Sovereign Financial Pricing: on Crisis as a Mode of Governance

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Abstract: This paper argues periods of economic normality and crises are the product of a mode of "informational governance" that is unilaterally exerted by financial market actors on businesses and consumers of the 'real' global economy, as well as on political actors. Thus, financial market actors can be interpreted as sovereign political actors engaging in a form of "financial decisionism," exerting influence on a global scale mediated through the signaling function of financial pricing. Analyzing financial markets, critical and affirmative analysts alike frequently point to the crucial role of information. Just like stocks are assumed to reflect the economic fundamentals of the companies which issue them, options are said to be priced according to information on risk factors assessed by option traders. This paper argues, however, that financial pricing does not reflect underlying information, but creates it. The setting of financial prices then becomes a sovereign decision which is accountable only to a self-contained financial system, while its signaling effects decide the liquidity of actors throughout the global 'real' economic and political system, such as a sovereign country attempting to issue debt, or a company looking to finance its operations. This paper, consequently, argues for a normative reassessment of financial actors as sovereign political actors, and to suggest means by which their decisions can be made democratically accountable to those affected by them.

I. Introduction

This paper examines the neoliberal “siphoning” of sovereign political power to global non-state economic and financial actors. Market actors are appearing and acting as sovereigns in their emergent *ontopolitical* capacities. We present empirical support to the development of *interpretative sovereignty*: an emergent and precarious form of economic sovereignty market actors are increasingly endowed with. This consolidation of power finds market actors effectively become equal to or greater than the state in matters of life and death over a multitude of various global subjectivities.

We examine this transfer of sovereign state power to economic actors and institutions in two interrelated ways. First, we theorize market actors working within sovereign bond and financial markets as constituting systems of signals – performative sovereign speech acts - engaging a political reinterpretation of market signal theory. Secondly, to corroborate our theory, we examine the cases of Greece (2009-2013) and Argentina (1995-2002). In doing so, our analysis reinscribes discourses pertaining to “the sovereignty question” in relation to crisis, security, and neoliberal political/economic practices.

In the following we elaborate our ontopolitical framework, underscoring sovereignty in regards to (neo)liberal modes of governance, sovereign speech acts, and interpretive sovereignty. We then shift to market views thereof, focusing on the economic framing of sovereign debt, market failure, and market signaling, specfically with regards to our case studies of Greece and Argentina. Finally, we offer our conclusions, bringing to attention what interpretative sovereignty might mean for the future of global politics, governance, security, and capitalism.

II. Interregnum: A Question Of Sovereignty

The “sovereignty question” (inquiries into the status, significance, substance, or form(s) of sovereignty in late modernity) has taken on an added urgency in the post-9/11 political landscape and aftermath of the 2008 global financial meltdown. The question often appears analogous to concerns addressing political, social, and economic “crises” – crises of legitimacy, democracy, ecology, liberalism, capitalism, and so forth.

Since "crisis" is usually synonymous with an "emergency" or "exception" (i.e., existential threat, economic bust, or natural disaster) the question of sovereignty is also attuned to concerns of global and domestic "security" (broadly defined), and practices of neoliberal governance in regards to international political economy (IPE).

Several works have responded to the sovereignty question over the last decade or so, many replete with the insistent need to (re)problematize what sovereignty is, as much as where sovereignty is located in the present, and what it might become in the future. A number of these texts suggest that possible responses to the sovereignty question reside in the theoretical nexus "between [Carl] Schmitt and [Michel] Foucault."[1] For example, select works by Giorgio Agamben bringing together Schmitt's concept of "exception"[2] in relation to late-modern practices of Foucault's concept of "biopolitics."[3] Wendy Brown has written on the vicissitudes of neoliberalism in light of Foucault's "governmentality;" as well as examining Schmitt and sovereignty directly with her own "waning sovereignty."[4] Michael Hardt and Antonio Negri's *Empire* trilogy offers an interdisciplinary account of similar concerns.[5] Michael Dillon and Julian Reid's *The Liberal Way of War* (2009) and Brad Evan's *Liberal Terror* (2013) are informed by both Schmitt's work and Foucault's recently published lecture series, particularly those

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1 Stefanie Georgakis, Jordan Hill, Robert Kirsch, and Edwin Kent Morris, "Between Schmitt and Foucault – An Interview with Michael Hardt," trans. Edwin Kent Morris, *SPECTRA: The ASPECT Journal* vol. 2, no. 1 (2012). http://spectrajournal.org/previous-issues/spectra-2-1/ (Accessed February 10, 2014).

2 See: Carl Schmitt, *Political Theology: Four Chapters on the Concept of Sovereignty*, trans. by George Schwab (Chicago: University of Chicago Press, 2005); *The Concept of the Political*, trans. by George Schwab (Chicago: University of Chicago Press, 2007); *The Nomos of the Earth: In the International Law of the Jus Publicum Europaeum* (New York: Telos Press Publishing, 2003); Giorgio Agamben, *Homo Sacer: Sovereign Power and Bare Life* (Standford: Stanford University Press, 1998), and *State of Exception*, trans. Kevin Attell (Chicago: University of Chicago Press, 2003).

3 Michel Foucault, *The History of Sexuality, Volume I: An Introduction* (New York: Vintage Books, 2010), 130.

4 See: Wendy Brown, "Neoliberalism and The End of Liberal Democracy," in *Edgework: Critical Essays on Knowledge and Politics* (Princeton: Princeton University Press, 2005); "American Nightmare: Neoliberalism, Neoconservatism, and De-Democratization," *Political Theory* 34, no. 6 (2006), and *Walled States, Waning Sovereignty* (New York: Zone Books, 2010).

5 See: Michael Hardt and Antonio Negri, *Empire* (Cambridge: Harvard University Press, 2000); *Multitude* (New York: Penguin Books, 2004), and *Commonwealth* (Cambridge: Harvard University Press, 2009).

on the topics of security, neoliberalism, and biopolitics.[6]

The aforementioned texts generally assert that while sovereignty has not disappeared, there has been a qualitative change in its character. On one hand, these texts engage Foucault's desire to "cut off the kings head," taking Foucault's ideas and applying them in observable global phenomena.[7] On the other hand, we still must necessarily contend with the reality of Schmitt's state-centric decisionism in relation to non-state neoliberal economic institutions and actors. As such, we think "between Schmitt and Foucault" is an adequate analogy for the global, political, and economic landscape that denotes the present moment.

