Who Constructs? Professors, Presidents, and Populists in the Global Financial Crisis
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From the Great Depression of the 1930s through the Great Stagflation of the 1970s to the Global Financial Crisis, crises have not only wreaked recurring economic havoc but also reshaped policy debate in substantial ways. In this paper, I counter conventional views of such crises as exogenous shocks to a consensus. Instead, I argue that consensus causes crises. More formally, I highlight the importance of intellectual isolation, or a tendency for elite consensus to obscure the social and psychological influences on economic trends. Where isolation engenders overconfidence in macroeconomic “fine tuning,” it obscures the speculative bases of market manias and impedes policy responsiveness. In this way, intellectual stability and consensus paradoxically lead to economic instability and crisis. Secondly, I argue that where such crises reveal the limits to consensus, they expand the scope for debate, as everyday and elite agents engage in interpretive struggles over their implications for ideas and interests. Having advanced this framework, I apply it to analysis of the causes and construction of the Global Financial Crisis. I argue that a Clinton/Greenspan-era consensus on monetary fine tuning obscured the psychological bases of the 2000s subprime boom in ways which helped cause the Global Financial Crisis, and that subsequent struggles have seen the Obama administration’s anti-populist tendencies expand the scope for the populist Tea Party movement.
Introduction

Emotional forces matter. They shape policy beliefs and market trends, and have implications for the causes and consequences of crises. Indeed, emotional forces both helped cause the Global Financial Crisis and shaped subsequent debate over its policy implications in ways that cannot be reduced to *cui bono* or “Who benefits”-styled concerns for coalitional struggles, but rather are better seen as pertaining to *cui facio* or “Who constructs”-styled concerns for the meaning of events. Unfortunately, IR theory is under-equipped to make sense of such emotional influences. On the one hand, materialist frameworks treat the effects of crises as self-evident, in way that obscures the importance of interpretive struggles over constructions of crises. On the other hand, while constructivist approaches foreground such struggles, they often leave unexplained the tensions and conflicts that give rise to specific crisis-constructions. Finally, in treating crises as *deus ex machina*-styled exogenous shocks, neither approach offers sufficient insight into the *causes* of crises themselves.

To address such concerns, I offer a framework in this paper which counters conventional views of crises as exogenous shocks to a consensus, arguing instead that *consensus causes crises*. To this end, I highlight the importance of *intellectual isolation*, or a tendency for elite consensus to obscure the social and psychological influences on economic trends. Where isolation engenders overconfidence in macroeconomic policy, it can obscure the speculative bases of market manias in ways that undermine policy effectiveness over time. In this way, intellectual consensus can paradoxically lead to economic crisis. Furthermore, such tendencies have subsequent implications for struggles over constructions of crises: Where crises reveal the limits to elite consensus,
they expand the scope for populist influences in ways that provide “norm mediators” – who straddle elite and everyday debates – with opportunities to reshape the emotional bases of policy interests.

Having advanced this framework, I apply it to analysis of the causes and construction of the Global Financial Crisis, emphasizing the effects of intellectual isolation in engendering an overconfidence in monetary fine tuning, even as financial market expectations increasingly assumed “lives of their own.” Where the intellectual consensus on monetary fine tuning obscured the psychological bases of the subprime boom, it acted as a permissive cause of the Global Financial Crisis. Tracing subsequent struggles over its meaning, I further argue that even as the Obama administration’s initial populist reactions to the crisis harmonized with policy arguments for macroprudential regulation (particularly executive pay controls), anti-populist tendencies within the administration undercut such reformist possibilities and expanded the scope for the emergence of the populist Tea Party movement. I conclude by addressing implications for the explanatory scope of IR theory, cumulation across materialist, rationalist and constructivist approaches, and the potential for a more policy-relevant scholarship.

**Material, Cognitive and Affective Influences**

What causes economic crisis and policy change? From one, materialist, vantage, IR scholars have argued that crises provide exogenous shocks to the resources available to state and societal agents engaged in coalitional struggles. However, even as such approaches provide insight into the struggles that influence “who gets what,” they remain limited to the extent that neither state nor societal agents can react to crises before they
have interpreted them in some intersubjective framework. In this light, IR scholars have in recent decades engaged in a “constructivist turn,” to emphasize what Alexander Wendt terms the “beliefs about how to meet needs” that shape state and societal interests.\(^1\) In one attempt to systematize these insights, Martha Finnemore and Kathryn Sikkink advanced a theory of a “norm life cycle” in which norm entrepreneurs engaged in “strategic social construction… call attention to issues or even ‘create’ issues.”\(^2\) Yet, these analyses in turn remained wanting to the extent that they provided limited insight into the nature of struggles among norm entrepreneurs or their eventual outcomes.\(^3\)

