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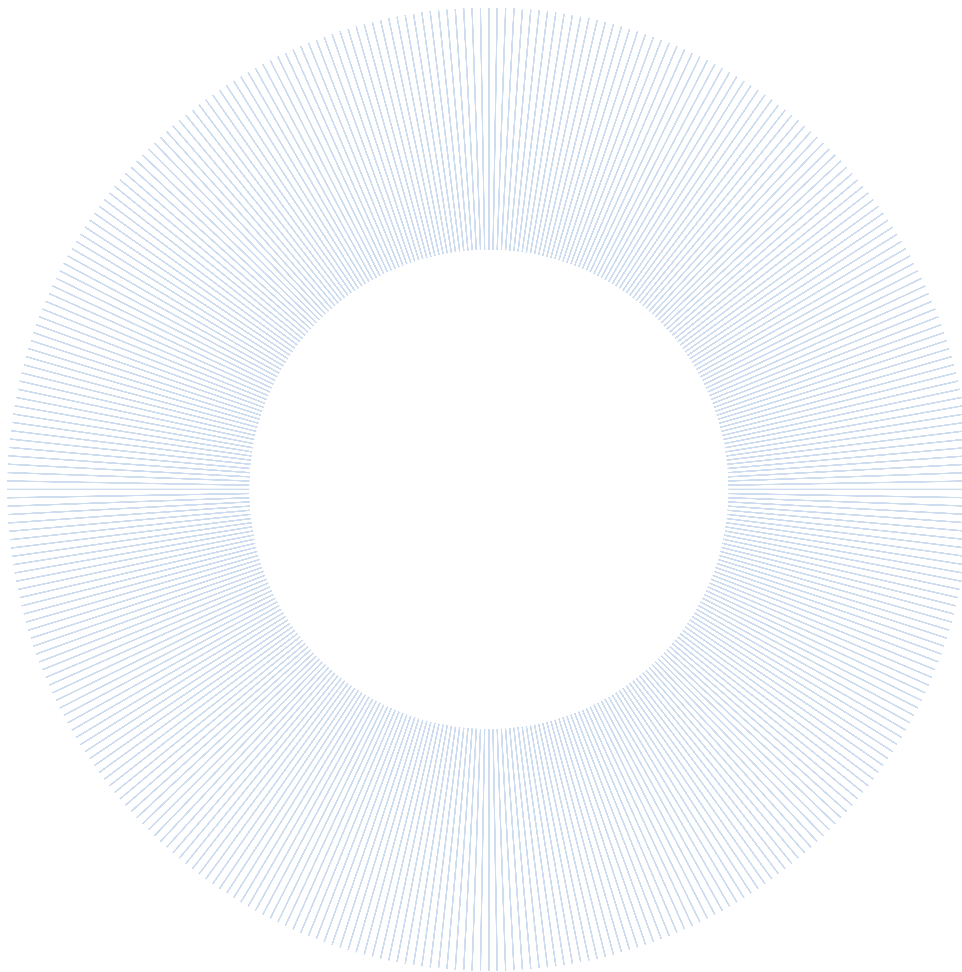
Insights

Institute *of* Advanced Study

Cause, Condition, Cure: Liquidity in the Global Financial Crisis, 2007–8



Paul Langley

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CAUSE, CONDITION, CURE: LIQUIDITY IN THE GLOBAL FINANCIAL CRISIS, 2007–8

