IN FOCUS

ECONOMIC CRISIS: ORIGINS

The economic crisis has caused many to reconsider how we make sense of economic structures, tools, products, concepts and rhetoric. Anthropologists are key contributors to this conversation, seeking to understand the crisis itself and to help develop more sustainable economic policy and practices for the future. Here, five authors consider the origins of the current economic crisis, from the recent development of new financial tools, to the lack of government regulation and oversight, to longer-term financial industry assumptions.

COMMENTARY

Icebergs and Ideologies

How Information Flows Fuelled the Financial Crisis

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Financial Times

What sparked the financial crisis of 2007 and 2008? Why did so few people spot the credit bubble before it burst, with such terrible consequences? These questions have been endlessly discussed by politicians, journalists and regulators in recent months. There is no shortage of popular culprits to blame, including the regulators, politicians, credit rating agencies—and, of course, bankers themselves. However, another factor that has been central to the crisis is the issue of the media and information flows. Most notably, in the decade before the credit bubble burst in 2007, business media paid remarkably little attention to the explosive growth in the debt and derivatives world. This suited the banking industry extremely well before the crisis broke, leaving them able to operate free from external scrutiny in a manner that fuelled the bubble.

For my part, I have been grappling with the issue of information flows in finance for the last decade, with an unusual insider-outsider perspective. Fifteen years ago, I did a PhD in social anthropology, based on fieldwork conducted in a mountain village in Tajikistan, where I analyzed how marriage rituals were used to preserve religious and ethnic identity in the Soviet system. But after completing my academic work, I joined the *Financial Times* (FT), covering global finance and economics, and I now run the global markets coverage for the newspaper. On paper, those two careers might seem starkly different. In practice, though, the same type of holistic, grassroots analysis that I formerly employed in examining wedding rituals in Tajikistan has proved invaluable in terms of making sense of high finance. That is partly because bankers (like Tajik villagers) operate as a tightly defined group, with specific cultural patterns and a quasi language (or jargon) of their own. Also like Tajik villagers, bankers are generally trained to think in rigid "silos" and, as a result, find it hard to see how their overall system operates, or to see the contradictions in their own rhetoric and internal organizations.

Mapping the Financial System

These points were first rammed home to me back in 2004, when I was working at the FT as acting head of the Lex column, which provides commentary on business and economic matters. One day, my editor asked me to draw up a rough memo outlining what topics we—as the FT—should comment on in Lex. I started by looking at the issue with my "journalist" hat on, and listed the different companies which we should write about. But then, almost on a whim, I played an intellectual experiment: If an anthropologist wandered into the modern "banking" village, I asked my colleagues, and sketched out how that system worked, how would that village look? More important, how would that sketch of finance correspond to the way media outlets, such as the FT, reported on the banking sector?

The results were striking. My rough "map" of finance showed that there were some parts of the financial village that were relatively well covered by the mainstream media, such as the equity market, and currency and commodity markets. But other fields of activity, such as the debt, credit and derivatives markets, were barely covered by the mainstream media at all, even though these were large and rapidly growing parts of the system. The consequence was that the Western financial system looked rather like an "iceberg" in media terms: one relatively small part of the system was visible, since it was extensively written about; a large chunk of activity, though, was submerged from sight, widely ignored.

I have subsequently spent a great deal of time trying to work out the reasons for that pattern. Part of the problem, I suspect, lay with the nature of newspapers. Twenty-first century journalism tends to assume that newspaper stories can only "work" for readers or viewers if they feature stories about recognized, named individuals who can supply "on the record" quotes, supplemented with verifiable facts and tangible events. Such elements can usually be found with stories about the stock market, where there are named individuals (company CEOs), events and facts (such as quoted prices). However, in the debt and derivatives world of 2004, bankers generally loathed publicity and would rarely give "on the record" quotes. Moreover, it was difficult to get price or trading data since deals were typically made in private, not on public exchanges, and discrete events seemed few and far between. The debt and derivatives markets did not create "stories"—or not as defined by the Western press.

Another factor was that this iceberg pattern suited bankers well. Lower levels of scrutiny meant that bankers could reap fat profits by skimming off commissions in numerous ways. This opacity also meant that they could develop new areas of activity as they pleased, free from the eyes of politicians or end consumers. To be fair, few bankers were employing this as a *deliberate* strategy; for the most part, the bankers were not consciously trying to "hide" their activity from the outside world (though a few did). However, there was a widespread assumption in the financial sphere that the debt and derivatives markets were simply too "technical," "boring" or "complex" to be of any interest to non-bankers. And in some respects, the bankers were quite correct to assume that. After all, there were almost no articles in the mainstream press about the wave of innovation or growth underway in debt and derivatives, precisely because the journalists (and their editors) tended to label these areas as excessively dull. In 2004, in other words, there seemed to be a self-reinforcing consensus that it was quite normal and unremarkable that an iceberg pattern existed in finance. There was cognitive capture—albeit not in terms of an explicit ideology, but in terms of a tacit agreement about what was acceptable to ignore.

