Emotions in Finance

Fear and greed are terms that make light of the uncertainty in the finance world. Huge global financial institutions rely on emotional relations of trust and distrust to suppress the uncertainties. Many financial firms develop policies towards risk, rather than accepting the reality of an uncertain future.

*Emotions in Finance* examines the views of experienced elites in the international financial world. It argues the current financial era is driven by a utopianism – a hope – that the future can be collapsed into the present. It points out policy implications of this short-term view at the unstable peak of global finance.

This book provides a timely account of the influence of emotion and speculation on the world’s increasingly volatile financial sector. The author includes absorbing interview material from public and private bankers in the United States, UK and Australia.

**Jocelyn Pixley** is a senior lecturer in the School of Sociology and Anthropology at the University of New South Wales, Australia. She is the author of *Citizenship and Employment*. 
Emotions in Finance
Distrust and Uncertainty in Global Markets

Jocelyn Pixley
To the memory of my parents, Lorna and Neville Pixley
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FORMER CENTRAL BANKERS


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

Lyle Gramley: former Governor of the US Federal Reserve System (1980–85); then at Mortgage Bankers Association of America, Washington DC

UK, March 2002

Sir Alan Budd: former Chief Economist for HM Treasury (1991–97), and former Chief Economist of the Bank of England, also former member Monetary Policy Committee (1997–2000); now Provost, Queen’s College, Oxford


Charles Goodhart: former Chief Adviser, Bank of England, former member of the Bank of England’s Monetary Policy Committee (1997–2000); now Professor of Banking and Finance at the London School of Economics

Canberra, August 2001

B. W. Fraser: former Governor, Reserve Bank of Australia (1989–96); now board Director, Members Equity and Industry Super. Second interview, 29 June 2002

FINANCIERS AND BANKERS

London

Henry Dale: former banker for fifteen years at Crown Agents, October 2000
INTERVIEWS 2000–2002

Michael Lazar: formerly de Broe, then Schröder’s, stockbrokers (1980s); also HM Treasury (to 1994), June 2001. Second Interview, March 2002


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


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


Chia Sieu Wong: former investment manager for sixteen years with a large Wall Street investment firm and other investment firms. NYC, May 2001

John Bogle: Founder and former CEO of Vanguard Group of Mutual Funds; Valley Forge, PA, March 2002

Sydney, February 2002

John Edwards: Chief Economist, HSBC, Australia and New Zealand and former Senior Adviser, economic (1991–94) to the Prime Minister of Australia, Paul Keating.

Zürich, Switzerland April 2002

Dr Werner Frey: former CFO and Director Bankleu, and then Credit Suisse; now Management Consultant, Ramistrasse 36, Zürich

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

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

FINANCE JOURNALISTS

New York City, September 2000

Alan Abelson: Former editor, now lead columnist, Barrons, the Dow Jones Business and Financial Weekly. Second interview, May 2001

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

Anya Schiffren: Former reporter for Dow Jones; then Industry Standard, now at the School of Public Affairs, Columbia University

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Brian Hale: Wall Street correspondent, *Sydney Morning Herald* and *The Age* (formerly, later for *The Times*).

Daniel Kadlec: Finance journalist, *Time Magazine*, February 2002


Graham Ingham: formerly with the BBC; now economic journalist, *The Economist*, March 2002


FINANCIAL PUBLIC RELATIONS


CONFIDENCE SURVEY ANALYSTS


Duncan Ironmonger: Professor of Economics, University of Melbourne; Analyst Dun & Bradstreet Expectation Surveys. Sydney, December 2001
Preface

How I created the precise idea of Emotions in Finance is the only event I cannot recall. My background in economic sociology led to some useful discoveries about the finance world. My work defending full employment and social policy was a bore to my postmodern colleagues and beneath contempt to neo-classical economists. From 1996, Australia’s new right-wing government stifled policy debates: instead of decent employment we were to join a mainly Anglo-American society of shareholder capitalists; our compulsory superannuation must offer ‘choice’. Globalisation, by 1997, had become a fashionable term, but I was struck by the IMF’s treatment of our neighbour Indonesia: brutal yet totally incompetent. Meantime, I was reading the work of two sociologists, Jack Barbalet’s on emotions and Geoff Ingham’s on money as a social relation. Both struck a chord just as the dot.com boom was becoming insane. I am old enough to have experienced Australia’s ludicrous mining boom. The scrip of Poseidon and Minsec shares bought by my former husband became pretty gift wrapping in 1971, we joked in that carefree time of jobs and freedom. My parents were of the cautious generation. To my mother, a mortgage was OK, better was paying it off. My father was a ‘managing director’, not a sainted CEO of today. Each had ‘blue chip’ share portfolios and we lived comfortably.