Borrowing from Hardt and Negri, we call this period a time of *interregnum*, in which "the modern national paradigm of political bodies is passing toward a new global form…populated by an abundance of new structures of power. The only thing that remains constantly present and never leaves the scene is power itself."[8] Even if sovereignty continues to (de)evolve in the interregnum, it nevertheless conceptually persists in political practices and international relations (IR) theory, though perhaps located elsewhere or in some other form. In this paper, we start from the assumption that sovereignty has conceptually shifted from a monolithic construct to multiple forms of "nodal" sovereignty. Evans writes that liberal sovereignty "conforms to this nodality. Solidified in fixed safe zones around the globe which connect the global metropolis to the dangerous borderlands, it proposes an unbound topography of power that is being continually adapted…[an] attempt to gain a tangible purchase on sovereignty as networked system of rule…"[9]

6 See: Michel Foucault, *"Society Must Be Defended!" Lectures At The College De France 1975-1976* trans. David Macey, ed. Mauro Bertani and Alessandro Fontana (New York: Picador, 2003); *Security, Territory, Population: Lectures At The College de France 1977-1978*, trans. Graham Burchell, ed. Michel Senellart (New York: Picador, 2007); *The Birth of Biopolitics: Lectures at the College de France 1978-1979*, trans. Graham Burchell, ed. Michel Sennellar (New York: Picador, 2008).

7 Michel Foucault, "Truth and Power," in *Power / Knowledge: Selected Interviews & Other Writings 1972-1977*, ed. Colin Gordon (New York: Vintage Books, 2010), 121.

8 Hardt and Negri, *Multitude*, 163.

9 Brad Evans, *Liberal Terror* (Malden: Polity Press, 2013), 150. Evans states: "Network theory proposes an understanding of complex, dynamic, and emergent systems by drawing our attention to 'nodal' points of intersection. Connections between nodes are represented by solid lines of intersection which denote possible flows between fixed points…in a system of dynamic fluidity.

One of the new, different, nodal forms of sovereignty in this interregnum is an interpretative sovereignty emerging out of the interactions taking place in global financial markets. We argue that it is a strictly economic form of sovereignty, originating entirely from within the economic realm. This claim is not without precedent, yet will be paradoxical to critical discourses on neoliberalism. For example, Wendy Brown cites Hardt and Negri's perspective that sovereignty emerges in the service of capital, only to dismiss this as underdeveloped by the authors.[10] We attempt to develop a notion of sovereignty contrasting this dismissive perspective with our own.

Political and economic perspectives on (neo)liberalism continue to take for granted that politics and economics are two distinct spheres of human practice. To paraphrase Foucault in *The Birth of Biopolitics* (2008) an economic sovereignty is near-impossible to conceive of in liberal thought. "The state must be blind to economic processes," Foucault suggests, "both for the state and individuals, the economy must be a game: a set of regulated activities…[the state is] the legal institution which frames the economy should be thought of as the rules of the game."[11] Critical political thought has long noted the fallaciousness of this distinction. Since (at least) the eighteenth century capitalist free markets have been and will likely remain "political" into the foreseeable future. The stability and security of economic systems fundamentally depends on how successful the state is in generating the field of *naturalness* (as we refer to it) for the free market to thrive.

Rather than reiterating the adage of the economic trumping the political, or maintaining the distinction between the political and economic realms, we argue state sovereignty is now subject to a nodal, interpretative modality of economic sovereignty constituted by market signaling practices. In this process, sovereignty is operationalized as market information, and then ontopolitically coded and recoded by

10. See: Hardt and Negri, *Empire,* 86. Hardt and Negri state: "Smith's theory of value was the soul and substance of the concept of the modern soveriegn state." See: Brown, *Walled States, Waning Sovereignty*, 57-58. Brown states in rebuttal to Hardt and Negri: "Neither political nor economic practice bear the substantive distinctiveness implied by political sovereignty invested in nation-states, but both have been shaped historically by this investment."

11. Foucault, *The Birth of Biopolitics*, 173.

global financial institutions, transnational corporations, and economic actors in international markets. Thus, market signals come to be performative speech acts uttered by global economic actors throughout the circulation of transnational capital.

Within this circulation, the sovereignty of states remains, but is paradoxically compromised. The state now finds it is no longer the only sovereign player in international politics. Interpretative market sovereignty is neither above or below state sovereignty, but co-exists with it in terms of the added pressures and constraints within a system of competing economic signals and state responsibility. As such, what we are witnessing as a result of neoliberal practices of governance is in part what Sheldon Wolin describes as "inverted totalitarianism…the *political* coming of age of corporate power," one antithetical to democratic, deliberatory, representative forms of governance and the possibility of a more free and equitable existence.[12] The classical distinction invoked by Foucault above of economics as the "game," and the state as the "rules of the game" has been corrupted. The state remains sovereign, but state sovereignty is increasingly refracted in the eyes and perspective of the market.

III. Sovereign Speech Acts: The Ontopolitics of Sovereignty and (Neo)Liberalism

A distinguishing feature of sovereignty is that it is at least partly a *speech act*. We argue that sovereign speech is performative at an ontological level. As the general theory of what there is and of what kind of entities can be said to exist, Michael Shapiro suggests ontology informs certain sets of "commitments" demarcating a multiplicity of discursive formations, power relations, and epistemes that constitute truth for the liberal subject.[13] Ontology for us is an imposed consensus of what objects, subjects, concepts, and other entities/things that are said or assumed to exist in defined areas of political, social, and economic spaces.

In speech act theory, an utterance is performative when it creates a reality

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12. Sheldon S. Wolin, *Democracy Inc: Managed Democracy and The Specter of Inverted Totalitarianism* (Princeton: Princeton University Press, 2008), xviii.

13. Michael J. Shapiro, *Violent Cartographies: Mapping Cultures of War* (Minneapolis: University of Minnesota Press, 1997), ix.

instead of merely representing it.[14] It is therefore its own condition of truth, since it establishes what it says and the rules governing what can be said about it.[15] Most political and economic speech acts are performative – one only needs to consider a contractual agreement by signature, the firm handshake, a certain look in the eye, an easy smile, or verbal statement. However, performative speech creates reality only within certain given conditions of intelligibility: given boundaries within which particular words and phrases have validity, legitimacy, and authority. For an utterance to be successful in the performative sense, "[t]here must exist an accepted conventional procedure having a certain conventional effect…to include the uttering of certain words by certain persons in certain circumstances."[16]

A sovereign speech act in terms of interpretative market sovereignty is not only performative, but also creates the conditions of its own intelligibility – it sets its own condition(s) of truth. Sovereign utterances give substance to the performativity and system of intelligibility this performance relies upon. The interpretation of reality a sovereign actor projects, such as Schmitt's "distinction between friend and enemy," is thus a sovereign interpretation of reality – and a necessarily political one at that![17] We therefore argue that a formal aspect of sovereignty is *interpretative sovereignty*.

Interpretative Sovereignty

Financial investors on sovereign bond markets are endowed with interpretative sovereignty through their operationalization of state policies as fundamentals for strategic portfolio investments. Like the word of god or the decree of the state, sovereign interpretative speech is a modality that sets the boundaries in which other political, social, cultural, or economic actors can possibly perform speech acts. This does not mean that market actors have the sovereign power to create laws or

14. John Austin, *How To Do Things With Words* (Oxford: Clarendon Press, 1962), 3. A representational speech act, by contrast, is a "constative" utterance.