In this effort, I argue that these limitations can be rectified by a more explicit engagement with the affective influences on cognitive debates. Such influences have been increasingly – though implicitly – engaged by a number of scholars in recent years. For example, Mark Blyth characterizes crises as moments of not only uncertainty but also of anxiety as he casts the 1970s stagflations as spurring an “all-encompassing social crisis” and “moral panic.”\(^4\) Leonard Seabrooke’s work on everyday politics similarly often engages the affective context of economic debates, highlighting the ways in which popular attitudes regarding economic rights matter more than the utilitarian calculus of class or sectoral advantage.\(^5\) Over the remainder of this section, I accordingly offer a model premised on assumptions that: 1) emotional predispositions exert sentimental and reflexive effects on paradigmatic frameworks; 2) intellectual isolation obscures these

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\(^1\) Wendt (1999, 130)
\(^2\) Similarly, Emanuel Adler and Peter Haas (1992) stressed the role of elite “epistemic communities” in driving paradigmatic transformations, as networks of policy elites might advance favored constructions of reality. Adler himself (2005 [1991:83]) attributed the establishment of the Bretton Woods institutions to the efforts of “a small group of key… economists,” who shared a common desire to limit the destabilizing effects of market forces. Quotes in text from Finnemore and Sikkink (1998, 895-897)
\(^3\) To paraphrase Finnemore and Sikkink (1998, 905-906), the challenge was not simply to show that ideas mattered, but to explain the circumstances under which specific ideas might matter.
\(^4\) On moral panic, see Blyth (2002, 150, 280)
\(^5\) Seabrooke (2006)
influences in ways that engender legitimacy gaps, competency traps, and policy inflexibility; and 3) such tendencies facilitate the construction of crises in which “norm mediators” simultaneously engage both populist and elite arguments as they seek to legitimate paradigmatic change.⁶

1. Emotional Beliefs: Sentimental and Reflexive Selection

First, with respect to the emotional bases of policy beliefs – as figures from William James to Robert Zajonc have argued – emotional trends cannot be reduced to cognitive forces or random influences which “cancel out” as real-world influences. As Mercer argues, an “experience of emotion might be appropriate or inappropriate, but it is not true or false. Emotion is not irrational and neither are emotional beliefs.”⁷ Indeed, the tendency of rationalist frameworks to disregard them as a source of misperception is misplaced, as emotional influences sentimentally shape paradigmatic debates and can have reflexive – or potentially self-reinforcing – implications for policy trends and market choices.

Regarding the former, I argue that emotional influences sentimentally prefigure cognitive choices. As Andrew Ross has argued, agents’ “modes of belief and identity” are “absorbed before being chosen,” and affective predispositions “tinge our intellectual beliefs” in ways that have implications for paradigmatic frameworks.⁸ Elaborating, Ross distinguishes the collectively-experienced nature of “circulations of affect” from more subjective, individualized feelings, arguing that “[w]hereas feelings are subjective ideas, 

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⁶ Such a view of anxiety as apprehension or fear of a loss of emotional control is a recurring one. See Jung (1917); Freud (1923); May (1950); Neumann (1957); Hunt (1999).
⁷ Mercer (2010, 3)
⁸ Ross (2006, 199)
affects cut across individual subjects and forge collective associations from socially
induced habits and memories. Moreover, they are experienced by decision-makers and
publics alike…” To be sure, Ross stresses that “[e]xploring this affective dimension does
not negate the presence of strategic calculations; on the contrary, the latter were all the
more viable where there were already affective dispositions conducive” to particular
policy choices.⁹

Regarding the latter, emotional states also exert reflexive effects on market trends
and policy effectiveness where they shape the policy beliefs of officials and economic
choices of market agents in ways that assume “lives of their own.” Put differently, from
this vantage, what “everybody knows” can have self-fulfilling implications for
paradigmatic assumptions, as – for example – attitudes of trust in government influence
whether regulation “works.”¹⁰

2. Intellectual Isolation: Legitimacy Gaps and Competency Traps

While emotional tendencies can shape market trends, the importance of such
influences is often discounted in elite debates in the context of intellectual isolation,
defined here as an elite tendency to exclude social and psychological concerns from

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⁹ Ross (2006, 199-200)
¹⁰ Indeed, economists from Robert Lucas to Hyman Minsky argue that market interests are variable, and
that no structural model can “always and everywhere” explain macroeconomic trends. Where they differ is
with respect to the source of variation in market interests – as rooted in policy excesses or market
instability. Lucas suggests that variation in market choices is rooted in exogenous forces, meaning supply
shocks or – of interest here – policy errors. Minsky highlights the tendency of market psychology to
increasingly discount the scope for risk over time. However, as I argue below, emotional influences may
themselves inhibit policy flexibility in ways that engender an overconfidence that ironically exacerbates
Minsky-styled emotional excesses. From this perspective, the same institutional pathology – intellectual
isolation – can provide a source of both market and policy errors.
paradigmatic debates.\textsuperscript{11} Ironically, while such tendencies often reflect efforts to enhance policy rationality, intellectual isolation risks undermining policy effectiveness as a result of two key effects. In popular contexts, intellectual isolation engenders the intensification of what Leonard Seabrooke terms “legitimacy gaps” between everyday attitudes and paradigmatic frameworks.\textsuperscript{12} In the economic realm, this manifests itself in an anti-populist tendency to limit engagement with the public on the grounds that such engagement risks undermining policy rationality. Where elites subsequently ignore potential variation in everyday interpretations of economic incentives, this can lead them to both underrate the potential for self-fulfilling wage-price spirals and market manias.

