SECOND EDITION

Emotions in Finance

Booms, Busts and Uncertainty

Jocelyn Pixley

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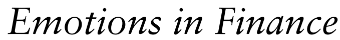

Emotions in Finance

Booms, Busts and Uncertainty

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.

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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)

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

Sir Alan Budd: former Chief Economist for HM Treasury (1991–97), former Chief Economist of the Bank of England, also former member Monetary Policy Committee (1997–2003), Office for Budget Responsibility, Treasury (2010), then Provost, Queen's College, Oxford.

The late John Flemming: former Chief Economist (1984–91) and Executive Director (1988–91) of the Bank of England; then Warden of Wadham College, Oxford.

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

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

Roderick Chamberlain: Coutts Consulting Group; formerly Banker and Securities Broker in the Royal Bank of Canada, Nomura International; Trustee (from 1987) then Chair (1997–2000) of the Institute of Business Ethics, March 2002, and discussions since.

Henry Dale: former banker for fifteen years at Crown Agents, October 2000.

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.

New York and Pennsylvania: 2001–2

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

Henry Kaufman: formerly Vice–President, Salomon Inc. 'Dr Gloom of Wall Street', 29 May 2001 and 19 March 2002.

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

John Edwards: former Chief Economist HSBC, Australia and New Zealand, now Board Member of the Reserve Bank of Australia (2011).

Zürich, Switzerland: April 2002

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

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

Alan Abelson: former Editor, now Lead Columnist at *Barron's*, 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*.

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

Larry Elliott: Economics Editor, *The Guardian* October 2000 and later.

Graham Ingham: then Economic Journalist, *The Economist*, St James Street, London; formerly BBC, March 2002.

Robert Peston: former Finance Editor, *The Financial Times*, now Business Editor, BBC, March 2002.

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

Sydney: January 2000

V. J. Carroll: former editor, *Australian Financial Review* from 1964; former editor-in-chief, *Sydney Morning Herald* until 1984; many interviews since.

Trevor Sykes: *Australian Financial Review* and 'Pierpont' column.

Financial Public Relations

Jonathan Birt: Financial Dynamics Business Communications, Holburn Gate, London, March 2002.

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

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

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

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

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

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'.

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.

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.

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

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

entails remains repressed. It is 'too sociological'. Since no one can predict, my question is what drives the City of London or Wall Street? The book argues that finance is inherently emotional and relational: institutionalised emotions arose from the uncertainties of money. Distrust and trust motivate all financial action. In booms, fear of uncertainty pushes the sector to hedge against dangers but these bets are more dangerous. Desperate, the sector can turn to manipulation, rigging the markets and dubious deals. All looks 'good' until a renegade bank or, less today, a regulator *acts* against some betrayal of the public and governments. As Geoffrey Ingham argues (2005: xi), a general 'indifference' to money in seemingly stable times gives the dangerous impression that money functions well *only* during these times. The informed sceptics who enhanced my original argument worry about this 'tranquillity of success'. The competitive remit urges that money is a 'natural phenomenon', until too late.

Emotion management of uncertainty

The finance sector, the book will suggest, is driven by emotions *and* rationality – not personal, private emotions. Anglo-America's bank promises are less rational for denying but depending on bonds of trust: for example, the two centres may 'trust' state bailouts. Uncertainty is masked, disguised as 'risk'. In booms, it cannot be spoken, for it is the unsayable. In facing each uncertain outcome, corporate decisions rely on future-oriented emotions. Rational calculations of *past* data can never predict future outcomes; action depends on emotions, such as trust in other banks. So too, bets on rising/falling prices are formalised in old emotional terms like bulls and bears, of market buyers with bullish confidence in a rosy future – going long; or sellers with bearish doubt – going short. But either can collapse. Claims by money producers not 'markets', today, are rarely credible and often *never were*. Nothing was trustworthy in 'packaging' mortgages for the unemployed, the hope-free, or in secret loans to indebted Greece. These problems exemplify the book's argument.

