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L'économisation de l'échec (Economizing Failure)

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Economizing Failure

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To the substance of my talk, which has the very short title, « economizing failure », which might be a bit enigmatic but hopefully will become clearer. What I wanted to do is start of by saying what I think we currently know about the interrelation between numbers, policies and politics, which is quite a bit actually if you want to step back to three decades. We knew a lot less then. We know about the supposed objectivity of the numbers about people might come to trust numbers, we know about how numbers and metrics travel, we know about standardization processes, we about financialization, we know about the making of markets, what economics has done in that regards, and with a sort of thinking on my own, we know something about motives of governing or if you like administering lives and how that happened because there is a funny combination of ideas and instruments. So if I put all that together we know that there is a fairly delicate process of co-constructing political ideas or mentalities and a set of metrics or instruments. This has happened in a variety of ways. There is what one might call Colbert centralizing and there also what might be more familiar today in our contemporary world of circle transparency choice markets and so on. The mentioning of Colbert is just to remind us that we shouldn't assume that numbers and markets necessarily go together. We are looking today at the last two or three decades. There is particular fitting of numbers and markets and I guess perhaps what we are still trying to figure out is what is that relationship between marketized regimes and numbers. If I can paraphrase the call for papers, if we want to understand the tyranny of metrics, whether it is in the corporate world or in public policy, we need to understand, unpack this interrelation between numbers and logics of intervention, or if we shorthand, the role of numbers in the transformation of the states that we have seen recently. What I want to argue, the sort of particular focus of my talk is to say that although we have made quite a bit of progress in understanding these issues in the last two decades I want to suggest that we know rather less about the limit point of these processes, which I am taking for these purposes today the point of exists from the market game. There may well be other limit points but that the one I whish to focus on. If you want to put that differently what I say is we need to know a little bit more about how failure has been economized and made calculable. Because the notion of market or markets presupposes that there are relatively orderly processes for exiting for the market game and that those exit routes allow those same persons to re-enter the market game. To understand this, and I am borrowing a little bit here on the work of Michel Callon, I think many of my comments will be familiar to those of you that are familiar with his work and I think that probably my own work hasn't operated very much in parallel but in intersection with his work, we need to understand not just about individual metrics. A lot of the economic sociology is focused on particular metrics of instruments but we need to look at the chains of calculation that we have, particularly in the case of failure. So to say something about these issues I will do my best to be good and stick to my thirty minutes, I wanted to say something about two papers of mine. One of them are a recently published paper with Mike Power, which appeared just a few months ago in the Academy of Management Annals and, which is called "Accounting, Organizing and Economizing" (Miller & Power, 2013) and looks on those relationships. I also want to speak a little bit about, I wanted to say a forthcoming paper but it was published yesterday in

Business History with my colleague Liisa Kurunmäki at LSE, which provides a very compressed history of failure in the US and the UK from roughly 1840 to 1940 (Miller & Kurunmäki, 2013). So my talk today is a little bit about a sort of ongoing project to look at various dimensions of failure and it is rather fortunate because there seems to be a lot of it about at the moment. In the UK we doing particularly well but I think other countries are also doing well.

I want to start talking a little bit about this paper with mike power, our argument in the paper is that, and it will be familiar to many or most of you, there is some mutually constitutive relationship between accounting practices, modes of organizing and more general processes of economizing. We focus on accounting particularly because we were asked to write a paper about accounting so we do focus quite a bit on accounting, we don't claim that accounting is doing all this by itself but we do think accounting plays an important role in doing this. What do we mean about economizing? Fortunately, somebody else asked this in a seminar last week but I did check and there is a definition in the paper and what we mean here are the processes and practices through which individual activities and organizations are constituted as economic actors and entities. Now you might say but actually that it is just sort of tautologist, which I think is a bit unfortunate but it is and it is necessarily so if you want to be empirical about the process of economizing. So we don't argue that accounting does all this by itself but we do argue that accounting, if I briefly quote we say, "Accounting increasingly provides the dominant narratives of market rationality within organizations, among organizations and at a societal level". We also argue that accounting does something somewhat distinctive in this regard and here I am thinking relative to economics, which has played a very important part quite obviously in processes of economizing. But what we argue is that accounting is if you like, it might sound I bit odd, is a little bit more personal than economics because accounting is better equipped to act on the actions of individuals whether they are managers or the recipients of manager and actions on the terrain. It is also better equipped adapting on the actions of entities and sub entities. These are things economics typically tends to bracket and not address so much other than in very broad terms by categorizing some actions. Those sort of arguments are again rather familiar to many of you but what we do in the paper we try to if you like dimensionalize, we try to identify some of the key characteristics of accounting and how this sort of fits together and we identify four aspects to the role of accounting in processes of organizing and economizing. I briefly recap those and then say something specifically about failure.

