Against agency (mis)conceptions of the individual: Constructing financial agency in the credit crisis

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Against economic (mis)conceptions of the individual: Constructing financial agency in the Credit Crisis

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This paper draws upon the work of Lacan and Callon to interrogate and disrupt the foundational belief of neo classical economics in the rationality and autonomy of the individual. Lacan’s account of the ego’s foundation in the ‘imaginary’ explains how the self may be grasped as if it were indeed autonomous and rational, but also what is ‘fictional’ about this image. Following Lacan, the credit crisis is explored in terms of the narcissism, paranoia and contempt for the law that in practice characterised the conduct of what economics celebrates as the rational individual. The paper then draws upon Callon’s notion of performativity to explore the ways in which economics, and in particular its assumptions about incentives, came to make a reality of the fiction of the ‘rational’ individual. We suggest that widely adopted incentive pay practices, designed in line with agency assumptions, produced the very self interested opportunism that they assumed \textit{ex ante}.

\textbf{Keywords}: credit crisis; agency theory; Lacan; Callon; narcissism; paranoia; performativity

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**Introduction**

We define an agency relationship as a contract under which one or more persons (the principal) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent. If both parties to the relationship are utility maximisers, there is good reason to believe that the agent will not always act in the interests of the principal. The principal can limit divergences from his interest by establishing appropriate incentives for the agent and by incurring monitoring costs designed to limit the aberrant activities of agents (Jensen and Meckling 1976, 4).

‘Rational choice’ theorists believe that behaviour results from self-interested choices made by individuals who reason, before choosing to act, how they may maximise their own benefits and minimise the costs of a discrete act (Becker 1976; Simon 1955). In this paper we want to trace one of the root causes of the credit crisis to the atomistic view of the ‘individual’ that lies at the heart of ‘rational choice’ theories. One of the remarkable features of the financial crisis is that it was a crisis precipitated by the prospect of people doing nothing. The crisis, or the feared crisis, was that credit markets would cease to function – that no one would venture out of their imagined autonomy to make money. In this respect, the crisis seemed to embody and enact in its purest form the economic conception of the individual as a separate and autonomous entity. In another respect, however, this frozen and extended moment of autonomy was a crisis for *homo economicus*, for it arose because the future had become impossible to calculate and at this point *homo economicus* did not know what to do (Roubini and Mihm 2011). The trigger of the crisis was that everyone knew that no one knew the nature of their exposures to counterparty risk – they could not trust each other, and in the circumstances calculated that it was best not to trade. The economic conception of the ‘individual’ in its pure form then describes an impossibility – a failure, or moment of panic - and yet, despite the crisis, this view of the rationality of self interest has retained much of its authority.

In what follows we want to try to interrogate this self enclosure of the economic individual to see whether we can make an impression upon its hard surfaces. Here the crisis offers an opportunity to exploit a possible moment of uncertainty or self doubt in economists’ minds to suggest some of the ways in which their view of the calculating, self interested individual may be profoundly deficient. Perhaps the most dramatic example of such self doubt came from Alan Greenspan. He confessed to a
Senate house committee that his life-long belief that market stability would be protected by the ‘calculation of institutional self interest’ had proved to be false, and that the collapse of this particular symbolic universe had left him in a state of ‘shocked disbelief’.

There are many available critiques of the economic individual but here we draw upon the work of Lacan and Callon as each offers us a refracted view of what economists do not want to acknowledge about agency. The Lacanian narrative of the formation of the ego suggests that we all start life by thinking of the self in the way economics describes. However, Lacan’s analysis of the ‘imaginary’ offers us one version of the ‘misrecognition’ or misunderstanding involved when we identify with the image of the self as coherent and autonomous. But if Lacan’s analysis disturbs the notion of the individual from within, Callon’s ‘laws of the markets’ questions the assumed autonomy of the agent by insisting that he or she cannot be conceived of as separate from the network of relations within which agency is always embedded. Following Callon’s notion of the ‘performativity’ of economics, in the second half of the paper we will explore the ways in which economics, and particularly its assumptions about incentives, came to make a reality of the economic ‘fiction of the individual’ (Foucault 1977).