This paper contributes to the Institute of Advanced Study's 2009–10 theme of Water by exploring the power of the watery metaphor of 'liquidity' in the recent global financial crisis. For at least 12 months or so from the outset of the crisis in August 2007, serious disruptions in markets were represented as a 'liquidity crisis' in practitioner, academic, media and policy discourse. The paper disaggregates and explores three sets of representations of the crisis that all feature the notion of liquidity, but which each carry forward quite different meanings. These representations view liquidity as cause of, condition for, or cure for the crisis. The paper then begins to address a conceptual puzzle: how was it possible for starkly contrasting meanings of liquidity to contribute towards the rendering and governing of the crisis as a liquidity crisis? Two related conceptual avenues are highlighted for approaching this puzzle. First, once conceived of as holding performative power, liquidity can be understood to have produced a de-politicising visualisation of the crisis that brought together an array of developments as a single problem to be acted on, but to have operated contingently through the reiterative naming of the crisis in which the contrasting meanings of liquidity were not particularly significant. Second, once the apparatus through which the 'liquidity crisis' was governed is conceived of as a distributed form of agency, interventions can be understood to have been enabled by relations between discursive and material elements that worked in conjunction but which also entailed tensions and frictions. Liquidity may have appeared, at once, as the cause of, condition for, and cure for the global financial crisis, yet this watery metaphor was nonetheless crucial to how the crisis came to be imagined and tackled in seemingly coherent and consistent ways.

Introduction: 'The Other Liquidity Crisis'

At the end of 2008, *The Financial Times* newspaper launched its annual Seasonal Appeal. In many ways, the appeal was quite unremarkable. In order to encourage readers to make donations, the appeal was limited to a cover story in the *FT Weekend Magazine* of 27/28 December and a series of slide shows and videos on the newspaper's website. And, in total, the appeal raised just £167,389.[1] What is of interest, however, was the particularly fitting and timely choice of WaterAid as the nominated charity of the 2008 appeal. As the front cover of the aforementioned *FT Weekend Magazine* put it – against the backdrop image of a barefooted young black boy drinking from a child's beach bucket, taken from a 'photographic journey through Mali, Nepal and Bangladesh in support of WaterAid' – the focus for the appeal was 'the other liquidity crisis.'

From August 2007, *The Financial Times* had reported on the serious disruptions and dislocations in global financial markets that were widely represented as a 'liquidity crisis.' This representation was common to practitioner, academic and policy discourse which sought to begin to make sense of the turmoil. It also animated the responses of public authorities. The 'pumping' or 'injecting' of liquidity consistently appeared, for example, as the main motivation behind successive rounds of central bank interventions in 'frozen' money markets.

Similarly, at the heart of the crisis in the United States of America, and put before Congress in September 2008 as the crisis appeared to be reaching its peak and comparisons were readily being drawn with the Wall Street Crash of 1929, the US Treasury's (2008) $700 billion Troubled Assets Relief Programme (TARP) targeted 'illiquid mortgage assets' that were held to be 'the root cause of our financial system's stresses.' *The Financial Times* itself had, moreover, made an important contribution to the imagining of the crisis as a liquidity crisis, and to debates over the responses deemed necessary in order to restore liquidity.

In the context of the Institute of Advanced Study's 2009/10 theme of Water, the casting of *The Financial Times* Seasonal Appeal for 2008 as 'the other liquidity crisis' is illustrative of the significance and power of watery metaphors across a wide range of domains. That WaterAid's work to address a situation where 884 million people globally do not have access to clean and safe drinking water could be described as 'the other' of a seemingly more pressing and no less watery crisis is very revealing. Yet, academic inquiry tends not to concern itself with how the recent global financial crisis has been represented, whether through recourse to the categories of 'liquidity' and 'illiquidity' in the first year or so of the crisis, or latterly though 'capital' and 're-capitalisation.' Instead, attention largely concentrates on generating and exploring competing interpretations of the seemingly real and material forces that produced the crisis (see Castree, 2009, for a useful overview). In contrast, and as part of a wider and on-going project that seeks to analyse the meaning and constitutive significance of liquidity in recent financial history (Langley, 2010a, 2010b), I want here to begin to investigate how the global financial crisis of 2007–8 was made legible and governed as a 'liquidity crisis.'