The first one we speak about is territorializing by which we mean the recursive construction of the calculable spaces that actors within organizations and society inhabit. It doesn't matter whether these are physical spaces like hospital board or factory floor or seminar room or whatever or whether they are abstract spaces like department or divisions of cost centers, any type of public service or groups of companies or whatever. We look at the way accounting processes draw an envelop around and we call this territorializing. We are not of course the only people to use that word.

The second dimension we speak is mediating and here what we have in mind is an inventive and transformative process. We are not just talking about liking things up. I mean in England we are talking about having mediators in industrial disputes and so on. We are speaking about the forming of something new. Mediating can be done by persons, it can be done by instruments, metrics, machines and ideas. So we look at the all set of things that allow and facilitate this process of mediating and in my own work, in the hybridizing work of Callon and also somebody said Latour has been mentioned but in my own work I have looked at the process of hybridizing the forming of something new through this mediating process (Callon, 1994; Kurunmäki & Miller, 2006; Latour, 1999). What we are doing actually here is drawing back on some rather probably not so widely known not so popular particularly the work of Norton Wise and people like Mary Morgan on mediating models mediating instruments and mediating machines (Morgan, 1999; Wise, 1988). Norton Wise rather nicely talks about the way the local scientific community, how its categories come to be interdefined with political and economic categories. So there is a curious process of working in local settings. It could be interprofessional disputes within the medical domain about how to interpret a new government initiative for instance but how those come to be interdefined with much larger permitting categories.

The third one we speak of in here is a bit closer to failure. We talk about the adjudicating role of accounting and I get this is perhaps one of the most obvious, more intuitive roles of accounting and in it is certainly mentioned in the abstract for the conference. Basically accounting is about comparing individuals; comparing entities sub entities or whatever. It is also about comparing yourself with others comparing yourself with yourself. There is a lovely item I was told recently about Google scholar profiles; which I guess you will probably know about. You cannot only have everything counted you have ever done you can put everything you have done together so it is counted collectively and you can put this online. I am embarrassed to say that I have done so but it may or may not be a good Idea. A lovely thing with the profiles is you can make them public or you can keep them private. So if you want you can go home every evening look and see how you are doing today. I actually do know but no let anyone else know. I should not mention names I know somebody who does this I will save that for diner. I have even signed up for research gates recently. I found that quite challenging if anyone knows what an RG score is I would like to know but anyhow this is sort of you know in the broader sense this is accounting. Many people including a whole set of neo institutional writers including John Mayer have spoken about these processes becoming binding (Meyer & Rowan, 1977). Others have written about commensuration and how the world comes to fit these categories (Espeland & Stevens, 1998). So the adjudicating role of accounting and I will say more specifically about failure in a second.

Fourthly and finally subjectivizing. What do we mean by this? We mean that accounting both subjects individuals to control but also it entails the presumption of an individual free to choose. Economizing is very personal and ensures that actors come to think of themselves as beings in doubt with choices and decisions than can be rendered calculable and governable. To borrow from Ian Hacking, I have long and continue to admire, it changes the space and the possibilities for personhood as he puts it rather nicely (Hacking, 2007). Again this is where I see accounting able to take a step beyond economics because it can act on the actions of individuals in a very immediate sort of way. So I will assume for the purposes of the next part of my presentation that these four aspects of accounting that it sort of works that there is some plausibility. I think many people here will have read and written about these things themselves. Bringing them together we though was of some merit to try and get a handling. What is it that accounting does overall and for today to say where does adjudicating fit within that because you cannot really adjudicate unless you territorialize, unless you link things up and the outcome of territorializing and adjudicating is the process of subjectivizing, which is why we bound the fourth in the categories we talked about. But if we want to look at adjudicating and in particularly at the issue of economizing as I said we know a little bit about economizing in general but we know a little bit less about the limit points and we perhaps at times take for granted that economizing the economy was rather straightforward, we are looking today at economizing the public sphere the social sphere more generally but we are in danger of overlooking how difficult it was to economize the economic domain the corporate domain and particularly with respect of failure or exit.