**Lacan - The emptiness of the economic image**

In what follows we draw upon Lacan’s account of the formation of the subject and, in particular, of what he calls the ‘imaginary’ to better understand the genesis of the economic conception of the ‘individual’. Lacan suggests a two-stage view of development that spans three registers of experience - the imaginary, the symbolic and the real. The imaginary refers to the role that images and our capacity to identify with images (literally, to find myself in) plays in constituting our sense of what it is to be a person. Critical in developmental terms for humans is what Lacan (1977, 18) called the ‘mirror stage’:

What demonstrates the phenomenon of recognition, which involves subjectivity, are the signs of triumphant jubilation and playful discovery that characterise, from the sixth month, the child’s encounter with his image in the mirror. This behaviour contrasts strikingly with the indifference shown even by animals that perceive this image, the
chimpanzee for example, when they have tested its objectal vanity.

For Lacan this moment of recognition is the basis of what is distinctively human; it founds the future possibility of agency and reflexivity by providing the nascent ego with a seeming ‘centre’ around which and in relation to which experience can then be organised. For our present purposes, however, what is important is Lacan’s insistence that it is no more than the ephemeral mirror image that provides the ego with such a sense of substance. Lacan talks here of the ego being founded ‘in a fictional direction’, of the ego being grounded in a ‘méconnaissance’ that makes the jubilant recognition of the self in the mirror image a moment of misrecognition. The thought that we want to pursue here is that economics has merely repeated and, as it were, formalised this fundamental misrecognition of what it is to be human.

**The rational individual as narcissist**

Wherein lies this misrecognition or fictional direction for the ego? Firstly it is to say that the seeming substance of the self is no more than an image. For Lacan (1977, 17) this misrecognition arises from an identification with the mirror image, and with it the ‘attribution of permanence, identity and substantiality to the self’ which then provides the ego with ‘the armour of an alienating identity’. His comparison with the chimpanzee is instructive – animals may first find a rival in the mirror but quickly lose interest once the image is discovered to be empty. By contrast we humans find ourselves in the mirror, or believe we do: Lacan (1977, 17) talks here of the ‘lure’ of the image - its power to ‘capture’. Beyond the apparent substance of the self, Lacan suggests two other ways in which the image founds the ego in a fictional direction. The image moves as the body moves giving the self an intimation of a future mastery. This mastery is linked to a sense of seeming autonomy – an image of the self as enclosed by the skin and as separable and separate from others – an intimation of both privacy and property (Roberts 2005). These self images of mastery and autonomy stand in marked contrast to the actual physical immaturity and dependence of the child at this age.

In sum then, for Lacan, whilst this first moment of recognition founds the possibility of agency and reflexivity, it is also a moment of misrecognition in which the self is grasped as a coherent, autonomous entity. The parallels with the economic view of the
rational individual are perhaps obvious. The rational individual of economics is indeed no more than an *image* of the self; not the self as lived but rather a frozen snapshot of the self seen from the outside. It grasps or asserts a view of the self as both autonomous and masterful in its rationality. Following Lacan, however, we can insist that this is a purely narcissistic view – a moment of ‘self love’, as Smith rightly termed it (1976, 26-7). Chatterjee and Hambrick (2007), following Raskin and Hall’s (1979) Narcissistic Personality Inventory, identify four factors around narcissism that may help to clarify its irrational potentials: exploitativeness /entitlement (I insist on getting the respect that is due to me); leadership/authority (I like to be the centre of attention); superiority/arrogance (I am better than others); and self absorption/self-admiration (I am preoccupied with how extraordinary and special I am). Arguably, such narcissism was itself a very important aspect of the crisis. Competition to enter finance programmes that then fostered belief in the rational individual (Ghoshal 2005), internships, elite employers, and competition for promotion may all have played upon and reinforced individual finance employees’ view of themselves as being special and of having special abilities, even if this was an over-valuation of the self and its capabilities.

*The rational individual as paranoid*

A necessary complement and prop to the narcissism of the ego is what Lacan termed the ‘paranoid’ structure of the ego’s knowledge of itself and its world (Mills 2003). Brennan (1993, 43) explains this paranoia in the following way:

> The ego in part has a paranoid dimension because both the ego and the ego’s objects (knowledge) are conceived of as fixed, the ego wants them to stay fixed. Any unregulated movement or change in these objects poses a threat to the ego’s concept of itself as fixed in that that fixity is defined in relation to them. Here we can locate the need to control the environment in an attempt to predict and regulate changes within it, to subject the irregularity of living forms to a form of domination in which the ego closes off to itself the truth about itself.