15. Ibid., 34. For example, the phrase "I appoint you" enacts an appointment, instead of simply stating its occurrence.

16. Ibid., 14.

17. Schmitt, *The Concept of the Political*, 36.

social entities: they remain beholden to legal and political systems (usually of more powerful states than the ones they assess). Rather, market actors impose their interpretative sovereignty through the operationalization of policies as signals to which they react through the reallocation of funds.

As critiques of neoliberalism have long recognized, the ontopolitical impositions on state policies achieved by market pressures through sovereign bonds are partly self-impositions by states. We argue that states are forced to act in certain ways due to being inscribed into *systems of signals* (see below) which project structures of intelligibility over which they no longer have full control. States which are powerful and/or "vocal" enough to be benchmarks are just as beholden to the market intelligibility of signals as are states considered weak and/or "voiceless." Even the US is not in full control over the conditions to which its hegemonic position is refracted within the global financial markets and their systems of signals and assessments.[18]

In many ways, then, this new form of sovereignty is an emergent and precarious form of sovereignty. Its efficacy for non-economic actors and decisions is much more indirect than the remaining monopoly over violence the state still possesses.[19] It may be speculated that this financial form(s) of sovereign interpretation will give way to a fundamental shift in the global order of sovereignty. This paper, however, will draw more modest conclusions. What can certainly be said is that neoliberalism entails shifts in power which remain intelligible to the old liberal alignments of sovereign states and market reactions. Interpretative sovereignty appears to us as more of an emergent complication of sovereignty, than a development which is already fully intelligible.

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18 Philip Cerny, "The Infrastructure of the Infrastructure? Toward 'Embedded Financial Orthodoxy' in the International Political Economy," in: Ronen Palan, Barry Gills (Eds.): *Transcending the State-Global Divide*, (Lynne Rienner Publishing, 1994), 238-239. According to Philip Cerny, the US is facing a classical problem of collective action. International developments allowed it to deregulate global financial markets as a hegemonic act in the 1980s. *Reregulation*, however, faces the the problem of collective action, and is therefore highly unlikely.

19 Max Weber, "The Profession and Vocation of Politics" in *Political Writings*, ed. Peter Lassmand and Ronald Speirs (New York: Cambridge University Press, 2008), 310-311.

Ontopolitics

William Connolly's "ontopolitics" helps describe the role and function of sovereign speech acts of political, and more importantly, economic actors in their corresponding and overlapping lifeworld(s). The ontopolitical grounding of interpretative sovereignty can be outlined on two fronts. On one hand, how do we frame the similarity of political and economic power? On the other hand, how is this siphoning of sovereign political power to economic institutions possible at this stage of late liberal modernity? Ontopolitics concerns "the forms into which humans may be composed and the possible relations humans can establish with nature." These "relations" for us are ostensibly political, but now take on economic characteristics. Ontopolitics is an exercise of interpretative sovereignty towards (liberal) subjectivities that fix the "possibilities, distribute explanatory elements, generate parameters within which an ethic is elaborated," but also "center (or decenter) assessments of identity, legitimacy, and responsibility."[20]

Ontopolitics affirms *interpretation* as a political mode of living or being, one grasped through forms of examination, questioning, making claims, and speech utterances regarding the cultivation and securing of desirable political, social, economic subjectivities, and outcomes. The ontopolitics of liberal subjectivity entail political / economic signals circulating globally that guide, influence, and shape human activities and conduct. In our framework, interpretive sovereignty takes on qualities associated with economic investments in the life, materiality, and environment of political subjects, thus constituting what are necessarily (bio)political and economic acts of security.[21]

Sovereignty

Sovereign utterances are the foundation in which the authority and legitimacy of the state, liberalism, and international relations rests – the crucial *Grundnorms*

20 William E. Connolly, *The Ethos of Pluralization* (Minneapolis: University of Minnesota Press, 1995), 1-2.

21 Foucault, *The History of Sexuality, Volume I*, 139. Foucault states: "to invest in life through and through."

pertinent to all things political that follow. Sovereignty is essentially the self-ordained power and claim of authority and legitimacy to set intelligibility: to legislate and enforce law by populations collectivized as sovereign nation-states. In western political theory, sovereignty fills the gap for the pre-political foundation of the state prior to civil society. Sovereignty delineates the conditions of intelligible political and economic practices, circumscribing the space of the political and giving an account of what is legitimate. Legitimacy is crucial for sovereign utterances because they are constantly contested: their supposed self-evidence is a function of political rationalities that liberalism requires as a coherent system of thought.[22]

Sovereignty is the prerequiste for liberalism to manifest as a system or "mode" of life. When combined with liberalism, the latter induces a social amnesia or "forgetfulness" such that the artificiality of sovereignty is almost always forgotten.[23] Western politics takes for granted that particular ontological political, social, and economic contingencies are made to appear self-evidently true. In truth, however, the sovereign state system and liberalism are simply the product of a series of social interactions, economic exchanges, historical events, and power relations from antiquity to modernity. For us this implies that the ontopolitics of liberalism and sovereignty are but one of several other possibilities of organizing human living and thinking.

(Neo)Liberalism

Liberalism pertains to the idea that individuals are free, independent, autonomous, rights-bearing agents who are free to choose their own conception of a good life. It entails the relaxation or removal of the state and divine powers over person's actions and life pursuits, focusing on the primacy of human freedom. The tenets of liberalism generally include natural rights, constitutionalism, and democracy; free and fair elections, human rights, capitalism, free trade, and the separation of church

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22 Scott G. Nelson, *Sovereignty and the Limits of the Liberal Imagination* (New York: Routledge, 2010), 3-18.

23 Jenny Edkins, *Trauma and the Memory of Politics* (New York: Cambridge University Press, 2003), 229. Edkins states: "Forgetting is essential because for 'politics' to take place, the way in which the current political structures came into being must be overlooked."

and state. Liberalism needs the grid of intelligibility and the security made possible by the state in order to not only appear legitimate, but to allow its economic corrollary of *laissez-faire* capitalism signify a quality of "natural" freedom.

According to David Harvey, neoliberalism is "a theory of political economic practices that proposes human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade."[24] We situate the origin of neoliberalism in 1978-1980, achieving predominance in the West and globally in the subsequent decades. While some scholars suggested the financial meltdown of 2008 might lead to a re-evaluation of neoliberal policies, this hope was short-lived.[25] Philip Mirowski suggests the reason for this is that neoliberalism has assumed a status of "passing as the 'ideology of no ideology.'"[26] That is, neoliberal policies are without alternative. This is reason enough for us to assume that neoliberalism does more than simply abridge state sovereignty. An utterance without alternative, and accepted as such, is a sovereign utterance setting its own intelligibility.

The difference between liberalism and neoliberalism is political, and concerns the nature and recognition of "the political." Liberalism is a political concept of governance; as an ideal, it is after all, inherently focused on the political concept (and question) of human freedom. Neoliberalism, on the other hand, claims to resolve the contradictory aspects of liberalism by sublimating the political from human-social concerns. Rather than seek political solutions to domestic and global problems, neoliberalism suggests the market is capable of producing politically and socially desirable outcomes under any (and most all) circumstances.

