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## Emotions in finance: Distrust and uncertainty in global markets [by Jocelyn Pixley]

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*Emotions in Finance: Distrust and Uncertainty in Global Markets*, by **Jocelyn Pixley**.  
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Category 3: Work, Organizations, and Markets

The viability of our financial institutions is based on trust. We place our money in these institutions, trusting that the people who inhabit them—financial analysts, regulators, central bankers—possess an understanding of the economic landscape superior to our own, and can thus respond more rationally than we could in the face of changing events. Engaging in this trust implies a radical belief, however: that it is possible to resolve uncertainty about the future with rationality.

Pixley argues forcefully that the notion of rationally predicting an uncertain future is a myth. We place trust in financial entities and devise impersonal structures (such as accounting rules, SEC regulations, and central banks) to bolster the reasonableness of that trust, but the trust is based on an illusion. The future is irrevocably uncertain. Rationality, then, cannot be the driving force behind financial decision-making. What *does* drive financial decision-making, to a degree far greater than economists, practitioners and regulators will acknowledge, is emotions. Emotions, including greed, hope, distrust, paranoia, and optimism lurk behind decisions made at all levels of the financial system, decisions that must be made amidst the fear and hope of uncertainty. The problem, for Pixley, is that the elaborate financial structures we have devised to create trust do not acknowledge this emotional underpinning, and by not acknowledging it, we set up our individuals and organizations to accept higher levels of risk than they should. This reliance of parties at all levels of the system on the structure of impersonal trust is dramatically misplaced; indeed, “Impersonal trust is the emotional serpent in the Eden of assumed rationality” (p. 29).

Behavioral economists have recently emphasized the degree to which individual investors' financial decisions are driven by passion rather than logic. What Pixley emphasizes, however, is that emotion's impact does not stop at the individual level. Emotions permeate decisions at the organizational level as well as at the inter-organizational level, in the often-clubby relationships between organizations. To support her argument, Pixley provides quotes derived from 42 interviews with former central bankers, financiers, finance journalists, and survey analysts. She selects these informants on the basis of their disbelief: they are "informed skeptics" chosen because many have expressed concern about "the finance sector's self-proclaimed logic" (p. 42). Pixley engaged her informants in discussions about the "ambiguities of trust" (p. 41) in finance through direct questions and reflections on a conceptual model. This model depicts an individual-level decision-making process based on how emotions about past decisions combine with "today's news" (p. 70) to create expectations that drive current decisions. The results of those current decisions have emotional outcomes (if a success, smugness and relief; if a failure, shock and dismay) that initiate an attribution process that shapes future decisions, and the cycle begins again.

After two introductory chapters providing the framework for Pixley's main argument, the remainder of the book presents ideas supporting her framework, bolstered by numerous direct quotes from her informants. One chapter addresses how the financial media serve as "institutional trust agencies" (p. 43), spreading the ideology of trust while alternately cheering rising markets and financial heroes and, when failure occurs, reveling in decline and scandal. Succeeding chapters examine the inner workings of central banks, then address the inter-organizational level by analyzing how credibility derives, not from measurable analysis of policies, as economists would have it, but rather from "relational contexts of emotions" in which organizations make actions based on "guesswork" (p. 94). The book concludes by introducing

the notion of “time utopia in finance,” the idea—the hope, really—that the future can be fully accounted for in the present.

The study of emotions as a critical, rather than marginal aspect of organizational life has been an important—some say revolutionary—paradigm shift from the dominance of cognition in the social sciences. Therefore, Pixley’s notion that emotions permeate even the quintessentially rational sphere of finance is not exactly breaking new ground. Sociologists of emotion have been arguing for the importance of affective phenomena in organizations for at least 25 years. What *is* new in her work is her discussion of emotional influences with the practitioners themselves—she goes inside their financial structures and ferrets out emotions they often didn’t know they had.

While the notion that emotions permeate financial decisions is plausibly made, Pixley could do more to provide support for her arguments. First, the conceptual model she uses to guide her questions with informants does not arrive until nearly half-way through the book, and is not rigorously developed or described. While she teases the reader with tempting references to attribution theory and the sociology of emotions, there is not a full development of how this work relates to her model and no discussion of how the model might differ from other related approaches. There is little discussion of the voluminous decision-making literature. The model appears to be interesting and a possible contribution to the sociology of emotions and decision making, but this contribution is difficult to judge based on the documentation provided.

Second, it is difficult to judge the research contribution of this work, given its informal methodology. While lengthy informant quotes are provided, there is little guidance as to how quotes were selected or the degree to which the quotes selected are representative of the informants’ thoughts as a whole. Indeed, several informants openly disagreed with the notion that emotions were a primary (or even important) contributor to their financial analysis and decision-making, so it was difficult to fully assess how much support there was for Pixley’s ideas

or model. Pixley's intentional selection of "informed skeptics" also begs the question of how representative these informants are of mainstream financial players. Including less skeptical (more conventional?) informants might have made an interesting counter-point to the views expressed here.

It is critical to emphasize the importance of emotions in our financial institutions, and this book will fit well within the current explosion of work on emotions in organizations. This book provides an important insider's view from practitioners in finance, a view that has not been studied extensively before. One hopes that this line of research can be extended, with a greater variety of methods, both qualitative and quantitative, to further elucidate the meaning of emotions in finance.