Perhaps the most fundamental sense of paranoia – which literally means beside or outside of the mind – lies in the way in which knowledge always threatens to disintegrate or collapse into not knowing; that is to expose the ego to the experience of ‘lack’ from which it flees (Arnaud and Vanheule 2007). In this respect, knowledge
as financial expertise can be grasped as an important part of one’s identity, for example, as a market trader – a vital prop for both self and other of the fantasy of being a ‘master of the universe’ (Willman 1999).

A second aspect of paranoia comes from the dynamics of recognition. Paradoxically, by identifying with the mirror image, we locate our existence in a place where autonomy and mastery are impossible because our very existence then seemingly depends upon and is at risk from others (Driver 2009). Lacan traces the source of both love and aggression to this dynamic. He draws upon St Augustine’s account of the envy experienced by a young child watching his brother at his mother’s breast; the envy tears the child to pieces. The other here is experienced as a rival for the mother’s goodness that potentially obliterates the self by robbing it of attention and recognition. The competitiveness that economics takes as essential is properly seen as the product of identification with the image; it is the mirror but only the mirror that is a competitive space. But the other side of this is the way in which, in an attempt to secure the recognition/love of the other, I must make myself in the image of the other’s desire. It is this intertwining of aggression and love that, for Lacan, is the root of the paranoid structure of the ego’s knowledge.

The economic image of the rational individual itself contains this paranoia. As an image of myself it is a flattering view of my autonomy and mastery, but as Perrow (1972) observed in his early critique of neo-classical economics, it also coincides with the all too human tendency to attribute base motives to others. As an image of others, the self interested opportunist is more threatening. The pre and post crisis periods seem to illustrate these two faces of paranoia very well.

Prior to the crisis, the paranoid structure of knowledge in finance arguably lay in its faith in its own knowledge – efficient markets hypothesis, rational choice etc, in its grasping at its knowledge as a truth that was independent of the knower, and in its refusal to doubt. In this respect, the crisis can be seen to have arisen from an excess of certainty – from a belief amongst participants that they did indeed know what they were doing. As Power (2007) has observed, the close association of ‘risk’ and ‘management’ seems to acknowledge the reality of uncertainty only to immediately transform it into something manageable and controllable. This was the story that
finance told to itself and others – a story of the mastery of calculation through which uncertainty as ‘not knowing or knowable’ is transformed into profitable and tradeable ‘risk’. The irony, of course, is that, in practice, risk arose from the very instruments that were apparently able to dissipate it.

Against the conceit of economics, the instrument of this certainty was not rational individuals but rather the models upon which they depended and without which markets would have ground to a halt (Millo and MacKenzie 2009). It is difficult to blame the modellers who were likely all too aware of the limitations of their models, the outputs of which were nevertheless grasped by others with too much confidence. The ‘knowledge’ of the future that such models offered was critical here in being able to create, structure, and sell different forms of Collateralised Debt Obligations (CDOs). Nevertheless, the ‘certainty’ they offered depended upon the assumption that their multiple projections of the past could make the future reliably predictable (Taleb, Golstein and Spitznagel 2009, 2). Importantly, such projections left the self and the effects of one’s own agency out of the calculations. Autonomy was imagined not just in relation to others but also in relation to the world, as an absolute divide between the objective structures of ‘deep and liquid’ markets, and one's own conduct within the market. On the one hand, such assumed autonomy left the agent free to concern him or herself only with the pursuit of self interest. On the other hand, it involved a faith in the powers of the market as an invisible hand that would magically transform the individual pursuit of self interest into a public good (Fotaki 2009; Gorton 2010).

In the crisis itself the paranoid structure of knowledge became more palpable when no one would risk trading with anyone else because they knew that their counterparties, like themselves, did not know the risks to which they were exposed. The shift from greed to fear was thus a move from excessive certainty to excessive doubt, both of which were self fulfilling in a variety of ways (Roberts and Jones 2009). The index of these emotional swings was leverage – designed to multiply profits but suddenly exposing participants to multiplied losses when the market turned (Adrian and Shin 2008). The attempt to anticipate and rescue oneself from this exposure to others is precisely what produced the subsequent liquidity crisis. So paranoia involves a distorted relationship between knowledge and agency. In its paranoid form we know
or pretend to know in advance and at a distance, and refuse the thought that knowledge is always a sort of partial gestalt, coexisting with not knowing (Sievers 2010). Rationality in this form at least is vulnerable to its own narcissism, which prevents it from subjecting its own certainties to critical scrutiny; knowledge is a way out of thought. The panic that the crisis provoked possibly involved a sudden recognition of the vulnerability of the self and its dependence on others; a recognition of the incompleteness of knowledge and the illusions of assumed autonomy. But as panic it often led only to renewed attempts to defend the self from others, without acknowledging that such attempts were precisely what was producing the crisis (Weick 1993, 637).