Firms and central banks propel emotional strategies and conventions into the unknowable future and, through pseudo-rationality, bring their conjectures back to the present in order to *act*. 'People' do this vaguely, but this book shows the complexity, distance and self-deceptions of the sector. Corporate emotion management uses distrust

to have trust to act. Whereas John Maynard Keynes bravely spoke of *animal spirits*, his term is not 'corporate'. He rightly criticised the convention that wrongly hopes that the future *will* resemble the past, hidden in the Latin *ceteris paribus*. When the future 'changes' illiterate traders cry 'Uncertainty is running rampant'. These are shaky, emotional techniques of corporate finance. Expectations – visions of hope or gloom – never last.

Booming financial life promotes greed and risk because they seem daring, exciting. Max Weber pointed out greed is old as the hills; and so is altruism. Inherent unknowability is dull and fraught. The sentiments and interconnections in markets (Adam Smith's argument) make uncertainty bearable or invisible until, as in 2008, banks suddenly distrusted each other; 'stopped talking' (Interview, Carroll 28 June 2011). Each area from banking to insurance uses specific definitions of risk; but the gulf between the future vista and lack of knowledge of the future is not risk, a *known* chance. Every social leap over or into the unknown chasm hides in the 'fine print', the *ceteris paribus* escape clause, we see. As they seek to face uncertainty rationally, firms rely on trust. Firms espouse trust not 'anonymous markets'. The call to 'Trust Us' is explicit. You, sweet investor, are 'made free' by your control over 'your' money. After collapses are campaigns to restore trust, to rebrand 'prudent' and 'fidelity'.

Brave financier *personas* are rare, doomed for casting honest doubt. Banks barely control their promises to pay each other, the money the world depends upon. In the Dotcom collapse in 2000 and more so the UK/US bankruptcies in 2007–8, fleeting trust between banks vanished. Star CEOs do not understand the latest financial 'product' sold by their own bank. Firms cannot specify their (future) interests. They insist on freedom from government supervision exactly when they are going bankrupt, collapsing from chains of self-created dangers. Are these 'interests'? Orthodox and Marxian economics assume that rational interests drive the world, from which predictions are possible. This claim reduces all of social life to the economy. All financial relations are uncertain and instead rely on 'interested' emotions, we see, the unperceived motivators.

Central bankers try their public service best, but the sector demands they be 'credible' in giving 'certainty'. Many regulators have remits based on orthodoxy – the 'efficient market' (p. 59) that (incredibly) says banks are not 'special'. Officials speak way over the heads of

journalists, let alone the general public; many move from private to public too rapidly. This is why Goldman Sachs & Co (hereafter GS&CO) represented, in *Rolling Stone* magazine's 'Vampire Squid' metaphor, a deep public suspicion after 2007. Governments require central banks to maintain stability and private creditors demand credible government promises (Chapter 5). Who are these creditors? What is credibility? Few ask this question. Just as trust appears stable and deserving of confidence, unforeseen doubts about 'credibility' intrude.

After the Dotcom bust, the distrust fostered *different* emotional demands for 'risk-free' money. In a bust, banks blame, threaten and wheedle governments and central banks, complain about 'uncertainty', until a 'new' boom gets going, which again colludes against governments and populations. That pattern was starker after 2007. Today's financial sector cannot project or 'model' moneymaking fixes without support: politically disastrous for governments. In 2010 the sector thanked governments for their largesse, by blindly seeking profits in trying to destroy the European Union (EU). In 2011, more tricks emerged. Creditor firms turned on the governments that saved them from their *own* decisions like lending to the very weakest EU governments; they refused any loss.

Incredibly, assuming wage inflation from habit about that 'certainty', despite the mass unemployment created from 2007, bond-trading houses demanded austerity from governments by shorting their debt (bonds), lucratively. Trading firms could lose, if austerity creates depression. 2010 closed with a respite from the 24/7 gambling on the euro only when the traders took a group ski holiday (Authers 2010: 18). After each bout of self-destruction, collective arrogance and trust collapses, more drastically when uncertainty and the emotions necessary to face it are denied. Mistrust/pessimism brings petulant quests from the sector for control of a 'new' future to be guaranteed by states. Emotions, not from personal desire but conflicting anxieties about the unknowability of the future, drive our financial corporations and economic life. Rational calculation is today for next week's fix.

