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978-1-107-63337-7 - Emotions in Finance: Booms, Busts and Uncertainty: Second Edition
Jocelyn Pixley
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Introduction

What is happening to trust?

This book started as a warning that uncertainty can never be beaten. The UK/US credit crisis proved this longer-term thesis about money more than I imagined, but it brings me no joy. The social problems magnify. Each crisis shows there is no coherence of the whole. Unseen and ignored as a rule, trust and confidence are strategies to stabilise money's uncertainties, but they also create instability. In finance, uncertainty is never the 'risk' so claimed. Trust can never be banished, for example through attempts to predict defaults, because money is always uncertain.

Money is a promise with future benefits or dangers that can never, because unknowable, be calculated. But, no matter how often this is proven wrong in 'crisis', the financial edifice is driven to speculate on the unknowable of whether prices will rise or fall. Trust and distrust in banking practices are at the core of money's infrastructure in the 400 years of capitalist development. These emotions are so impersonal that interest rates are one of many 'indicators' of trust or conversely distrust in money's abstract creditor–debtor relations.

The interminable efforts to 'repackage uncertainty' and so to damage trust, undertaken by the entire range of private and public financial institutions, continue, and fail rapidly. Each effort – to deny that trust is the only means of coping with uncertainty – is short term. Trust makes imaginative futures possible. But the financial 'sure thing' is untrustworthy, uncreative; these promises are made and sold with betrayal built into them – impersonal emotions that seek control. Bank defaults, 2008 bailouts and 2010 austerity all express money's uncertainties more deeply than the Dotcom bust in my first edition. Way beyond the 'hard money' men warring with Keynesians are social groups, economic sectors and states that win and lose after every irrational ploy to stamp out uncertainty. By this I mean recessions or imposed

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unemployment, dangerous credit inflations and deflations, and state activity of saving the sector only to be damned by it. Money is political.

Away from the public sphere and often deliberately masked from it, the conflicts that I analysed also remain. Internal disputes over credibility of 'subprime products' reached a peak and *stopped* when, on 9 August 2007, a French bank, BNP Paribas, changed *the definition of the situation*. In the absence of brave state authorities, it was Paribas that left the dominant trader-gambling bank sector unable to exit before the so-called 'greater fools' (a gambling 'theory' of betrayal), because Paribas saved its modest clients, the public. Banks were 'unpredictably' left holding their untrustworthy 'products', worthless poker hands. This highlights the social wars inside the sector. No one else says this, but my revised Chapter 6 proves I am correct. On that day, the market in CDOs ceased; the ECB and Fed 'reacted'. Trust between banks and money funds thereupon unravelled. However, private equity or other 'innovations' could equally have lost all trust; as Dotcom or hedge fund bets before. Finally, the Lehman collapse in 2008 proved banks had not maintained the payments system (even) and states were duly rolled back in, to rescue the sector's own goal against economic life as such.

The book's causal argument stands. The more that new profits are sought by trying to banish uncertainty and its inseparable emotion trust, the more that booms, crises and recessions emerge. Banks are not creative or daring although that is their whole point. They do not lend by saying 'we hope this venture will benefit the world even though it will take time to find out'. Instead, short-term peddling of promises – 'sure thing', 'future-proofed' – suddenly loses all trustworthiness to banks, their assessors, funds, regulators and finally the financial press. *This pattern is unpredictable* but recurs. Booms re-gather when the democracies provide the semblance of certainty to the sector – as demanded with government subsidies to finance, of all sectors least needing 'tax breaks'. The consequences of squeezing uncertainty, passing off (selling off) dangers onto most social groups and sectors, and the impact of unimaginable events, always produce instability. Yet money is not evil, it is socially creative within democratic limits.

My analysis challenges orthodox and psychological approaches. Banks, money funds and key financial centres dominate markets; individuals are replaceable officials. The 'urgent need for more

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sociological than economic analysis in the public domain' (in one interview) remains as relevant as before. Sociology analyses *state–economy–society relations*. It is inadmissible to say 'human nature' creates systemic booms and depressions, the first edition showed.

Today's tendency to blame 'animal spirits' or the psyches of 'crowds' is irrelevant and flippant – huge banks do not *feel* 'greed', for example, and markets do not feel 'the jitters'. Rather, booms are created by competition for profit that produces a fleeting trust or internal gullibility. Often this is strangely energised by distrust strategies. The work is new knowledge.

