New Plots Are Badly Needed in Finance

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Strong plots:

- established and repeated patterns of emplotment (often recognizable as variation of myths, folk tales, and classic literature)
- they are "strong" because:
  - (structuralist explanation) they express the universal structure of the (narrative) mind
  - (Jungian explanation) they represent archetypes, a collective unconsciousness
  - (institutional explanation) they belong to a common collective memory (institutionalized patterns of interpretation) and are retrieved and shared in times when they seem relevant
• **Elin**: a fictive character in a Swedish detective story, written at the time of a trial of a female trader,

• **Lisa**: a fictive name of the actual trader, accused of blanking deals

• **Sarah**: a fictive FX trader in a spy story written by Linda Davies, an ex-trader

• **Linda**: a "killer banker" who quit a City career for "the sylvan surroundings of a London suburb"

• **Euripides in the City?**
  - tragic women: self-sacrificing virgins or uncontrollable hags
  - they transgress “women’s place” and
  - might save the city but
  - must either die or be send back
Male plots 1: Nick Leeson or the rogue trader

- a working class background and the wish to ascend in life
- lack of understanding of the rules of a "gentlemen's club" - Baring Bank (Bridehead Revisited, Waugh)
- gambling tendencies (The Gambler, Dostoyevsky)
Male plots 2: Bernard Madoff

- bad regulation (Madoff quote: "In today's regulatory environment, it's virtually impossible to violate rules", 07-10-20)
- plea: gambling tendencies (The Gambler)
- background: Jewish (Shylock)
If only there were a Madoff to blame for the meltdown. It would be therapeutic to nail the bad guys of the global collapse. We can't, of course - because there are just too many of them.


We should be grateful to Bernie Madoff. Seriously, I say that because he provides a target for our bloodthirst, our search for someone who can be held responsible for the overnight evaporation of what was supposed to be billions of dollars in wealth. There's something satisfying about the story of a villain and his victims when, in the end, the villain gets punished. Unfortunately, we may never get this same satisfaction out of the search to punish those who are responsible for the wreckage of the global financial system.
Bernard Madoff, American hero

Madoff exposed other swindlers, revealed the incompetence of US regulators – and gave America the villain it needed

Chadwick Matlin, guardian.co.uk, 12 March

Bernie – may I call you Bernie? – you arrived at just the right time. In December, when you admitted your fraud, we Americans were spewing anger, but it wasn't directed at anyone in particular. (…) But then you descended from the Lipstick Building: a middle-aged, extremely wealthy white guy from New York – exactly the demographic at which Main Street wanted to direct its scorn. (Your Judaism probably didn't hurt). Instead of conning via derivatives, you conned through deceit. And we can understand deceit. That you had nothing to do with the root cause of our economic crisis didn't matter. (...) You were evil. Case closed.
Financial crisis of 2007–2010
From Wikipedia, the free encyclopedia:

1 Background and causes
   • 1.1 Growth of the housing bubble
   • 1.2 Easy credit conditions
   • 1.3 Sub-prime lending
   • 1.4 Predatory lending
   • 1.5 Deregulation
   • 1.6 Increased debt burden or over-leveraging
   • 1.7 Financial innovation and complexity
   • 1.8 Incorrect pricing of risk
   • 1.9 Boom and collapse of the shadow banking system
   • 1.10 Commodity bubble
   • 1.11 Systemic crisis
   • 1.12 Role of economic forecasting

2 Financial markets impacts
   • 2.1 Impacts on financial institutions
   • 2.2 Credit markets and the shadow banking system
   • 2.3 Wealth effects
   • 2.4 Global contagion

3 Effects on the global economy
   • 3.1 Global effects
   • 3.2 U.S. economic effects
   • 3.3 Official economic projections

4 Responses to financial crisis
   • 4.1 Emergency and short-term responses
   • 4.2 Regulatory proposals and long-term responses
   • 4.3 Public outrage: "Bubble Machines" and "Vampire Squid"
Europe explains America
Il sole 24 ore: Cinema and stock markets

Wall Street, il filo rosso dell’avidità
I raider del 1987 e i financial engineers del 2008 dietro i più recenti crolli dei mercati

di Mario Marzocchi

Le crisi, i fatti e i protagonisti

1987
Carl Greenspan, 83 anni, è il leader che ha inspirato il movimento del Good Fight. Con la sua presenza, ha indotto milioni di dollari e l’82% dei mercati al mondo.