Specifically, then, I begin below by disaggregating and exploring three sets of representations of the crisis that all feature the notion of liquidity, but which each carry forward quite different meanings. These representations view liquidity, respectively, as cause of, condition for, or cure for the crisis. At an exploratory stage in the research process, this paper is thus in part an exercise in trying to untangle the multiple, competing and overlapping meanings of the liquidity metaphor in the crisis. But, delineating these three sets of representations also leads into a conceptual puzzle that the final section of the paper begins to address: how was it possible for contrasting meanings of liquidity to contribute nonetheless towards the rendering and governing of the crisis as a liquidity crisis?

Excess Liquidity as Cause

The liquidity that is said to be causal in the crisis appears as a kind of material substance, a quantity and frothy glut of capital and credit. In the terms of a Lex Column (2007) article from *The Financial Times*, commenting on the initial round of collective interventions by central banks in the money markets during August 2007, this is 'excess liquidity.' Causal explanations of the crisis in this vein tend to identify excess liquidity as resulting from two sources: the loose monetary policy of the Federal Reserve that, in the wake of the 'new economy' stock market crash at the turn of the millennium, produced negative real interest rates in 2002–2005 (e.g. Grant, 2008); and the so-called 'wall of money' of capital outflows from China and oil exporting economies which sustained global imbalances and US deficits in particular (e.g. Krugman, 2008; Wolf, 2008).

Produced from these two sources, excess liquidity made it very cheap to borrow in the US in particular, and this is held to have inflated bubbles in the mortgage and housing markets. And, given that these bubbles featured the booming sub-prime sector of the mortgage market from where the recent dislocations in the global financial markets emanated, excess liquidity is viewed as key to the crisis. The role of excess liquidity in bringing about a crisis that was rooted in the sub-prime sector is held to rest on the way in which it energised an excessively leveraged 'appetite for yield' in the global capital markets that came to concentrate on the risks and rewards apparently on offer from instruments related to or derived from sub-prime mortgages (Ashton, 2009).

In markets awash with liquidity and offering only limited returns, the apparently safe but comparatively high returns on offer from highly-rated sub-prime mortgage-backed securities (MBS) and collateralised debt obligations (CDOs) were very attractive to investors. That liquidity-fuelled demand for yield from investors could not be met alone by MBS related to the underlying income streams of sub-prime mortgage repayments was not a problem. Investors' desires could be met by a seemingly limitless supply of CDOs produced by Wall Street's investment banks that, as securitisations of securitisations, provided investors with derivative and structured stakes in the risk-reward characteristics of those income streams but not ownership claims upon them (Lewis, 2008). In sum, excess liquidity provided the raw material that stoked related and unsustainable bubbles in housing, mortgage and financial markets.

Market Liquidity as Condition

In a second set of representations of the crisis that feature liquidity, liquidity is, in contrast, a qualitative characteristic and condition of markets. What we might call 'market liquidity'

is, moreover, held out as a normal condition of financial markets against which the crisis comes to be judged. For example, commentaries on the crisis offered by politicians, regulators and the financial media consistently stress that liquidity had 'ebbed away' or 'evaporated' from markets, and that formerly free-flowing markets had 'frozen-over.' The situation of illiquidity that had emerged in the crisis was, thus, far from typical in the functioning of markets. Put differently, and to borrow terms from Michel Foucault's (2007, pp. 40–1) discussion of the representation of scarcity in markets for grain in eighteenth-century France, illiquidity was a 'chimera' that either 'cannot exist' or, when it comes into view, is not 'a natural reality' but 'no more than the aberrant result of a number of artificial measures that were themselves aberrant.'

Representations of the crisis as an aberrant moment of illiquidity in otherwise well-functioning liquid markets draw considerable sustenance from mainstream economics. Economists typically have a quite narrow and specific definition in mind when they categorise a financial market as 'liquid' and 'deep': a market populated by a crowd of willing buyers and sellers who are able to exchange assets without producing significant price disruption (see Carruthers and Stinchcombe, 1999, p. 353). Moreover, liquidity as the normal condition of markets was also evoked and held constant in a wide array of financial market models and organisational strategies that came to hold sway from the mid-1990s. Liquid markets had become objectified during this period, a known thing or object that was regarded by financial practitioners as independent and external to them, as having a reified actancy and 'life of their own' in setting and moving prices, facilitating exchange, managing risk, and so on (Langley, 2010a).

