Routledge
Taylor & Francis Group

Journal of Economic Methodology

ISSN: (Print) (Online) Journal homepage: https://www.tandfonline.com/loi/rjec20

To incriminate, to apologize or to excuse? Finance and the uncertainty conundrum

Financial models and society: villains or scapegoats?, by Ekaterina Svetlova, 2018, Cheltenham, Edward Elgar, 184 pp., £75 (hardback), ISBN 978 1 78471 001 9.

Daniel Seabra Lopes

To cite this article: Daniel Seabra Lopes (2021) To incriminate, to apologize or to excuse? Finance and the uncertainty conundrum, Journal of Economic Methodology, 28:2, 247-249, DOI: 10.1080/1350178X.2020.1843232

To link to this article: https://doi.org/10.1080/1350178X.2020.1843232

Published online: 10 Nov 2020.

Submit your article to this journal

Article views: 25

View related articles

View Crossmark data

Full Terms & Conditions of access and use can be found at
https://www.tandfonline.com/action/journalInformation?journalCode=rjec20

JOURNAL OF ECONOMIC METHODOLOGY
2021, VOL. 28, NO. 2, 247–253

Routledge
Taylor & Francis Group

BOOK REVIEWS

To incriminate, to apologize or to excuse? Finance and the uncertainty conundrum

Financial models and society: villains or scapegoats?, by Ekaterina Svetlova, 2018, Cheltenham, Edward Elgar, 184 pp., £75 (hardback), ISBN 978 1 78471 001 9.

Let us suppose we could simply divide all social scientists studying finance into two main ideal-types: those who, writing from an anti-capitalistic perspective, are critically destructive; and those who, seeking to reform finance from within, are critically constructive (this includes any presumably unrestrained financial enthusiasts as even the most apologetic analysts must display a certain dose of skepticism given the ever lengthening list of crashes and scandals). Authors in the former group – such as Giovanni Arrighi or David Graeber – would provide insightful overviews of the financial system in relation to a wider capitalistic order depicted as surmountable in the longue durée, while authors in the latter group – such as Donald MacKenzie or David Westbrook – would mostly approach how contemporary financial institutions actually operate in particular contexts and what might be done to improve them and render them more sustainable and inclusive. The benefit of such an oversimplification stems from conveying how each perspective is equally politically biased. Furthermore, due to this political bias, each perspective also has its own advantages and shortcomings.

Ekaterina Svetlova is Professor in Accounting and Finance at the University of Leicester and the leader of a Macroeconomic Finance research hub which is a member of the UK Economic and Social Research Council network 'Rebuilding Macroeconomics'. Her monograph *Financial Models and Society: Villains or Scapegoats?* provides a good example of how finance can be approached both from a critically constructive angle that sees investment as a positive though also risky endeavour within contemporary capitalist societies. Empirically based on a three-month fieldwork inside the portfolio management department of a Swiss investment bank, and on 49 in-depth interviews with financial mathematicians and fund managers in diverse Swiss and German institutions (the data collection periods are not always specified but these seem to have taken place between 2008 and 2014), her book is exemplary not only of a qualitative approach to economic and financial issues but also of a qualitative approach to quantification procedures. In this study, Svetlova analyses the role of models in financial practices, depicting how they are employed in concrete situations conceived of, in the tradition of the social studies of finance, as open-ended. Although certain financial models have become globally famous, such as Black-Scholes or Value-at-risk, Svetlova argues that these never dictate investor actions or decisions but rather assist them in manifold ways. It thus becomes possible to speak of cultures of model usage as 'specific practices of integrating models into financial decision-making and combining them with emotions, views and stories of their users' (p. 4).