In the aftermath of the crisis two further versions of such paranoia have emerged. One is the thought that market participants did indeed know what they were doing, that they could see the crisis coming, and their own hand in it, but kept on anyway, calculating that they were ‘too big to fail’ and would be rescued. Here market participants are imagined as cynically trading upon their knowledge to secure their self interest; they did not actually believe in the risk-dissipating properties of CDOs but rather professed a belief in order to make money. This possibility informed the case of fraud that the SEC brought against Goldman Sachs – the charge being that they created and sold a CDO to clients in which vital information was withheld from investors, in particular, that a related party was intending to short-sell, and thus sink, the same CDO (U.S. Securities and Exchange Commission, 16-4-2010).

But there is another meaning to paranoia within the crisis, which is that participants knew, but did not want to know what they knew. There were apparently warnings and intimations of excessive leverage that were nevertheless ignored by market participants, who in effect deceived themselves by clinging to convenient certainties – that they knew what they were doing – whilst actually knowing, but not wanting to know, that they were building the conditions for a market collapse. Knowledge here is about a truth from which I seek to shield myself.

*The rational individual’s contempt for the law*

So far we have drawn upon Lacan’s account of the imaginary to explore the
narcissism and paranoia that is possibly occluded in the economic celebration of the rational individual. Our final set of observations concerns the relationship between this economic ‘individual’ and authority. In developmental terms, Lacan’s account of the imaginary is only the first primitive basis for the subject. As Grosz (1990) suggests, if development were to freeze here we would be stuck in a dyadic nightmare of projections and introjections. For Lacan, what rescues us from this mirror world is a further alienation of the self realised through the intrusion of a third party in the form of the ‘symbolic father’, the resolution of subsequent oedipal conflicts, and the accession of the self to language. Importantly, this further alienation involves being subject to the law (Butler 1997), and here we want to make just a few observations in relation to the prevalence of ‘regulatory arbitrage’ in financial markets.

What is disquieting about the individual of economics is that he or she seems unwilling to recognise or at least internalise the law; to be subject or subject itself to its constraints. There is the strong suggestion that the CDO market had its origins in such an evasion – one of the attractions of the new instruments was that they offered a way around the capital adequacy requirements of the Basel Accord (Financial Stability Forum 2008). In the crisis itself the collapse of Lehman Brothers was in part precipitated by their use of an off-balance sheet device – Repo 105 – that allowed them to temporarily remove liabilities from their balance sheet in order to ‘create a materially misleading picture of the firm’s financial condition’ (Valukas 2010, 732). A similar contempt for the law seemed to haunt internal control systems – notably in risk management processes where risk managers who were given low status, and who were poorly resourced and paid, reported to the units that they nominally supervised.

All this seems only to underscore the ruthlessness of the economic individual who exercises no self restraint and is contemptuous of external authority. However, Lacan suggests a more complex and ‘co-constitutive’ view of the relationship between the regulator and market participants. For Lacan subjection to the Law founds desire as ‘the unending quest for the lost/impossible jouissance’ (Stavrakakis 1999, 42). We want precisely what is prohibited and falsely believe that it is only the Law that stands between us and the fulfilment of the enjoyment it prohibits. As Glynos (2008, 682) has recently explored, this then makes transgression of the Law itself into a source of enjoyment; it is a way ‘to “steal back” what the Other has supposedly “stolen”,
“supported by the thought that he or she is transgressing the Other’s law and ideals, enjoying “behind the Other’s back’’. This suggests that there will be no easy or stable regulatory fix to forestall future crises; traders need regulators in order to have the enjoyment of then finding legal ways of transgressing their rules - a transgression that secures their very being as traders.

In the above we have drawn upon Lacan to interrogate the economic view of the rational individual. Lacan’s account of the ego’s foundation in the imaginary explains how the self may be grasped as if it were indeed autonomous and rational - that is, how economists may have misrecognised the self, but also what is ‘fictional’ about this image. Firstly, we can say that the economic view of the individual is a description of narcissism. We know this for narcissism, of course, is interested only in itself. Yet as narcissism, what economics celebrates as the rational individual is revealed as an over valuation of the autonomy and capabilities of the self. In this respect the rational individual of economics deceives not just others but also himself. Secondly, we have explored the paranoid structure of knowledge that supports and complements this narcissism. Financial expertise, we suggest, was grasped initially with too much confidence. This served as a defence against the reality of not knowing, and allowed the confident projection of a lucrative expertise. However, it also foreclosed the necessity for thought and in this way remained blind to the interdependencies within which it was embedded and the effects of its own agency. Finally, we have observed the enjoyment that comes from transgressing the regulations that are the only possible route of escape from the worst potentials of the narcissism and paranoia of the economic individual. Having explored the emptiness of the economic image of the rational individual, in the second half of the paper we want to explore how economics itself helps to make a reality of this ‘fiction’ (Foucault 1977).