What was especially significant was the manner in which, prior to the crisis, sub-prime networks seemed to exemplify this reification of liquid markets. On the one hand, illiquid sub-prime mortgage assets and their associated default risks were moved off lenders' balance sheets and sliced, diced, structured and traded as MBS and CDOs in the liquid capital markets. On the other hand, stakes in assets related to and derived from sub-prime mortgages were, in large part, funded or 'levered' through short-term borrowing from liquid money and commercial paper markets. For example, while Wall Street's investment banks earned healthy fees and commissions from the issue, structuring and sale of MBS and especially CDOs, they were also crucial to the circulation of sub-prime assets. Not only was their proprietary trading highly-leveraged through the perpetual roll-over of increasingly short-term debt, but their so-called 'prime brokerage' businesses lent in support of the highly-leveraged strategies of hedge funds and became involved with banks of all kinds in the off-balance sheet 'liquidity leverage' of structured investment vehicles (SIVs) (*The Economist*, 2008, p. 4). As a key part of what was known as the 'shadow banking sector,' SIVs sought to take advantage of interest rate arbitrage, borrowing short-term 'surplus liquidity' in asset-backed commercial paper markets and investing for the 'enhanced yield' that was apparently on offer from MBS and especially structured CDOs.

Emergency Liquidity as Cure

In a third set of representations of the crisis that feature liquidity, and in contrast with the first two, liquidity is not cause or condition, but cure for the crisis. As with excess liquidity as cause, what we might call 'emergency liquidity' appears in such representations as a material substance, as a quantity or flow of money. Emergency liquidity is a substance which can only be provided, however, by public authorities as a cure for the crisis moment in private markets. Central banks as so-called 'lenders of last resort' were thus understood, for example, to be 'pumping' or 'injecting liquidity' into the money and inter-bank markets.

Representations of emergency liquidity as the cure for the crisis are rooted in theories of central banking and last resort lending that go back to at least the nineteenth century. For example, Walter Bagehot (1873/1999) famously argued in his book *Lombard Street* that a lender of last resort (LLR) should lend to essentially solvent but illiquid banks at a penalty rate in order to prevent the collapse of the financial system as a whole. Not dissimilarly, as Charles P. Kindleberger (1996, p. 146) has it in his classic comparative history of financial crises, an LLR 'stands ready to halt a run out of real and illiquid financial assets into money by making more money available.' An LLR acts in this way for Kindleberger because, while there are inherent crisis tendencies rooted in what post-Keynesian economist Hyman Minsky (1986) calls the 'progressive illiquidity' of ultimately unrealisable financial claims on the 'real' economy, the smooth operation of financial markets is nonetheless a crucial 'public good.' Understood in these terms, crisis management interventions literally centre on a central bank as the LLR which usually provides liquidity at a punitive rate of interest via its discount window, and/or purchases discounted government securities from banks through open market operations to make liquidity available for lending or other uses.

As the recent crisis was represented as requiring the cure of emergency liquidity, the US Federal Reserve in particular pushed last resort lending to its limits. The Fed's interventions in the crisis included actions that were broadly typical of LLR practices in modern financial crisis management, including sharp cuts in interest rates and discount lending to commercial banks in increasingly large amounts against increasingly poor quality assets as collateral. But, as banks worried that borrowing from the Fed's discount window during the first months of the crisis would undermine their creditworthiness in the inter-bank markets, the Fed created the Term Auction Facility (TAF) in December 2007 to make it possible for them to bid anonymously for 28-day loans against a wide spectrum of collateral that included mortgage-related assets. The Fed also created the $200 billion Term Securities Lending Facility (TSLF) in March 2008, a programme that provided liquidity support for investment banks for the first time since the 1930s by permitting them anonymously to swap their holdings of mortgage-related instruments for Treasury bonds (Brunnermeier, 2008). Furthermore, as its balance sheet continued to grow, the Fed engineered the 'conservatorship' of the government chartered but publicly-traded mortgage giants Fannie Mae and Freddie Mac in September 2008. And, perhaps most controversially, the Fed effectively opened up the monetary printing press and engaged in the policy of quantitative easing from the end of the same year.