In Chapter 4, Svetlova advances three patterned ways of financial model usage in what she terms 'action-like decision making' – a Goffman inspired concept that designates a motivated engagement with the world while coping with uncertainty (p. 29). The first way is termed 'qualitative overlay' and applies to cases where qualitative judgement gains priority over the model's automatic calculations, with these then subject to correction *in situ* according to the ongoing stories, perceptions, and commentaries of actors (pp. 79–82); the second pattern is 'backing out/implied modelling' and applies to situations in which actors openly interrogate market forecasts while seeking to figure out the assumptions and interpretations underlying the calculations, imagining what might be wrong and correspondingly identifying blind spots in the model to obtain an advantage over other actors

(p. 90); in the third modality, models serve as 'opinion proclaimers', subordinate to pre-formed user opinions and openly manipulated in order to translate such opinions into numbers (pp. 95–96).

These three different applications are convincingly illustrated with ethnographic vignettes and interview excerpts, while also carefully interrelated with the work of other authors, demonstrating how model usage also depends on the respective organizational setting, which can vary considerably. In sum: 'There is no single manner in which organizations deploy models' but rather 'various styles of model use' (p. 103). On such grounds, Svetlova proposes that models can be performative, although not omni-performative as there is no evidence of any strong or automatic connection between models, decisions, and markets (pp. 102–103). The author proceeds with a reappraisal of the accusations of insufficiency, misuse and herding traditionally made apropos of models before discarding them all. As regards insufficiency and misuse, Svetlova states that all models are 'wrong' in the sense that they do not perfectly represent reality and that different organizational cultures reflect attempts at '*coping* with model deficiencies and making insufficient models work' (p. 108, italics in the original). As for the herding hypothesis, this gets dismissed in keeping with how banks and financial institutions enjoy considerable freedom in their applying of models and connecting them with markets (pp. 109–110). Once again, there is no uniformity. In fact, Svetlova argues, it was 'the *inherent creativity* of modelwork', and not uniformity in their usage, that may have caused the 2008 crisis (p. 110, italics in the original).

Alongside their everyday use for making investment decisions, models are also employed to justify such decisions to third parties in roadshows and sales talks. However, there are significant differences between these two situations which motivate recourse to another Goffmanian conception, the distinction between backstage and front stage presentations: while backstage, models are applied in various idiosyncratic and hesitant ways but are symbolically deployed on the front stage to erase doubts and convince external audiences. It thus becomes possible to speak of '*an illusion* of objectivity, scientificity and robustness that models and numbers produce' on the front stage (p. 41, italics in the original; see also chapter 5), where they function as 'attractors' and 'doubt-repellors' (p. 127) – with their 'false precision' still being 'necessary for the market to function as it produces decidability and willingness to invest' (p. 140). Nevertheless, the performance of objectivity via financial models can fail, just as much as their calculations do (p. 131), and hence the impossibility of fully anticipating what might work best. Audience expectations seem to matter and Svetlova suggests the utilization of models is likely to suit powerful interests inside banks or corporate groups. In fact, one of this book's most relevant contributions arises from its proposal that pre-2008 front stage presentations tended to focus on only one possible scenario and not on confusing scenarios (p. 133). Inside certain banks, this proclivity led to the downplaying of less favourable outcomes that eventually came to happen and triggering huge losses. Thus, there are two parallel logics implied in modelwork: the more economic backstage logic and the more authoritative front stage logic (p. 142). Such a discrepancy allows one to perceive that the problems causing the 2008 crisis had nothing to do with cognitive failure and the blind acceptance of model predictions backstage and rather more to do with the preponderance of the one scenario convention and the (institutional) power logics taking place on the front stage.