1997
Il liberaismo è morto.
Il 10 ottobre 1987, la banca che scommetteva il futuro del mondo, il 15 aprile 1997, è morto il leader.

2008
Richard Ford, 54 anni, è il leader che ha portato il Good Fight alla cima. Con l’82% dei mercati al mondo, ha indotto milioni di dollari.

Fino al 2008
Il 15 settembre 2008, è morto il leader del Good Fight. Ha indotto milioni di dollari e l’82% dei mercati al mondo.

I migliori di oggi

Capitaleizzazione in milioni di dollari

Wall Street:

E:

Wall Street Hires

Procter & Gamble

Microsoft

IBM

Il leader del Good Fight, tornato alla cima dopo 20 anni di scomparsa, è tornato con la sua strategia "Fino al 2008". Con l’82% dei mercati al mondo, ha indotto milioni di dollari e ha ripreso il Good Fight.

Commenti e inchieste

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Wall Street, il filo rosso dell’avidità
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Il sole 24 ore:
The young brokers between two models: the entrepreneurial father and the unscrupulous raider Gekko

Michael Douglas è Gordon Gekko
Railer d'ascolto, spregevole, e esemplare modella di giovane broker di New York

Charlie Sheen è Bud Fox
Giovane e trepidante, capisce che l'esistenza della sua vita da ora è un gioco

Il brillante allenamento
Il denaro di trasferimento, magari ammassato in un'altra banca, può non essere niente, lo possesso

Martin Sheen è Carl Fox
L'unico padre del Bud, legato ai valori del lavorare e dell'America dei tempi d'oro

I vecchi valori
Se questo è il risvolto della nuova critica di padre, ho dovuto qualcosa da chiederti

E Wall Street schiacciò Main Street
Il giovane broker tra due modelli: il padre imprenditore e lo spregiudicato raider Gekko

di Luigi Paita

Bud Fox - Gordon Gekko: due modi d'essere, due modi di vivere, due modi di interpretare il mondo. Wall Street, di Oliver Stone, vive del contratto tra quei due figlioli, entrambi in azione nel tempio della finanza mondiale.

Gekko, certo, tutti ricordano Gekko (Oscar, partecipazione a Michael Douglas, che gli dà tutte le emozioni e riflessioni del personaggio), ma che mai pensate che Babbo Fox, in American Psycho, è stato interpretato da un'attrice? Era una scelta sorprendente, ma si è dimostrato un successo inaudito.

Accanto a Gekko e al suo modo di "valori" (Villanueva decine di mesi dopo), non ci si può rimanere indietro quando si parla del padre. Eppure, siamo in una società che valorizza ancora più i valori, per farlo con la giusta dose di ironia, che gli uni e gli altri sono i diritti di tutti.

E Wall Street schiacciò Main Street. Il giovane broker tra due modelli: il padre imprenditore e lo spregiudicato raider Gekko...
25 April 2005 Exor Group (Agnelli's family holding company) makes an equity swap with Merrill Lynch for 90 mln Fiat shares

27 March 2009: first hearing in the case against Gianluigi Gabetti, Franco Grande Stevens and Virgilio Marrone: manipulation of information (false information to Consob on 24 August, denying the swap)

Gabetti (85 yrs): "I have never lied in all my life. The equity swap: "We needed to do it quickly and well, like In 80 Days Around the World... [At Fiat] they called me Braveheart."

Consob: The new Exor and Giovanni Agnelli S.a.p.az have "civil responsibility" (the motion refuted)
Real analogies fail, but the cinematic ones hold

Jerome Kerviel: "genius" or mediocre backroom boy?

Jan 26, 2008 Paris (Reuters)

A former teacher said Kerviel was a diligent student. [but] his education in back-office market operations could have been used to do wrong. "It is a little like someone who is a locksmith and becomes a burglar"... A family member... said Kerviel was a "decent boy" who was being made a scapegoat....So how could such an unassuming person get into so much trouble?... suffered a recent double blow in his personal life... A SocGen board member ... Kerviel was not "one of our stars" yet Bank of France Governor described him as a "genius of fraud"
Kerviel denies he was a Leeson; consequences follow

