Review article

Contributions of Social Studies of Finance to understand Modern-day Complex Financial Markets
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Abstract

Although finance traditionally has been the domain of economics, understanding the various forces shaping the performance of contemporary financial markets require the use of a variety of intellectual perspectives from across other disciplines. The present article attempts to discuss the contributions of 'social studies of finance' in studying and interpreting the modern financial markets and it’s widely spread effects. This becomes of immense importance when conventional economics failed to express the social content of economic relations, and consequently to interpret the forces and conflicts at work in the economic process. This way, they help financial economics in framing and reframing it’s theories to explain and forecast the market in a better way.

Keywords: Social studies of finance, sub-prime crisis, financial markets.

1.0 Introduction

Financial markets gained importance after widespread deregulation and liberalisation of the world economy. Many developing economies rushed to join and reap the benefits of globalisation, widely advocated and publicised by different developed economies and international institutions. This integration backed by technological developments has made financial markets powerful enough to affect our daily life, and not just during crisis. The complex world of contemporary finance is overflowing the boundaries of Economics (Social Studies of Finance Association). Although finance traditionally has been the domain of economics, understanding the various forces shaping the performance of contemporary financial markets requires the use of a variety of intellectual perspectives from across other disciplines.

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The present article attempts to discuss the contributions of ‘social studies of finance’ in studying and interpreting the modern financial markets and it’s widely spread effects, especially non-economic, on the world economy. This becomes of immense importance when conventional economics failed to express the social content of economic relations, and consequently to interpret the forces and conflicts at work in the economic process. The recent financial crisis is a nice example of such conflict.

The structure of the article is as follows: the next section, throw light on the ‘social studies of finance’ approach, history, its scope and importance. It further elaborates how this approach is different from the traditional economics approach of the study of finance. Then a brief discussion is made on some of the works done in the different fields of this approach. The next section seeks to assess the social studies of finance in the light of recent financial crisis. The last part contains the concluding remarks.

2.0 The ‘Social Studies of Finance’ and their Development

Although finance traditionally has been the domain of economics, understanding the various forces shaping the performance of contemporary financial markets requires the use of a variety of intellectual perspectives from the social sciences. The “social studies of finance” is the application of social science disciplines such as sociology, anthropology, human geography, gender studies, socio-legal studies, and science and technology studies to the study of financial markets.

The history of finance is ambiguously located in religious symbolism, colonial conquest, sexual imaginations, gambling, superstition, and discourses of moral obligation, which underpin the ways we make sense of money, credit, and investment today (Foucault in Marieke de, 2005). Earlier money was independent of market exchange and used to satisfy social obligations and remedy wrongs (Carruthers, 2010). Much of the exchange happened through barter system under which people exchange products of their needs. Gradually, it evolved from relatively narrow, cultural specific uses to take on a much broader range of social and economic functions commonly associated with money (Leyshon & Thrift,
However, these aspects and, associated complexities with them, are generally ignored by the modern finance.

The modern finance is presented by the technocrats as an autonomous and clearly bounded structure with the only objective to make capital more mobile in more logical manner (Maurer, 2001). The proper understanding of the transformation of the financial markets, banking industry and corporate governance needs the intervention of new approaches that can deal with all the dimensions of such phenomena (Social Studies of Finance Association).

The traditional economic sociology draws attention to the socio-technological resources drawn together to settle markets (Pryke & Gay, 2007). Later, the scope of the area of the study was further extended by emphasising on the systematic forms of knowledge deployed in markets (Mackenzie, 2006). In his work he shows how finance theory has aligned, transformed and constructed the world and concludes that financial economics does more than analyse markets; ‘it alters them’.

Scholars like Marx, Simmel, Harvey, Carrthers, focussed on how the cash nexus pervaded, subverted, and otherwise transformed social relations. But it is not always money which changes or dissolves social relations. Zelizer (1984, 1997) argues that by confining money to some realms, people affirm cultural distinctions between private and public, male and female, sacred and profane. She outlines the strategies people use to separate money into qualitatively distinct categories. Zelizer (2002) finds that money may be used as much to avoid particular connotations as to signal them. This separation of money into different categories reflects the political commitments and priorities of households and organisations.

