoliberalism. You say that much of what has been happening is better thought of as "financialization". Could you explain the difference between these two concepts?

Aeron Davis:

There are a whole set of differences. Part of the problem is that politicians, the public, critics and scholars have looked at free markets in neoliberalism and they put them all together with financialization. And although politicians implementing neoliberalism do not especially use this word – they use the terms like "free markets", "free choice", or "*laisser faire*" – it is quite clear that they think that the old ways of managing the economy, such as state management, large unions, corporatism, are wrong, and so they tend to encourage market solutions and a reduction of state intervention in the national economy. That is partly about politics, partly about public rhetoric, and it's also about the critics of neoliberalism and what they focus on.

In contrast, although everyone looked to the financial sector as casting off the financial and wider economic crisis, there is less understanding about what financialization was doing generally before then. So perhaps there was a focus on the bubble and crash as a temporary effect, but in terms of the way economies have been managed in the larger scope of things, the big story of the past 30 years behind the neoliberal discourse, be it from critics or advocates, was the huge growth of finance. Just to give you an example from Britain, the financial assets managed by the banking community was something approximating half of GDP (Gross Domestic Product) for half a century. From the 1980s onwards, there was a massive expansion until we got up to the crash, when the assets managed by the financial sector were ten times GDP. When I first looked at the

UK Stock Market at the end of the 1970s, the value of the FTSE 100 was a fraction of government expenditure. By the time it got to the crash, it was three and a half times the value of government expenditure. So the amount of assets the financial sector was managing, in banks and stock markets, all hugely expanded. The way finance was managed was being transferred more and more into big international investors' hands.

So all politicians were talking about the real economy, and jobs and employment and manufacturing, but in the background the real change was that capital was invisibly finding its way into the financial sector. Even after the crash there was a continuing focus on economic instability, on things like the very rich, on inequality, on restoring manufacturing and those sorts of things. So many critics continued to focus on neoliberalism rather than the technicalities of what has happened in terms of the real economy – the real economy being sucked up in many ways and put under the influence of the international financial community.

There are many differences about how people envisage finance and financial markets *versus* ordinary product markets, and from my view, having interviewed many people in both worlds, there is quite a difference in how they perceive and think about markets. And that influence affects policy and regulation as well as the wider public discussion.

Daniel Cuonz

I would like to know more about what you mean by "perception" in this particular context, all the more so because in one of your recent papers, this notion is prominently paralleled with the notion of representation. You write that the difference between neoliberalism and financialization is "determined" by how the economy is "perceived and represented" by those at the top. Could you expand on that?

Aeron Davis:

This is related to who is being reported in the financial and economic and business media. When a government is talking about a budget or some new economic legislation, then there is a political debate, but that is very much in relation to the national economy: jobs, employment, taxes, whether individuals feel better or worse off, whether the British economy is in good shape or not.

But most of the time most of the content in the business news sections, is more about day-to-day investment questions. These sources think about some of these macroeconomic indicators, growth, the value of the currency, but they are very much thinking of parts of the national economy as temporary investment sites. That might just be about a company or about a whole sector, the sector of supermarkets for example or the high-tech sector. So when they talk about it and represent it and think about it and, therefore, evaluate the strength of an economy, it has often to do with how they perceive the investment opportunity. Good examples are the FTSE 100 in Britain and the New York Stock Exchange. When there is discussion in the national media to show the economy is healthy, they show the FTSE or the New York Stock Exchange going up, as an indication that a national economy is doing well. Except, the FTSE 100 has very little to do the national economy anymore. Changes in share values often relate to what is going on in these disembedded financial markets. Most of the companies quoted are multinationals that make more money and employ more people elsewhere than in Great Britain. You can see this since Brexit. Ever since Brexit happened, every time there is some bad news, the pound's value drops, but the value of the FTSE 100 goes up, because they book most of their profits in foreign currencies.

So there is this bizarre representation of the economy doing better because the FTSE 100 is going better, without the realization that this is about investment and not about the strength of the economy.

