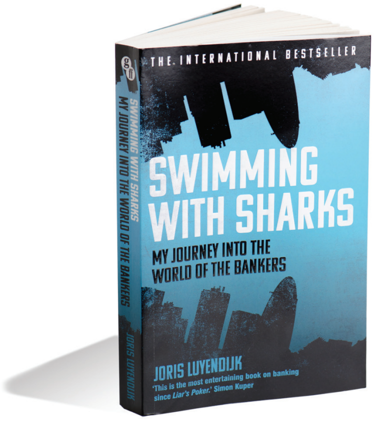
The Jaws of Finance



Joris Luyendijk

Swimming with Sharks

My Journey into the World of the Bankers

Guardian Faber, London, 2015, 288 pp., £12.99 (paper).

Reality is complicated and the human mind can have a hard time grasping it. Events usually need an explanation, a causal source. The origins of earthquakes and other natural catastrophes are on some level easy to grasp: they just happen. No human hands involved. Social and economic events are often harder to understand or accept. They do not just happen. The human mind craves a cause-and-effect paradigm, which can give rise to conspiracy theories: the moon landing was a hoax; global warming is a fabrication of the liberal left; greed and collusion among unscrupulous bankers are behind the 2008–09 financial crisis.

How then does an investigative journalist transcend easy answers? Well, ask the people involved. Be humble, start with the most basic questions, and reach out to the widest sample of players. This is what Joris Luyendijk set out to do when the *Guardian* invited him in 2011 to blog about "understanding the financial sector." After many postings and interviews with more than 200 staff members from large investment and commercial banks, hedge funds, financial supervisors, and others, *Swimming with Sharks* was born. The author's quest: to discover what went wrong in 2008 and figure out whether the same type of crisis could happen again. His investigative work borrows from what anthropologists do, including by creating an analytical taxonomy for his analysis that he uses to divide his interviewees into three groups: front-office, high-profile traders; back-office support staff; and mid-office compliance and risk-management officers. He studied how members of the financial sector think by reading memoirs and exposés. Then he did field work, trying not to go "native"—meaning without letting his sympathies, biases, and emotions get in the way of analysis. A hard task.

Luyendijk's answer: the 2008–09 financial crisis was not caused by individual character flaws, such as greed, which pervade human society. The crisis was caused by perverse incentives against a backdrop of a male-dominated, competitive culture that punishes (perceived!) failure swiftly. Scant job security has eroded people's attachment to the institutions they work for, which may have encouraged excessive risk taking. Changes in the governance of large financial institutions from the investor-owner model (widespread till the 1980s) to the open capital model have limited shareholders' ability to monitor risk taking and added to incentives to take extreme chances. Very large and complex financial firms created "too-big-to-fail" institutions that do not internalize the social risks of their actions.

The book is full of good anecdotal evidence—including some debunking the illusion that firewalls can prevent conflict of interest within financial sector institutions. Firewalls between investment bankers cooking up new financial products and those trading them and bank analysts advising clients on the quality of those assets were not respected. Rating agencies were soft on the risk associated with complicated derivative products, probably because they were paid by the owners of the underlying assets being rated. As Luyendijk states, firewalls in most financial sector firms are about as credible as the independence of "the *Guardian* if it were bought by a political party in England." To close the loop of perverse incentives in the financial

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complex, supervisors and banks' mid-office staff were mere window dressing as financial products became more complicated and the sector's culture of "eat, drink, be merry, and do not show weakness" inhibited a critical mass of whistle-blowers.

Luyendijk makes a good case against the argument that the great financial crisis of 2008–09 sprang from an organized, well-orchestrated conspiracy among fat cigar-smoking bankers. (He does not, however, spare a subset of calculating financial sector players he dubs "cold fish" in an entertaining story arc that nicknames each type of financial player.) After a thorough anthropological journey through the City of London, the forecast is bleak: nothing has changed. The competitive culture (with its scant respect for risk management, including through the demoralization of mid-office employees and the cult of successful super traders, the "masters of the universe"), too-big-to-fail institutions, and everything that underpinned the great financial crisis are still with us. The author ends the book with an "empty cockpit" as an image of our awareness of the risks of another crisis. *Swimming* leaves the impression that current regulatory and supervisory changes are like bike helmets for passengers on this accelerating plane. The rush for the few available parachutes will be intense when the next crash comes.

Marcello Estevão
Deputy Division Chief, IMF Western Hemisphere Department