Representations of the recent crisis as necessitating the cure of emergency liquidity also animated responses by public authorities that went well beyond last resort lending. The most notable example in this respect is the US Treasury Department's TARP which came before Congress in September 2008. Aping the design of the Resolution Trust Corporation which managed the assets of failed institutions in the savings and loans debacle of the 1980s and early 1990s, the TARP proposal requested authority 'to issue up to $700 billion of Treasury securities to finance the purchase of troubled assets' (US Treasury Department, 2008). Under the terms of what was also known as 'the Paulson plan' after then Treasury Secretary Henry (Hank) Paulson, such 'troubled' and 'illiquid' sub-prime assets were to be purchased from investors through a reverse auction process and at prices higher than those presently prevailing in markets. This was expected to boost banks' capital indirectly, as it would reduce the capital which they had to set aside against these assets on the liabilities side of their balance sheets. It was also suggested, most clearly by Federal Reserve Chairman Ben Bernanke (2008), that the purchase of illiquid assets by the Treasury and their subsequent re-sale would enable so-called 'price discovery,' encouraging investors to return to these asset markets and ultimately restoring flows of mortgage lending and finance more broadly.

Liquidity, Performativity and Distributed Agency

The three sets of representations of the global financial crisis outlined above all feature liquidity, but the meaning of this watery metaphor is quite different and distinct within each. These meanings, moreover, appear to stand in tension with each other. In the rendering and government of the crisis, liquidity cannot be, at once, the causal excess that produced the tumult, the normal condition of markets that has been punctured by an aberrant illiquid moment, and the emergency cure that will restore the functioning of markets. Or can it? Put differently, we are confronted by an apparent paradox and conceptual puzzle: on the one hand, the liquidity metaphor and its multiple meanings appears necessarily to be only capable of producing an incoherent representation of the crisis that could not support seemingly rational governmental responses; on the other hand, out of the morphing and diverging of these framings of the crisis, there came an apparently coherent means of rendering the crisis as a governable object, of responding to the crisis as a 'liquidity crisis.' How can this have been the case?

There is certainly a degree to which the rendering and government of the serious disruptions in global financial markets from August 2007 featured subtle moves that ensured that seemingly contrasting meanings of liquidity could be combined in a broadly consistent narrative. Crucial in this regard were the ways in which causal accounts of the crisis where liquidity is a dangerous excess were sidelined in favour of accounts where the normal condition of liquid markets was emphasised. After all, interventions by public authorities in the crisis through emergency liquidity have stoked the very sources of excess liquidity that have been highlighted as causal in the crisis. At the time of writing in early 2010, the Federal Reserve has once again created an on-going situation where interest rates are negative in real terms, and global imbalances have deepened as the US deficit has ballooned yet further.

A particularly revealing example of the sidelining of the representation of the crisis as caused by excess liquidity is provided by President George W. Bush's (2008) televised address to the nation, made as the TARP legislation was before Congress. In offering an answer to the question 'How did we reach this point in our economy?' that he poses for himself, Bush partially replays and contributes to the excess liquidity representation of the crisis. But, in his terms, massive capital inflows into the US in the run-up to the crisis are cast in a positive light despite their 'negative consequences.' As he puts it:

> Well, most economists agree that the problems we're witnessing today developed over a long period of time. For more than a decade, a massive amount of money flowed into the United States from investors abroad because our country is an attractive and secure place to do business. This large influx of money to US banks and financial institutions, along with low interest rates, made it easier for Americans to get credit. These developments allowed more families to borrow money for cars, and homes, and college tuition, some for the first time. [...] Unfortunately, there were some serious negative consequences, particularly in the housing market. Easy credit, combined with the faulty assumption that home values would continue to rise, led to excesses and bad decisions (Bush, 2008).