And it is the same with GDP. This single figure is used to illustrate growth, but growth can be based on a few factors which often do not take account of real people's experience of the economy or huge regional variations. Inflation indicators are another example. They do not take account of housing costs, which in Britain have gone up over six per cent on average per year in the last forty years, but they are not included in the inflation figures. So the government is saying: We have low inflation, but for most of the population, the costs of living are going up, much higher than inflation. So all these indicators are false perceptions of the economy. And part of that has to do with the investors' view of the economy, their view of which parts of the economy are good sectors to invest in, not necessarily the economy experienced by the population.

Scott Loren:

I would like to come back once again on the two key notions of your argument. In the framing of what you said so far, there is this sense of the possibility of putting neoliberalism as a term and financialization as a term on equal grounds, which makes sense to me. I am wondering though, if financialization originally might be thought of as something like a subcategory of neoliberalism, like any other economic aspect influenced by the possibilities that neoliberalism or *laisser-faire* politics opens up.

Aeron Davis:

I don't want to make the mistake and say they are completely different things. Because of course there are huge overlaps. I think what you are getting at is the question: What is the relationship between the two exactly? And I am not sure anyone quite knows. Because in some respect you can say that neoliberalism paved the way for financialization. But you could also say that financialization facilitated neoliberalism in various other ways. You could say that they are intricately connected.

There are important differences though, one being the invisible mechanics and one being the visible political debate. Some countries are declared neoliberal, but do not have big financial sectors, say Canada, New Zealand or Australia. And then there are also countries like Switzerland or Japan that are not neoliberal in their political system, but have quite large financial sectors. There is not a simple parallel relationship or connection. One has to think of them as intertwined, but also having their own separate developments and drives, and in some cases like America or the UK, financialization has really boomed and not been accounted for properly. But it hasn't done so everywhere, and I am not sure why that is.

Daniel Cuonz:

The question of "visibility" and "invisibility" that you brought up in this context leads us to the methodology of your work. You mainly present three ways of collecting evidence for what you refer to as the difference between neoliberalism and financialization: economic elite interviews, public representations, and news content analysis. Can you say a few words about each of them, perhaps with specific regard to what they allow us *to see* and where their blind spots are?

Aeron Davis:

What I do is more qualitative and social as opposed to quantitative. You could show a lot of aspects of financialization using quantitative data sets – most financialization scholars do this. But I felt you could not see the depth and what was happening on another scale without using more social and qualitative sets of methods. You mentioned content analysis, media representation and interviews. I often go to demographics as well, trying to look at the professional biographies and personal characteristics and education of those involved, be it politicians or financiers or industry CEOs. You can tell stuff around that, too. One can also, as other studies have done, look at business biographies, the business reporting world, the kinds of outputs and productions of trends that are there in terms of their professional education networks, and so on for example. I haven't really done much of that, but other people have.

In terms of my methods, I think that the qualitative approach, especially the interviews, help you to realize that you have the official world and the unofficial world of practices and beliefs. The official world of, say, finance is very different and it often presents the official doctrine of rational and efficient markets. It is only by talking to people that you realize they do not behave in that way, and if you ask them about their methods, their thinking, their day-to-day practices, it's all quite different.

The other thing you realize when you interview more people in different business sectors is the big differences that exist in the thinking and behaviours between a CEO of a large industrial company *versus* a CEO who works in banking *versus* a fund manager or an analyst. What they do and how they see their role and see their position in the economy can be quite different. When I first started looking at this twenty years ago, I put together the financial and business community as one and then eventually I realised that they were not the same thing. And the more I went into it, I could see how fragmented the business community is and how fragmented finance is, and how people operate in their own silos and their own specialities, and can then be creating risks or profits or debts of tens of billions, without knowing what the guys down the corridor in the same firm were doing.