Economic geographers like Harvey, Gotham, Leyshon, Thrift, French etc., have brought issues of geographical space in the study of finance. They focussed on the power and geographical reach of the financial system which is not only bringing homogenisation of social relations over space but also developing ‘spatial fixes’ in the financial service industry. In Social Justice and the City (1973) and The Limits of Capital (1982), Harvey encouraged a broader interest in the connections between money space, and place.

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1 Some dollars are “honest” and “clean” while others are “dirty” (Verdery in Zelizer, 2002).
A group of anthropologists have developed an impressive array of work on finance and money by focusing on the material and discursive practices of finance. Working in an ethnographic mode, anthropologists and sociologists have focused on the social technologies that produce capitalist subjects in financial and commercial practices (Maurer, 1995; Abolafia 1996; Zaloom, 2003). Their work explores the culture economy of finance to produce a new sense of finance.

In his work, Abolafia (1996) demonstrated the empirical reality in financial markets in contrast to the essential assumptions and/or models of financial economics. Examining the reasons behind the ‘rational behaviour’ of maximising profits by working on bond traders of the Wall Street, he finds maximisation of utility is at times a goal but many times a tool to attain another goal concerning traders’ perception of their peers. He further argues that regulatory mechanism of the market is not only at institutional level but also at peer level to ensure trustworthiness, efficiency, and liquidity in daily transactions.

Zaloom (2003) analysed the production of economic rationality at two sites in global financial markets, each operating under a different technological regime- the Chicago Board of Trade (CBOT), having Open-outcry pits and London futures dealing firm (LDF), having screen-based technology. The designers of market systems try to bring transparency and uniformity by introducing latest technology in the financial markets but, traders do not accept and use the generated information by new technology in the same way as it was intended. Though both the technology represents the market in numbers, traders do not take up numbers as objective descriptions of supply and demand. They retooled their market practices to find and exploit the social content where there seem to be only non-interpretive facts. And, this way flexible interpretation rather than formal calculation characterizes the styles of reasoning common in financial futures markets, both in the pits and on the screen. Zaloom’s work shows how different cultural practices easily emerge as per the need of the particular market. Here, it is not just technology which amends human behaviour; humans also affect it by altering the meaning of the information generated by such technology. This movement of meaning from universality to diversity many times brings the unpredictable instability in the market even when regulators (by using latest technologies) try their best to evade the chances of any such happenings.
3.0 The Changing Dimensions of Modern Finance and its Implications

The modern finance has acquired the logic of calculability and an appearance of scientific objectivity that places its fundamental assumptions beyond discussion and debate. The power of financial idea exists where they must be rendered into information in the form of reports, charts, graphs etc. before they come into focus within political economy. And behind all these developments, human actions with hidden intentions play an important role. Information in this sense is not the outcome of a neutral recording function and “it is itself a way of acting upon the real” (Miller & Rose, 1990). The regulative practices that govern the limits of the financial domain act on the ways participants in this sphere understand their roles, interests, and possibilities. And many times these participants involved in these developments themselves decide what to show and what to hide as per their hidden intentions to prove the proposed financial practice or instrument a normal, scientific and as per the need of the market.

Understanding finance as a performative practice suggests that processes of knowledge and interpretation do not exist in addition to real material financial structures, but are precisely the way in which ‘finance’ materializes and, this process of materialization is neither a single act nor a casual process initiated by a subject and culminating in a set of fixed affects as claimed by the economists (Marieke de, 2005). The main stream economics generally pays no attention on these vital issues. Economics format the economy by constituting its own assumptions and conditions of existence. This way, they oversimplify the complexities of the financial markets and global economy by stating theories and models with certain assumptions, but what a good theory omits is ‘outweighed by the beam of light and understanding thrown over the diverse facts’ (Samuelson in Tarim, 2008). What they ignore is the limits of performativity. Financial economics is performative but not uniformly and straightforwardly performative (MacKenzie, 2006)².