Moreover, in putting a positive spin on excess liquidity and situating its negative consequences in the housing market, Bush effectively creates a further buttress against competing causal explanations of the crisis that emphasise factors present in the financial markets themselves and not the 'real' economy of housing (see Gowan, 2009). For President Bush, the normal conditions of well-functioning financial markets are undermined by exogenous factors arising from elsewhere, leading to an aberrant moment of illiquidity. To return to his words:

> The decline in the housing market set off a domino effect across our economy. When home values declined, borrowers defaulted on their mortgages, and investors holding mortgage-backed securities began to incur serious losses. Before long, these securities became so unreliable that they were not being bought or sold. Investment banks such as Bear Stearns found they could not sell. They ran out of money needed to meet their immediate obligations, and they faced imminent collapse. Other banks found themselves in serious financial trouble. These banks began holding on to their money, and lending dried up, and the gears of the American financial system began grinding to a halt (Bush, 2008).

It should be stressed, however, that while President Bush's (2008) televised address provides a revealing example of how the excess liquidity representation of the crisis came to be sidelined, such moves to combine contrasting meanings of liquidity in a broadly consistent narrative were actually quite rare. What was more noticeable and is arguably more significant was how the seemingly inconsistent meanings of liquidity were continuously run alongside and into each other in the rendering and government of the crisis. Liquidity, it would seem, operated as something of a catch-all metaphor and rallying-point for crisis management. Indeed, it was only when the alternative and arguably just as amorphous categories of 'capital' and 'recapitalisation' framed responses to the crisis from October 2008 that liquidity became a seemingly less pressing matter. For the first 12 months or so of the crisis, then, and while its multiple, competing and contradictory meanings were at work, liquidity nonetheless produced a watery visualisation of the crisis, one in which the quantities and qualities of flows, movements and circulations that were the norm in markets had 'dried up' and 'frozen over' but could be restarted and 'pumped' by public authorities.

Viewed in these terms, two related conceptual avenues would seem especially promising in order to understand the puzzling place of liquidity in the rendering and government of the global financial crisis during 2007–8. First, there is a strong sense in which the rendering of the crisis as a liquidity crisis was performative: what mattered was the constant iteration and reiteration of the crisis as a problem of liquidity and illiquidity. Second, there is also a clear sense in which the apparatus through which the crisis was governed as a liquidity crisis was a distributed and assembled form of agency: interventions were contingent and enabled by relations between discursive and material elements that worked in conjunction but also entailed tensions and frictions.

Performativity

The concept of 'performativity' has recently received considerable attention from scholars in the so-called social studies of finance (SSF) or 'cultural economy of finance' (Pryke and du Gay, 2007). It is typically deployed to reveal the ways in which calculative devices, models, formulas and so on do not simply record financial movements and machinations, but actually make possible pricing, exchange and circulation in markets (e.g. MacKenzie, 2004, 2006). Such research takes inspiration from the material sociology of Michel Callon (1998) in particular, where the guiding assumption is that 'economics, in the broad sense of the term, performs, shapes and formats the economy, rather than observing how it functions' (p. 2). Performativity has tended to be deployed in this vein in a manner that is consistent with the writings of J. L. Austin (1962), the pragmatist philosopher of 'speech acts' who is widely recognised to have first formulated the category. Donald MacKenzie (2004, 2006), for example, as the leading contributor to SSF, takes inspiration from Callon's 'generic performativity' but, at the same time, explicitly seeks to recover 'Austinian performativity.' As such, and

from Austin, 'a performative utterance' is 'a specific kind of statement or expression that establishes its referent through the very act of uttering' (MacKenzie et al., 2007, pp. 2–3).