So it becomes much more important in these anthropological or social studies to really see what is happening, and to see that *a)* there are huge differences across these different sectors with different mind-sets, but at the same time, *b)* to try and piece them all together and see how they individually lead to certain outcomes in aggregate. We should not simply put it all together under "neoliberalism" or "big finance". It is a much more complicated story. So that's why I think we need to try and use these methods to tease apart what's happening and to have a better diagnosis and, possibly, a better regulatory outcome in the future.

Daniel Cuonz:

Is "outcome" also something that is at stake in the context of your research about the media coverage of economic and financial matters? You have made the point that economic news has edged ever further away from discussing 'the real economy', as it is experienced by most people and has instead come to be defined in extremely elite and financialized terms. Could you explain what this means in terms of "outcome" or, in other words, what are the consequences of this shift in media coverage of the economy and business, for example with regard to how people perceive important political matters like Brexit?

Aeron Davis:

First of all, financial and business news was always dominated by certain elites. But reading some of the histories of British and American business journalism as well as drawing on my own interviews, years ago, with people who were trying to describe how things were in the 1960s and 70s and how they changed, I got a strong impression that economic news included trade-unionists as they were considered very much part of the economy. You also had a lot of industrial relations reporters. These have virtually disappeared over the years. You had a lot more commentary from economists from university departments. You had more government figures talking about the economy and policy, not just being reported during a budget. But gradually things became more specialised and more dominated by the needs of financial markets. So in terms of generating the news in those sectors, financial public relations sourced the material. The media, while experiencing slow decline in recent decades, became more and more dependent on this output. And this output was focused on City economists and the discussion that was going across the international investment community.

That misrepresented things. And it misrepresented the economic arguments around Brexit. I think that both sides got it wrong here. On the one hand, we had the "Leave"-people who seemed to be economically illiterate to many people, who seemed to think that their Empire image of the economy would be restored and Europe was holding back our national economy. It is true that regions everywhere in Europe's outskirts do suffer from the European economic model. The closer you are to the centre the better you do, but if you are on the periphery anywhere, there is a problem. But, the Leavers totally failed to recognize that lots of other policies also caused the decline of the British economy. They completely misrepresented what the economy was about and where it was going. They were and are fantasists.

On the other hand, the Establishment, David Cameron, the City, the OEDC, all these big high-profile economic institutions and so-called experts, had been misdiagnosing what was going on for years as well. In many areas of the British economy, people had not seen their wages increase for twenty years, and they found themselves being poorer in real terms, while being told that the economy was doing better. They could see that they were doing worse, that they could not afford housing costs and many other things that they used to be able to afford. Our employment figures showed record levels of employment, but what they did not show was a lot of what was now precarious. By the beginning of the Brexit-year, 10% of the working population were employed in temporary, precarious and zero-hours-type contracts. And lot of the people who were working were still having to claim state benefits because their incomes were so small, even if they were working full time. And none of these things were there in the public debates. It was: "if we leave Europe, things will get really bad". And many people in large regions of Britain were being told that things were getting better anyway, but they were not. They did not believe those arguments. So why would they believe the experts saying it would be worse if Brexit happened?

So there was a misrepresentation from all sides about the economic situation, not to mention the fact that the British economy has been increasingly built on a series of ponzi schemes in stock markets and finance and rising house prices. Basically, the British economy, like the US economy, was busted, but it was being covered over by the figures, by these other positive indicators. And all that was a misrepresentation.

Daniel Cuonz:

Do you think that some of the reasons for this "misrepresentation" can be expressed in terms of the *aesthetics* of representation? "Financialization", you say, is still not sufficiently considered in public debate. Could this be because it easier to depict or to stage or to narrate the story of neoliberalism? And if yes, would we not have to ask whether this is something that is actively instrumentalized by people who benefit from the process of financialization.