Following the 1978-1980 period, the United States and Great Britain institutionalized policy changes facilitating "conditions for profitable capital accumulation on the part of both domestic and foreign capital." Harvey calls a state

24 David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2005), 2-3.

25 Stephen S. Cohen and J. Bradford Delong, *The End of Influence: What Happens When Other Countries Have the Money* (New York: Basic Books, 2010), 15.

26 Philip Mirowski, *Never Let a Serious Crisis Go to Waste: How Neoliberalism Survived the Financial Meltdown* (New York: Verso, 2013), 28.

engaged in this behavior "neoliberal state" as "the freedoms it embodies reflect the interest of private property owners, business, multinational corporations, and financial capital."[27] From the transnational standpoint, neoliberalism is described by Timothy Luke as a form of US nationalism given global ascendancy, as "such developments would not elminate large transnationals [but create] stronger, more concentrated transnational industries while reducing the autonomy and market share of smaller national firms..."[28] Echoing Luke, Harvey affirms that neoliberalism is as much a theory of political economic practices, as it is a set of cultural codes that effectively constrain the possiblities of the individual, the state, and political life.

Both in the operationalization of the state by market actors and in the critical discourses examined here, neoliberal practices do not challenge the state's unique position. On the contrary, neoliberalism continues to require the state for a number of important functions like protecting the institutional framework of capitalism, legislating policies enabling greater autonomy of the marketplace, and maintaining domestic and global channels of transportation (i.e., the flow of goods and services). As Harvey points out "beyond these tasks the state should not venture. State interventions in markets (once created) must be kept to a bare minimum because, according to neoliberal theory, the state cannot possibly possess enough information to second-guess market signals and because powerful interest groups will inevitably distort and bias state interventions (particular in democracies) for their own benefit."[29]

Neoliberalism goes beyond mere economic application. Wendy Brown states neoliberalism "carries a social analysis that, when deployed as a form of governmentality, reaches from the soul of the citizen-subject to education policy to practices of empire. Neoliberal rationality, while foregrounding the market, is not only or even primarily focused on the economy; it involves *extending and disseminating market values to all institutions and social actions*, even as the market itself remains a

27 Harvey, *A Brief History of Neoliberalism*, 7.

28 Timothy W. Luke, *Screens of Power: Ideology, Domination, and Resistance in Informational Society* (Urbana: University of Illinois Press, 1989), 77.

29 Harvey, *A Brief History of Neoliberalism*, 2.

distinctive player."[30] Neoliberalism, then, is not simply a type of political or economic system. Instead, "more than a simplification of the economy, the state itself must construct and construe itself in market terms, as well as develop policies and promulgate a political culture that figures citizens exhaustively as rational economic actors in every sphere of life."[31] In such a regime, both the state and the population become subservient to this rationality.

Foucault's analysis of neoliberalism suggests it to be the embodiment of three features: "veridiction of the market, limitation by the calculation of governmental utility, and the position of [a state] as a region of unlimited economic development in relation to the world market."[32] Of these, we place particular emphasis on the aspect of veridiction. Foucault states "liberalism turns into a mechanism continually having to arbitrate between the freedom and security of individuals by referencing" discourses of danger that are part and parcel to it. In short, "there is no liberalism without a culture of danger."[33] Creating "crisis" conditions is one part of a neoliberal state's sovereign speech acts. Crises are symptomatic of (neo)liberalism: they ensure its continued existence and dominance.[34] Through constant ontopolitical veridiction – i.e., sovereign speech acts – of crisis and corresponding exceptional conditions – neoliberalism as a mode of life can manifest and secure itself as "truth." Neoliberalism is thus a structure of intelligibility created and maintained by sovereign utterances. These sovereign utterances of the market effectively reduce the state to a space in which market actors can "invest." In other words, the state is now "under the supervision of the market rather than a market supervised by the state."[35]

This discussion of the ontopolitical grounding of sovereignty and neoliberalism

30 Brown, "Neoliberalism and The End of Liberal Democracy," 39-40.

31 Brown, "American Nightmare," 694.

32 Foucault, *The Birth of Biopolitics*, 61.

33 Ibid., 66-67.

34 Mark Neocleous, *Critique of Security* (Montreal: McGill-Queen's University Press, 2008), 13.

35 Foucault, *The Birth of Biopolitics*, 116.

suggests for us that the state now is, at least partially, at the behest of global capital interests who utter market speech acts whose performativity has its own conditions of intelligibility. Neoliberalism constitutes an assemblage of non-political organizing apparatuses that operate within the naturalness provided partly by the state's sovereign speech acts – and partly, as we will suggest, by market emergence. As Wolin suggests: "social harmony, instead of being the responsibility of a governing authority, was the design of no one, it was the resultant flowing from the spontaneous equilibrium of economic forces."[36] Neoliberalism transforms the way in which individuals identify themselves politically and relate socially, as it jeopardizes democractic practices. It creates a government beholden to capitalist interest and institutionalizes an economy of interpretation within a legal and disciplinary superstructure over the will of the people and their ability to change it.

IV. Market Speech

Market speech on sovereign bond markets, when it treats states as objects of economic analysis and investment, upholds the distinction of political and economic spheres despite its fictitious character. It is merely appropriated and reinterpreted by market (economic) speech: the discursive existence of a state within (from the perspective of) market practices is structured by the same elements previously identified in our genealogy of modern state sovereignty.

To the liberal imagination, market relations are the naturally emergent state of mankind prior to the state. From the market perspective, the formation of the state is an imperfection to the economic order of things – the state is merely a *prosthesis* that provides for society and markets what neither can provide itself. The idea that a strictly economic society is unable to create important and fundamental safeguards for itself and requires state intervention is expressed in the theory of *market failure*. According to this theory, certain "goods" cannot be delivered by private parties on the basis of

36 Sheldon S. Wolin, *Politics and Vision: Continuity and Innovation in Western Political Thought* – Expanded Edition (Princeton: Princeton University Press, 2004), 273.

contract alone. For instance, national and domestic forms of security;[37] the rule of law;[38] social welfare programs, the minimal alleviation or "acceptable" level of poverty;[39] as well as the provision of certain natural monopolies, such as large-scale infrastructure.[40] Of these, only the first two are traditional liberal prerogatives: the protection of life, liberty, and (private) property.