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² MacKenzie shows this by giving example of the Black-Scholes model. Option prices converged on the Black-Scholes model predictions until the 1987 stock market crash, which was not in the model.
The financial market consists of human activities backed by different intentions, technologies, regulations, and relationship of these three main actors. Different cultural, political and social circumstances further make the relationship more complex and highly unpredictable. This brings subjectivity while framing any rule or model for the financial market; for example, many times distinction between gambling (and speculation) and legitimate financial activity is so thin and insecure that its only law which determine the boundaries between after which legitimate finance becomes illegitimate gambling or speculative activities. And, the framing of law to a certain extent depends on the subjective decisions of the regulator, say government.

Similarly, modern technologies are introduced in the financial market with an intention to bring transparency and uniformity in financial activities and information. Still, local traders not only modify their own behaviour according to the changed environment but also affect the newly introduced technologies by interpreting the generated information differently as per their interest.

The economic and financial models are verbal and mathematical representations of economic process and markets. These representations are deliberately kept simplified so that economic reasoning about those markets or economic process can take a simple mathematical form (MacKenzie, 2006). But this simplicity is, many times, deceptive. The market is more dynamic than it is thought in different economic theories. It is worth to identify those actors which make financial market so dynamic. Equally important is to know why traditional financial economics fails or deliberately ignores those actors. Is it myopia of the financial economists or their compulsion to ignore?

4.0 The Subprime Crisis: Myopia or Colour Blindness of Traditional Financial Economics

The recent subprime mortgage crisis in the US, which further brought more acute financial crisis, adversely affecting the world economy, is a perfect example of the short-sightedness (or selective sightedness) of the modern and so-called highly professional financial experts. The crisis is an illustration of the

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3 Subprime mortgage lending refers to the practice of making home loans to borrowers who have poor (or no) credit records with low income and wealth to afford the repayment of the loan.
contradictions of capital circulation as expressed in the tendency of capital to annihilate space and time (Gotham, 2009). The uneven geographical development (Harvey, 2006; Leyshon & Thrift, 1997) and seamless expansion are mainly responsible for the recent financial crisis (French et al., 2008). A blind union of different regional economies, having different dynamics, which were tied together with highly complicated financial instruments in lure of more and more profit, brought this severe crisis effecting everybody’s’ life.

Moreover, the highly sophisticated financial innovation converted opaque illiquid assets into liquid and transparent securities with a belief that by slicing, structuring and hedging, it was possible to ‘create value’, offering investors different combinations of risk, return and, liquidity. This further got supported by the credit rating agencies and commission-based brokers (Blackburn, 2008). But, when these instruments combined, they produced levels of risk that were impossible to calculate (French et al, 2008). It became quite clear that how individuals, banks and financial institutions took the advantage of their positions and exploited the credit system for their own self-interest putting the economy at high risk. This sort of behaviour was never predicted by economics.

The economic theories are totalitarian as they reduce and exclude from their ambit those economic phenomena which are identified from observation of real practices as ‘imperfections’ (Aglietta, 1979). Model-framing and hypothesis-testing in controlled environment are, though important, not enough to deal with these complexities. This needs further more in-depth study of the financial market from different perspectives, using research methodologies which involve description, interpretation, and critical analysis. The ‘social studies of finance’ fill this lacuna by studying the financial market from different angles with different methodologies, such as observation, interview, and participatory research.

5.0 Conclusion

The importance of financial economics cannot be ignored even when its limitations are clearly visible in the form of regular occurrence of financial crises, inequality and, uneven development, widely spread in the world economy. The power of it lies in the objectivity of its results. It clears the ambiguity of the
subject matter to certain extent which social studies of finance cannot do. Still ‘Social studies of finance’ is equally important in the sense that they complement financial economics by providing vital information about the market and also by challenging the essential assumptions of it. If money is a symbol that conveys information (Hart, 2000) the ‘social studies of finance’ in a set of instruments that tries to decode that information which is generally ignored by the traditional economics. This helps financial economics to frame and reframe its theories and models to interpret the market better where every day is a new day.

References