Markets do not 'think' nor do they 'feel'

For over thirty years, a rearranged sector and UK/US governments permitted money markets to be the font of all wisdom, again. Yet the

daily market 'noise' often has no details of social use, my experts reiterate – what banks 'produce' to sell on markets is far more important. Since the 1970s, the sector created over forty financial crashes. The speed from boom to bust shortened. From a democratic viewpoint, the *social purposes of banks* – the reason for gaining licences to produce credit-money with state support – are shaky and, as Joseph Schumpeter said (1934), may 'destroy without function', leave no social benefit.

Few – after all this – look at the firms. The *Financial Times* called the bond traders who shorted the euro in 2010 'investors' who were 'spooked', for example. The *NYT* revealed the *main dealers* in European government debt were not individuals, but JPMorgan Chase, some New York-based 'anonymous' hedge funds and the US 'bond giant' Pimco (Bowley and Ewing 2010: 17). GS&CO started on Greece. It had concocted secret loans with a highly indebted Greece years ago, so making profits on both sides (BBC News 2010). An important point of sociologist Arthur Stinchcombe (in Swedberg 1990: 295–6) is that one must 'identify the empirically acting units'. It is a 'stupid approach' to financial markets, he says, to assume the 'acting unit' is an individual and reduce the behaviour of institutions to individuals: 'The guys who operate there aren't acting for themselves; they are acting for their bank or corporation.' Traders act gambler *personas* and increasingly bank CEOs are former traders.

To describe 'markets' in terms of lone 'investors' is dangerous for another personification. The financier 'rotten apple' is 'evil personified'. Powerful actors blame a financial crisis at worst by racist vilification, part of our modern world's fascist movements. Malaysia's Dr Mahathir was an opportunistic racist during the South East Asian crisis of 1997. In another opportunism, Rupert Murdoch's US Fox News in 2010 vilified that same person, George Soros, but for anti-Semitism (Hertzberg 2010).

Modern money is abstract and impersonal. That is the key, not 'American' (etc.) 'investor' conspiracies. Notably, cooperation between funds and banks crosses religions/nations. The worse problem is bank executives/directors apparently neither understand money nor banks nor balance sheets, and that is the excuse, the 'innocence' of banks in a complex world.

Money when poorly administered creates financial crises. But 'markets' are not the target of people whose trust was abused and their

small firms, jobs, savings and houses lost. Often victims *may* decently specify and loathe commercial (retail) banks, insurance firms or money funds in many OECD countries. Democracies are implicated.

Despite public relations propaganda, financial firms cannot convince the public of their decency. Their weapons against democratically elected legislators who try to restrain money creation are legion. Governments fear downgrades of public creditworthiness and capital 'flights'. These silence elected governments and demean the political process. While unemployment results, financial loss for middle-income groups of creditors/debtors is also a frightening sword against governments. I have pressed this point before, and my research on UK and Australian attitudes to banks from 2001 to 2011 shows the public has *less confidence* in banks than in any other sector, Australians notably (Pixley 2007).

I look at an abstraction that is meaningful in its effects – the insecurity and gullibility of 'trust' and its betrayals – inside financial corporations. Financial firms devise impersonal strategies of trust and distrust. Credibility is nearly convincing, or *made to seem so*, by the confidence gained from collective boys' clubs, the cult of the guru and CEO *personas*. Banks hire, and shop for, routine agents of trust and distrust to counteract uncertainty, and get state guarantees to sell 'risk-free' money. In a sense the knowledge that money is not risk-free is shown when banks take out hedges and bets against hedges, all piled on the promise. Trust and confidence help to reduce *perceptions* of uncertainty in decisions, but when these 'rational emotions' are abused, trust turns into organisational paralysis.

Trust in money is an institutionalised *emotional reason* to act, in 'the absence of contrary evidence' (a telling phrase, p. 52). Trust is mainly recognised as emotion only when met by betrayal, default, mistake or mendacity – in the anger of bankruptcy and lawsuits. In crisis, impersonal trust in financial life suddenly transforms into corporate blame or *Schadenfreude*. I am concerned with the ambiguous nature of this repressed element trust. Hopeful questions about democratic, decent and beneficial compromises are my way to assess the current collusion, finger pointing and victimisation. The need to understand emotions in finance is too vital to be left off the public agenda. Trust and distrust are inherent in a modernity of corporate promises. But every short-term 'promise' threatens long-term survival of banks and of everyone. The shorter the 'promise', the less it really is a promise.