Competition over selling debt and betting techniques grows, but the *credibility of money* remains the public question that my book answered far more coherently than tired psychological explanations. Since the 2007 financial crisis, which amply justified the first edition's argument, the sector's 'business model' of wheedling for state support remains dominant despite democratic protest. Banks create most money by lending under uncertainty but, after years of selling packaged debt, by offloading through 'securitising' vaguely possible income streams, their social purposes of creating new economic activity in brave if cautious ways seem irretrievable. Conflicts over whether new tricks, 'profits now – forget the future', are 'credible', create ever more financial crashes. So my question is this, what is happening to trust and to money?

Emotions and values

I start with the hypothesis that the only way to face uncertainty is with emotions and values. The unknowable cannot be calculated, despite everything the finance sector does and says. This second edition sees the financial crises since 2007 to exemplify, further, my earlier evidence that money is a relation of trust. Both editions offer an original explanation of how booms and busts arise from internal disputes over the trustworthiness of financial corporations that produce money and cause its contraction. I show a bigger, far more fraught problem than any tinkering can correct, which is the fragility of trust.

This relation is distant and, however forgettable this complex trust may seem, it is potent. Since the recent crises, however, the book's concern is more focused on the damage to trust, perhaps its betrayal. If trust has nearly lost its meaning, then money might too. The events

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of 2008 showed this, when the trust between the major global banks ceased, when each was potentially bankrupt. Money's flow ceased. Only after this trust stopped, only after the banks stopped 'talking' to each other, did the economic disaster occur.

To explore my original case about trust, I asked many informed experts from Wall Street, the City of London and elsewhere, whose views are as relevant as before. The original book showed that profit pressures and lack of effective supervision created a shifting 'trust hierarchy' inside money funds and banks, their assessors like accountancy firms and credit-raters, and corporate trading operations. To these experts, trust is primarily to citizens. Their alternative voices were of alarm; some are as helpful as ever. That is obvious in the quotes. But the book is my view, not theirs, and in reciprocity I must include my own role.

To all my evidence of men and women admitting the trust and distrust, intuition and rational anger in their official duties, I add my own. No one is 'value-free' and much has been discussed about the values of the financial sector, for and against. My values will be obvious, but I am more concerned about the emotions in finance. I quote the most timely, critical comments of ten years ago because they stand as is. Previously I needed senior financiers to reply to my unusual questions on the record.

Trust was the 'unspoken', the silenced; it seemed a long bow to draw unless seasoned experts thought my idea worthwhile. The situation is so obviously worse since the Dotcom crash, as many had worried beforehand, that I changed every chapter significantly, and sharpened my analysis. In writing the first edition, I feel I was less incisive about finance utopia, perhaps from its amorphousness; perhaps in futile hopes for the efficacy of these warnings about trust. I did not attack *social science* metaphors drawn from physics, biology (even flora), engineering, neurology, which 'theoretically' abolished social relations and their discussion *as such*. My experts were less timid; my book reviewers 'read' more damning analysis into my data than I did.

I have no idea if, let alone when, this 'finance utopia' will come unstuck, but ever since the crisis that originated in the USA and UK, the whining and hypocrisy of finance leaders are in public quotes. The evidence, the 'detail', is overwhelming: I've tried to be sparing, so too with the dulling acronyms (explained in the list). It's easier to be angry or justifiably shocked at how far the 'industry' stooped, and at how

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little the corporate indecencies have been mitigated ever since. But my aim is not to elicit anger but to compare ‘this’ to an ideal, modest ‘decent society’, which requires decent institutions and corporations. Many people know this, so I aim to ‘stay cool’ in my careful argument of years of research against pat rationalisations. My apologies if the temptation to sarcasm creeps through.

The argument

The first chapter shows how money is primarily a trust relation produced by banks. Money is so submerged in the ‘order of things’ or the presentation of coherence in the world that only crises show its fragility as promise. I pick out money’s history insofar as we then see how money relations rely on trust and distrust. Money can be socially fruitful. But claims that money is ‘neutral’ give succour to a financial sector that is driven mostly not by ‘conspiracy’, because that supposes a ‘rational plan’, but by ad hoc control strategies against democratic processes to gain profits. Crisis seems only to reinforce money’s interminable loss of social purpose, a problem hard to understand without considering money’s basis in trust. Tendencies to credit inflation and debt deflation have so sped up that trust in money is nearly hollow.

Chapter 2 explains why the future-oriented emotions were always part of finance, and how they emerged *between* corporations. Only individuals are capable of *feeling*; so this chapter shows the irrelevance of psychology to understanding firms. If impersonal trust and distrust drive these organisations – banks must trust to lend; credit-raters must distrust the creditworthiness of the entities they assess – then these emotions are standard operating procedures. Shareholder ‘value’ is historically based on distrust strategies, a suspicion that was dominated by ‘personal’ firm owners. But ‘owners’ of banks have not existed for many years; the sector consists of agents of agents. Chapter 2 also criticises economic views on risk for pretending to a normalcy, to ‘known chances’, to a coherence that cannot exist under uncertainty and conflict.

