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Fraud and fantasy: towards a new research agenda for Economic Sociology

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1. On Con Artists and *Caveat Emptor*

Encouraging unrealistic or unsubstantiated fantasies seems to be built in to the very fabric of capitalist markets. As Beckert shows in *Imagined Futures* (2016), innovation and risk-taking could not take place without these fantasies: any entrepreneur or investor or home buyer undergoes the same basic process of imagining the future as the person buying a lottery ticket. These phenomena offer a window into a systematically understudied aspect of capitalism: the role of deception.

At what point do the capitalist fantasies that make innovation and entrepreneurship possible shade into fraud? This question has received far less attention than it deserves in the scholarly literature, even in Beckert's highly original and generative new book. Aside from a two-page discussion of fraud, mostly related to the 2008 financial crisis, and a footnote on counterfeiting, the issue of deception in markets—enshrined in the ancient maxim 'caveat emptor' (Hamilton, 1931) and in classic works of economics such as 'The Market for Lemons' (Akerlof, 1970)—receives no attention.

This is unfortunate because the evidence from multiple domains suggests that deception is a key component of the capitalist imaginary. In the realm of literature, which is so important to Beckert's theory and proposed methodology for analysing capitalism, we find works such as Melville's *The Confidence Man* (1857) or Thomas Mann's *Confessions of Felix Krull, Confidence Man* (1955), both of which dramatize the essential role of fantasy in social and economic transactions. Indeed, Beckert deals extensively with the importance of confidence in capitalist markets: without it, the whole system of risk based on expectations, of paper currency and debt repayment, could not exist.

Yet he does not follow through on this idea to explore the vulnerabilities this necessarily creates, in the form of exploitative and deceptive fantasy. This is unfortunate, because as other scholars have noted, analysis of capitalism demands acknowledging those deceptions and what they mean for the stability of market institutions and coordination (Ogino, 2007). As one economic historian put it, ‘At its core, capitalism was little more than a confidence game’, in which a certain amount of deception was tolerated because ‘as long as confidence flourished, even the most far-fetched speculations could get off the ground, [and] wealth would increase’ (Mihm, 2007, p. 11). In such a system, fantasy and fraud flourish together.

2. Advancing theory

The central premise of this essay is that a theory of contemporary capitalist markets must include a theory of deception. In particular, any model which acknowledges the roles of fiction and fantasy in markets must also offer an analysis of fraud. The economist John Kenneth Galbraith’s work suggests one way forward, through the concept of ‘innocent fraud’ (2004) as a characteristic of capitalist market transactions.

The term overlaps considerably with Beckert’s notion of a ‘capitalist imaginary’, particularly with regard to forming expectations about an unknowable future. But Galbraith places much greater emphasis on the deception underlying those forecasts. Fraud, in his view, is only ‘innocent’ to the extent that it does no harm. Like a little white lie (Harrington, 2009), ‘innocent fraud’ may be well-intended, to boost market confidence or spark entrepreneurial effort.

Galbraith’s work aligns with Beckert’s in treating capitalist activity as grounded in ‘fiction’ (2004, p. 28), but it is much more explicit in its analysis of market fantasies that shade into destructive deception. This article proposes that considering fiction and fraud in this way, as flip sides of the same coin, can help sociologists construct a more complete model of market activity. While space does not permit an elaboration of the precise distinctions among these concepts, an example may elucidate why further inquiry in this direction is merited.

3. An example: deception, states and markets

Developing the connection between fantasy and deception leads to fruitful new insights on key ideas in economic sociology. For example, one of Karl Polanyi’s (1944) central ideas was that capitalist markets and states develop in tandem. Governments not only provide the rules for the functioning of the market, but the key institutions, such as the monetary, banking and judicial systems.

Viewed through the lens of the ‘capitalist imaginary’, Polanyi’s work helps explain what is otherwise a puzzling regularity in the history of financial fraud: the complicity of the state (Harrington, 2013). Rather than protecting citizens from deceptive practices and ensuring fair play in capitalist markets, as they once did, modern government institutions have been instrumental in allowing fraud to flourish. Beckert’s previous work (Beckert and Lutter, 2012) explored a particularly vivid empirical case, in the form of the national lotteries. Such gambling opportunities, in which we find a ‘state-sponsored fantasy of the big win’ (Reith, 2007, p. 36), prey on the poorest members of society with deceptive marketing slogans such as ‘all you need is a dollar and a dream’.