In more elite settings, intellectual isolation can lead policymakers to attribute persistently strong economic performance to their own technocratic acumen, and to ignore the diminishing effectiveness of macroeconomic fine tuning. Where such constructions legitimate the consolidation of elite consensus, the result may be to promote the emergence of what March and Olsen term “competency traps,” to the neglect of policy adaptation to shifts in market beliefs and interests.\textsuperscript{13} March and Olsen define a competency trap as embodying “the tendency for a system to become firmly locked into a

\textsuperscript{11} From a social psychological vantage, this argument accords with views of the “rational” ego as itself a source of anxieties, which arise from fears of being overwhelmed by uncontrollable impulses flooding in from the id. Such concerns can be seen as having recently manifested themselves – as I suggest below – in postwar calls for “an end of ideology” and a more dispassionate scholarship, calls which represented intellectual reactions to fascist, Marxist, and, in the postwar U.S., McCarthyite popular movements. Emotional movements in politics were seen as fundamentally destabilizing, and as forces to be repressed and isolated from debate – not engaged in a way that may itself incite more attention from an anti-intellectual public.

\textsuperscript{12} Seabrooke (2006)

\textsuperscript{13} These arguments accord with Barnett and Finnemore’s (2004, 34-36) analyses of the “pathological” tendencies of IOs, as they have deployed insights drawn from the study of organizational psychology to explain IO behavior which violates “the self-understood core goals of the organization.” They highlight its sources in bureaucratic emphases on rule-driven behavior – which impedes the ability of agents to reflect on larger goals – and tendencies to specialization – which “limit bureaucratic fields of vision and create subcultures” that can run counter to prevailing views. In defining tendencies which contribute to such behavior, they emphasize in particular the insulation of organizations from the broader communities which they are meant to serve.
particular rule-based structure by virtue of developing familiarity with the rules and capabilities for using them.” Such tendencies build pressures for crisis as policy elites become “resistant to new opportunities” in ways that foreshadow “long-run obsolescence and… change associated with ‘punctuated equilibria,’ ‘critical junctions,’ and ‘performance crises.’”14 We’re looking at you, Timothy Geithner. Put succinctly, this analysis suggests that while crises are – as Mark Blyth suggests – moments of uncertainty, they may also be paradoxically caused by an excess of certainty – in economic terms, most importantly, marked by excessive faith in fine tuning.

3. The Construction of Crises: Mediating Intellectual and Everyday Debates

Having described the means by which anxieties accumulate over time, it is necessary to identify mechanisms of change. In this light, I counter materialist approaches which emphasize the role of “exogenous shocks” in driving change, on the basic grounds that policymakers cannot react to changes until they have first interpreted them. However, such interpretation cannot simply be reduced to cognitive deliberations. Instead, I argue that the interpretive practices involved in such efforts cannot be cast as the exclusive function of either populist or elite appeals: They are best appreciated as emerging from their mutual interactions, as coordinated by key emotional mediators. The most important such mediators comprise public intellectuals and representatives of a rhetorical presidency, who address both the emotional and cognitive implications of crises. In such struggles, the main cleavages are less often between agents of capital or

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14 They elaborate “What is required is a willingness to engage in experimentation that is unlikely to succeed and particularly unlikely to be rewarding in the temporal and spatial neighborhood of the experiment. Unfortunately, although too little experimentation is likely to be disastrous in the longer run, too much experimentation is likely to be disastrous immediately.” (March and Olsen 1998, 964-965)
labor, or between Keynesians and Classical economists, or between representatives of Treasuries or Finance Ministries. Instead, they reflect intellectual-populist tensions, often giving rise not only to Hofstadter-styled tendencies to anti-intellectualism, but also under-recognized tendencies to elite anti-populism, which – however cognitively justified it may be – may also reflect a lack of emotional intelligence. We’re looking at you, Larry Summers. Taking these assumptions together, figure 1, below, provides an overview of this approach.

| **Position 1:** Emotional beliefs sentimentally shape cognitive debates, and reflexively shape policy and market trends | **Position 2:** Intellectual isolation gives rise to legitimacy gaps and competency traps. | **Position 3:** Declining policy legitimacy and effectiveness lead norm mediators to reconcile populist and intellectual trends in constructions of crises. |