Understood in these terms, the concept of performativity thus underscores the power of mainstream economic discourse, financial market models and organisational strategies in framing the crisis as one in which the normal condition of market liquidity had temporarily evaporated (see Langley, 2010a). That said, in interdisciplinary research into financial market economies, the category of performativity has not been the exclusive preserve of material sociologists. Marieke de Goede (2005) has, in particular, signalled a different conception of performativity derived from the work of Judith Butler (1997) which is itself grounded in a Foucauldian reading of power and Jacques Derrida's deconstructionist engagement with J. L. Austin. Finance, for de Goede, is understood 'as a discursive domain made possible through performative practices, which have to be articulated and rearticulated on a daily basis' (p. 7). Performativity is therefore central in de Goede's analysis of the power of apparently rational and scientific modern finance, as 'processes of knowledge and interpretation do not exist in addition to, or of secondary importance to, "real" material financial structures, but are precisely *the way in which "finance" materializes*' (p. 7, *original emphasis*).

Taking inspiration from de Goede's (2005) reading of Judith Butler (1997), what this allied but nonetheless distinct conception of performativity suggests is that greater attention needs to be paid to the operation of power relations in the 'speech acts' that made the crisis legible as a liquidity crisis. Three insights follow. First, in the naming of the crisis as a liquidity crisis, a vast array of developments, disruptions and dislocations across a diverse range of relatively distinct markets were brought together to forge a single problem and object to be acted on. The watery visualisation of the crisis was an abstraction that simplified, justified and animated the interventions of public authorities, and closed-down political space for thinking of or responding to the crisis in different ways. Second, what was significant to the operation of performative power was that the naming of the crisis as a liquidity crisis was repetitive and reiterative, constantly on-going and largely disjoined from particular meanings. That no coherent definition or defining text was present within these performative enunciations was thus not particularly significant to the power of liquidity. And third, the representation of the crisis as a liquidity crisis was always highly contingent, uncertain and vulnerable. If, as Butler (1997, p. 19) suggests, 'a structure is dependent upon its enunciation for its continuation, then it is at the site of enunciation that the question of its continuity is to be posed.' The performative power of the liquidity metaphor in the crisis collapsed relatively quickly, not as practitioners, policy-makers and media commentators began to question its meaning but as talk of capital and recapitalisation came to take hold.

Distributed agency

Although encompassing a variety of perspectives, a uniting feature of the 'cultural economy of finance' literature is 'a shared focus on the heterogeneous ways in which objects and persons (firms, markets, consumers) are "made up" or assembled by the discourses and *dispositifs* of which they are supposedly the cause' (Pryke and du Gay, 2007, p. 340). This 'shared focus' on the composite and distributed nature of agency, constituted through specific human and non-human associations and connections, follows in broad terms from the 'cultural' and 'material turns' in the study of economic life. When taken forward through Callon's (1998) ground-breaking contributions to economic sociology in particular, the cultural economy of finance literature thus primarily concentrates on the materiality of distributed market agencies, tending to highlight the performativity of a wide range of 'market devices' or *dispositif* in the

constitution of calculative and distributed market *agencements* (Callon and Muniesa, 2005; MacKenzie, 2009; Muniesa et al., 2007). These devices include, for example, particular economic models of the financial market (MacKenzie, 2006), and computer terminals or software programs (Knorr-Cetina, 2003; Pryke, 2007).

Consolidating as a field of inquiry during the pre-crisis conjuncture in which financial markets boomed, SSF has to-date had little to say about moments of crisis and their management. Yet, there would seem considerable scope to extend cultural economy analysis of the 'objects and persons' that are 'made up' in the field of finance to include crisis management interventions which are 'supposedly' the outcome of state sovereignty and agency (Pryke and du Gay, 2007, p. 340). As my previous discussion of last resort lending and the supply of emergency liquidity suggests, crisis management is typically understood to be the preserve of a centralised agency (usually the central bank) and a function of the monetary sovereignty of the state. The diverse forms taken by public interventions in the recent crisis, for example, their contingencies, uncertainties and distinct implications thus tend not to be deemed to be particularly significant. All that would seem to matter is that, in the terms of *The Guardian* newspaper's Economics Editor Larry Elliott (2009), 'It's only "big government" that got us out of it.' But crisis management interventions cannot be effectively and critically understood as a response by the 'already "agenced"' institutions of the sovereign state to market failure (Muniesa et al., 2007, p. 2).