This abstraction, and not the plain frauds, is the major problem. I cannot see governments able to save the sector next time.

Certainty about the economic future is a mirage. To help us cope with its unattainability, to soften the pain of everyone's ignorance, we put our trust in trust. A huge range of financial enterprises depend on trust to ward off fear of uncertainty. But the quest for certainty of profits is now a remit of betrayal. That exposes and undermines trust in trust. The vulnerabilities of uncertainty are forbidden topics since financial firms are caught in survival competitions: *admit no doubt*. A very few act bravely and fewer still with social decency (Chapter 6).

John Maynard Keynes gave an inspired contribution by linking uncertainty to emotions, but his analysis started with individual psychological feelings. That is an unhelpful point of analytical departure. To begin with individuals – powerless natural persons who face the abstract chains of promises to pay – diverts focus from institutions that sell 'performances of trust'. Look at how, when trusting *clients* lose, banks cast them as gullible 'customers'. Money funds exempt their marketing claims from liability, with 'buyer beware' of another Latin phrase *caveat emptor* – customer fault. People may feel shame for losing, for being conned, for being stupid. Yet the problem is not misplaced trust; the impersonal (dis)trust between financial firms is the issue (Chapter 2). Exemption from culpability is a legal privilege of this wealthy, maybe sophisticated sector.

Uncertainty and obsession with the future in social sciences

Moreover, the social science scandal is that academics making *societal predictions* have a free reign. The social sciences could not or would not criticise a financial world structured to evade uncertainties and their dangers; to 'use' households, firms and states. Economics, maths, engineering and MBA graduates flock towards financial predictions (lucrative causes serving the sector). I cannot waste precious space on their unscholarly ideas, except where they institutionalised the *unreason* of predicting the future, such as the cliché risk management. My theme is to explore 'social emotions' – the common relations *between* firms – and how they generate expectations in financial decisions. My work is inspired by sociology; the irony is that since the 1920s, sociology and political science have left money and uncertainty to economics.

Leading a revived sociology of money are Ingham and others; but the new 'emotional turn' in social sciences has barely looked at money's uncertainties, nor how Keynes and Schumpeter made *the damning criticisms* of financial predictions. Schumpeter said in 1936 (in Swedberg 1991: 299) a doctor may give you a promising prognosis, although a car could hit you on leaving the surgery: 'Now, nothing is more likely to be run over by a car than an economic prophecy.' But it sure gets research grants. Harrison White (in Swedberg 1990: 81) pioneered a sociology emphasising the 'contingencies of opportunities' in markets, and Robert K. Merton (1957) introduced 'self-fulfilling prophecies', which is a commonplace today. In economics, Hyman Minsky's work, interpreters of Keynes like G. L. S. Shackle, Post Keynesians and Schumpeter's followers arm my approach to uncertainty; and institutional economics.

The scholarly work of *these economists* adds to my social framework. Yet I ask about the financial obsession with the future, and how its edifices try to *package uncertainty*, and how they project trust and distrust about others to motivate decisions. This sociology undercuts orthodoxy, but debating opinions so irretrievably invested in market 'wisdom' of selfishness only detracts from moving on. As well, fine details about institutional structures and 400-year compromises, ably marshalled in Britain alone by political scientists and economic historians such as David Kynaston (1994, 1995) and Glyn Davies (1994) are mentioned *only* for relevant points. A specialist literature details every global financial transformation, but I draw mainly on UK and US experiences, with their so-called capital market (gambling) practices (Cerny 1993; Helleiner 1993) to disastrous effects.

No analysis of 'what is' can ever predict the future. Finance revived the personification that markets 'think and feel' by 2010. Will democratic scrutiny of banks and shadow banks demand social purposes? Will governments and social groups together invent a decent role and make a new deal with the sector? No one knows, although the emotions of uncertainty, which enable decisions to be made whose outcomes remain unpredictable, are worthy of study either way.

When I began this research in 1998, many social scientists barely thought about how financial firms rely on impersonal trust. During the Dotcom boom, a climate of optimism made it sacrilege to suggest that the excitement for a 'new economy' of Internets and emails was about trust. I was cynical: we academics had used emails for ages and

so what? Some perceptive people whom I interviewed liked my original idea, and agreed that the entire show stood on an edifice of emotions. Ensuing Dotcom scandals brought lack of trust, yet frauds are an ugly sideshow to what, in 2004 when finishing the first edition, was a new excitement in *the core of credit-money creation*: the property bubble, the private equity bubble et al.

