Money is a promise with future benefits or dangers that are unknowable and incalculable. The financial sector is an attempt to beat uncertainty by speculating on whether prices will rise or fall. No matter how often the folly of this opportunism is shown through crisis after crisis of trust, efforts to defeat uncertainty persist. Yet uncertainty is unavoidable. Squeezed in one place, it emerges in another. Based on extensive interviews with leading actors in the financial sector, this book argues that the only way to cope with uncertainty is by relying on emotions and values. It presents an original explanation of how booms and busts arise from internal disputes over the emotions of trust between global financial corporations. Confidence and suspicion alternate between which strategy may beat competitors and who is cheating whom. Just as the first edition warned of continuing dangers in finance’s betrayal of society’s trust, this new edition provides a sociological explanation of how these irrational quests for certainty contributed to the current financial crisis in the credibility of money.

JoCELYN PIXLEY is Honorary Senior Research Fellow in the Department of Sociology at Macquarie University, Sydney, and Professorial Research Fellow at the Global Policy Institute, London Metropolitan University. She is the author of Citizenship and Employment (Cambridge University Press, 1993).
Emotions in Finance

Booms, Busts and Uncertainty

Second Edition

JOCELYN PIXLEY
CAMBRIDGE UNIVERSITY PRESS
Cambridge, New York, Melbourne, Madrid, Cape Town,
Singapore, São Paulo, New Delhi, Mexico City

Cambridge University Press
The Edinburgh Building, Cambridge CB2 8RU, UK

Published in the United States of America by Cambridge University Press, New York

www.cambridge.org
Information on this title: www.cambridge.org/9781107633377

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First published 2004
Second edition 2012

Printed in the United Kingdom at the University Press, Cambridge

A catalogue record for this publication is available from the British Library

Library of Congress Cataloguing in Publication data
Pixley, Jocelyn, 1947–
Emotions in finance : booms, busts and uncertainty / Jocelyn Pixley. – 2nd ed.
p. cm.
ISBN 978-1-107-63337-7 (pbk.)
4. Economic forecasting – Psychological aspects. 5. Risk assessment – Psychological
aspects. 6. Risk management. 1. Title.
HG101.P59 2012
332′/042019 – dc23 2012006049


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Acknowledgements

I thanked my experts in the first edition and, in this radical revision, these informed sceptics and more, as well as my colleagues, friends and family have helped enormously with humour and generosity. In their own way, so too have my grandchildren Juliet, Chloe and Jamilla aged three to one, and I think of their future and everyone’s in this book. Cambridge University Press has yet again been a tremendous support in publishing my argument, which is further established since the 2007 crisis. I thank Macquarie University and London Metropolitan University also. As ever, the argument is my responsibility and although the financial crisis persists and the same patterns persist, anything can happen.

Jocelyn Pixley
Sydney, March 2012
Abbreviations

AFR Australian Financial Review
AIB Allied Irish Banks plc
AIG American International Group (Insurance)
AOL America Online
APRA Australian Prudential Regulation Authority
BIS Bank for International Settlements
BoE Bank of England
BoJ Bank of Japan
CAD current account deficit
CDO Collateralised Debt Obligation
ECB European Central Bank
EMH Efficient Market Hypothesis
FCIC Financial Crisis Inquiry Commission (USA)
Fed US Federal Reserve System
FOMC Federal Open Market Committee (Monetary policy meetings of the Fed)
FSA Financial Services Authority (UK)
FT Financial Times
GDP Gross Domestic Product
HFT High Frequency Trading
HIH HIH Insurance Limited (Australian based)
HSBC HSBC Bank Australia Limited (founded as The Hongkong and Shanghai Banking Corporation Limited in 1865)
IBGYBG I’ll be gone; you’ll be gone (US lending officer slang)
IHT International Herald Tribune
IMF International Monetary Fund
IPO Initial Public Offering
IT information technology
LBO leveraged buyout
LIBOR London Interbank Offered Rate
LTCM Long-Term Capital Management (US-based hedge fund)
List of abbreviations

M&A mergers and acquisitions
MPC Monetary Policy Committee (Bank of England)
NAB National Australia Bank
NAIRU non-accelerating-inflation rate of unemployment
NINJA No Income, No Job, No Assets (slang for ‘subprime’ type of mortgage loan in USA)
NYT New York Times
OECD Organisation for Economic Co-operation and Development
PR public relations
RBA Reserve Bank of Australia
REM rational economic man
S&L Savings and Loan (known also as thrifts, US mutual savings banks)
S&P Standard and Poor’s (US-based credit-rating agency)
SEC Securities and Exchange Commission (USA)
Sifi structurally important financial institution
SMH Sydney Morning Herald
UBS Union Bank of Switzerland AG
VaR Value at Risk
VIX Volatility Index
WSJ Wall Street Journal
Interviews

Former central bankers

Canberra: August 2001

B. W. Fraser: former Governor Reserve Bank of Australia (1989–96), then board director Members Equity and Industry Super, now a number of advisory boards. Second interview, 29 June 2002.

UK: March 2002


USA: February–March 2002

Alan Blinder: former Vice Chairman of the Board of Governors of the US Federal Reserve System (1994–96), now Professor of Economics, Princeton University, NJ. Later interview and emails.

Lyle Gramley: former Governor of the US Federal Reserve System, then Mortgage Bankers Association of America, Washington DC, now Potomac Research Group.
Financiers and bankers

London


Michael Lazar: formerly Schröder’s Stockbrokers; also HM Treasury (to 1994), June 2001: interviews and emails onward to the present day.

Tim Shepheard-Walwyn: formerly Bank of England, then Securities and Investment Board; former Head of Risk Management at SBC (now UBS); also Barclays Bank, London March 2002, and discussions and emails since.


John Bogle: founder of Vanguard Group of Mutual Funds; Valley Forge, PA, March 2002 and later phone interviews.


Henry Ouma: former Managing Director, UN Pension Funds, NYC May 2001.

Chia Siew Wong: formerly an investment manager for sixteen years with a large Wall Street investment firm and other investment firms, May 2001 and many discussions later.

Sydney: February 2002


Zürich, Switzerland: April 2002

Paul Chan: Managing Director, Group Risk Analysis, UBS AG, Financial Services Group, Bahnhofstrasse 45, Zürich.
Interviews

Dr Werner Frey: former CFO and Director Bankleu, and then Credit Suisse, Zürich, now Association for Financial Markets in Europe. Many London interviews subsequently.

Georges Schorderet: CFO Swiss Air; formerly CFO Alusuisse Lonza, Zürich.

Finance Journalists

New York: September 2000


James Grant: Publisher-editor Grant’s Weekly Interest Rate Observer, regular finance commentator on CNN and panellist on Wall Street Week.

Brian Hale: Wall Street correspondent, Sydney Morning Herald and then The Age, interviews and emails subsequently.

Dan Kadlec: then finance journalist Time Magazine, Sixth Avenue, New York February 2002.

Anya Schiffrin: former reporter for Dow Jones, now School of Public Affairs, Columbia University, and later.

London


Dominic Ziegler: then Finance Editor and now Asia Editor, The Economist, St James Street, London March 2002.

Sydney: January 2000

Interviews


Financial Public Relations