The second paper I am sort of drawing on to some extend here is looking at that process here from about as I said 1840 but including 1800 through to about 1940 (Miller & Kurunmäki, 2013). What we claim in that paper is that this period allows us to understand the preconditions for what we are seeing today the sort of economizing of the entire social sphere. In the UK certainly we see it with hospitals and that is one our ongoing project to look at attempts to apply insolvency legislation to public hospitals but it also applies increasingly to schools to social work to prisons and much else besides. So if you want to economize the public sphere you also have to invent these orderly routes or quasi-orderly routes for exit. You also need the whole infrastructure the whole calculus in the infrastructure in place to do so. What we do in this paper is we look at in the series of sort of stages the part logical patterns, logical if you like, the sort of cultural process of redefining failure as something that is rather economic rather than moral. We look at three stages both in the US and in the UK so it is very compressed.

We look at the attempts to produce durable legislation for dealing with bankruptcy across the nineteen century and if you look at the US it is a lovely process. Basically you legislate and then you repeal, you legislate and then you repeal. The first piece of legislation, 1800, lasted three years. Then the next piece of legislation 1841 bankruptcy act was repealed just after just over one year. That act provoked outrage for something which is now I think rather well taken for granted because it introduces the notion of voluntary bankruptcy: the fact that the state could white clear your debts. You just say "hi I just ran out of money, sorry". That produced absolute outrage in political circles and it was about to be abolished even the day after it was passed. It was passed as a bit of a political bargain basically. Then there was a quarter century gap then there was the 1867 bankruptcy act. That managed to last ten years and was repealed in 1878 with similar sorts of arguments. Then it was only in 1898 that a relatively enduring legislation was passed in the US. In the UK you see something similar the dates are a little bit different but the process is very similar: Bankruptcy act debate in 1831; the winding up act of 1848; the bankruptcy activating in 1861, which was the first piece of legislation that permitted voluntary bankruptcy; the companies act of 1862, which is often referred to by accounting scholars as the accountants' friend because it made insolvency a business and gave accountants a lot of work you know and a lot of income; the debtors' act in 1969; and the final stage, very similar to the US, the bankruptcy act of 1883, which remained in place then for just over a century and was only replaced in 1985 and 1986. So the first stage is a sort of legislative process but which is also very cultural because of getting the idea of voluntary bankruptcy something deemed to be acceptable.

The second stage we look at is not a chronological stage because it runs in parallel to the first stage. It goes roughly from 1840 to 1890. This a period I am borrowing from well a number sources here but there is rather a nice book from Scott Sandage called "born losers" (Sandage, 2005). This period from 1840 and 1890 he says was a period when Americans had not yet learned to think of each other's simply as numbers. This is a period when assessing peoples' creditworthiness was a matter of rating people but doing so through narrating. So that was very much a narrative based assessment. If you look at this sort of sample history of the process it really begins in 1841 with the creation of the mercantile agency, which fairly quickly became, one commentator of the time quoting, "a king of intelligence office for the whole country". What is interesting about these developments and about this period is we see the development of telegraphy and the railroads, but we don't see until the development of the credit rating agencies we don't see a comparable information infrastructure for assessing the creditworthiness of people who are a long way away and who are anonymous. It took off, it became rather popular very quickly by 1851 the mercantile agency had two thousand informants as they were called keeping thirty clerks busy. On an average day the firm were receiving six hundred new or updated reports. By 1941, jumping nearly ahead a century, there were fifty thousand informants in the US. But this wasn't credit rating, as I said, as we know it today. The sort of things that you found in the reports were things, comments like the following: "failed and now in Boston"; "be sure and never trust him"; "will always be worthless" and so on. These were traded by the mercantile agency. Initially they were just read out and you were trying to remember and then fortunately somebody invented the typewriter and then you could get small numbers of copies. Across this period rating and the ratings were inscrutable and it wasn't until 1869 one of the core, one of the key RCA even thought to try standardize the information that was used and most of it was very sort of anecdotal and personalized. Of course by this time by the late nineteen-century financial statements as we think of them today didn't exist by at large and so this was almost necessarily somewhat anecdotal.