Market Failure

From the market perspective, market failure leads to a number of constellations in liberal economic thought, each having implications for the role of the state, and therefore informs the question of sovereign bonds. One of these constellations is *laissez-faire*. While the above "goods" may have to be furnished by the state (i.e., security and the rule of law), in the provision of all other goods, the state's intervention(s) must be reduced to a minimum approaching no interference at all. To the market, the state is under the constant obligation to restore as much of the economic "naturalness" it emerged from.[41] Theories of market failure regard markets as the supreme mechanism expressing the desires and identities of consumers and producers alike. Any state intervention illegitimately skews this expression.[42]

The state is constantly under market supervision. Markets are therefore not only a sphere that is said to be separate from and prior to state action, but markets are also the point from which the legitimacy of state action and inaction is to be judged. Thus, the state's task is defined by the extent it adheres to *laissez-faire* which is subject to assessment by the economic naturalness it protects. That the state is to be supervised

37 Douglass North, "Institutions," *Journal of Economic Perspectives* 5, no. 1 (1991), 100.

38 Friedrich Hayek, *The Constitution of Liberty* (NY: Routledge, 2008), 126-128.

39 Milton Friedman, *Capitalism and Freedom* (Chicago and London: University of Chicago Press), 190-195.

40 Hal Varian, *Intermediate Microeconomics: A Modern Approach* (NY: W. W. Norton & Co., 1987), 409.

41 Adam Smith, *The Wealth of Nations* (NY: Bantam Books , 2003), 669.

42 Friedman, *Capitalism and Freedom*, 21. This reasoning seems to be situated at the borderline between liberal and neoliberal thought and practices (Brown, "American Nightmare," 694).

indicates that (in the eyes of the market) sovereignty squarely resides with the state. Markets are said to merely assess the policies enacted by sovereign states when they allocate funds according to sovereign bond markets/exchanges.

Such assessments are not only based on markets as realms of interaction, but more importantly by economic “rationality.”[43] In market failure theory the legitimacy of state intervention is based solely on its secondary character vis-à-vis the superior rationality of markets. Only when this rationality fails are states to intervene. Even then, state intervention remains illegitimate. It can only be justified when exceptions arise that stand outside the normal political situation, such as “crises,” ranging from war, economic busts, or natural disasters. To uphold the conditions such that market rationality can naturally emerge, the state is reduced to the provision of providing security to the rule of law and private property rights. Furthermore, the state is responsible for providing these goods at minimum cost (for taxation, from the market perspective, is both an infringement upon property rights and a market inefficiency).[44] Moreover, markets need protection against those who would threaten the order of natural private property relations, such as anti-capitalist revolutionaries or similar dissidents. The fault line between these goals is identified in the liberal-neoliberal divide. Markets are natural, yet must be upheld by necessary sovereign intervention (liberalism). This intervention is directed toward, more or less, authoritarian measures that propogate the economy (neoliberalism), as this distinction invites the question of sovereign debt.

Lending and Fiscal Sovereignty

As the notoriously misguided neoliberal attempts at restraining states through “austerity” have shown,[45] the simultaneous reduction of social welfare measures,

4344 Gary Becker, “Irrational Behavior and Economic Theory,” *Journal of Political Economy* 70, no. 1 (1962), 1-13.

44 David Hume, “Of Taxes,” in *Essays Moral, Political and Literary* (NY: Cosimo Publishing, 2006), 350-352. Hume takes a decidedly more moderate stance on the legitimacy of taxation than contemporary orthodox economists, arguing in favor of some taxes if their usefulness exceeds the social inefficiency of their levying.

45 See, for example, Pablo Schiaffino, “A Comment on the European Central Bank solution vs. the Keynes

expansion of police and the military, increased surveillance, and so on, lead to a vicious spiral of public and private expenses, which in turn raises, rather than lowers, states' expenses.[46] Since the means to fund these measures must be found (as taxation is not encouraged) markets and private sector entities are to fill the gap in the state's budget: markets *lend* money to the state. Moreover, since the budget spiral appears to be structurally incapable of ever stopping, lending can never stop. This means that markets are almost always exercising their own form of supremacy over states in the form of debt. It is important to note that the rationality of lending follows market rationality, both in terms of its projected priority over the *raison d'état*, and in terms of its ontopolitical power. The terms to which markets lend to states are consequently market terms.

The above aspects of market lending and rationality vindicate the hypothesis that states are subject to market pressures as neoliberalism constitutes a realignment of state power toward market goals and directives. Our argument recognizes this, but adds that the relationship between market lending and state policies is more nuanced, and requires a different assessment of states' and their ontopolitical adjustments than the juxtapositioning of markets and states as the current literature does. In the latter, it appears the pressure exercised by sovereign lending upholds the fundamental structure of delineated realms in which the state remains sovereign. Yet, to the market, the state remains a necessary evil that should be restricted wherever possible.

State sovereignty from the market perspective is therefore restricted in its scope, but not in quality. The intelligibility of market speech and action still differ fundamentally. The state imposes restraint on itself, for only it can delineate the boundaries of its own actions. In the sovereign debt literature, it is presumed states are subjects prior to being objects of market assesments. Taming and restricting states, as neoliberal practices do, then, is necessary because states pose constant threats to markets. Why? While the state is subject to market pressures, it remains creator and enforcer of laws as well as creator of market frictions and inefficiencies. States must be

solution," *Journal of Post Keynesian Economics* 35, no. 3 (2013), 457-462).

46 On this self-defeating effect of austerity on public finances, see Jay Shambaugh, "The Euro's Three Crises," *Brookings Papers on Economic Activity* 2012, no. 1, 168 and 172.

tamed because they can literally do as they please and this power to decide is recognized by markets.[47]

Recognition of this takes the form of fiscal sovereignty in the literature regarding sovereign debt, since the choice to lend (e.g., to invest into a state's bonds) is a matter of choice like all other investments, one relating to the likelihood of repayment to the interest accrued in the meantime.[48] From the lending perspective, the primary exercise of sovereignty is the decision to borrow: a decision presumed in the literature to be made by sovereign states to uphold their fiscal solvency in the face of adverse pressures on the legitimacy of taxation.[49] For the market perspective, the reduction of taxation is a sovereign state decision dictated by naturally occurring economic reasoning on the part of state actors.[50]

The recognition of state sovereignty by market actors goes further than this. It is the fundamental assumption that for the desirability and marketability of sovereign bonds as an asset class in general. Government bonds are recognized by economists as the most safe, liquid asset class. They are the backbone of security-oriented portfolio owners.[51] The reason for this is state sovereignty. The state has the power(s), if necessary, to prioritize debt servicing over social spending, as well as its coercive capacity to enforce tax payments necessary for debt servicing upon its citizens.[52] No other class of asset is endowed with such powers.

This endowment is not just subservient to market interests, but also poses the flipside: the illigitimacy of state intervention. Such claims by the market stem from state

47 Note, for example, that Varian, *Intermediate Microeconomics*, 283, simply assumes that governments have the necessary power to levy taxes.

48 Jonathan Eaton, "Sovereign Debt: A Primer," *The World Bank Economic Review* 7, no. 2 (1993), 149.

4951 Robert Mundell, "Debt and Deficits in Alternative Macroeconomic Models," in Mario Baldassari, Robert Mundell and John McCallum (Eds.): *Debt, Deficit, and Economic Performance* (NY: St. Martin's Press, 1996), 7.

50 See: Hayek, *Constitution of Liberty*, 195-200.

51 Riccardo Lo Conte, "Government Bond Yield Spreads: A Survey," *Giornale degli Economisti e Annali di Economia* 68, no. 3 (2009), 341-342.