For this second edition, after a far worse crash in 2008 and new tricks soon after, it is essential to investigate the insecurity of procedures that finance firms deploy on ever more fleeting trust that drive and sink their efforts.

During 2008's debacle, Keynesian-Schumpeter economists and orthodoxy were at war over 'policy relevance'. Each has *the answer*, though finance's handmaiden won. Yet in all economics: Where is the state? Where is society; democracy? Orthodoxy seeks predictions, irrationally, bitterly but lucratively. It dismisses sociology for dealing with the 'residue of "irrationality"' or 'tosh' (cited Ingham 1996b: 224–5); it dubs history and political science 'ad hoc'; it raids psychological turf for its individualism. Financial *oligopolies*, which cannot be understood via psychoanalysis(!), bask in its celebration of socially destructive activities. Orthodoxy blindly refuses uncertainty; money is 'neutral' in the long run; since no institution can be 'seen' then, for predictors, it doesn't exist. In euphoria for ruthless capitalism, the crises are emotional-irrational 'intrusions', not that money drives the 'real' goods-and-services economy and when money crashes time and time again, 'the economy' is destroyed. Market 'investors' are, apparently, detached from any influence of social groups, organisations and nations.

Early institutional economics of Thorstein Veblen and Schumpeter tore apart these unsustainable views. Economic institutions developed precisely to cope with uncertainty. 'Rational Economic Man' does not exist in the rich complexity and chances of social life. Living human beings come first, and this 'Man' is a simpleton from activities outside or inside corporations. *Humans only become human through their relationships*. Less orthodox economists are sensitive through talking with other social scientists. My economic colleagues see orthodoxy as more a source of social problems than any cure for them. But the decent are bogged down in debating closed minds. Why bother? Counter-expertise must 'obey' or be silenced (Boltanski 2011: 137). Critics schooled in other social sciences, the public with a rich variety

of other skills and life motivations, need more convincing analyses than 'indifference curves' or risk models with their inherent social betrayals.

Closed minds are not addressed. Rather, this book plunders honourable economics to bring to public debate issues that lie beyond the economic intellectual horizon.

Government by 'organised money'?

Way beyond decent economic ideas that 'flawed perspectives' led to the crisis of 2007–8 (e.g. Stiglitz 2010: xii), a focus on governments helps to explain that it's not possible, *voluntarily*, to overcome forces arranged against democracy. US President Barack Obama or any other leader is, allegedly, not firm enough. President Truman apparently said of the incoming US President Eisenhower, 'Poor Ike. He will imagine he's still running the army. He'll say, "Do this, do that". And *nothing will happen*.' This is the political perspective of experience.

Nowhere is the decent hopelessness for brave leaders clearer than in the democracies' threats from finance. From William Gladstone to F. D. Roosevelt, Thomas Jefferson to François Mitterrand or Ben Chifley, such governments find it hugely difficult to tame the 'money power' as Gladstone put it, even when that was their declared aim. It took Roosevelt three years, even having inherited mass unemployment from President Hoover, before fascist/Nazi threats and US social movements *pushed* the US Administration. In his October 1936 speech announcing the Second New Deal, he said:

> Powerful influences strive today to restore that kind of ['do-nothing'] government with its doctrine that that Government is best which is most indifferent to mankind . . . We had to struggle with the old enemies of peace – business and financial monopoly, speculation, reckless banking, class antagonism . . . They had begun to consider the Government of the United States as a mere appendage to their own affairs. And we know now that Government by organized money is just as dangerous as Government by organized mob. Never before in all our history have these forces been so united against one candidate as they stand today. They are unanimous in their hate for me – and I welcome their hatred. (Roosevelt 1936)

What can President Obama et al. do? Congress is rigid with class antagonism and political 'rule' by Wall Street. Debate that FDR's Administration *tamed* finance (in itself) is depressingly qualified by

how World War II made ‘Trading with the Enemy’ illegal, stopping financial networks; stopping the technique of playing off governments that try to tame credit-money (Keynes 1964 [1936]; Ingham 2002).