**Callon – How agency theory produces the calculation of economic self interest**

The second lens through which we want to interrogate and possibly disrupt the certainties of the economic view of the agent is that offered by Callon and his notions of actor network and performativity.
Like Lacan, Callon (1998, 9) suggests that there is something amiss in the economic conception of the agent. For him this is a view of the agent as ‘autonomous – over-autonomous – and isolated – over isolated’. Following Granovetter’s notions of embeddedness and networks, Callon proposes that the traditionally separate notion of ‘agent’ and ‘network’ be replaced by the notion of ‘agent-network’; the ‘agents, their dimensions, and what they are and do, all depend on the morphology of the relations in which they are involved’.

A similar move serves to reframe the notion of rationality that Callon associates with calculation. Following Bourdieu, he argues that calculation depends upon the temporal ‘framing’ of agency; the longer the time frame the less possible it is to disentangle the interests of self from those of others. As with agency itself, he insists that calculation cannot be reduced to the existence of ‘calculative beings’ since the ‘material reality’ of calculation depends upon a variety of ‘other agencies’ like the computer modelling discussed above. The move can be seen as a sort of narcissistic wound to the notion of the ‘rational’ individual since it insists that his/her calculative capabilities are the product of a set of dependencies on other agencies. So Callon’s strategy is to refuse the ‘autonomy’ and ‘isolation’ implied in economic conceptions of the rational individual, and to insist instead on the relational, embedded character of agency. How then does Callon account for market relations that seem to enact such autonomy and calculation? Here we want to pursue Callon’s (1998, 51) notion of ‘performativity’, and in particular the performativity of economic theory itself.

_Homo economicus_ really does exist. Of course he exists in the form of many species and his lineage is multiple and ramified. But if he exists he is obviously not to be found in his natural state – this expression has little meaning. He is formatted, framed and equipped with prosthesis which help him in his calculation and which are, for the most part, produced by economics.

For Callon the calculating individual is not a ‘natural’ occurrence but is instead _constructed_ in part through framing and calculating devices in markets – but also by economic theory itself. As Callon (1998, 2) famously asserts, economics does not just observe how the economy functions but rather ‘performs, shapes and formats the economy’. In what follows we look at one particular aspect of this construction – the ways in which agency conceptions of the individual have informed pay practices that
have arguably produced the very mentality and self interested opportunism that they assumed *ex ante*.

In their classic analysis of executive pay, Jensen and Murphy (1990) first made the case for the use of share options as incentives that would align the self interest of agents/executives with those of shareholder/principals. They suggested that public concerns over the quantum of executive pay had distracted attention from the more important question of how executives were paid, in particular the widespread failure to link pay to performance. The remedy, they suggested, was for boards to require CEOs to become substantial stock owners, for pay to be structured to reward performance, and for the threat of dismissal for poor performance to be made more real. Monetary compensation and stock ownership, they insisted, ‘remain the most effective tools for aligning executive and shareholders interests’ (Jensen and Murphy 1990, 144). Coupled with changes in tax regulation in the USA, the result was the very widespread adoption of share options and bonuses as part of executive remuneration (Jensen, Murphy and Wruck 2004; Lazonick and O’Sullivan 2000). There is then at least the possibility of a ‘strong’ form of performativity here in which pay practices changed in line with economic theory (MacKenzie 2006, 18/19).

However, although agency thinking provided the rationale for these widespread changes in practice, analyses over time suggested that pay did not follow performance (Tosi *et al.* 2000). What is interesting here is how behavioural economics explained these real world effects. Some 14 years after their influential call for pay for performance, Jensen, Murphy and Wruck (2004), in an extensive review of subsequent practice, offered a more complicated analysis in which options were seen to have ‘created’ an agency problem rather than merely managed it. They argued that options had created incentives for executives to bid up the share price which in turn had produced a problem of ‘over valued equity’. Some executives had then sought to defend the share price through increasingly ‘wild’ strategic moves (or, in the worst cases, through fraud, for example, in Enron, Worldcom, and Tyco). Their remedy for these emergent problems was a new conceptual rigour that sought to distinguish between ‘maximising the share price’ and ‘maximising the long run value of the firm’, and practical suggestions for how perverse option-based incentives to manage
the share price in the short term might be minimised through the use of longer term performance shares.