All following chapters examine emotions under uncertainty using evidence from my experts, transcripts and US inquiries into the 2007 crisis. The countervailing tendencies and functions show the tensions inside finance that expose the sector’s self-referentiality. I focus on

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interdependencies between financial organisations, their trust or distrust. But Chapter 3 looks at the outer ring – the financial press. Since this trust position has a vital role in providing information to publics, I asked experienced journalists how trustworthy are the financial media. What of their sources and their media corporations? The blame cast on the press is looked at from various angles.

The press does not 'decide' however, so Chapter 4 considers how professional financiers and central bankers come to decisions. Since no one knows the future, we explore how expectations are important. Were there differences in more personal (old school tie) days? That is dismissed, more so personality traits: officials are doing jobs. Are 'rogue traders' to blame for bank collapses, or are they under emotional requirements of firms? Impersonal trust is predominant but fleeting because money is again a more heavily traded array of promises (treated as if assets). On the one hand lie the hopes for managerial control and its claims to predictions. On the other in interviews, ideas of intuition, professional judgement, trust and public responsibility are happily admitted at the highest levels.

Trust, fear and anxiety towards the future, then, are codified into rituals; furthermore, the finance world consists of interlocking agreements and dependencies. Chapter 5 shows that central bank reputation is 'bestowed' by financial actors, and 'credibility' has become a management control tactic. But central bank 'credibility' is impossible to maintain in recessions. If corporate impression management inspires confidence in money by ignoring credit inflation, when do central bank confidence games appear to be con games? Chapter 6 asks which organisations are the more 'trustworthy', central banks or the private sector. Informed sceptics are anxious about central bank weakness; they distrust the private sector – banks, accountancy firms and money funds. I look at counter examples, like the action of BNP Paribas in 2007.

In attempting to make rational decisions, all finance organisations marshal mountains of data. But, as Chapter 7 shows, the major problem with data is that it can only describe the past; it can never predict the future. Promises may be broken; wealth creation may not eventuate. Reams of numbers and – rarely mentioned – very different forms of risk calculations are ultimately matters of judgement or, at worse, 'predictions'. In cases distressing to officials, accountancy, insurance and credit-rating agencies aim only to 'please'.

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Underlying this whole situation is a cultural climate of short-term thinking in Anglo-American corporations. Chapter 8 is the culmination of the book's argument. It explains the finance sector's tenacious influence against long-term hopes. Despite its constant failures, I argue this tenacity is less from a libertarian 'ideology' than from a present-oriented utopia, an incessant hope that maintains current morale when expectations shatter so regularly. It is a utopia that worships the god of opportunity.

Contrasting hopes from my evidence are considered very briefly in Chapter 9. There is no science, let alone predictions. Recognising emotions is the challenge. They are inevitably involved in attempts to act rationally towards an unknowable future of abstract promises. Emotions cannot be removed from the social relations of money, but the question is which emotions are preferable. It is difficult to imagine reasoned, democratic debate that honestly acknowledges uncertainty. The counter ideal posed is for cautious, decent, long-term horizons within the institutions on which we all must rely, and to formulate fiduciary trust in open democratic forms.

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1 Modern money, modern conflicts

Money is our most future-oriented and creative institution; its social promise is always contingent. Money is produced and used through trust, but trust is distant and money's usefulness is fragile. Only when there was a 'run' on an obscure English bank, Northern Rock in 2007, and when the payment system stopped after Lehman Brothers went bankrupt in 2008, was the 'double-sided' fragility of money and banks obvious. Banks produce most of the world's money through trusting their loans will be honoured, and they normally make profits this way. Their licence to create the money we all use needs banks to be trustworthy so they will honour their liabilities. In 2008 banks did not meet their promises to each other, notably in the USA and Britain; they damaged this trust in money.

The financial sector most dominated by London and NYC has pursued one aspect of money as a commodity to make profits, under their governments' encouragement. The two centres compete as well. To 'care' for the promises in creating money seems lost behind benchmarks and competitive rankings. Although money is promise, the sector is obsessed with a controllable future, a 'new' method to expunge the last mistake. No sensible, *social* questions about promises are asked like 'Can firms pay back their bank loans?' Instead this sector asks market questions for quick profits. 'Will the hedges and insurance against default, the commodity price, its derivatives and so on, *rise or fall* in value?'