Over the following sections, I trace the interplay of policy ideas, intellectual isolation, and constructions of crises. In methodological terms, this requires an interpretive, historically-oriented approach, one which recognizes that agents do not react to material shifts in abstraction from a social context shaped by both cognitive and affective influences. First, to provide a backdrop, I offer a brief discussion of the construction of the Great Stagflation of the 1970s and the overlooked impact of Reagan’s populist denunciations of labor – particularly in the context of the PATCO air traffic controllers strike – and its effects in limiting labor assertiveness and reshaping wage expectations in a way that persisted into ensuing decades. Having done so, I move to highlight the consequences of intellectual isolation in shaping a Clinton/Greenspan-era overconfidence in monetary policy and skepticism, arguing that this presaged the Global
Financial Crisis. Finally, I shift to a discussion of the effects of anti-populism in the Obama White House, arguing that this has not only permitted the expansion of the Tea Party movement, but also impeded efforts at rebalancing the U.S. economy away from credit-based and back towards wage-based growth.

**Constructing the Global Financial Crisis**

1. *The Great Stagflation and Popular Opposition to Labor*

Over the post-World War II decades, appeals to wage and price cooperation played a key role in enabling policymakers to reconcile price stability with full employment levels of growth. By fixing the psychological bases of wage and price expectations, guidelines took the burden off monetary and fiscal policy to contain inflation, enabling more expansionary economic policies. However, by the early 1960s, tendencies to intellectual isolation emerged amidst calls for an “end of ideology” and elite skepticism of populist influences. Over 1960s, these trends would spur the rise of a technocratic Neoclassical synthesis and increasing confidence in the durability of the Phillips Curve trade-off between inflation and unemployment as a guide to discretionary fiscal policy. Expressing the confidence of the day, Walter Heller, Chairman of the Kennedy Council of Economic Advisers asserted that:

> Economics has come of age in the 1960s... We at last accept... that the Federal Government has an overarching responsibility for the nation’s economic stability and growth.... The basic structure of the Keynesian theory of income and employment... are now the village common of the economics community.

When Milton Friedman, the chief guardian of the laissez-faire

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15 Indeed, wage and price guidelines worked in a manner similar to arguments for macroprudential regulation in the contemporary context, as executive pay guidelines, capital adequacy standards, and efforts to limit predatory lending might work to reduce the need for overall macroeconomic restraint as a means to contain financial bubbles.
tradition in American economics, said not long ago ‘We are all Keynesians now,’ the profession said ‘Amen.’

This overconfidence obscured the psychological bases of inflation over the Vietnam War years, leading the Johnson administration Council of Economic Advisers to cease publishing quantitative wage guidepost figures, oppose discussion of wartime controls, and resist attempts at popular mobilization on the grounds that such efforts risked politicizing economic policymaking.

Over the 1970s, this intellectual isolation obscured the diminishing effectiveness of policy fine tuning in the face of an accelerating wage-price spiral. By 1979, in the context of diminishing support for macroeconomic “gradualism,” Federal Reserve Chairman Paul Volcker imposed unprecedented monetary restraint. Perhaps even more importantly over the longer term, the Reagan administration’s 1981 dismissal of striking air traffic controllers would act as a lasting restraint on labor demands. Volcker himself later asserted that the firings had played a “watershed” role in blunting inflation, having “had a profound effect on the aggressiveness of labor at that time” as demands for wage increases would yield to grants of wage relief by unions like the Teamsters and UAW.

2. Intellectual Isolation and the Construction of Monetary Consensus

Over the next several decades, however, the importance of the shift in labor attitudes would be increasingly overlooked by economists of Classical and Keynesian

\[\text{\textsuperscript{16}}\] Heller (1966, 1;2; 9) elaborated “In other respects, too, conceptual advances and quantitative research in economics are replacing emotion with reason. Advances in the theory and measurement of externalities – of social benefits and costs – are leading to greater agreement on the principles that should govern where and how deeply government should enter into the support of various functions.”

\[\text{\textsuperscript{17}}\] Regan’s condemnation of the strikers – in law-and-order terms stressing the illegality of their strike – was particularly blunt, and had an everyday, populist appeal. Interview with Paul Volcker, “From Carter to Reagan” The Commanding Heights (website) <www.pbs.org/wgbh/commandingheights/shared/minitextlo/int_paulvolcker.html#6>
persuasions alike. Instead, narratives of the end of inflation would stress the importance of monetary restraint, a view in keeping with the rise of a “New Keynesian” approach to economic policy. To be sure, in the early 1980s, the New Classical critique seemed on the brink of completely overshadowing the Keynesian approach. One of the most prominent New Classical theorists, Robert Lucas, argued that Keynesianism represented a fading view, suggesting that “at research seminars, people don’t take Keynesian theorizing seriously anymore; the audience starts to whisper and giggle to one another.”¹⁸

