Book Review: New Perspectives on Emotions in Finance: The Sociology of Confidence, Fear and Betrayal

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*This volume examines the seemingly uncontrollable, fragile world of finance and explains the 'panics' of traders and 'immoral panics' in banking, 'confidence' of government and commercial decision makers, 'shame' or 'cynicism' of investors and asymmetries of 'impersonal trust' between finance corporations and their many publics. Instead of one 'correct' vision, sociologists in this book argue that corporations and global dependencies are driven by fears and normless sentiments which foster betrayal. This is a thought provoking collection, writes **Alastair Hill,** with many contributions adding positively to the debate on the state of economics.*

New Perspectives on Emotions in Finance : The Sociology of Confidence, Fear and Betrayal. Jocelyn Pixley (ed.). Routledge. November 2012.

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Following the recent financial crisis, economics as a discipline has embarked on a paradigm shift, as previously dominant theories of efficient markets and rational expectations are replaced by theories rooted more closely in modern economic reality.

One such reworking of economic theory is the work of Robert Shiller and George Akerlof on *Animal Spirits*. As with much of this recent theoretical reworking, the starting point is John Maynard Keynes, as they argue that contemporary numerical and highly technical economic analyses often fail because they miss the impact of psychological facts in economic life, such as confidence, fear, bad faith, corruption, and a concern for fairness. This re-emergence of behaviourally informed Keynesian economics has since formed a significant part of the discipline's ongoing paradigm shift, both in the academy and in contemporary economic life.

New Perspectives on Emotions and Finance: The Sociology of Confidence, Fear and Betrayal assumes this shift in economics as its starting point, and in doing so seeks to widen the debate around the role of emotions in contemporary economics. Editor Jocelyn Pixley highlights in her introduction the thawing of a longstanding freeze in the relationship between sociologists and economists. With economics having spent recent decades 'posing as a science', this freeze was 'mutually detrimental' writes Pixley. Economists denied that sociologists "had anything to say about money, the exclusive domain of economics, as were emotions to psychological turf".

In contrast, this collection seeks to regain ground for sociology, and in doing so seeks to offer new perspectives on the role of emotions and psychology in finance, with both theoretical and practical implications. Split into two parts, the first set of contributions are all based around 'shaping the sociology of finance', while the second part consists of historical and theoretical investigations. The contributions are varied in their subject matter, with some focusing more closely on empirical evidence and recent events, such as Richard Swedberg's contribution on 'How European Sovereign Debt Became the New Subprime', to much more academic contributions, such as Susan Shapiro's piece on the concept of 'trust', entitled 'The Grammar of Trust'.

Both styles of contributions are welcome, although Helena Flam's more empirical chapter, and Geofrey Ingham's more theoretical contribution, both stand out. Backed up by a rich vein of empirical analysis, Flam's piece looks specifically at the role of practitioners in the recent financial crisis, drawing on medium-term structural factors such as inadequate training and the effects of an out-of-control remuneration system. Drawing heavily on the work of Karen Ho, Flam develops the view of a finance organisational culture idolising money and greed to put everybody under pressure to work hard and maximise profits. Alongside issues of remuneration, Flam's work also touches on recent calls for the financial sector to implement more formalised codes of professional standards and ethics.

In contrast, Ingham's piece is much more theoretical and seeks to refute the contention that sociology 'has little to say on money'. In doing so, Ingham refutes the conventional-exchange theory of money, and instead seeks to follow and elaborate Keynes to rework the credit theory of money.

In sum this is a thought provoking collection, with many of the contributions adding positively to the debate on the state of economics and the practical lessons to be learned from recent financial history. The prevailing theme throughout the contributions is 'that the institutional links between money and emotions are essential for understanding finance'. Clearly this extra-layer of analysis poses some interesting questions for the discipline of economics, particularly around the services sector, and around increasingly impersonal creditor-debt relationships and the institutional culture they embed.

The wider issue is whether economics, or more specifically Keynesian economics, is capable of answering these questions. Pixley thinks not, as the Keynesian strand of economics rather surprisingly receives somewhat of a reassessment by Pixley in her final chapter. In her conclusion Pixley announces that as a result of this renewed sociological analysis she ultimately 'departs from Keynes'. The suggestion is that 'for all the implicit sociology in Keynes, a technocratic legacy avoids the emotions of reciprocity, service and care, and their callous or fear-laden opposites', although it's worth noting that 'Keynesianism' is condemned earlier in the chapter as overly rational, and overly moralistic. Keynesianism is thus supposedly too often guilty of imposing 'one size fits all', 'undemocratic', and 'top-down solutions'.

This is in part because Pixley is guilty of addressing her comments at 'Keynesianism' rather the "economics of Keynes". Keynes' writing introduced considerations of psychology and emotions into economics. As with many of Pixley's contributors, it is Keynes' analysis of so-called 'Animal Spirits' which informs much of the work of modern economists such as Akerlof and Shiller.

Indeed, her concluding remarks of an overly technocratic and overly rational branch of economics seem far more applicable to the neo-classical, perfect market thinking, which dominated policy-making in the years before the financial crisis. Ironically it was this strand of economics which believed in exactly the technocratic, rationalist, one-size fits all thinking that Pixley scorns. Moreover, it was also this branch of economics most at fault for 'posing as a science', and leading to the very 'stand-off' that Pixley laments in her introduction.

As the influential economist and Financial Times journalist Martin Wolf highlighted in 2008, 'Keynes still offers the best way to think about the financial crisis' given the deep pragmatism that ran through his economic thinking:

"As was the case in the 1930s, we also have a choice: it is to deal with these challenges co-operatively and pragmatically or let ideological blinkers and selfishness obstruct us.

The objective is also clear: to preserve an open and at least reasonably stable world economy that offers opportunity to as much of humanity as possible.

We have done a disturbingly poor job of this in recent years. We must do better".

Alastair Hill completed an MSc in Political Theory at the LSE in 2010, having graduated from the University of Sussex with a degree in history and politics in 2009. He now works as a political consultant for MHP Communications. Alastair tweets as @alastair_hill. Read more reviews by Alastair.