This is the little-explored 'dark side' of Polanyi's thesis: if states and markets develop together, deceptive practices and even fraud can permeate both sets of institutions. This seems to have been the pattern in the historical development of capitalism. In the Middle Ages—during what Marxist theory terms 'the pre-history of capitalism' (Read, 2003, p. 37)—states acted quite differently: aggressively combatting deception in markets by monitoring and sanctioning merchants who deviated from honest commerce. While markets and states were still enmeshed, as per Polanyi, the markets were not yet capitalist. Instead, trade was conducted through what Marx (1964 [1858]) called 'pre-capitalist formations'. In these 'primitive markets', commerce was 'closely supervised and the least open to deception' (Braudel, 1982, p. 29).

In this context, the law was not *caveat emptor*, in which the risks of exploitation were borne exclusively by individual consumers. Instead, the state treated deception in trade as an offence against the community and its many subgroups:

> In the prevailing legal theory it was not so much the buyer who was injured as the commune. The indictments habitually contain the word deceit and write the offense down as against the repute and honor of the craft which is not to be scandalized, the fair name of the worshipfull Towne, Godys Commaundement and holy Chyrche, all Goode Rewell and Concience, and especially against the good people (Hamilton, 1931, p. 1153).

This approach was linked to the work of numerous Catholic theologians, who from St Ambrose in the 4th century to St Thomas Aquinas in the 13th were preoccupied with matters of deception in commerce (Bertolet, 2013). The latter observed in the *Summa Theologica* that 'It is altogether sinful to have recourse to deceit in order to sell a thing' (Aquinas, 1947 [1274], p. 451). Because the injured party in commercial deceptions was considered to be the polity itself (Bertolet, 2013) rather than individual traders, the state exacted punishment through social exclusion and shame.

But as global trade arose, and the wealth of the merchants grew, state power developed in a new direction. In other words, as modern global capitalism came into being around the 16th century (Braudel, 1982), the role of government changed with it. Among the less-appreciated aspects of this change was in the state's relationship to deceit and fiction in trade. This meant a transition from the medieval role of protecting buyers to the modern one of supporting merchants and producers in selling:

> The English borough sought to guard the gates of the market and deny entrance to unworthy goods. The up-to-date state undertakes to instruct producers how to subordinate goodness in their wares to vendibility (Hamilton, 1931, p. 1185).

This new development in market–state relations moved rapidly from tolerance of deceptive practices, to passive acceptance or even outright support for them.

We see this in recent events, such as the 2008 financial crisis that Beckert discusses, as well as in the Panama Papers scandal (Harrington, 2016*a*,*b*), in which many of the government leaders charged with curtailing tax fraud through the use of offshore finance were found to be engaged in such deceptive practices themselves. But this is not a new story. In fact, it goes back at least 300 years, to the state sponsorship of the original 'get rich quick scheme', known as the South Sea Bubble (Harrington, 2012a, 2013). That event, which led to the first financial crisis in history, involved fantasies propagated 'on an audacious scale'

(Reed, 1999, p. 38), by members of Parliament and the King himself, acting in collusion with business leaders to deceive the public.

Although the South Sea Company was created to trade English products with the gold-rich Spanish colonies of the Americas, such trading rights were never established and Company never sent out any ships. That was because the real purpose of the scheme was not commerce, but financial trickery. Specifically, the aim was to eliminate the national debt, which had run up to the fantastic sum of £10 million during the War of Spanish Succession (Carswell, 1960); the government had no hope of repaying its bond holders, so instead it persuaded them to exchange their credit notes for shares of the South Sea Company (Harrington, 2013).

That government imprimatur created public confidence in a scheme that was otherwise difficult to countenance. A rare sceptical voice at the time wrote of the South Sea Company in terms that resonate with key ideas in Beckert's work:

> The additional rise of this stock above the true capital will be only imaginary; one added to one, by any rules of vulgar arithmetic, will never make three and a half; consequently, all the fictitious value must be a loss to some persons or other, first or last (quoted in Carswell, 1960, p. 120).

The state, in league with early financiers, colluded to feed the public this capitalist 'imaginary' of 'fictitious' value and unlimited wealth for investors. When the bubble burst, bankrupting thousands, the national debt problem was solved instantly, since the government's creditors had exchanged their notes for what became a worthless fantasy. To protect the powerful from the worst of these effects, parliamentary leaders suppressed evidence and cancelled the losses of their cronies (Carswell, 1960). The parallels to the 2008 financial crisis and its aftermath are striking, from the collusion of government institutions in market deceptions to the aftermath: financial ruin for most but enrichment for the well-connected elites who helped cause the crisis in the first place (Crotty, 2009).