Aeron Davis:

Yes, that is correct. There is one larger problem, which is about representations of the economy in culture, in public discourse, and in the news media. If you look at surveys of what people watch the news for or read newspapers for, right down the bottom comes things like the economy or business news. There is no interest for that. People don't feel they have the knowledge to understand it. They will take an interest in, say, budget outcomes: are they getting to pay more or less tax, are they going to be better off or worse off? And connected to that, most journalists are not that much more economically expert or financially literate than well-educated, numerate members of the public. So they struggle. The economy is a complicated subject, it takes lots of specialist knowledge, and it is fast moving. There are huge amounts of data poured out in company reports and think tanks and government documents that your average journalist or your average person is trying to understand and just can't get a grip on. And journalists know that it's not easy to get viewers interested in economy because it is not easy to represent – and finance is so much worse!

At least in coverage of the economy you can show people in a factory or on the streets or in economic activity, whereas in finance, well, you can show people on a trading floor, yelling and screaming (although they don't even do that anymore). Otherwise you can show figures and graphs. But that's not good story telling. It does not get the viewers interested. And most people in finance, and certainly politicians, don't understand all the intricacies and complexities of many of the things they are dealing in. That came out after the financial crash. A lot of heads of big financial firms had no idea how their derivatives were working, let alone the cumulative risks. They just didn't understand them. I am not saying: "I understand them". I have a faint knowledge of a lot of these things, and I work hard and try to understand them, but probably 99% of the population, including a lot of journalists and people involved in the business world, don't understand the complexities – because they highly technical and mathematical and are not easy to represent.

And yes, in neoliberalism, critics can focus on figureheads, big corporate leaders who earn tens of millions of pounds or dollars a year. They can focus on these personalities. But finance is a different thing. I discovered recently, as I was writing something about FTSE 100 CEOs and their contribution to financialization, that these people didn't earn so much – well, they earn a few million a year, which is incredible by most people's standards, but when you look at the super-rich lists in Britain, there is hardly any FTSE 100 CEO or senior manager on there. Some of the people there are heads of private companies, but a lot of them make their money through other ways. Most of those are in finance. But the British media covering business and finance often interviews FTSE 100 CEOs. We see them and we connect them to neoliberalism, and markets, and the national economy, but we don't see these other people whom most of us have never heard of. They are barely reported in the media. You can see a lot of the private company owners who are on the super-rich list. Some appear in the media. But if you do a search in the newspapers, they make comparatively few appearances. There is a strange misrecognition when you think of the British economy around government treasury officials and around captains of industry in the FTSE 100. But most of what is going on is other people, and they earn a lot more of the money, and they control investment, but they are not part of the media story.

There is also a problem with academics, those who are not in business schools or economics departments (and even many who are) who are not interested in these questions. But if you talk to people who *are* interested in these questions, they are in politics departments or sociology departments, people like me who don't understand the real intricacies. We have a certain level of understanding, but not enough to really look at the details and say how to speak out. The critics of neoliberalism like Colin Crouch or David Harvey have rarely found their way into looking at financialization. They know it exists. But the neoliberal picture is there without finance having a big presence.

Cuonz:

What I find so interesting about your approach to these high-profile figures in the financial sector is that you are not asking the technical and probably much too complicated question: "*what* they are doing?" or "*how* they became so rich?", but rather "*who* they are?" So you are not trying to make visible what must remain invisible, but you shed light on what is all too often not taken into account in the investigation of the financial sector. In this sense, you write in one of your articles that further research on financialization – both in relation to neoliberalism and as an independent phenomenon – should include a focus on its "cultures" and "epistemologies". Could you briefly sketch out what you have in mind in this respect?

Aeron Davis:

There are two things: What I do is try and meet those high-profile figures on their place of work and ask them about their everyday lives, their practices, their connections, their social relations in their work lives. Increasingly, since the financial crisis, more and more people are looking at the super-rich, but they look at them in terms of their lives outside of work, and I think that tells you a lot too, in terms of their dynamics and where they live and how they think. So there are two different sorts of approaches.