However, this dismissal turned out to be premature, as discretionary policy was revived in the context of a “New Keynesianism.” This accepted key elements of Friedman’s “adaptive expectations” critique regarding the short-run merit of monetary policy. For example, Gregory Mankiw argued that Keynesianism had been “reincarnated,” and that the current revival was best seen as a “rebirth into another body.”¹⁹ Mankiw would characterize New Keynesians as

…the keepers of the faith that policymakers face a short-run tradeoff between inflation and unemployment. New Classicals… deny the existence of any tradeoff over any time horizon. Here we can see how misleading the labels have become. Old classical economists, such as David Hume, asserted that money was neutral in the long run but not in the short run. This is exactly the position held by the New Keynesians. By contrast, new classical economists claim that money is neutral even in the short run.²⁰

In terms of policy implications, because New Keynesians recognize the existence of short-term market inefficiency in the use of information, they recognize the merit of intermittent market activism, but retain a skepticism in regulation, guidelines or controls.

¹⁹ Mankiw 1992, 446.
²⁰ Mankiw 1992, 449.
In this light, the Phillips Curve trade-off itself was reincarnated to a degree as the Taylor Rule, developed by New Keynesian economist John Taylor, who argued that monetary policymakers should balance concerns for growth and price stability in setting interest rates. In his original piece describing the rule, Taylor would argue for

…placing a positive weight on both the price level and real output in the interest-rate rule… Placing some weight on real output works better than a simple price rule, but it is not clear whether the weight on output should be greater than or less than the weight on the price level. A general conclusion from these results is that placing some weight on real output in the interest-rate reaction function is likely to be better than a pure price rule.\(^{21}\)

Taylor overlooked the use of monetary policy to address asset-price fluctuations, asserting that “this rule fits the actual policy performance during the last few years [1987-1992] remarkably well,” but also acknowledging “a significant deviation in 1987 when the Fed reacted to the crash in the stock market by easing interest rates.”

In policy terms, even though Greenspan himself never promulgated a Taylor-rule styled doctrine. However, the Taylor Rule served as a heuristic guide over the period of the “Great Moderation” from the late 1980s through the Global Financial Crisis.

Greenspan himself saw his role as managing an activist monetary policy, maintaining macroeconomic equilibrium during “normal times” and “mopping up” in the aftermath of bubbles – a pattern that was set by his widely-lauded response to the 1987 stock market crash. Over the next two decades, in the context of recurring crises – afflicting the Mexican Peso, the Asian economies, the 1998 stock market collapse and Long Term Capital Management debacle, and the Enron and Dot-Com busts – economists would

\(^{21}\) Taylor (1993, 201-202)
increasingly view asset-price bubbles as manageable events, which an infusion of post-crisis credit could readily fix. This eased pressures for the use of moral suasion (particularly after the December 1996 failure of Greenspan’s “irrational exuberance” warning) and limited calls for the use of monetary policy to deflate bubbles in advance of any crisis. Indeed, Ben Bernanke and Mark Gertler would argue at the 1999 Federal Reserve Conference at Jackson Hole, Wyoming that the Federal Reserve should stay focused on macroeconomic matters, arguing that “We cannot practice ‘safe popped’ at least not with the blunt tool of monetary policy.”

Greenspan also gave voice to the skepticism in regulation, arguing that “[s]ince I was an outlier in my libertarian opposition to most regulation, I planned to be largely passive in such matters and allow other Fed governors to take the lead.”

However, the prevailing view over this period increasingly obscured the need for regulation, a view that spanned the Clinton and Bush presidencies. Expressing the conventional wisdom of the day, Federal Reserve Staffer – and later FOMC Board Member – Donald Kohn would argue at a Jackson Hole conference against regulation on the grounds that financial innovation would “enable risk and return to be divided and priced to better meet the needs of borrowers and lenders [and]… permit previously illiquid obligations to be securitized and traded.” This would render the financial system “more resilient and flexible” and “better able to absorb shocks without increasing the effects of such shocks on the real economy.” Such arguments obscured the possibility that, by distributing risk across the system, firms were limiting their individual

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22 Wessel (2009, 60)
23 Greenspan (2007, 373.)
24 Kohn (2005); quoted in Wessel (2009, 103)
vulnerabilities but paradoxically doing so at the expense of the stability of the system itself.25

By the early 2000s, prevailing macroeconomic debate was characterized by consensus on the existence of a “Great Moderation,” which Ben Bernanke would himself address in a speech that lauded the Taylor Curve framework and credited policy with having achieved a prolonged stability.26 No less a figure than New Classical economist Robert Lucas would echo Walter Heller’s hubris of earlier decades, arguing that:

Macroeconomics was born as a distinct field in the 1940s, as a part of the intellectual response to the Great Depression. The term then referred to the body of knowledge and expertise that we hoped would prevent the recurrence of that economic disaster. My thesis in this lecture is that macroeconomics in this original sense has succeeded: Its central problem of depression-prevention has been solved, for all practical purposes, and has in fact been solved for many decades. – Robert Lucas (1993, 1)