Fitful democratic controls, through ‘historic settlements’ between states, banks and society, for price stability and full employment, show that newly relevant, socially creative and decent arrangements are not impossible. But reversion to ‘government by organised money’ has insinuated far into the democracies. That idea was rarely heard in a post-war era that was not itself ‘perfect’. None can be.

However, as late as the 1970s, a consensus across the political spectrum was that a ‘central and distinguishing’ feature of the modern world was that it was ‘a world of organizations’ (Burns 1974: 123). That sophisticated search for scholarly understanding was dumped, away from employment and towards seeing giant firms, in fantasy, as ‘markets of employees’ *owned* by mythical eighteenth-century employers (Chapter 2). Democracy too was a ‘road to serfdom’ and too ‘uncertain’ in electoral unpredictability; *elected* politicians agreed.

Individualistic propaganda sat oddly as relations of money became a *larger world* of organisations; with regained powers of capital strikes, scary to the democracies. Fear silenced governments and central banks to give ‘predictability’. The largest firms by capitalisation, global reach, are oligopolies – oil, food, planes and not least, banks. While financial organisations are ‘special’, newly installed policies proclaimed – disastrously – that banks were like any corporation. Banks have no competitive interests to treat money with caution when profits are all.

Serious theories of money lost out when orthodoxy recaptured the policy high ground of the democracies. Double standards are tedious to repeat. I briefly draw on *scholarly* debates, to emphasise emotions in finance. Money is not like commodity or service production: money creation is special. Money is produced differently to making tables or providing health care. It is created from debt relations. It is the most enigmatic of social institutions (Wennerlind 2001: 557), ‘worthless unless everyone believes in it’ and uses it (Greider 1987: 226; Ingham 2005: xiv). But that tells us little.

Money no individual promise

For institutional economists and sociologists, money is ‘productive’. Keynes and Schumpeter insisted on the pre-eminent role money plays

in capitalism. Money – today's submerged point – is a more important institution of capitalism and modernity than the institutions of wage labour. Path-breaking work by Geoffrey Ingham bases his sociological analysis on money's nature (2004; 2008: 146): the problem is 'pure money-capital' can subordinate 'all economic activity'. Schumpeter argued banks are the internal engines driving capitalism (1954: 318) but can destroy 'without function'. Feted for the 'creative destruction' of his heroic entrepreneur by orthodoxy, the point rather is that banks allow Schumpeter's debtor-entrepreneur type to act or *not* (Tobin 1987: 164; Ingham 2004: 201). Georg Simmel's 1907 *Philosophy of Money* enthused about money's enormous 'productive power', not owning money, not 'greed' or lending for consumption but from 'the money yielded by money' (Simmel 1990: 182).

Money is a promise, credit, but it is far more complex than the promise in an IOU. A personal IOU is credit but is *not money* – i.e. legal tender – because no one can use an IOU to pay a supermarket bill. Try it. Schumpeter said 'you cannot ride on a claim to a horse, but you can pay with a claim to money' (Schumpeter 1954: 321). Modern money is credit, but must be an exchangeable, 'depersonalised' promise – not a two-way deferral like an IOU, or like barter exchange, where I swap my table for your desk. Money is not 'made' between two people. It must be created between *three parties*. No one believes or trusts this promise unless it includes the 'economic community that guarantees the money' (Simmel 1990: 177, 182). Money is a three-way relation between the credit and debt relations of the economically active groups, and the central power that enforces these promises, and unifies and issues a currency and outlaws counterfeiting. Chains of public and private debts create money – centrally supported promises with government guarantees. Money is a social relation of conflicting aspects. It is uncertain, both tradeable, a 'function within production' and fragile promise.

If all economists accept that money arises from 'the debt structure', this jargon is unhelpful. Marxists take the orthodox route, to different conclusions, that commercial credit creation from capitalist 'saving' reflects the 'real' economy of production, but 'unnecessary' credit expansions are the 'vehicles of crises and swindle' (Marx, cited Ingham 2005: xv). Crises are common, however, *swindles* are mere by-product of banks' own 'normal' drives to find new profit sources. The uncertainty lies in defining or (foolishly) *predicting* what is 'necessary'