I am always fascinated when I get people's accounts of the super-rich and how they see and how they measure themselves. A super-rich person with only 2 billion dollars can still think of themselves as relatively poor next to the people they meet in Monaco who have fortunes of 20 billion dollars. It's relative. A company CEO or financier who has a bonus of 3 million pounds looks at the one down the road with a 50 million pound bonus. What I found in my everyday experiences is just how mundane and ordinary a lot of this is. To these people, it's a virtual reality game. They're playing international investment inside their offices. They talk to other people in the same circle, but there are no ordinary people or industries or countries on the end of it. It's all very disconnected. But also their fears and their rationales are actually very ordinary. They are the same as those of ordinary people, although, again, they are represented as sort of better than ordinary; successful because they have this much money, more rational, more detached. But they have the same failings and failures and fears. Many of them are more likely to behave as a herd and to follow others, as a means of minimizing their own personal risk, as they are to be doing something new and different. And I found over the years that there are huge differences in what they do, but the products of their thinking and behaviours have a lot of ordinary similarities, which are very meaningful for the consequences of what they do.

One thing I have realized is the importance of mobility and precariousness. You usually think that precariousness has to do with the lower classes who can't hold on to a job, or migrants who have to move from one place to another to get work. But I have realized that the top tiers across finance and business are hugely mobile and hugely precarious. Most top CEOs in the UK stock market only have one-year-contracts, renewed on the basis of their performance. A third of them do not last more than two years in the top position. If you try and survey financiers, that is impossible because no sooner do you have a list of top fund managers, six months down the line a quarter of them have left. They are so mobile! And discovering that sense of mobility and precariousness is important. On the one hand they are trying to achieve something but, on the other, they also know they are there for a very short time and then have to move on and disconnect from the company or the finances or the public. But it also means that they can maximize what they deliver to investors to gain their bonus, knowing it may do damage two years down the line. But that doesn't matter because they'll be gone by then. It's better to do that for ones own personal advancement than to make an investment in a long-term development. Because if you make a long-term investment, you still might get kicked out two or three years before this long-term development has become a great, best-selling product.

So when you are interviewing enough of these people, you realize that mobility and precariousness influence just so much their decisions and their strategies and they end up being bad for the business or the community. Their personal goals, their personal sense of risk is different from the risk of the company. That is the key factor. That is the kind of thing you only get when you are tracing these people, interviewing them close up and looking at their personal pathways.

Jörg Metelmann:

So one could say that on the one hand representation is a major issue when thinking about economic subject matters but that, on the other hand, we are often not aware of these types of misrepresentation that you are describing. One would think that the human factor is no longer important here, this is all digitalised, this is all flash trading, and these nanoseconds are imperceivable for us. But what is so interesting about your work is that it shows, that the way humans set up their lives is of importance for the way they make their decisions and for how they are doing business. So we can take away from your work that we have to do more analysis about the misrepresentations of the economy, but also: "Don't' underestimate the human!"

Aeron Davis:

I agree. The great problem of the social science world, the journalism world, the policy making world, is how they think and talk in terms of numbers and technology. They give the impression that they are real, powerful forces and you can't fight them, because they are like the sea. You can't fight the sea, just like you can't fight globalization or high-frequency-trading. They dictate. But whenever you actually get inside and look, it is human beings making the algorithms, making the regulations, anticipating. And there are a lot of political choices. And yet we need to look at the human condition, the social and cultural aspect and not just throw up our hands and say: "Oh, it's too complicated! It's a thing we can do nothing about, that's the way of the world." Because whenever you challenge that mentality, people think that you are just a technophobe and out-dated. But we have to try and understand the technological and economic and financial changes, not just accept that they are an unstoppable force with no human influence there. That is what my interest in finance and neoliberalism is about: looking at power on a human level at the top and how it is much more to do with humans and social relations than many people would think.

Further Reading

Aeron Davis and Catherine Walsh: Distinguishing Financialization from Neoliberalism. *Theory, Culture & Society* 34 (2017), pp. 27–51.

Aeron Davis: Defining Speculative Value in the Age of Financialized Capitalism. *Sociological Review* 66 (2018) pp 3-19

Aeron Davis: *Reckless opportunists. Elites at the end of the Establishment.* Manchester University Press (2018).