SocGen CEO Resigns Over Rogue Trader, Apr 18

Although investors and politicians – including French President Nicolas Sarkozy – had demanded Daniel Bouton's resignation immediately after the revelation of J.K.'s massive fraud, the bank insisted he stay on to keep SocGen from collapse, reports the FT.
"John Thain is giving us a tour of what is soon to become America's most infamous office... This was early December, a little under two months before Thain would be fired in the same room by his new boss... Thain could rightfully claim to have saved his bank from ruin... Before Merrill, Thain had gone from one success to another.... But... he appeared to be a man in a bubble, not good at listening to advice, and worse, at detecting changes of tone when it came to the public's tolerance for corporate excess.... Flashes of arrogance and misjudgment ... were becoming apparent to his new bosses at BofA who were keenly aware that the old Masters of Universe banking model was done for. [Thain was described in 1998 as] "a stone-cold killer". [BofA executives] had found the opportunity they had been looking for: Thain would take the fall for bonuses and for as much else as they could lump on him.... In the wake of his firing [applauded by Merrill's employees] – when Thain apologised for the office redecoration and promised to reimburse the company – many of his charges unburdened themselves about his failings, real and perceived. ...Was Thain the man in the bubble – brilliant at understanding turn-of-the-century banking but deaf to the world beyond Wall Street, and to dissenting voices in his own ranks? If so, was he really so different from his peers?"
On half a mile of immaculate private beach, along Florida's fabled Gold Coast, sits the sugar-pink Boca Raton Hotel, designed in gracious Mediterranean style by the Palm Beach architect Addison Mizner. Since the hotel opened in 1926, it has styled itself a temple to exclusivity, boasting Italianate statues and manicured palm trees, a dazzling marina with slips for thirty-two yachts, a professional tennis club, a state-of-the-art spa, a designer golf course, and a beautiful strip of private beach. A glitzy roll call of celebrities and the wealthy have flocked to the resort, billed as a "private enclave of luxury," where they can relax well away from prying eyes.

On one summer's weekend back in June 1994, a quite different clientele descended: several dozen young bankers from the offices of J.P. Morgan in New York, London and Tokyo. They were there for an off-site meeting, called to discuss how the bank could grow its derivatives business in the next year. In the humid summer heat, amid the palm trees and gracious arches, the group embraced the idea of a new type of derivative that would transform the wider world of twenty-first century finance and play a decisive role in the worst economic crisis since the Great Depression. "It was in Boca where we started talking seriously about credit derivatives," recalls Peter Hancock, the British-born leader of the group. (p.3)
Sweden: The affair of the bonuses

- Top managers are the villains of the piece: it is their greed that caused/aggravates the crisis
- Top managers are the victims of the crisis: the general public does not understand that the flexible part of their remuneration has nothing to do with the crisis
- Top managers and the public are victims of the incompetence/corruption of Boards of Directors
Journalist (mediator): You have presented us with interesting models. But, if this question is not too primitive for you, who should we hang?

Historians: Financial crises occur cyclically. All involved had a moral responsibility, but it does not make sense to look for scapegoats.

| Voice from the public 1: But you didn't give us the cause. Isn't it greed? These people should be treated by therapists. | Answer 1: One would have to define the difference between greed and self-interest, the capitalism's fundament. |
| Voice from the public 2: Your models are correct, but not very relevant for the present crisis. Isn't "legal corruption" the reason? Students at business schools should be taught about self-destructiveness of the markets. | Answer 2. Legal corruption was visible in all crises. |
| Voice from the public 3: Isn't there a technical solution that would tame the swings? Something like a firewall in computers? Business schools should invent it. | Answer 3: Yes, in a short run – as Keynes himself admitted – but long run tensions between stability and change will continue. |
Why do media have trouble with finding new plots?

- The demand of speed forces journalists to use plots already in existence
- Deviations from strong plots most often lead to corrective actions
- Golden rules of journalism: proximity, identification, negativity
Plots offered by the intellectuals

• Charles R. Morris (US lawyer): "Very big, very complex, very opaque structures built on extremely rickety foundations are a recipe for collapse"
  - Chicago School in power
  - "Greenspan put" (cheap money)
  - "tsunami of dollars" (US trade deficit)

• Paul Krugman (US economist): "I believe that the only important structural obstacles to world prosperity are the obsolete doctrines that clutter the minds of men". Later: "Reagan did it!" (in 1982, by the deregulatory Garn-St.Germain Depository Institutions Act). And "Call me naïve, but I actually hoped that the failure of Reaganism in practice would kill it. It turns out, however, to be a zombie doctrine: even though it should be dead, it keeps on coming".