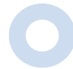
Conceiving of crisis management interventions as distributed forms of agency, then, would seem to hold out two key insights for understanding the government of the crisis as a liquidity crisis. First, and whether understood specifically in the terms of Deleuze and Guattari (2004) as 'assemblages,' or in the terms of Foucault (2007) as 'apparatus of security,' crisis management interventions as distributed forms of agency are composed of relations between heterogeneous material and discursive elements. It follows that representations of the crisis that made it legible as a liquidity crisis were not only powerful performative utterances, but were crucial to the government of the crisis. The US Treasury's TARP proposals would have been impossible, for example, without the wide-ranging imagining of sub-prime assets as 'illiquid' (Langley, 2010b). Second, and from Deleuze (2006) specifically, distributed forms of agency are marked by a multiplicity, fluidity and relative openness that always to some degree escapes the 'lines of force' that are present within them (p. 340). Crisis management is necessarily strategic and shot-through with power relations, but what Connolly (2008) calls the 'resonance' between heterogeneous elements which produces the seeming coherence of specific interventions is always incomplete and may produce frictions. For example, while the TARP proposals called for the purchase of illiquid sub-prime mortgage assets through a reverse auction process, the pricing of those assets exceeded the logics of probabilistic risk calculation through which valuations, and thus the prices which symbolised those valuations, were to be created. As of 14 October 2008, less than two weeks after the TARP had passed into law, it was announced that the first $250 billion of its funds would be used to recapitalise US banks through the purchase of preference shares and not illiquid assets.

Concluding Remarks

Focusing on 'liquidity' in the recent global financial crisis, this paper has sought to contribute to the Institute of Advanced Study's work in 2009–10 by exploring the power of this particular watery metaphor. To this end, the paper has addressed a paradox and conceptual puzzle that, while arising out of the quite specific and contrasting meanings of liquidity in the global financial crisis, may well also be present when watery metaphors are a constitutive

feature in different domains. On the one hand, the liquidity metaphor had multiple meanings in the global financial crisis. It appeared in three divergent representations of the crisis, as cause, condition and cure. Liquidity would thus necessarily seem to have been capable of only producing an incoherent representation of the crisis that could not support seemingly rational governmental responses. On the other hand, out of the morphing and diverging of these framings of the crisis, there came an apparently coherent means of rendering the crisis as a governable object, of responding to the crisis as a 'liquidity crisis.'

I have highlighted, moreover, two related conceptual avenues that would seem especially promising for understanding the puzzling place of the watery metaphor of liquidity in the rendering and government of the global financial crisis. Once conceived of as holding performative power, liquidity can be understood to have produced a de-politicising visualisation of the crisis that brought together an array of developments as a single problem to be acted on, and to have operated contingently through the reiterative naming of the crisis in which the contrasting meanings of liquidity were not particularly significant. And, once the apparatus through which the 'liquidity crisis' was governed is conceived of as a distributed form of agency, interventions can be understood to have been enabled by relations between discursive and material elements that worked in conjunction but which also entailed tensions and frictions. Liquidity may have appeared, at once, as the cause of, condition for and cure for the global financial crisis, but this watery metaphor was nonetheless crucial to how the crisis came to be imagined and tackled in seemingly coherent and consistent ways.



Note

[1]http://www.ft.com/cms/s/0/949ea4a4-d2cb-11de-af63-00144feabdc0,dwp_uuid=c8bf9cce-d2c7-11de-af63-00144feabdc0.html

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Insights is edited by Michael O'Neill, IAS Director and Professor of English.
Correspondence should be directed to Audrey Bowron (a.e.bowron@durham.ac.uk).