The third stage is a chronological stage and this begins at the very end of the nineteen-century and the beginning of the twentieth. This is when we begin to see rating and the rating separated out. This is of course a time we hear a lot about science in management circles of this time but the categories, the terms people invented about this time are just lovely. We hear of the science of credits to assess somebody's creditworthiness, we hear of credit barometric, it is a little like the weather we can look at the barometer and see how somebody's credit is doing. People are also talking about scientific ratio analysis. This was the time when we saw the very beginning of a new way of a trying to calculate failure. The national association of credit men was founded in 1896 in the US. Manuals were produced telling you how to assess creditworthiness. One of the very influential ones by a guy called Peter Earling called "whom to trust"(Earling, 1890). The pressure came from the credit rating agencies interestingly not from accountants. The accounts were worried they would lose the professional discretion in their judgements. The CRA were the ones pushing for standardized financial statements. We saw this began to appear, financial statements, in a sort of recognizably modern way, began to appear in the first decade of twenty century. And then of course once you got financial statements then you can construct ratios of current assets to current liabilities and many other ones. And once you got a few ratios you can invent more. This is the lovely thing about accounting you can always do a bit more and find some more ratios. Once you have got all these ratios you can then create ratios of the ratios, you can create an index or an average or a weighted or however you wish to do it. Then the next step this allows and in the paper we talk about the "forecasting failure".

The next step this allows is lovely it means you can start predicting failure. Because up until then you sort of assess creditworthiness and people either fail or they don't but then from around about 1920 onwards to some extend the previous decade we see attempts to start to predict failure. If you would say predict is a bit of a misnomer here as it is or may in the current finance studies. What you do is to try to predict after the event. So you get a lot of data and then you see whether your ratios and your interpretation of the ratios would have allowed you to predict the organizations that failed and better to predict the ones that did not fail. So it is a funny sort of game but we see in the twenties and thirties a lot of studies starting to try and of course in the 1930s there was a lot of data to go on but by 1942 and if you like networks and this is a brilliant sort of network story because by 1940 we have a pretty stabilized network of things going on because we have the financial statements we have the credit reports we have the ratios we have the indexes of the ratios we have accountants, their professional bodies, bankers, credit men, CRA, lawyers, trade associations, if you go on the interstate commerce commission, the internal revenue service and have an incredible assemblage of bodies, which are now in on this game. And you know this is whatever you think of the notion of apparatus this works to me pretty much as an assemblage. A set of really very different sorts of things coming together using a whole range of metrics but also a very modern way of understanding failure and then from the 1960s onwards then this takes off particularly at the university of Chicago and provides a sort of academic sort of machinery if you like for the predicting failure and there is still working on it. People who are doing it think they are making progress but this really takes off in the sixties. So very compressed sort of history of failure if you like trying to situate it within this overall framework of overlooking at territorializing, mediating, adjudicating and subjectivizing, to try to see where accounting fits within that overall story.

If I try and just summarizing three very simple points the basic story and wanted to try and put forward today was that economizing and organizing as a joint process depends very heavily on accounting. It doesn't only require accounting but accounting is very central. Secondly economizing failure and economizing the economic debate took about a century. So we need to bare that in mind when we are looking at the processes to try and economizing the social sphere or the public sphere. This required the putting in place of a whole apparatus of metrics and instruments and ways of thinking about failure. Now of course those exist today so it may be that we fast track if you like the economizing of the public sphere. The third observation is that there seems and perhaps from the UK you end up with a rather funny view of the word but it does seem to be a lot of commitment and enthusiasm for this. And it seems I always go back to Robert Musil and "the man without qualities"(Musil, 1979). He has got a lovely phrase someone raises "The machine was there; and because it was there, it had to work, and once it was running, it began to accelerate." I am paraphrasing badly but we seem to have incredible appetite and enthusiasm for these things in the UK and elsewhere not withstanding the rather poor performance of many of theses metrics in the corporate world.

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