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Book review: taking the floor: models, morals and management in a Wall Street trading room

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Book Review | Taking the Floor: Models, Morals and Management in a Wall Street Trading Room

In **Taking the Floor: Models, Morals and Management in a Wall Street Trading Room***,* **Daniel Beunza** *analyses how the use of economic models and the moral disengagement this has created have significantly transformed the global financial industry through an ethnographic study conducted at an equity derivatives trading room of an international bank located in New York City. This is a significant contribution to social studies of finance and economic sociology, writes* **Manuel A. Santana-Turégano.**

***Taking the Floor: Models, Morals and Management in a Wall Street Trading Room*. Daniel Beunza. Princeton University Press. 2019.**

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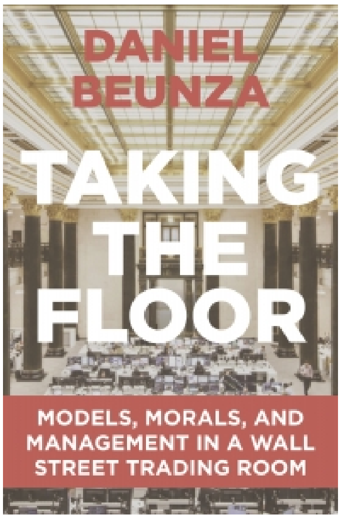

In *Taking the Floor: Models, Morals and Management in a Wall Street Trading Room*, Daniel Beunza analyses how the use of economic models and the moral disengagement this has created have significantly transformed the global financial industry. The book is based on ethnographic research spanning two decades, and with plenty of valuable insights, it is recommended reading for anybody interested in how the use of economic models shapes contemporary society.

The core idea of *Taking the Floor* – namely, that the use of economic models and electronic devices in the financial industry leads to the suspension of moral judgement and has profoundly altered the way in which the industry is organised – helps us to better understand the global financial crisis of 2007-2008. The book is based on research that Beunza conducted between 1999 and 2003 at the equity derivatives trading room of an international bank located in Lower Manhattan in New York City (designated by the pseudonym 'International Securities')*,* combining participant observation and oral history interviews. From 2003 until 2015, more visits and interviews were conducted; as a result, the research design conforms in part to Michael Burawoy's concept of a 'punctuated revisit', since Beunza returned to the original site over a time period of more than ten years.

The main questions that the book attempts to answer can be boiled down to two. First, how does the use of economic models and information technology affect the organisation of the financial industry? And second, what can we learn from this about the causes of the global financial crisis? The core idea of the book is that the way in which the use of economic models and information technology has been implemented has created a *model-based moral disengagement*. Beunza analyses how the environment – what he calls 'organizational strategies' – shape moral judgement and the way decisions are made, from how desks are arranged to how managers set objectives. As he sees it, the organisational strategies adopted by the financial industry have created a moral disengagement that disabled the mechanisms of self-condemnation associated with immoral conduct and therefore encouraged the unrestrained pursuit of self-interest.

Image Credit: Image of the New York Stock Exchange, taken as part of a visit by Melania Trump, 23 September 2019. Photograph by Andrea Hanks ([The White House Public Domain](#))

The book, comprising thirteen chapters, is organised into two sections. The first half is dedicated to the use of knowledge on the trading floor, focusing on models, traders and the connection between them. This section introduces the original fieldwork and explains how modelling was organised at International Securities. After the Introduction, Chapters Two to Five analyse traders, whilst Chapter Six analyses the managers who supervised them. The participants of the study were the manager of the floor, Bob, a statistical arbitrage trader; sale traders including Scott, Joe and Jim; and Max, a senior trader at the merger arbitrage desk (all pseudonyms). Chapter Seven then considers the performative effect of economic models on the financial properties of securities.

The second half of the book focuses on the moral consequences of economic models. Chapter Eight analyses how norms were enforced in the trading room, whilst Chapter Nine introduces the concept of resonance. Chapters Ten and Eleven develop the idea that the global financial crisis was a consequence of the moral side effects of the organisational changes that had been taking place in Wall Street since the 1980s, and Chapter Twelve considers the impact of the global financial crisis for Wall Street employees. Chapter Thirteen concludes by setting a framework for how future crisis could be avoided, proposing the concept of ‘proximate control’: that is, the supervision of quantitative traders not by models but by a combination of social and technological devices, such as the use of personal evaluation of quantitative results or the qualitative judgement of financial calculations. This concept is opposed to that of ‘government at a distance’, as proposed by governmentality scholars such as Peter Miller and Nikolas Rose.

Following the concepts developed in the book, *performative spirals*, borrowing ideas from the social studies of science tradition, permits to understand the recent evolution of the financial industry, and supersedes economist Robert C. Merton’s concept of the ‘financial innovation spiral’. Beunza’s concept represents the relationship between economic models and the properties of financial securities as a spiral. At a certain point in time, new financial devices, tools or economic models lead to changes in investment practices. In turn, these new practices often create changes in the properties of the securities. Later on, these new properties are profitably exploited by new tools, financial devices or practices. In sum, there is a reciprocal influence between economic models and financial properties, and since this can be performative, it is called a *performative spiral.*

The concept of *resonance* is another key contribution of the book. According to Beunza and David Stark, resonance can be defined as 'the amplification of error arising from a combination of cognitive similarity and confrontation with market rivals via economic models' (183). Borrowing the idea from physics, and giving the historical example of the collapse of a suspension bridge, the concept of resonance helps us understand how a collection of individually minute errors can add up and eventually collapse large infrastructures, such as the architecture of the global financial system. In the aftermath of the global financial crisis, it was inevitable that both finance experts and laypersons would ponder the question *how could this happen?* According to common perceptions, the subprime crisis went as follows: worldwide, millions of banks gave mortgages to millions of borrowers, whose probability of default, for every individual loan, was small enough as to grant the loan. However, errors were made that were important enough as to cause a global collapse of the financial system.

The concept of resonance helps us to understand how all this happened. Under the assumptions of traditional approaches to finance, minute errors in the modelling of economic reality – for example, whether a borrower will pay back a loan or not – should cancel each other: some banks would overestimate some risks, others would underestimate them. But since at every bank those who built up the models had cognitive similarity and compared themselves to market rivals via economic instruments, they did not notice that they were all making the same mistake until it was too late. Beunza's idea of resonance therefore gives a better explanation of the financial crisis than many previous theories. It was not only that models were based upon the assumption that past events permit us to forecast the future, as per Nassim Nicholas Taleb's ideas. It was not only the organisational silos in the credit ranking agencies, as in Donald MacKenzie and Taylor Spear's explanation; nor solely the unethical activity on Wall Street, as in Neil Fliegstein and Alexander F. Roerhkasse. It was *resonance* that better explains the causes of the crisis.

Taking the Floor is a significant contribution to social studies of finance and economic sociology more broadly. It will certainly be worthwhile reading not only for specialists, but also a much broader audience, since the way abstract models shape reality is becoming one of the more salient issues in contemporary societies within and beyond the realm of finance.

Note: This review was first published on the LSE Review of Books.

About the Reviewer

Manuel A. Santana-Turégano is Lecturer in Sociology at La Laguna's University (Tenerife, Canary Islands) Department of Sociology and Anthropology. Manuel's research and teaching covers the areas of Economic Sociology and Tourism, and is currently focused on how financialisation is changing tourism. Most of his published research can be found online, open access.