52 Eaton, "Sovereign Debt," 148.

infringement on the frictionless, “natural,” character of market transactions.[53] States not only have the power to coerce repayment of borrowed money, but they also have the tendency *not* to repay their debt. From a market perspective, this tendency is perfectly rational on the part of individual democratic politicians whose time horizon is subject to term limits.[54] The time horizon problem is offset by the risk premia that states more likely to default will have to pay. Therefore, sovereign bond issuance as a future-oriented investment is subject to market interest rates. Risk premia will rise when governments are more likely to default. The problem of debt repayment for a sovereign entity becomes most pressing when it either defaults or is endangered by default that the enforcement to repay debt becomes a legal issue. This situation is recognized in sovereign debt literature as one in which the debtor continues to be endowed with sovereign powers. Operationalized as such, state sovereignty remains a problem to lenders. On one hand, unlike subgovernmental or non-sovereign entities (which remain beholden to legal mechanisms, jurisdictions, and procedures), enforcing debt repayment from sovereign entities is problematic. In fact, much of the sovereign debt literature questions why governments find it necessary to repay debt at all.[55] On the other hand, it has frequently been argued that governmental sovereignty is abridged by market enforcement of debt.[56] A recent example seems to corroborate this alternative theory.

In December 2012, an Argentinian navy ship was detained for several weeks in Ghana because a New York City-based hedge fund, NML Capital, demanded the ship be seized for the repayment of debt it had acquired in the Argentinian default in 2002. The ship was eventually released, but NML continues its attempts to achieve full debt

53 Kenneth Arrow and Gérard Debreu, “The Existence of an Equilibrium for a Competitive Economy,” *Econometrica* 22, no. 3 (1954), 265–290.

54 Eaton, “Sovereign Debt,” 144, 160.

55 Eaton, “Sovereign Debt,” 151. See also: Barry Eichengreen, “Restructuring Sovereign Debt,” *Journal of Economic Perspectives* 17, no. 4 (2003), 76.

56 Ilene Grabel, “A post-Keynesian analysis of financial crisis in the developing world and directions for reform,” in: Philip Arestis, Malcom Sawyer (Eds.): *A Handbook of Alternative Monetary Economics* (Cheltenham and Northampton: Edward Elgar Publishing, 2006), 403-419.

repayment from Argentina.[57] This example highlights a scandalous aspect of sovereign default procedures: NML Capital is a class of creditors referred to as "holdout creditors" by economists, or "vulture funds" by the broader public.[58] These creditors reject debt restructuring offers following default by debtor countries in order to yield more profit. Acquiring outstanding bonds at minimal cost at the height of the repayment crisis leading up to default, holdout creditors attempt to yield repayment in full, thereby maximizing their revenue at the expense not only of the country in question, but also other creditors who agreed to haircuts in restructuring efforts.[59]

It can be argued that the NML incident was not a direct imposition upon states by markets. Instead, the Argentinian restructuring procedures and the behavior of holdout creditors can be described as an imposition of one state's sovereignty over that of another. NML Capital's demand was backed by a US court before the seizure of the ship was demanded. Superficially, at least, this case would merely reflect US hegemony over global free markets. The sovereignty of Argentina was certainly threatened by decisions enforcing debt repayment. However, the sovereign enforcing the decision was not a market actor: it was a hegemonic state. Neoliberalism, it seems, is less an affair of market impositions than a question of states imposing market rationality onto themselves and others. The picture is more complex than that, however. To show this, we ask what it is that states are reconstituted as when they become subject to lending decisions? What turns state policies into an asset class? To answer this question, we turn to market signal theory.[60]

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57 David Smith, "Seized Argentinian sailing ship leaves Ghana," *The Guardian* online, 20 December 2012. http://www.theguardian.com/world/2012/dec/20/argentina-sailing-ship-ghana-release (Accessed March 1, 2014).

58 Eichengreen, "Restructuring Sovereign Debt," 83.

59 Ibid., 77.

60 The term "signal" in an economic function originates in George Akerlof, "The Economics of Caste and the Rat Race and Other Woeful Tales," *Quarterly Journal of Economics* 84 (1976), 599-617. It is currently used with regards to sovereign debt by Joseph Stiglitz, "Sovereign Debt: Notes on Theoretical Frameworks and Policy Analyses," in: Barry Herman, José A. Ocampo, Shari Spiegel (Eds.): *Overcoming Developing Country Debt Crises* (Oxford and NY: Oxford University Press 2010), 35-69, among others.

Signal Theory

Harrison White's 1981 paper "Where Do Markets Come From?" develops a theory in which "[m]arkets are self-reproducing social structures among specific cliques of firms and other actors who evolve roles from observations of each other's behavior."[61] In White's model, the active side of the market is the supply side.[62] As White's definition of the market anticipates, the supply side of the market is not so much inhabited by suppliers but by *systems of signals*.[63] Each firm inhabits an environment in which it offers a slightly differentiated, yet comparable product. This means firms "are engaged not in pure competition but in finding and sustaining roles with respect to one another."[64] Markets observe each other's price, output, and differentiate themselves accordingly. For White, a market is therefore a feedback loop of distinct, yet compatible suppliers observing and reacting to one another in an endless to-and-fro of price and quantity settings.

White's model allows us to draw several conclusions. It can be suggested that firms not only observe (and change) prices and output quantities, but also their own institutional set-up. One could theorize a perpetual back and forth between different actors of the same institutional sort ("firms"), but also between morphing institutional shapes and market structures. For instance, a firm may change its legal form along with its price and output in reaction to market forces; a firm could influence market forces (thus inciting other changes in other actors); drop out of the market altogether, join a different firm, or a firm may even become a different type of actor. Therefore, it is possible to conceive of other social entities – political and cultural institutions in particular, such as the state – as being operationalized by market actors such that they constitute a system of signal relations.

Since the market in White's model is nothing but signal relations, one can infer

61 Harrison White, "Where Do Markets Come From?", *American Journal of Sociology* 87, no. 3 (1981): 518.

62 Ibid., 523.

63 Ibid., 518. Italics added for emphasis.

64 Ibid., 520.

that market actor compatibility is among the signals constantly sent by each of them. In other words, *the constitution of a market is nothing more than the emergent institutional economics of signaling processes*. This implies another point: when this theory is expanded to include non-economic actors (who likewise send signals of varying kinds), the economy of transposing their actions and policies to economic signals becomes the most important part of emergent institutional intelligibility. Whether two political, cultural, or economic actors belong to the same market depends on the intelligibility of the signals they send. The practices constituting the intelligibility of signals are decisive in establishing the market and its actors simultaneously. This is particularly relevant for the transposition of political entities – and hence sovereign states – to signal systems.

