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Proposal for Workshop

Economic Ideas and the Political Construction of Financial Crisis and Reform

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Abstract

The purpose of this workshop is to map and evaluate the recent financial crisis and its continuing fallout from a political economy of ideas perspective. The objective is to account for and explain the variety of persuasive struggles that are being played out across policy areas and countries. The ongoing financial crisis provides an excellent laboratory for exploring how economic ideas interact with political coalitions acting as devices for the empowerment of certain actors, the disempowerment of others and the restructuring or preservation of existing social and political relations. The paradox of the recent financial crisis is that while it opened a window of opportunity for change agents and norm entrepreneurs to push new ideas, these forces for change have had to interact with a pattern of ‘path dependency,’ where prior knowledge informs institutional responses, meaning that there is often a durable quality to pre-existing ideas. Papers at the workshop will assess and evaluate the dynamic interactions between agents promoting change and the pattern of ideational path dependency. Such analysis will not only help us to better understand how ideas relate to interests and vice versa in the current epoch, but also how the dynamics of change and continuity are interacting in relation to the current crisis and therefore its potential political and historical significance as a transformational moment or sequence of events.

1 Note that two workshops at Munster looked at the financial crisis. One focused specifically on the implications of crisis for socio-economic governance in the EU. At an early stage in the response to the great financial crash of 2007-09, it was regionally specific, but also unavoidably forward looking and speculative. The other workshop was much more focused on the construction, performativity and governmentality of credit markets and was a direct response to the freezing of financial markets in 2008, rather than the looking at the broader political, significance, construction and meaning of the crisis, or exploring what this means for constructivist and historical institutionalist political science scholarship and the relationship between the two. One workshop at St Gallen will look at the political economy of financial markets and crisis. The focus here was on how politics and elections impact on financial markets but also financial crises impact on political fortunes at elections and distributional politics. None of these workshops have focused specifically and systematically on financial crises as a form of ideational politics. Our contention is that understanding the crisis as political scientists requires a deeper understanding of how and by whom economic ideas have been used for political purposes to diagnose and construct the meaning of the crisis, as well as to forward remedies and restructure existing social and institutional relationships and therefore invest the crisis with broader political significance and meaning. This in turn requires varied analyses and explanations of the different discourses, arguments and ideational and interpretative frames used to explain and understand the crisis, to assess its implications and to generate political and institutional responses in different policy areas and in different national, regional and international contexts.
The workshop intends to develop our understanding of the phases of the politics of the current financial crisis by examining and explaining how competing sets of ideas and interpretations, relate to the strategies, aims and motives of those agents and actors advancing those ideas. The different ways in which actors use economic ideas as political weapons (Blyth, 2002), with what degrees of success and with what implications for the normative question of the political legitimacy of prevailing socio-economic orders, will be examined. Papers will provide theoretical frameworks as well as single country, comparative and issue area case studies ranging across areas such as monetary policy, fiscal policy, financial regulation, design and management of the international financial system and growth models and varieties of capitalism.

1. Workshop Outline

Financial Crises are social and political events. Throughout history, financial crises have given rise to ideological and ideational shifts that have been important in framing and interpreting crises, in allocating blame and proposing solutions and remedies that can reorder social and political relations and instigate institutional transformations (Blyth, 2002). Periods of crisis usher in heightened processes of ideational contestation, because exogenous shocks (crises) have to be endogenously constructed, or interpreted and diagnosed through frameworks of understanding (Widmaier, Blyth and Seabrooke, 2007, Hay, 1996, Bruce Hall, 2003). Ideas, in this context can act to reduce uncertainty by allowing agents to interpret the nature of the crisis around them, but they also become a coalition building resource, because they help agents to visualize how the economy works and how best to respond with policy (Blyth, 2002). A disaster or failure, such as the recent financial crash, can undermine the legitimacy of the ideas that supported the old order, opening up space for a battle over competing alternative ideas. However, translating new ideas into practice, including those that challenge or refute elements of an existing orthodoxy, can, as in the case of Bretton Woods, be a protracted process that can take a decade or more to transpire and work through (Helleiner, 2010), while the risk of political derailment and veto, is omnipresent. It is important therefore, if we are to make sense of the politics of the recent financial crisis and its ongoing fallout, to engage in stock taking exercises that enhance our understanding of the range of political conditions required for ideas to succeed, how those conditions in turn shape the evolution of ideas, as well as how economic ideas in turn shape the process of constructing and reforming institutional and social orders. This involves understanding how path dependency and ‘cognitive locking’ can give a durable quality to pre-existing ideas (Pierson 2000, Hall, 1986), creating a barrier to pressures for change from agents pushing new ideas and seeking to cultivate support for those ideas amongst the wider public, creating a dynamic interplay between forces of change and inertia.