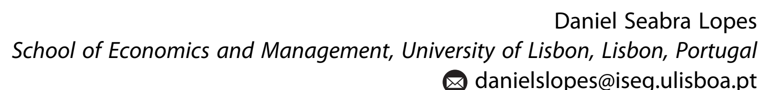
The book contains other challenging ideas. For instance, while remaining inside the social studies of finance paradigm (and the second group in our ideal-typical author classification), Svetlova distances herself from the concept of 'epistemic cultures'. In order to make her case, she contrasts financial practices in which the decision-making is associated to making money (p. 66) with extreme examples drawn from the universe of science in which 'true knowledge', 'abstract knowledge' and 'pure calculation' are at stake (p. 46) – although we may wonder whether even these exist in fundamental research. Assuming some influence from the ignorance studies field, Svetlova further states that ignorance, not knowledge, 'is characteristic of communication among financial market participants' and 'is indeed ubiquitous and symmetrical' (p. 144). Symmetrical ignorance – hence, how all the parties involved are '*equally ignorant* about the key issues of a situation' (p. 146, italics in the original) – provides the basis for such reasoning that proceeds to identify

calculation as an intellectual instrument for coping with non-knowledge in action-like decision-making (a function fulfilled by the staging of illusions of knowledge in decision-selling presentations). The argument is thought-provoking but perhaps not totally convincing: it forces the reader to conceive of knowledge and theory as purely epistemic projects only able to exist in a realm of their own – an idea already disputed by authors such as Karin Knorr-Cetina and Michel Callon, with whom Svetlova apparently concurs when she acknowledges that there is, after all, no theory on the one side and no reality on the other (pp. 63–65). In other words, wherever there is some theory, there is also likely to be some practice. Indeed, there has to be some knowledge for ignorance ever to exist. Furthermore, Svetlova's insistence on the importance of ignorance may be interpreted as an apology towards financial actors who should at least be aware they live in a highly financialized world where any major problem is likely to bear consequences for society at large (on this front, financial institution accountability has been the matter of much controversy).

Moreover, the insistence upon the importance of ignorance and non-knowledge contributes to what appears to be a naturalization of the idea of uncertainty, here presented as an inevitable component of contemporary financial ontology. Contrary to risk, which, according to Knight, can be the object of measurement, uncertainty cannot be measured and financial decision-making is therefore characterized by what Svetlova calls a '*radical uncertainty* which is not reducible to risk' (p. 16, italics in the original). Although seemingly aware that some uses of models are potentially dangerous, by granting such a heuristic prominence to uncertainty and ignorance, Svetlova may also be attributing financial actors with an educated excuse to proceed with acting irresponsibly, rather than sensibly, towards less prominent members in the financial chain such as depositors. In fact, 'uncertainty' can alternatively be conceived of as a discursive device and a motif often invoked by financial actors to account for previous actions that subsequently lead to bank bailouts. The same applies to the idea of diversity and complexity, rather than uniformity, as the hallmark of financial practice in particular – even of practice in general. There is again a similar ontological assumption here inviting the reader to simply accept that financial markets are like this: complex and diverse, therefore uncertain; uncertain and therefore diverse and complex. However, diversity and complexity are a matter of perspective. Let us take the case, for instance, of the need to invest and make money: while it is tempting to consider this as illustrative of what finance is all about, in an already hyper-financialized society such as our own, investing might constitute a disputable, rather than a consensual, goal. Should this not be so, then there may be grounds to speak of uniformity instead of variety, or of simplicity instead of complexity (the same applies to the one scenario rule for front stage presentations supporting the same need to invest and make money). In fact, diversity and complexity may be alternative rhetorical tropes deployed by modern financial institutions and regulators to justify a system which, in many respects, has grown enormously to now appear untamable. In our view, such tropes should not be accepted at face value but rather critically discussed – if possible, taking into account the valuable insights into actual financial practices provided by Svetlova's book.

Notes on contributor

Daniel Seabra Lopes is an anthropologist and a sociologist. He has undertaken ethnographic research in marketing, risk and trading banking departments. His work has been published in international journals such as *European Societies*, *Economy and Society* and the *Journal of Cultural Economy*. He teaches at the School of Economics and Management, the University of Lisbon (ISEG-ULisboa).



Daniel Seabra Lopes
School of Economics and Management, University of Lisbon, Lisbon, Portugal
danielslopes@iseg.ulisboa.pt

© 2020 Daniel Seabra Lopes
https://doi.org/10.1080/1350178X.2020.1843232