Within this theory, it is conceivable that states are seen as both originators and addressees of signals, observed by other actors of various market and non-market sites of signal relations. In sovereign debt literature, the behavior of governments are transposed into market-based signal patterns by investors trading on primary sovereign bond markets. Ideally, this is an unequivocal relation: governments with higher risk to default pay more interest on their sovereign bond issuance than those with lower risk. However, the relation between government behavior and market assessment is not transparent or unequivocal. One example of market-based assessment failure is called "risk appetite." In times of liquidity oversupply on global financial markets, "risky" governments issue bonds paying less interest; whereas a global liquidity contraction leads to a situation in which even stable and solvent governments find it difficult to borrow.[65] Both Argentina and Greece were, and still are, beholden to such internal market dynamics: sudden boom expansions of liquidity, and equally sudden contractions.

Case Studies: Argentina and Greece

Both Argentina's and Greece's problems were partly domestic, partly international. The Argentinean attachment of the Peso to the US-Dollar during its so-

65 Philip Lane, "The European Sovereign Debt Crisis," *Journal of Economic Perspectives* 26, no. 3 (2012), 57.

called "convertibility regime" (1990-2003) not only served a similar function as Greece's membership in the Euro zone, it also had similar effects. Between 1990 and 1995, Argentina's anti-inflationary credibility, along with the market-reassuring denomination of its foreign debt in US-Dollars, coincided with a period of overabundant global lending, thus resulting in a largely uncontrolled pattern of borrowing on the part of Argentinean central and local governments as well as private parties.[66] Similarly, the ascendancy of Greece to the EMU in 1999, which gave its public and private borrowers access to the added liquidity and depth of pan-European integrated sovereign bond markets, coincided with the 2001-2008 global bull market, which then led to an overextension of credit to Greece.[67]

The differences between the 1990-1995 overlending to Argentina and the 2001-2008 overlending to Greece are as important as the similarities. For example, Greece's position within European structural and cohesion fund streams meant that a large part of the overlending did not come as foreign direct investments, but instead stemmed from public funds paid to most European peripheral countries.[68] Greece also received additional funds for its infrastructural adjustment projects as part of its bid for, and successful hosting of the 2004 Olympic Games. This additional influx of capital was missing in Argentina. In the latter, however, private overindebtedness reached higher levels as in Greece. These private debts were ultimately transferred to public accounts, but only as part of the post-default debt restructuring efforts.[69]

In both cases, the origin of pre-crisis overindebtedness in Argentina and Greece can be expressed in terms of systems of signaling to sovereign bond markets and actors on these markets. Both countries' policies sent strong signals which led to what may retroactively be measured as overlending (or, from an austerity perspective,

66 Damill, Frenkel, and Rapetti, "The Argentinean Debt," 187.

67 Alberto Botta, "Fiscal policy, Eurobonds, and economic recovery: heterodox policy recipes against financial instability and sovereign debt crisis," *Journal of Post Keynesian Economics* 35, no. 3 (2013), 426.

68 Michael Mitsopoulos and Theodore Pelagidis, Understanding the Crisis in Greece, (NY: Palgrave Macmillan 2011), 109 and 112.

69 Damill, Frenkel, and Rapetti, "The Argentinean Debt," 210.

reckless borrowing). Both Greece's accession to the EMU and Argentina's adherence to the US-Dollar currency peg of the Peso signaled anti-inflationary commitments – particularly important in Argentina's case, where inflation levels had reached 3000% in 1989. In Greece's case, one can attribute additional propensity to lend to two other facets of its 2001-2008 signaling – or, in this case, the absence thereof.

On the one hand, market interpretation in the early, less tumultuous period of the Euro zone was that lending to European peripheral countries had become less risky: the convergence of European sovereign bond yields to Germany's level before 2009[70] can, in part, be attributed to the market assumption that a European bailout system on the fiscal level would eventually supplement the monetary integration.[71] This can be read as a signal insofar as it contains information about Greece's European position. On the other hand, Greece's fiscal deficits were *not* transposed to the level of signals. As was discovered in 2009, the Greek statistical agency ELSTAT had systematically underestimated the level of Greek fiscal deficits since joining the EMU.[72] The absence of communication in Greece is still communication, and thus contributed to the impact of the announcement of the Greek deficit levels in October 2009.

In both Argentina and Greece, signaling took place not only in the boom economic periods, but during the attempts to restructure their debts that enabled and/or were plagued by the constant signals sent. In both cases, these signals, much more than domestic policies, were responsible for exacerbating the vicious spirals of debt, inability to repay, and restructuring efforts amassing more debt.

When the ripple effects of the 1995 Tequila crisis reached Argentinian private and public debt, Argentina was facing the problem of continuing its signaling of currency convertibility (i.e., prioritization of foreign debt servicing) while simultaneously stabilizing its fledgling economy. With rising risk premia, Argentina soon found itself running out of US-Dollar reserves. In 1997, an IMF rescue package

70 Michael Ehrmann, Marcel Fratzscher, Refet Gürkaynak, and Eric Swanson, “Convergence and Anchoring of Yield Curves in the Euro Area,” *The Review of Economics and Statistics* 93, no. 1 (2011), 351.

71 Bastasin, *Saving Europe*, 105.

72 Ansgar Belke, “The Euro Area Crisis Management Framework: Consequences for Convergence and Institutional Follow-Ups,” *Journal of Economic Integration* 26, no. 4 (2011), 681.

was agreed upon. However, risk premia sank initially before rising again for a reason Argentina had no control over – the Asian crisis.[73] Argentina's geographical position sent more effective signals than any government policy ever could. Austerity, mandated by deteriorating fiscal conditions combined with the necessity to maintain a positive current account balance to stabilize the currency convertibility regime only served to punctuate fiscal distress.[74] These conditions worsened, until the *coup de grâce* was given by two signals sent in a relatively short span of time.

In 2000 and 2001, a series of short-lived conservative governments prioritized debt servicing and currency convertibility sending Argentina into a shock spiral of debt-deflation and public unrest, giving creditors the impression of imminent default and raising the risk premia to unsustainable levels.[75] When Argentina offered its creditors a debt swap in the summer of 2001, markets were swept away by panic and a run on Argentinian dollar reserves occurred forcing the government to default in 2002.[76] Neither the initial shock of Argentinian fiscal distress, nor the ultimate catalyst for default was Argentinian domestic policy. Rather, the initial conditions of credit deterioration were inferences made by finanical markets from signals juxtaposing Mexico with Argentina unfavorably, tied to pressures of upholding currency convertibility.[77] The default catalyst was the instability engendered by prioritizing the policies that the markets were asking to be prioritized, but transposed by signals indicating the unsustainability of these commitments.

It was the absence of fiscal credibility in Greece that served as the initial cause for market distrust. Soon afterward, signals from Greece began having even less chance of being received favorably by markets after October 2009. Like Argentina, Greece had the impossible task of stabilizing its internal finances without resorting to a devaluation

73 Damill, Frenkel, and Rapetti, "The Argentinean Debt," 197.

74 Martin Wolf, "Exchange Rates in a World of Capital Mobility," *Annals of the American Academy of Political and Social Science*, 579 (2002), 44.