This response to the failure of practice can be seen to be consistent with the agency concern to devise an ‘optimal contract’ that might best align the self interest of the executive agent with that of the shareholder principal. For others, however, the failure of compensation practice to conform with agency theory prescriptions was taken as evidence of an agency problem within the pay setting process itself. Thus Bebchuk and Fried (2006, 23) offered their ‘managerial power’ model to suggest how the pay setting process was being distorted and abused by powerful CEOs. In the USA they suggested that CEO control over nominating directors to boards, appointing compensation consultants to advise the board, and determining the pay of non-executive directors prevented the board from implementing ‘optimal’ compensation contracts. This line of reasoning was supported by emergent evidence that firms were systematically manipulating the date and price at which options were being granted by boards to directors (Lie 2005).

What we want to observe in relation both to Jensen and Murphy’s and Bebchuk and Fried’s rethinking of agency theory, is the way in which the assumptions of agency thinking are preserved. In line with our earlier Lacanian discussion of the ‘paranoid’ structure of knowledge, both cling to their certainties about the self seeking motives of the agent. That agents seem willing to pursue their own interests so enthusiastically, and to bend the rules in order to do so, is taken as proof of the accuracy of the foundational assumption about the agent as a self seeking opportunist. The thought that we want to pursue here, a thought that seems always to be refused, is the possibility that agency assumptions are ‘self fulfilling’ (Moran and Ghoshal 1996), and that in this very important respect they are performative and have promoted the very behaviour and mentality that they assume (Callon 2007).

Although Bebchuk, Cohen, and Spamann (2010) assert that the use of CEO power to influence the board’s pay setting process is evidence of the truth of agency assumptions, in an earlier article Bebchuk and Fried (2006, 7) can be read as acknowledging that executive subjectivity is itself the product of the practices in which they are engaged:
Our problem is with the system of arrangements and incentives within which directors and executive operate, not with the moral virtue or calibre of directors and executives. As currently structured, the system unavoidably creates incentives and psychological and social forces that distort pay choices. They can be expected to lead most people (if they are not saints) to go some way, at least as long as they remain within established practices and conventions, toward arrangements that favour themselves, their colleagues, or people who can in turn favour them.

Importantly here, and in line with Lacan, the suggestion is that there is no essential human nature around which structures need to be organised, but rather that the current ‘arrangements and incentives’ themselves produce self interested (self favouring) conduct. In the remainder of this section we want briefly to explore such self fulfilling processes evident in the role of pay practices within the financial crisis.

**Creating the calculating banker**

To understand something of the impact of pay practices in the financial crisis it is necessary to go beyond senior executive compensation to practices that, until the crisis, lacked regulatory visibility. We rely upon the few accounts that do exist, both practitioner and academic, of bank remuneration practices as well as the conclusions of numerous investigations into, and suggested reforms of, compensation practices that have come from national and international regulators (Bowden and Posch 2009; Financial Stability Forum 2009).

One key characteristic, noted but not explored by Augar (2006) in his critique of investment banks, is that there is a unique tradition of profit sharing between their employees and shareholders. How this arose is obscure but it is noteworthy that such profit sharing is common in many institutions that are at the heart of capitalism. A related set of concerns that are unique to banks is that there is a public interest at stake for which shareholder value cannot be taken as a reliable proxy. As the UK Walker Review (2009, 23) put it:-

‘This reciprocity of interest between a BOFI board and the regulator should not, however, be overestimated. It may have been an entirely rational calculation for some bank shareholders and boards that, although operating up
to the maximum leverage accepted by the regulator involved higher risk of substantial loss or failure, the very high returns that could be generated justified the assumption of such risk.

A second typical feature of many banks is that levels of pay and, in particular, of bonus payments do not map onto the organisational hierarchy as they do in many other organisations. It is thus not unusual for relatively junior traders to be earning more than senior executives, and for these earnings to come primarily from the annual bonus pool rather than longer term options or share based incentives. Such payments escaped disclosure rules or indeed the oversight of the board which was typically charged only with setting the pay of the most senior executives (Kirkpatrick 2009).