When the subprime bubble burst, Greenspan himself of course famously summed up the limits of his worldview in Congressional testimony following the crisis: “I made a mistake in presuming that the self-interest of organizations, specifically banks and others, were such that they were best capable of protecting their own shareholders and their equity in the firms… And it’s been my experience, having worked both as a regulator for eighteen years and similar quantities in the private sector, especially ten years at a major international bank, that the loan officers of those institutions knew far more about the

25 Kohn later acknowledged that the Global Financial Crisis had made it very clear the risk had not been distributed. “So all I had said at Jackson Hole about risks being distributed and people being safer and people knowing what they had and people could choose and diversify and all that—it turned out to be not entirely true.” Wessel (2009, 104)

26 As late as August 2007, the Bernanke Federal Reserve was more concerned for the likelihood of inflation than a market downturn, as that month’s FOMC statement noted that “Although the downside risks to growth have increased somewhat, the Committee’s predominant policy concern remains the risk that inflation will fail to moderate as expected.” Wessel (2009, 100)
risks involved in the people to whom they lent money than I saw even our best regulators at the Fed capable of doing.”

In a subsequent exchange, Greenspan elaborated that “what I'm saying to you is, yes, I've found a flaw… in the model that I perceived as the critical functioning structure that defines how the world works, so to speak.”

3. Constructing Crises: Anti-Populism Meets Anti-Intellectualism

In the aftermath of the collapse of the subprime boom, IMF Chief Economist Olivier Blanchard later gave expression to the economics conventional wisdom of this period, stressing the degree to which macroeconomic policymakers had placed an excessive stress on monetary policy, emphasizing “the use of one instrument… the short-term interest rate that the central bank can directly control through appropriate open-market operations.” Blanchard elaborated that:

Behind this choice were two assumptions. The first was that the real effects of monetary policy took place through interest rates and asset prices, not through any direct effect of monetary aggregates… The second assumption was that all interest rates and asset prices were linked through arbitrage. So that long rates were given by proper weighted averages of risk-adjusted future short rates, and asset prices by fundamentals, the risk-adjusted present discounted value of payments on the asset. Under these two assumptions, one needs only to affect current and future expected short rates: all other rates and prices follow. And one can do this by using, implicitly or explicitly, a transparent, predictable rule… such as the Taylor rule, giving the policy rate as a function of the current economic environment… Under these two assumptions also, the details of financial intermediation are largely irrelevant.”

27 Wessel (2009, 65)
28 Excerpt from October 23, 2008 exchange between Greenspan and House Oversight and Government Reform Committee Chairman Representative Henry Waxman <http://washingtontimes.com/weblogs/potus-notes/2008/Oct/24/he-found-flaw/>
29 Blanchard, Dell’Ariccia, and Mauro (2010, 5)
However, as suggested above, elite paradigmatic arguments for macroprudential regulation are not self-implementing, and the policy impact of critiques like those advanced by Blanchard would depend on their acceptance by broader publics.

Indeed, to the extent that the Global Financial Crisis would prompt a policy shift in the direction of regulation, the Obama administration found itself facing popular and bipartisan pressures for a time in early 2009 for the imposition of pay controls on the bonuses of financial firms receiving governmental assistance. More specifically, in mid-March 2009, reports surfaced that 400 top American Insurance Group (AIG) executives received $165 million in bonuses. Obama immediately moved to denounce “executives… who turned to the American people, hat in hand, when they were in trouble… [yet] paid themselves their customary lavish bonuses.”

Barely a month later, Obama reaffirmed “I don’t want to quell anger. I think people are right to be angry. I’m angry.” However, even in this context, as the House of Representatives passed a bill that taxed bonuses for executives at bailed-out companies at 90 percent, the administration refrained from supporting it in the Senate. This reluctance stemmed in part from administration opposition to populist appeals, which were seen as threats to business confidence. According to journalist Jonathan Alter, Obama himself was

…appalled and philosophical at the same time, listening with an annoyed expression to the tired ‘retention’ argument peddled by bankers and their apologists. This view held that the only bankers who could ‘unwind’ AIG’s toxic derivatives were some of the same geniuses who had caused the mess in the first place.