While such similarities of pattern have been noted (Harrington, 2016b), less widely appreciated is the way that such instances of 'crony capitalism' are a logical consequence of Polayni's thesis. This is not just a matter of interests aligning across institutions and individuals in the state and market sectors. Modern governments, firms and financial institutions are also entangled together in co-creating market fantasies.

When this operates in a benign way, the results may be positive, including high levels of consumer confidence and long-term investment by individuals and corporations, as well as robust expressions of innovation and entrepreneurship (Galbraith, 2004). The flip side of this phenomenon is state-facilitated economic deception, including the financial frauds of the past three centuries. Such negative outcomes are virtually inevitable when the only entities empowered to protect the public from the harmful effects of malignant financial fictions are instead enmeshed in their creation and perpetuation (Lewis, 2010).

4. Conclusion

This essay can only touch in a superficial way upon the potential research avenues suggested by *Imagined Futures*. The opportunities it offers for building new models, and reviving old ones, are rich and vast. As the example above suggests, Beckert's work invites scholars to revisit classic topics, such as the relationship of markets to states, with fresh insights.

Going forward, basic tasks of theory-building need to be undertaken, such as more precise specification of key terms such as fantasy and fiction, deception and fraud. To advance sociological knowledge, we need a model linking the terms to one another. Two additional topics suggest themselves for further exploration:

- *Varieties of deceptive fantasy*

  How should we classify fictions and deception in markets? As literature and literary theory have made abundantly clear, all deceits and fraudsters are not created equal. For example, in addition to the 'ponderous and gloomy' deception associated with greed, the literary critic Mikhail Bakhtin identified 'the rogue's cheerful deceit' (1981, p. 162) as a common modality of fraud. This portrays deception, like fantasy and fiction, as a form of entertainment. In fact, the storytelling of many cultures, from the Native American and African (Fields, 2009) to the Central European (Mann, 1955), often features such merry tricksters.

  The con artist is also a performer and—by necessity—a gifted storyteller. Such figures are often seen to commit 'innocent fraud' (Galbraith, 2004), but may also inflict much more serious damage, including financial ruin and what Goffman (1963) called 'social death' (see also Lane, 2014, p. 293).

  Future research should build on what Beckert has begun with *Imagined Futures*, by articulating this spectrum of fantasy and deception in markets, encompassing both the 'innocent' fictions and the destructive frauds.
- *Actors in market fantasies*

  How should we identify the cast of characters in market fictions and deceptions? Beckert's work focuses on those who peddle capitalist fantasies to individuals and institutions—actors such as economists, banks and entrepreneurs. More rarely, sociological research examines how such fictions are received and interpreted by the 'audience', or what Goffman (1952) would call the 'marks'.

  At present, these analyses are atomized; without integration, sociological theory lacks a model of the complex relationships of the actors to one another and to the deceptive fictions that connect them. As Beckert points out, literary theory is far more comprehensive and nuanced in these matters. For example, Bakhtin writes of the work of Rabelais as presenting instances of 'gay and intelligent deception, a lie justified because it is directed precisely to liars' (1981, p. 401). In this view, both the fantasy-makers and the 'marks' are co-creators of the deception that links them. The deceiver is a 'merry rogue' and the deceived is a 'fool' (Bakhtin, 1981, p. 159); neither party is 'innocent'.

  Some research on financial markets indicates that investors who lose money in financial frauds view themselves in precisely this way; rather than feeling like victims, they see their role as 'knowing accomplices' or 'unindicted co-conspirators' in a mutually constructed capitalist fantasy (Harrington, 2012b). Such interpretations often appear in the popular press, as when the sub-prime mortgage crisis was blamed on delusional and greedy borrowers (Lewis, 2010). This also raises issues of *self* deception—a topic that has received virtually no attention outside of the literatures in psychology and philosophy (O'Sullivan, 2009).

  Future research on imagination and fantasy in markets should further explore the notions of co-creation of market fictions, and seek to integrate analyses of the individuals and institutions involved. This research should address the notion of *intra*personal deception or complicity by those who lose out when fantasies go wrong, alongside more conventional accounts of 'fraudsters' and 'marks'.

These questions have significant implications for market order and capitalist development, as well as for the advancement of sociological knowledge. Thus, the exploration of fantasy and fraud in capitalism promises a generative interdisciplinary future in social science research.

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