During the dot.com insanity, modest investors and the millions in investment funds were blamed for their emotions. As part of my world view, I had never been impressed by high finance’s mendacity, its promotion of globalisation and its increasing lack of caution. Sociologists seemed captivated either by virtual money or a financial conspiracy, but I took another view, seeing the emotions of uncertainty as the key. Moreover, being on the periphery, Australia is a good vantage point from which to investigate the financial core, since Australia’s business sector has copied and amplified its excesses. But we, the people, can temper globablisation, and instead strengthen commitments to international agreements in which economic policy serves social purposes and democratic processes, for which Australia once had some reputation.

Emotions in Finance was the title that attracted my two great publishing editors at Cambridge University Press: Peter Debus who enthusiastically and carefully
saw me through, and Phillipa McGuinness who commissioned my idea. When I concluded, I briefly toyed with another title: *High Finance, Deep Uncertainty*. But when I began, my theoretical scepticism required evidence. What were the precise emotions that prevail? I needed ‘informed sceptics’, so I interviewed a number of influential people in the financial world. They gave me enormous support, arranging for me to interview others, carefully correcting my transcripts and revising their quotes (John Flemming only months before he died) and responding to my further queries generously, Henry Dale in particular. Many whom I lacked space to quote were also enormously helpful. I thank them all: while I am solely responsible for my conclusions, their own wisdom and commonsense shines through.

Jack Barbalet and Geoff Ingham gave sound advice, perfect references to other works and read the crucial chapters. Peter Kriesler has been my closest economic advisor: reading vast chunks of early drafts and tirelessly improving my sociological translation of Keynes. Paul Ormerod supported all my unorthodox endeavours, suggested interview questions on probability, introduced me to Meghnad Desai, Robin Marris and others in London. Both exceptional themselves, Carol Heimer helped me on one path to all the best in Chicago’s economic sociology, while June Zaccone sent me to the best New York economists. My other debt is to V. J. Carroll, who inspired me about the urgent need for more sociological than economic analysis in the public domain, and to Mike Lazar, similarly.

There are many others (whole households in other countries) to whom I am grateful. Most and best of all two: my son Sam Dawson became an inadvertent and brilliant research assistant in New York City, Chicago, London and Canberra, at our own expense, and then my main informal editorial advisor. My daughter, Louisa Dawson, formulated ideas for design that ultimately became the cover: artists see while we just write. Both have firmly put up with my obsession involved in writing any book. I had enormous collegial support from my whole School, so while Clive Kessler found my most felicitous phrases and kept me going while Mum was dying, and Paul Jones helped in our shared teaching and was the source of my media understanding, everyone was great. Beyond my School, Michael Johnson saw the whole point of my early idea for the research; Alan Morris and Robert Miliken helped introduce me to financiers and journalists. The Faculty of Arts and Social Sciences at my university have been helpful for years, especially with my Writing Fellowship in 2003; so too the Australian Research Council in grants. Antonny Ivancic provided thoughtful research work, Aileen Woo and Louise Fraser similarly on the manuscript and transcripts, and Harry Blatterer translated, theoretically too, *entscheidungsfreudig*. Venetia Somerset, as the book neared completion, gave scrupulous copy-editing and calm intelligence to see the book out, and while with thanks to so many, any inadvertent errors are mine.

Jocelyn Pixley
August 2004
Abbreviations

AIB Allied Irish Banks plc
AFR Australian Financial Review
AMP Australian Mutual Provident Society (Established January 1849; demutualised January 1998)
AOL America Online
APRA Australian Prudential Regulation Authority
ATTAC Association pour une Taxation des Transactions Financières pour l’Aide aux Citoyens
BCCI Bank of Credit and Commerce International
BoE Bank of England
BoJ Bank of Japan
CADs Current Account Deficits
CB central bank
EBRD European Bank of Reconstruction and Development
ECB European Central Bank
EMH efficient market hypothesis
FASB Financial Accounting Standards Board (USA)
FD financial disclosure
FOMC Federal Open Market Committee (US Federal Reserve System)
FSA Financial Services Authority (UK. Established under the Financial Services and Markets Act 2000)
FT Financial Times
GDP Gross Domestic Product
HSBC HSBC Bank Australia Limited (founded as the Hongkong and Shanghai Banking Corporation Limited in 1865)
HIH HIH Insurance Limited (Australian-based)
ICI Imperial Chemical Industries plc
IMF International Monetary Fund
ING ING Group (First titled Internationale Nederlanden Group in 1991)
IPO Initial Public Offering
IT information technology
ABBREVIATIONS

LBO leveraged buyout  
LTCM Long Term Capital Management (US-based hedge fund)  
MAI Multilateral Agreement on Investment (not ratified)  
M&A Mergers and Acquisitions  
MPC Monetary Policy Committee (Bank of England)  
NAB National Australia Bank  
NAIRU non-accelerating-inflation rate of unemployment  
NYSE New York Stock Exchange  
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 U.S. Securities and Exchange Commission  
SMH Sydney Morning Herald  
UBS Union Bank of Switzerland (UBS AG since 1998)  
WTO World Trade Organization