The purpose of this workshop is to map and evaluate the recent financial crisis and its continuing fallout from a political economy of ideas perspective. The objective is to account for and explain the variety of persuasive struggles that are being played out across policy areas and countries. The workshop will act as a venue for papers that develop our understanding of the phases of the politics current financial crisis by examining and explaining how competing ideas and interpretations, relate to the strategies, aims and motives of those agents advancing those ideas, reflecting on the different ways in which actors use economic ideas as political weapons (Blyth, 2002). This will extend to include papers examining and explaining the degrees of political and institutional success different sets of ideas enjoy and with what implications for the normative question of the legitimacy of prevailing socio-economic orders.
2. **Relationship with Existing Literature**

Both rational institutionalist and historical institutionalist research agendas (see North, 1990, Keohane and Goldstein, 1993, Hall, 1989, 1993, Skocpol and Weir, 1985) treat economic ideas as something that justify courses of action as telegraphed by interests, or institutions (Blyth, 2002). Our workshop will examine whether the explanatory capacity of such approaches is challenged in crisis periods because pre-existing institutions are discredited, while material interests and processes of interest calculation become much more uncertain and fluid (Blyth, 2002, Mattli and Woods, 2009). In such circumstances, agents may use economic ideas to navigate and diagnose uncertainty, telling them who they are and what they want. In this respect, are ideas, in the current conjuncture, predicates of institutional selection (Blyth, 2002), or do institutionally determined patterns of path dependence and ideational durability dominate? (Pierson, 2000, Hall, 1986). The workshop will broach the question of the extent to which constructivist political science scholarship can combine with and complement that of historical institutionalism in analyses of financial crisis and reform.

The workshop will also explore whether our understanding of the current crisis can be advanced by treating crises as events, which agents interpret as necessitating change, and how far understanding of the politics of the crisis, its construction and meaning, can be furthered by treating ‘crisis politics’ as a series of arguments and persuasive struggles over the meaning of events (Widmaier, Blyth, Seabrooke, 2007). While papers that use established concepts such as epistemic communities (Haas, 1992, Adler, 2005) and norm entrepreneurs (Finnemore and Sikkink, 1998) will be welcomed in the workshop, we are interested in going beyond the use of ideas by elites. In particular, the workshop will take up the challenge laid down by Widmaier, Blyth and Seabrooke, 2007, to consider how persuasive practices using economic ideas have proceeded not just among elites, but also from elites to mass publics and from mass publics to elites, in the course of the current crisis in ways which have defined and constructed the nature of the crisis, as well as the implications of this kind of activity for the normative question of political legitimacy (Underhill, Blom and Mugge, 2010, Seabrooke, 2007, Scharpf, 1997, Baker, 2009).

Better understandings of the relationship between ideas, interests, institutions and distributional politics in the context of the current crisis will also require the development of accounts of the sequencing of the crisis and the interplay between ideas and interests those sequences have involved. Blyth’s five fold temporal sequence of uncertainty reduction, coalition building, institutional contestation, institutional construction, and expectation co-ordination, provides an example of the kinds of framework that could be applied, adjusted and refined, on the basis of analyses of, the current crisis, to meaningfully advance our understanding of how interests and ideas inter-relate (Blyth, 2002). Similarly, notions of cognitive locks, cognitive filtering and ideational screening can be further developed on the basis of empirical studies of the recent financial crisis (Grabel, 2003), including how institutional design can result in forms of enclave deliberation, which produce limited argument pools that become ensconced in key institutional settings (Baker, 2009). The workshop therefore intends to make contributions in five related areas: how to study and understand the politics of financial crises; the role of economic ideas in political life in terms of advancing causal explanations of social change and continuity; the different ways in which economic ideas have been used as political weapons during the recent crisis; the sequencing, construction, meaning and political significance of the current financial crisis; and the variables and conditions that affect the success, and or failure, of different sets of economic ideas.
3. **Type of paper**

The workshop will bring together papers that explore the use of ideas, argument and discourse during a financial crisis that fit into four categories:

1) Those that develop a conceptual or theoretical perspective on the use, role and consequences of different economic ideas in financial crises drawing on material from this and other historical examples of financial crisis, particularly those that reflect on the dynamic interactions between patterns of institutional and ideational path dependence and change agents promoting ideas that challenge an existing orthodoxy;

2) Those that develop empirical analyses through comparative, single country or issue area case studies, that examine the role particular governance and political institutions play (national, international, transnational, supranational, both public and private, including corporate, professional and civil society groupings), and the alliances, coalitions and strategies these actors develop, in diffusing and promoting ideas, across areas such as monetary policy, fiscal policy, financial regulation, global imbalances, the organization and governance of the global financial system, alternative growth models and forms of capitalism.

3) Those that explain, examine and reflect on the political success and or failure of particular sets of ideas in crisis situations, by investigating the sets of political conditions that shape the persuasive struggles of actors and their subsequent strategies by determining the possibilities for coalition building between elites and mass publics.

4) Those that develop normative critiques of the implications of emerging ideas and reform patterns for political legitimacy and advance prescriptive arguments concerning the institutional arrangements required for greater degrees of ideational and political legitimacy.

We are open to a range of submissions, but would hope to have a core nucleus of papers from prior contact with around ten scholars in the United Kingdom, Netherlands, Denmark, Italy, USA and Canada. This includes a diverse range of scholars from early career researchers, to mid career scholars and very senior renowned figures in the field.

4. **Funding**

Baker is currently working on two research funding proposals. One small travel grant proposal to the British Academy which will include some travel funding to invite participants to workshop in Europe and one larger bid to the Economic Social and Research of the United Kingdom for a project on post crisis financial regulation, which will include the costs of a workshop in Europe being built into the proposal. Underhill has several research grants that include some limited travel funding and has several other applications in process.

5. **Workshop Convenors**

**Andrew Baker** is Senior Lecturer in Political Economy at Queen’s University of Belfast, in the School of Politics, International Studies and Philosophy. He is the current lead editor of the *British Journal of Politics and International Relations*. His research interests lie in the field of political economy, global financial governance and the politics of economic ideas. He has published numerous articles in journals such as *Review of International Political Economy, Global Governance, New Political Economy* and *International Affairs*. He is the author of *The Group of Seven: Finance Ministries, Central Banks and


Bibliography