Banks want definite answers, which no one is able to give. They assume trust but their money production is pretence at trust. The true scandal of modern money is the blurring of this hated social fact of uncertainty. Late in 2008, the Queen asked 'Why did no economist predict the crash?' That was the wrong question. Why do economists predict anything, and illicitly claim prescience for luck? Banks demand that uncertainty be overcome while trying to sell off 'trust'. Why banks do this is my question.

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The edifice rose over four hundred years ago. Modern money opened the world to enormous social developments and every act in this creativity was taken under uncertainty: Would it succeed? How could anyone know? Was it *worthy* of success? Since failures bring losses and world depressions, great institutions arose to try to beat or to temper or to package money's uncertainty. Social and economic theorists take opposing strategies in line with corporate divisions and the desires of rich and poor. Money is political but favoured strategies are *correct*, others silenced.

While I make my theoretical assumptions clear, I choose not to impose *the* story or *the* correct theory but, because so rarely done, to look at money's uncertainties. These are always present, in unknowable outcomes of huge gain or calamitous loss for different groups and the natural environment. With such fateful uncertainty, it is curious that the sector bets on a 'socially useless' future, as the UK regulator said (Turner 2010), whether in apparent booms or busts.

The book's answer to this curious paradox is that a very specific set of emotions for facing money's futures are the driving force at the highest levels. After all these years these are so much the techniques, not 'feelings', that few see the force of trust. Trust and money are social relations. Trust in money is a social relation. Methods of distrust and suspicion are codified in banks, laws, regulators and rating agencies; futile attempts to beat uncertainty framed in data, trends. But what is the purpose? Instead of creativity under always uncertain trust, the slippery hopes of a 'sure thing' wrought by banks are only publicly visible when money disappears. How trust is damaged time and again is stifled in conflicts, pretensions and corporate anger.

All attempts to beat money's uncertainties are political struggles. Around the 1970s, the visible conflict was over full employment or price stability. Both are *decent social aims* for money, but different sectors gain more 'certainty' from one than the other. Compromise between the two is, historically, fleeting. To banks, it is easily more profitable to manufacture money for short-term deals at the stroke of a keyboard, rather than cautiously foster new wealth and job creation that *might* pay the debts. It is easier still if governments support these decisions – laughable were they not so serious.

Uncertainty is unavoidable. Squeezed in one place, it emerges in another. Instability in money moves between credit inflation and debt deflation. After the democracies ended full employment, the then US

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Federal Reserve Chair Greenspan privately admitted this, but too narrowly (see p. 161). He said wage-price inflation can be conquered – by unemployment – only at the cost of asset inflation going 'through the roof'. But credit creation multiplies the asset prices to a Ponzi or pyramid 'effect'. So why do credit booms continue?

Orthodox finance argues that booms emerge from emotional 'intrusions' into a rational world. Apparently the same occurs in busts. Clichés like fear and greed are woolly excuses when, in the face of uncertainty, emotions of distrust and confidence are impersonal drivers, we will see. Orthodoxy blames lone individuals – in a mean-spirited way – when the 'market shakers' are money funds, banks and their vast retinue. A bank does not 'feel' fear or greed. Rather, it has a remit, profits or death. Today's aim is to 'beat' uncertainty, but rational calculations can only be made about the past, and the sector clings to them, pays huge sums for predictions. Instability continually arises. All this is complex and rarely discussed as uncertainty.

Money is a social relation created from prospective promises. Rational calculation is only retrospective, unable to 'see' beyond the chasm separating the future from promises made in the present. Mostly, financial firms and banks trade claims to 'future' income streams of assets and of credit. Brave lending for the uncertainty of societal wealth creation is minimal. While uncertainty can only be dealt with by projecting trust into the future, up to 2007 banks created credit (money) under self-created betting dangers. Then buying stopped. Certain 'assets' in credit itself were not 'credible', worthless; debts became larger and often unserviceable. Since money is vital for economic activity, the role of emotions in booms to busts deserves serious analysis.

This book looks at the financial sector, mainly the Anglo-American networks where money is produced and traded as though it were a predictable commodity. It is not. 'The money power', as nineteenth-century British Prime Minister Gladstone termed it, is banal, we see. Central banks today issue the trustworthy and accepted 'high-powered' state-money to banks. But too few know that *private banks create the bulk of money-credit* and often manufacture 'too much' in non-creative loans. We hardly know the extent, because money is unmeasurable, so promises in 'CDOs' remain unknown long after the 2008 bailouts.

The idea in this chapter of money as 'promise' is counter-intuitive. Its use seems easier than the 'barter' in orthodox descriptions. Despite the most severe crisis since the 1930s, the creativity that bank money

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