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30 Office of the Press Secretary, “Remarks by President Barack Obama on Executive Compensation with Secretary Geithner,” February 4, 2009; <www.whitehouse.gov/the_press_office/RemarksbyPresidentBarackObamaOnExecutiveCompensationSecretaryGeithner/>; Federal Reserve Chairman explicitly affirming that nothing over the course of the crisis had made him “more angry… than AIG.” “Bernanke Says Insurer AIG Operated Like a Hedge Fund,” Bloomberg.com March 3, 2009 <http://www.bloomberg.com/apps/news?pid=20601087&sid=aHx9vZa0UJo&refer=home>

31 Office of the Press Secretary, “Remarks by the President upon Departure” March 18, 2009; <www.whitehouse.gov/the_press_office/Remarks-of-the-President-Upon-Departure>
A more plausible argument, offered by Summers, was that all the wailing about AIG was destroying its brand and its ‘market cap’ (value) and thus making it much less likely that the company would ever pay back what it owed the treasury. Every slap at AIG was arguably costing the taxpayers tens of billions of dollars, he argued.32

In June 2009, the administration announced its formal response to the bonus outcry, as Treasury Secretary Geithner advanced a set of principles designed to limit excessive risk taking and appointed a Special Master for executive compensation, Kenneth Feinberg (a prominent Washington lawyer who had overseen victims compensation payouts following the September11 attacks). In setting forth principles to be followed by Feinberg, the Treasury limited itself to utilitarian concerns for the health of the firm, and not broader notions of fairness or equity that might have been more politically salable. It argued that Feinberg, in setting bonuses and compensation at TARP firms, “should avoid incentives to take unnecessary or excessive risks that could threaten the value of the TARP recipient… reflect the need for the TARP recipient to remain a competitive enterprise, [align] the interest of the employee with the interests of shareholders and taxpayers, and should be consistent with… compensation structures… at similar entities that are similarly situated.”33

This aversion to popular concerns for fairness or equity continued into Feinberg’s tenure, as Geithner stressed the need to recoup TARP funds and as Treasury and Federal Reserve officials pushed Feinberg to be more accommodating of TARP firms. In meeting with Geithner, Feinberg later recalled that the Treasury Secretary “did not talk about avenging popular anger over executive pay abuses but instead stressed “the need to keep the seven companies in business so that the taxpayers could eventually get their

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32 Alter (2010, 312)
33 Feinberg 2010
money back.” But, Feinberg says, Geithner also “expressed the hope that... I could build in some new substantive criteria for compensation, such as prospective performance” as well as “low cash-based salaries... so that my work would have an impact well beyond the seven companies.”34

Ironically, Feinberg himself would cite populist pressures in his interactions with the firms under his authority, in effect mediating popular and elite attitudes more effectively than the administration itself. Feinberg recalled that

I told them it wasn’t Citi or Bank of America or the others against me, it was Citi and me or B. of A. and me, against [the public]…. What I tried to make them understand… was that if I didn’t do something, the public would revolt, and Barney [Frank] would surely do something much more drastic that would endanger them and the whole system.35

Treasury and Federal Reserve officials specifically pushed Feinberg to be more accommodating in the case of AIG, as he received what he termed “intense pressure” from officials at the Treasury Department and from the Federal Reserve Bank of New York. While Feinberg understood the utilitarian case for keeping AIG functioning as a viable enterprise – so that it could repay its loans to the government – he also stressed concerns for legitimacy or “maintaining the public’s confidence in our capacity to govern,” and was concerned that high bonus payments to AIG would incite public anger. In this light, he made sure that in announcing the approved bonuses, he stressed the magnitude of initial requests by the relevant firms, and his success in knocking back those same requests.36

34 Brill (2010)  
35 Brill (2010)  
36 Brill (2010)
Ironically, Obama officials overestimated not only possibilities for populist backlash, but also their own ability to assuage business confidence. In particular, technocratic opposition to populist appeals left the administration open to the emergence of the Tea Party movement – a cross-class movement unified by a shared resentment of government authority. Its origins can be paradoxically traced to the floor of the Chicago Mercantile Exchange, where CNBC television personality Rich Santelli delivered a widely-commented upon rant against the Obama administration:

I’ll tell you what, I have an idea… How about this, President and new administration? Why don’t you put up a website to have people vote on the Internet as a referendum to see if we really want to subsidize the losers’ mortgages; or would we like to at least buy cars and buy houses in foreclosure and give them to people that might have a chance to actually prosper down the road, and reward people that could carry the water instead of drink the water?...This is America! How many of you people want to pay for your neighbor’s mortgage that has an extra bathroom and can’t pay their bills? Raise their hand. (Booing) President Obama, are you listening?...You know, Cuba used to have mansions and a relatively decent economy. They moved from the individual to the collective. Now, they’re driving ’54 Chevys, maybe the last great car to come out of Detroit… We’re thinking of having a Chicago Tea Party in July. All you capitalists that want to show up to Lake Michigan, I’m gonna start organizing.37

This written excerpt itself barely captures the tone of resentment in Santelli’s tirade, or the emotional support it received from the trading floor. Over the next several months, as the Tea Party movement developed into a national phenomenon, emotional constructions of the Financial Crisis would accordingly downplay the need for reform. Instead, they emphasized the efforts of the Federal National Mortgage Association or “Fannie Mae” under the Community Reinvestment Act (CRA) and as advanced by activist groups like

the Association of Community Organizations for Reform Now (ACORN) to push loans on undeserving borrowers.