75 Damill, Frenkel, and Rapetti, "The Argentinean Debt,", 202.

76 Ibid, 202.

77 Grabel, "A Post-Keynesian Analysis," 417.

of its currency, which was in the hands of the EU's central bank. Initial downgrades by the three main global ratings agencies in October and December 2009 were followed by three years of rapidly deteriorating internal and external conditions and ever wider ramifications of Greek internal policies to European and global markets. Signals were sent frantically by the Greek government: two austerity packages were put into law between February and March 2010 before bailout negotiations began at the European level.[78] This did not, however, alleviate market nervousness, for two reasons: First, stricter procedures on the part of Greek government uncovered ever more far-reaching structural problems (as well as widespread neglect of laws and regulations), thus painting an increasingly grim picture.[79] Second, austerity measures were immediately met with resistance from opposition forces. Both developments were interpreted by market assessments as jeopardizing the stability of Greek repayment commitments. Further downgrades were the result until Greece formally asked Europe for a bailout in April 2010. With each piece of news coming from Greece, market sentiment increased its pressure in response to such signals to the point where the EFSF and then ESM intervention could only stabilize the downward motion of Greek sovereign bonds.

Both Argentina and Greece, therefore, were beholden to dynamics induced and directed by signals whose interpretation was internal to markets. Supplying vast amounts of liquidity in boom times was predicated upon Argentinian convertibility, interpreted as deflationary credibility, while Greece's bonds were interpreted as an asset class within pan-European liquidity. Likewise, the withdrawals of investments in times of bust stemmed from market interpretations: within systems of intelligibility constructed by market assessments and signals, Argentina's and Greece's attempts to stabilize their credibility were rejected just as much as the attempts to preserve their social structure. These cases demonstrate the power of markets to set the terrain of signal relations according to which Argentina's and Greece's actions were intelligible. That this terrain was hostile to both countries need not matter here: both Argentina and Greece, in boom and bust conditions, were subject to a sovereign interpretation of

78 Bastasin, *Saving Europe*, 175.

79 Ivan Berend, *Europe in Crisis – Bolt from the blue?* (London and NY: Routledge, 2013), 18 sqq.

their political terrains.

V. Conclusions

Interpretative market sovereignty works as a function of the forgetfulness induced by liberal politics about the fiction of sovereignty. The transposition of political and non-financial economic intelligibility to signals on financial markets results in political constellations supposedly without alternative.[80] The transposition is sovereign insofar as it projects itself as natural. As shown above, the liberal theory of market naturalness and state artificiality informs this transposition. The fiction of sovereign states, propogated by performative sovereign speech acts, now competese against a different form of sovereign fiction: the sovereignty of "natural," i.e., self-evidently legitimate, market interpretation.

Governments today increasingly face an additional constraint on the legislative process. To be sure, they can still promulgate or terminate political, social, or economic policies, but these will be interpreted as signals by markets. The terms of interpretation emerge from market intelligibility, not state intelligibility. And it is this new grid of intelligibility produced by the market that "siphons" what once constituted the indivisible sovereignty of the state. States could end this condition by sovereign political fiat, but this would require a form of collective action discouraged by neoliberal rationality. It might be said markets hold the state hostage – limiting its power of decision, not merely in emergencies, but in daily liberal governing practices.

Not only are peripheral states embedded in an environment in which their policies will be interpreted in hostile ways. States taken as global benchmarks are also inscribed into market refractions of their policies as signals. Indeed, designating a state as a benchmark against so-called developing or emerging countries is an act done by markets. One could argue that this prescription of benchmark states merely reinforces preexisting global relations. However, this does not preclude our analysis: our attention has not been on the constellation markets reinforce, but instead on the terms according

80 See, for example, Otto Holman, "Asymmetrical regulation and multidimensional governance in the European Union," *Review of International Political Economy* 11, no 4 (2004), 714-735.

to which they do so. In other words, the interpretive sovereignty of market signals is an emergent, but precarious power, and under such conditions, states on either end of the spectrum of contemporary power relations find their influence circumscribed.

Like many exercises of sovereignty, interpretative market sovereignty disguises itself. It does so by relying on liberal notions of self-evident rationality, naturalness, and the legitimacy of its assessments. It disguises its influence by acting as if its decrees were merely assessments of individual states, while simultaneously embedding its interpretations of state policies in inferences which extend beyond sovereign state borders, and often (but not always) juxtaposed with other states that assessed countries have no control over.

Interpretative market sovereigns attempt to carve out spaces of security – the conditions of their own existence. Markets establish spaces in which the operationalization(s) of reality according to interpretative market sovereign actors takes hold. We argue that the designation of entities within legal and extralegal grids of intelligibility by states is as much a decisionist operationalization of reality – a truly sovereign performative utterance – as it is an operationalization of reality by financial actors in terms of risk quantifications, benchmark statuses, and sovereign bond yield measurements. Thus, interpretative sovereignty is not territorial, but is nevertheless concerned with borders and boundaries: the security that their interpretations must always be correct and rational. The reason for this fundamental intra-market weakness of interpretative sovereignty that such "financial sovereigns" are constantly threatened by portfolio mismatches, risk coefficient miscalculations, cascading asset selloffs, and a vast array of other risks: credit, liquidity, and flight risk.[81] Indeed, the stakes are high for interpretative market sovereigns. If their assessments are incorrect, then crisis ensues: asset contagions, bubbles bursting, "financial meltdowns."[82] This is relevant because there are numerous interpretative market sovereigns whose signals overlap and thus contradict, drown out, or distort each other.[83]

81 Michael Taylor, "Originate to Distribute," in idem, David Mayes, Robert Pringle (Eds.): *Towards a New Framework for Financial Stability*, (London: Central Banking Publications, 2009), 138-153.

82 Grabel, "A Post-Keynesian Analysis"

83 This has been described in terms of the post-Millenial "attention economy," in which attention is a

In conclusion, against a chaotic multitude of possible interpretations, a sovereign imposition of meaning is necessary. Just as the words of the state create order by sovereign utterance, so financial meaning, pricing, and information are created by interpretative market sovereign entities. Financial information is true not because it matches the median volatility of an asset's fundamental, thus projecting a correct price.[84] Rather, financial information is determined to be true because sovereign financial pricing operationalizes states as signal patterns according to their own systems of intelligibility. Markets have interpretative sovereign power through sovereign speech acts – that is, market signals. Such market systems of intelligibility are as precarious as the state's systems of intelligibility are. What balances of power are for states in anarchic conditions are what contagion dynamics and information overloads are for financial actors. They are conditions to be held at bay at all costs in order for these entities to fulfill their function, and are therefore conditions with the likelihood of intesifying as the efforts to defend against them come to resemble the conditions themselves.

scarce commodity, by Christian Marazzi, *Capital and Language: From the New Economy to the War Economy* (Los Angeles: Semiotext(e), 2008), 64-68.

84 See: Eugene Fama, "Efficient Capital Markets: A Review of Theory and Empirical Work," *The Journal of Finance* 25, no. 2 (1970), 383-317; Fischer Black, "Noise," *The Journal of Finance* 41, no. 3 (1986), 529-543; Robert Shiller, *Irrational Exuberance* (Princeton: Princeton University Press, 2005), 179-181.