• George Soros: Reflexivity of the markets (markets shape the reality by reflecting it; a vicious circle can emerge when reflections are particularly off target)
Some newer plots: "Liquidated"

- The roots of the problem: the 40 yrs long hegemony of a certain US subculture
- A differentiating trait: they are ready to suffer the same indignities they inflict on others
- A pivotal point: 1970s, and "the Japanese threat"
- Financial solutions: takeovers, junk bonds, downsizing (based on the "origin myth" of shareholder value)
- By the 2000s, they could suggest going to the Moon, not only sub-primes
Why were they believed?

Barbara Ehrenreich: *Smile or Die. How Positive Thinking Fooled America & The World* (2009)

- Corporate managers: "the new business spirituality offered "a world view in which … reality is not absolute but a by-product of human consciousness"
- Customers: "God wants you to be rich"


- Alan Greenspan/Ayn Rand still "villains of the piece", but, and more important:
  - In 1989: "The good guys won, the beauty contest came to an end, and the decades of Western progress in relation to equality and individual rights came to an end..."
  - "The way in which the financial sector was allowed to run out of control... took place ...in a climate of unchallenged victory for the capitalist system, a clear ideological hegemony of a type which never had existed before."
  - "Finance ...underwent a change in the twentieth century... a break with common sense, a turn toward self-referentiality and abstraction."
• Societies live torn between two desires: that of safety and that of freedom. (No golden means exists). The postwar politics was oriented towards safety (welfare state). The 1980s initiated the opposite movement: towards freedom. Loss of safety is the result.

• Changed attitude towards debt: "Take the waiting out of wanting". Thus subprime mortgages.

• The culture of saving is in conflict with the culture of credit: cognitive dissonance and identity crisis are the results

• Possible solution: the re-valuation of durability
"World without limits. The Greek discovery that man could never be too rich."

- The 6th century Greek city-states were the first (China) to be pervaded by money
- The phenomenon of money led to the inventions of philosophy (universal power resides in an impersonal, all-underlying, semi abstract substance) and **tragedy**:
  - the possession of money renders unnecessary old forms of social relationships
  - it promotes predatory isolation,
  - thus the prominent figure (post-Homer) of a tyrant, who kills his kin, violates the sacred, and cares for money as the means of power.

- Aristophanes *Wealth*: money homogenizes everything and is omnipotent; Midas' myth
- After 2,5 millenia, money remains isolating, unlimited, and homogenizing
- The ancient Greeks = a culture of limit (the realm of freedom is created by a stable self-sufficiency). The contemporary culture= a hostility to closure (the realm of freedom is constant exchange).
- **The curse of Oedipus**: "our hyper-monetized, atomized, and self-destructive culture of the unlimited".
Market economies are not underpinned chiefly by economic theories. They rely for their legitimacy and continued functioning on ideas about right and wrong, fairness in society, and orderliness in the world.

Debt is a human construct that mirrors and magnifies both voracious human desire and ferocious human fear.

Before the crisis, there was a belief that sophisticated techniques of financial management can transform debt into a means of wealth creation from which even the poor could benefit.

After the crisis, debt went back to be constructed as sin (where both the debtor and the contractor are sinners)

Why, then, the perseverance of sin? Debt as a life-story plot:

- "the obtaining of goods on credit, the avoidance of payment, the thrill of the chase, the anger at the creditor, and the acting out of victimhood ... perform the function of providing a key element in a story-of-my-life"
- creditors' plot: revenge or forgiving

Los Angeles Times, 1972: "By 2042, MIT Team Says: Collapse of World Economy Foreseen If Growth Goes on". The payback time has come?

Because debt is a mental construct, "how we think about it changes how it works. Maybe it's time for us to think about it differently".
Have we any plots to offer?

• Is it an opportunity for us to exercise voice, or will we be passed by economists, political scientists and psychologists?

• Can we offer plots that do not follow media's standard prescription? ("look for the villain!")

• Are business schools guilty of offering wrong hero plots? or unjustly accused of being villains themselves?
As the global economy teeters on the brink of disaster, a young Wall Street trader partners with disgraced former Wall Street corporate raider Gordon Gekko on a two-tiered mission: To alert the financial community to the coming doom, and to find out who was responsible for the death of the young trader's mentor.