A third important difference in relation to banking is the sources of revenue. If the bonus pool is calculated as a percentage of the accounting based profit and loss, this consists both of free cash flow (actual profits) plus mark to market gains that may or may not have been realised. It is the latter – unrealised mark to market gains – and their inclusion in the bonus pool calculation that was arguably the most contentious aspect of bank remuneration practices (Bowden and Posch 2009). With the wisdom of hindsight it is evident that this practice allowed individuals to receive bonus payments for profits that were never realised. According to the UK Turner Review (2009, 47):-

If irrational exuberance pushes the price of assets to irrationally high levels, mark to market accounting will swell declared profit in an unsustainable way. A significant element of trading book profits recorded in the years running up to the crisis proved in retrospect illusory. These illusory profits were however used as the basis for bonus decisions, and created incentives for traders and management to take further risk.

So the argument here, which has informed subsequent reform initiatives, is that there was a mismatch between the risk that was assumed, say, on a five year credit default swap contract, and the rewards that were being taken in year one on the basis of unrealized mark to market profits. As asset prices fell during the crisis, these ‘mark to market’ profits turned into losses for the institution, but its employees had already taken their share of what could now be recognised as illusory profits. In other words,
the bonus payments seemingly encouraged employees to calculate that they could only profit from the risks they were taking.

The following description of the impact of the preoccupation with pay within investment banks comes from Karen Ho’s recent ethnography of Wall Street (2009, 260).

In the worst case scenario, it breeds an environment where you may be working on a team for one project, but when it comes to compensation, everybody is trying to shove each other out of the way, saying ‘I did the most, I spent the most hours, I made the biggest contribution’. There is always the issue of this person made that much money, and I did just as much, so I should be making that much money, too. It is everybody wanting to be paid as much as, if not more than, everyone else. That is a very big deal.

This description echoes the Lacanian account of the imaginary, with pay serving as a competition-inducing mirror of the always relative value of the self. One of the scandals of the crisis that emerged as a result of the efforts of Frank Cuomo, the New York State Attorney, was the level of bonuses that continued to be paid even as the crisis unfolded. Is this not narcissism in the extreme – a sense of entitlement and a refusal to doubt one’s own beauty?

This then is part of the explanation for Greenspan’s shocked disbelief that ‘institutional self interest’ did not serve to protect against the crisis. The institution had been hollowed out from within by self interest – it was a shell that bore the losses but not an institution in the sense of shared identification or interests of employees. But belief in institutional self interest also distorted participants’ understanding of the effects of their own agency within markets. It emerged that, in line with the atomism of agency assumptions, many institutions had failed to think of the potentially systemic effects that might arise from the coincidence of institutional trading strategies. Again to quote the Turner review (2009, 44-5):

Models implicitly assume that the actions of the individual firm, reacting to market price movements, are both sufficiently small in scale as not to themselves affect the market, and independent of other firms. But this is a deeply misleading assumption if it is
possible that developments in markets will induce similar and simultaneous behaviour by numerous players.

Such was indeed the source of the crisis as credit markets froze and individual institutions sought to preserve capital and limit exposure to risk by not trusting any of their counterparties.

**Concluding thoughts**

In the above, drawing upon the work first of Lacan and then Callon, we have sought to interrogate and disrupt one of the foundational beliefs of neo classical economics – the assumed rationality of the economic ‘individual’. Drawing upon Lacan’s account of the imaginary we have suggested that economics has simply formalised the ‘méconnaissance’ that grounds the ego’s sense of itself. But rather than perpetuate this, Lacan’s analysis recasts the rational individual of economics as no more than an (empty) image of the self. Economics’ identification with this image can then be seen as a flight from lack through grasping at an idealised image of the self, a narcissistic over-valuation of both the capabilities and autonomy of the self. As a necessary prop to this self image we have also observed the paranoid structure of financial knowledge; the ways in which it is grasped as an objective truth rather than an all too human and partial gestalt of experience. We have suggested that in the run up to the crisis this was manifest in too great a confidence in its capacities to differentiate between Knightian uncertainty and calculable and trade-able risk. But then in the crisis the knowledge that risk had been widely dissipated served only to stimulate panic since risk was now everywhere. Subsequent attempts to defend the self from others then produced the liquidity crisis that was itself the cause of the crisis. Finally, we observed the contempt of the rational economic individual for the law – the way that, like the hysteric, s/he refuses subjection.