Reporting on "Dull" Derivatives

To be fair, I myself did not initially perceive this pattern in quite such stark terms. In late 2004, I penned some memos about the "iceberg problem" to colleagues at the FT and then moved over to run the capital markets team in early 2005, where I set to work trying to make sense of this shadowy land. Initially, I was driven primarily by a sense of curiosity, rather than any clear vision of impending disaster: what propelled me was the same desire to understand another culture that had first taken me to Tajikistan. And just as I had set out to explore a Tajik village a decade earlier, I spent the early months in my new post at the FT listening to bankers, learning to talk the jargon, and tramping around an array of investment banking conferences in pleasant holiday resorts. These conferences, rather like Tajik wedding rituals, proved to be invaluable research tools since they were one of the few occasions where the scattered group would gather together and restate their core values and assumptions in a forum accessible to outsiders.

Nevertheless, as I dug deeper into this world, my sense of amazement—and alarm—grew. By late 2005, it was clear that activity in the debt and derivatives sphere was so utterly frenetic that it was creating a classic "bubble" that would inevitably burst. Yet, extraordinarily few regulators or politicians seemed to care. To a certain extent that was because many policymakers adhered to an intellectual framework that assumed that finance would be most efficient without government interference, and that innovation and free market forces were always good. There was a dominant cognitive map that essentially justified almost everything bankers might care to do. Another key factor was the social silence and the fact that although credit markets were overheating, they did not meet the usual definition of a journalistic "story," since the subject matter seemed too complex, technical and dull, dressed up in a jargon that only bankers appeared able to understand. So, throughout 2005 and 2006, as my team at the FT tried to dig into this world, most newspapers continued to ignore it. And though the FT provided more coverage than most, there was much we failed to spot, and much that remained buried in the inside pages. Thus there was little public debate about the frenetic activity, and precious little pressure on policymakers to challenge the received wisdom about how credit markets were supposed to work.

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These days, of course, this lack of analysis or action by policymakers has sparked a wave of angry recrimination. As I noted at the start of this article, bankers, politicians, regulators and credit rating agencies have all been pilloried. There has been some (entirely justified) criticism of the media too. However, from my own vantage point as an anthropologist-cum-journalist, who has been trained to explain (not to blame), some of this finger-pointing misses the point. After all, as Pierre Bourdieu once noted, elites exist in most societies, and invariably try to hang onto power—not so much by controlling the physical means of production, but by also dominating the cognitive map, or social discourse. And as Bourdieu also noted, what really matters in terms of controlling a cognitive map is not what *is* publicly discussed, but what is *not* discussed. Social silences, in other words, are crucial. In that respect, then, the "iceberg" pattern that developed in finance over the last decade is a classic case of an elite hanging onto power in a manner that proved extraordinarily effective—at least until the bubble burst. Writing as a journalist, I just hope that my own profession can learn a key lesson: when a powerful elite tries to insist that an activity is too "dull," specialist or complex to report, then it is certainly worth writing about, and preferably on the front page.

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Ethnography Meets Econometrics

Exploring Daily Work Practices that Lead to Financial Crises

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Prosaic work practices in financial markets are rife with conflicts of interest, where financial workers must balance their personal or firm's interests against a public interest. These conflicts of interest are non-trivial, well-known, and constituted in the very structure of financial markets. For example, rating agencies such as Standard & Poor's and Moody's Investors Service publish putatively objective ratings of corporations' abilities to meet their financial obligations. Since rating agencies are paid to do so by the corporations that they rate, this creates a conflict of interest between the rating agencies' private interest (gaining as many clients, for the highest fees, as possible) and the rating agencies' public interest (providing objective, unbiased analyses of corporations' creditworthiness).

Such conflicts of interest can transform into financial fraud and violations of fiduciary responsibility—as occurred seven years ago with the collapse of Enron. Enron had masked the failure of its much-hyped business model with a dizzying diversity of fraudulent and deceptive accounting practices. After discovering these accounting games, Enron's auditor (Arthur Anderson) failed to force Enron to come clean, perhaps out of fear of losing such a valuable client. But numerous additional parties in the finance industry were also complicit, each with their own financial incentives for looking the other way (see Healy and Palepu's "The Fall of Enron" in *Journal of Economic Perspectives* 17).

Alternatively, yesterday's legal work practices—such as the creation of structured financial products designed to profitably elude regulation and generate extraordinary fees, or the issuing and resale of sub-prime mortgages—can today generate a morass of financial commitments that few firms are actually in a position to honor. As a consequence, beginning in summer 2007, financial firms became increasingly unwilling to trust one another's contracts or even their solvency in the near future. By the end of September 2008, this led to the two largest US corporate bankruptcies to date, Lehman Brothers and Washington Mutual. Equally notable were bankruptcies avoided by government support (eg, American Insurance Group, Bank of America and Citigroup), some coupled with corporate takeovers (Bear Stearns, Merrill Lynch and Wachovia). These failures have had dramatic worldwide effects; projects across the global South have been scuttled as global capital flows were redirected or constricted. How can anthropologists contribute to understanding this crisis?

Engaging Econometricians

One model we have is "forensic finance." In the recent past, academic econometricians, publishing in finance journals, have worked with journalists, regulators and prosecutors to document widespread violations in the finance industry. Scandals that have been discovered by this ensemble include collusion among NASDAQ brokerage firms, after-hours trading of mutual funds, employee stock option back-dating, and investment banks

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