The expansion of the Tea Party movement is not merely a matter of political strategy, but also has implications for economic policy orientations. To the extent that Reagan’s firing of the air traffic controllers succeeded in attracting popular support for ratcheting back expectations regarding wages, it had a lasting effect in undermining the wage basis for demand, in a way that spurred the subsequent reliance on debt-financed consumption that followed through to the Global Financial Crisis. To the extent that the financial system is unable or unwilling to provide ongoing credit, the Obama administration’s failure address in a more populist way the need for a rebalancing of wages and profits may have broader implications for U.S. growth as well.

Conclusions: Implications for IR Theory

These oversights have three broad consequences. First, the repression of emotion leads to recurring empirical oversights, obscuring the reality of emotional influences on state interests. While emotional forces may be messy, contradictory, and unobservable, that makes them no less real, and the failure to concede this influence undermines the scope of IR theory. Whether as Hirschman (1977) referred to the “passions” that can drive behavior, or as Freud (1926) highlighted the anxieties that might feed on themselves in self-reinforcing fashion, or as Keynes (1936) stressed the role of “animal spirits” in driving self-fulfilling expectations or market “manias” or “panics,” international interactions are shaped not only by material calculation or cognitive beliefs, but also by shifting emotional states. Emotional forces are often the very “fundamentals”
that drive alliance trends and shape institutional arrangements.\textsuperscript{38} They cannot simply be reduced to mere subjective tendencies to optimism or pessimism which “cancel out” as competition limits behavior or as reducible to cognitive information.

Secondly, a neglect of emotion has frustrated efforts at promoting the cumulation of theoretical knowledge. In the context of tensions among materialist, rationalist and constructivist approaches, IR scholars have permitted first order ontological differences over “what the world is made of” to impede more pressing second-order discussion of “how the world works.” An awareness of emotional influences may help to overcome these difficulties. On the one hand, it may enable rationalist and constructivist scholars to recognize the sources of inconsistent preferences on the part of state and societal agents, who may not know “why they are doing what they are doing.” Inexplicable acts – from the invasion of a country that poses no threat to the failure to take action to address global warming – must, in rationalist or constructivist views – reflect some preference structure, the influence of a societal norm, or a lack of information. In this sense, while differing over whether agents abide by “logics of consequences” or “logics of appropriateness,” rationalists and constructivists agree that agents act in intentional fashions, and know what they are doing.\textsuperscript{39} Yet, agents may not know what they want. It may be that agents cannot access all the understandings that shape their interests, or beliefs regarding their needs. From this vantage, the most important structures shaping state and societal interests may be neither material nor social, but rather unconscious. Similarly, an

\textsuperscript{38} To the extent that an enduring dilemma for constructivists pertains to why specific ideas triumph, emotional contexts are key influences – as tendencies to trust or anxiety have implications for the relevance of defensive or offensive realism or for interests in economic cooperation or a “laissez-faire” stance.

\textsuperscript{39} This consensus on the intentional nature of behavior has arguably driven recent efforts to integrate constructivist and rationalist insights. On a rationalist-constructivist synthesis, see Checkel (1997); Adler (1997); Fearon and Wendt (2002) Habermas (1971, 228) explicitly recognized the relevance of unconscious structures as constraints on communicative action. See also Warren (1995, 185)
engagement with emotion has implications for the constructivist-materialist divide, at least to the extent that emotions have simultaneously physiological and social dimensions. As Andrew Ross has argued, physiological responses – as much as any paradigmatic frameworks – help agents interpret their environments, and that emotional predispositions to external stimuli are shaped by the social context. This has further implications for understandings of agency, suggesting that emotional predispositions have an embodied, material component.  

Third and finally, while the repression of emotion may be rationalized as enhancing the problem-solving relevance of IR Theory (Waltz 1979), its effects on the language of scholarly debate may ironically undermine its accessibility to the public and even policymaking communities, where debate is often waged in more emotional and normative terms. In simpler terms, no one – outside the subculture of IR Theory – “talks like” IR theorists. This matters for IR theory, because – as Rorty (1987, 245-246) put it, “value-free” social science – premised on a fact/value distinction “will not be of much use [to policymakers] unless they contain some of the terms which the policy-makers use among themselves.” To the extent that emotional language characterizes everyday discourses, an isolated IR scholarship risks becoming less comprehensible to policymakers and the public alike.

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40 Ross quotes William James to the effect that “active modification of the self must take place partly at the level of bodily practice. It is for this reason that he suggests: ‘We must . . . go through the outward motions of those contrary dispositions we prefer to cultivate’ (1967: 22; emphasis in original). In the vocabulary of constructivism, this means that the involvement of the body in emotions is part of their social nature.”
Sources


Ross, Andrew. 2006. “Coming in from the Cold: Constructivism and Emotions”
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