In the second half of the paper we drew upon Callon’s notion of performativity to explore the role of agency theory inspired pay practices in making a reality of the economic fiction of the individual. For some, Callon is a poor resource to draw upon for such a critique since as Mirowski and Nik-Khah (2007, 190) argue ‘ANT has tended to walk and talk more and more like the stick figure *homo economicus* from neoclassical economics for some time now’. For our present purposes, however, the
juxtaposition of Lacan and Callon seemed apposite for in the notion of the ‘performativity’ of economics we can perhaps see an attempt to remedy the paranoia of the ego; to observe the ways in which the world and self are constructed in the image of our knowledge. Here we have observed the role of pay practices in the crisis, suggesting that these widely adopted tools for aligning the assumed self interest of the agent with that of the principal produced, over time, the very problem they were designed to solve. It was the structure of incentives, informed by the work of agency theorists, along with a dizzying array of calculative devices – models, indexes, contracts etc – that constructed the individual in the image of economic thought (Callon, Millo and Muniesa 2007).

The role that Callon gives to non-human ‘actants’ can itself be read as something of a narcissistic wound to the imagined autonomy of the rational human individual of economics and, in this respect, seems entirely consonant with Lacan. In other respects, however, our juxtaposition of Lacan and Callon is suggestive of the way in which Callon might have need of Lacan. Both Callon and Lacan are keen to avoid an essentialist view of the human agent, yet what Lacan adds to this is an understanding of the dynamism that is released into the world by our all too human flight from such lack. At the level of the imaginary this involves attempts to fix and stabilise the self – to give the self substance through identification initially with the mirror image. In this respect we have suggested that pay practices within financial institutions served as a competition inducing mirror of the value of the self. At the level of the symbolic this involves the operation of desire. In this latter respect we have cast the economic individual as being not outside the law, but rather as bound to the law as a guarantor of its enjoyment of transgression, a possibility that explains why some humans find markets so exciting (Contu 2008). This, however, is just one small aspect of a dialectic of desire in which, significantly, money can be seen to play an exemplary role. For Lacan (1996, 37) money is ‘the most annihilating signifier there is of all signification’ since, as a pure and abstract medium of exchange, money signifies lack. On the one hand, the promise of money is that it will fulfil this lack; as Arnaud (2003, 31) puts it ‘money preserves for the ego its phantasm of omnipotence, since it is the power to act’. We can think here of the lure of money as a promise of autonomy and freedom from need, and as an ability to furnish the self with multiple indicators of its substance- houses, cars, designer clothes, etc. On the other hand, since lack is
constitutional for the subject, money can never quite fulfil its promise which is, of course, why we can never get enough of it. Greed then appears as an endlessly failing attempt to fill or cover over this lack. Lacan’s analysis of the operation of this engine of desire is arguably an essential element of the laws of markets.

It seems unlikely that economics will readily abandon its assumptions, in large part because they render the world calculable. The evolutionary economist Beinhocker (2006, 58) argues that ‘the hallmark of science is not its ability to forecast the future, but its ability to explain things’. However, it seems all too possible that, as knowledge, finance theory was grasped more as an instrument of profitable prediction than for the quality of its real world explanations, and that in this respect its usefulness was far more important than its accuracy (Millo and Mackenzie 2009). When in the crisis the unanticipated consequences of conduct were suddenly visible, along with the unavoidable interdependencies within which agency is always embedded, the individual of economics froze, feeding the crisis from which s/he was trying to protect him or herself. What therefore the crisis teaches is something of the scale of the consequences that can flow from the economic (mis)conception of the individual as an autonomous and ‘rational’ entity that is separable from its network of social relations.

However, even after the crisis, such assumptions seem to have retained their grip upon our imagination for no one seems willing to entertain finance without financial incentives, and, at most, reformers have argued for reward to be ‘better aligned’ with risk. Our attachment here, despite or perhaps because of the crisis, is to the essentialism of economics – to its own self belief in its expertise and the predictability, controllability and indeed profitability of its market ‘models’. But whilst, like the mirror image, economic assumptions seem impermeable, at a practical level following Callon it is at least conceivable to abandon, or at least severely constrain, the pay practices that feed the calculative mindset; to make it either impossible to calculate by lengthening the shadow of the future, or simply not worth the effort by minimising the level of reward. As has been seen by the response to pay reforms proposed by the OECD, such constraints on pay are not what bankers want, and they are already busy findings ways to evade them (Johnson and Kwak 2010).
References


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U.S. Securities and Exchange Commission. 16-4-2010. 


