

Book Review

Jocelyn Pixley: *Emotions in Finance: Distrust and Uncertainty in Global Markets*. Cambridge, Cambridge University Press, 2004

Reviewed by G. C. Harcourt*

Modern economic theory applied with judgement can powerfully illuminate economic, political and social life. When judgement is lacking and it becomes an axiom that truth may come only in the guise of a mathematical model, economic theory often ceases to perform. Especially has this been so in mainstream analysis of the workings of financial (and foreign exchange) markets, and the roles of money and credit. (Recently, too mechanical an application of modern theory by two Nobel Prize winners almost brought down the world's financial systems, requiring a financial bailout of over \$US30b to avoid this.) Jocelyn Pixley, a distinguished sociologist at UNSW, has written a splendid book, *Emotions in Finance*. She makes these points, and attempts to redress the balance by analysing the roles of trust and emotion in financial markets and economic and social systems generally, focusing on "the forgotten element – the necessity, and the inescapable insecurity, of 'trust' and its emotional consequences" (4).

Dr Pixley has been influenced by the Australian scholar, Jack Barbalet, and by a remarkable book by the Cambridge sociologist, Geoffrey Ingham. Entitled *The Nature of Money* (2004), Ingham provides a critique of, and an alternative approach to, understanding the true nature of money and credit. He draws on seminal contributions of past great sociologists; he also has made a thorough study of modern monetary theory, finding soulmates in the contributions of the Canadian economist, John Smithin, and now in Jocelyn Pixley.

Dr Pixley explicitly leaves criticism of mainstream economic theory pretty much aside. She has a healthy respect for empirical work, espe-

* G. C. Harcourt is Emeritus Reader in the History of Economic Theory, University of Cambridge (1998); Emeritus Fellow, Jesus College, Cambridge (1998); Professor Emeritus, University of Adelaide (1988).

cially case studies and interviews with key actors in the relevant markets. She interviewed a large number of people, including influential people in the world's leading central banks, financial markets, and financial presses. Their full, frank answers are neatly interleaved through the narratives of her nine chapters, reinforcing her analysis of episodes and explanations of forces at work in the modern world.

Conceptually it is hard to go past Keynes's insights in *The General Theory* (1936) where, in speaking of the operation of stock exchanges, he noted that while a bubble of speculation on a pool of enterprise did not prevent stock exchanges gathering communities' new saving and rearranging old savings in a relatively efficient and rational manner, yet "when enterprise [became] a bubble on a whirlpool of speculation" (Keynes, 1936, 159), stock exchanges become institutions akin to casinos. Abuse of trust, over-fervent emotion and unreal desires for quick and impossible-to-sustain returns make for instability and sometimes provoke crises in markets and economies.

Extending these insights to analysis of modern interrelated international financial and foreign exchange markets is Dr Pixley's substantial achievement in her entertainingly written and succinct narrative. Her book is to be commended for the candour with which her interviewees revealed how little reliable or even real information they can gather before they make important decisions in the world whose key markets are characterised by inescapable, fundamental, uncertainty. Therefore, it is necessary to develop sensible conventions and patterns of behaviour to offset rather than enhance the consequences of the breakdown of trust and the rise of fear and panic in financial markets - the inevitable outcome of preceding periods of ridiculous euphoria associated with amnesia about previous episodes on the part of established dealers and new participants in financial markets, egged on by seasoned operators and professional speculators who ought to have known better.

Her contributions take us outside boundaries conventionally drawn by mainstream economics. The implications of money as a social relation because of "its basis in ... centrally supported promises of claims and credits that create money through chains of public and private debt and government guarantees and safety-nets" (8) are deeply explored. She also draws out the implications of undue concentration on the short term in key markets, to the neglect of the long term. Here, Dr Pixley is developing an important contribution of John Hicks (after Keynes the twentieth century's most important monetary theorist) who distinguished between "snatching" and "sticking". The more transactors take into account what the permanent (as opposed to the immediate effects) of their behaviour are likely to

be, the more, collectively, are they able to create stable environments in which economic processes may proceed.

Finally, Dr Pixley recognises the indissoluble nature of the interactions between the real and the monetary in modern capitalism. She provides analysis complementing and developing the implications of scrapping the classical dichotomy between the real and the money that still has a hold on mainstream analysis with its claim that the least in the long term money is neutral - it has no effects on real happenings. Keynes inherited this proposition from his teacher Alfred Marshall but later emphatically scrapped it. It has now returned in this "pre-Keynesian age after Keynes". I fervently hope that the writings of Dr Pixley and like-minded scholars re-establish these forgotten but essential insights into the ways of our modern world.