Reembedding Finance

Social Studies of Finance Association,
Université Paris-Ouest Nanterre La Défense

Thursday 20th and Friday 21st May 2010

Conference room, Ground floor
Building K, « Max Weber »,
200 avenue de la République 92000 Nanterre

Keynote Speakers:

* Mitchel Abolafia, State University of New York.
* Bill Maurer, University of California, Irvine.
* Yuval Millo, London School of Economics.
* Karel Williams, University of Manchester.

Members of the Scientific Committee:

Mitchel Abolafia, State University of New York ; Michel Aglietta, Université Paris Ouest Nanterre La Défense ; Donald MacKenzie, University of Edinburgh ; Philippe Steiner, Université Paris Sorbonne – Paris IV ; Karel Williams, University of Manchester and the members of the organization committee.

Members of the Organization Committee:

Yamina Tadjeddine, EconomiX, Université Paris Ouest Nanterre La Défense ; Olivier Godechot, CNRS- Centre Maurice Halbwachs ; Pierre de Larminat, Centre Maurice Halbwachs et Université de Reims ; David Martin, Negocia, CCIP ; Fabian Muniesa, CSI, Mines ParisTech ; Sabine Montagne, CNRS-IRISSO, Paris-Dauphine ; Marc Lenglet, European Business School, Paris ; Horacio Ortiz, LAIOS-IIAC (EHESS-CNRS).

Registration is free but required: http://economix.u-paris10.fr/

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Abstracts

Thursday 20th May 2010

Conference room, ground floor, building K, « Max Weber ».

Session 1. Interactions and Networks

Chairman: **Emmanuel Lazega**, Paris IX Dauphine

10:00 - 10:40 **Yuval Millo**, London School of Economics, keynote speaker.

Hedge Fund Connectedness and the Emergence of a Consensus Trade

In spite of the central role hedge funds play in financial markets, the ways in which investment decisions are made in these organizations is virtually unexamined in the academic literature. This paper is the first to use triangulating interviews, field observations and social network analysis to analyze this topic. The empirical material in the paper consists of 60 hedge fund managers and brokers, working for 26 hedge funds and 8 brokerage firms in Europe, the United States and Asia. These hedge funds managed 15% of the global assets managed by hedge funds, while 7 of the top 10 global prime brokers are represented. The findings reveal the social and organizational infrastructure that underpins the transfer of investment information among hedge funds and between them and brokers. Analyzing in detail the norms and practices this transfer of information sheds new light on the emergence of the 'consensus trade' phenomenon, whereby trades across hedge funds concentrate on a single set of targets. Our findings have important implications for risk management and regulation as they reveal the existence of risk hereto not recognized by investment professionals or regulators: 'network risk'. These findings also contribute to the empirical literature of economic sociology in general and the social studies of finance in particular.

10:40 - 11:20 **Zsuzsanna Vargha**, Max Planck Institute for the Study of Societies

Demonstrations: the role of interaction in making financial products and consumer needs coincide

Accounts of the crisis have privileged "high finance" innovations whereas retail banks constantly experiment with selling (new) products to consumers. I examine the case of a home savings bank in Hungary's pre-crisis credit boom, which went from offering state subsidized long-term savings-and-loans to promoting instant mortgages. Based on ethnographic observations of the bank's Direct Selling Organization, I trace this shift to problems demonstrating even "prudent" finance. Using concepts of scientific demonstration and proof, I compare how bank advisors explained the plan originally and with mortgages: drawing funds by hand and through software-generated scenarios. I argue that as sellers perform products interactively with clients, consumers' needs appear. Organized differently, financial demonstrations yield different consumers-with preferences. I examine international post-crisis proposals for consumer financial protection from an interactional perspective, arguing that consumer finance is an "economy of qualities" where preferences and product properties stabilize through consultation, and embedding can enable calculations.

11:40 - 12:20 **Olivier Godechot**, CNRS-Centre Maurice Halbwachs

Getting a Job in Finance. The Strength of Collaborative Ties

Since the seminal papers of Mark Granovetter, Getting a job and "The Strength of Weak Ties", it has been acknowledged that contacts are a valuable way of getting a job, and that weak ties are more efficient than strong ties because the former convey more original information than the latter. We would like to challenge this overemphasizing focus of network sociology on information. We first return to Granovetter's empirical work and show that the "weak ties" that seem the more helpful for getting jobs are generally former colleagues. One reason for this feature is not that former colleagues increase ego's

information but rather that they value the pursuit of past collaboration. We examine then the consequence of collaboration ties hypothesis in the financial industry labor market. Based on results of previous research, we explain why collaboration ties may be so valuable. In finance, the labor market values the assets that financial operatives take with them from one firm to another such as knowledge, know-how, customers. Since assets are to a certain extent shared among coworkers, it is worth hiring business relations, former colleagues or moving in teams: it enables a better transfer of assets such as idiosyncratic working routines, distributed knowledge, or joint customers. To demonstrate our claims we rely on an internet survey launched with efinancial-carreers.fr collected in 09/2008 among French financial employees (n=995). This questionnaire shows that working in core finance favors the accumulation of moveable key assets on the one hand and of collaboration ties on the other hand, that collaboration ties and moveable key assets are strongly correlated. Move of key assets, collaboration ties and more over the combination of those two dimensions increases wages. Although firms try to attach key workers holding such advantages with some contractual devices, those strategies fail since many employee, in order to remain in contact with those attractors, smooth rather than impeach those mobilities. Finally this paper suggest that the real firm is maybe not the formal firm but rather resides between firms in the networks of collaboration ties formed by moving employees.

12:20 - 13:00 **Ned Smith**, Booth School of Business, University of Chicago

Amplified Interfaces: How Organizations Identity Affects Investor Reaction to Market Performance

Although prior work has demonstrated that economic actors who fail to conform to prevailing logics—such as the categorical structure of markets—garner less attention and perform poorly, evidence also suggests that some non-conforming actors can elicit considerable attention and thrive. In this paper, I propose a new model for better understanding when conformity and non-conformity have favorable effects on certain economic outcomes. Analyzing the association between organizational conformity, returns, and capital flows in the context of the hedge fund industry, I find that investors allocate capital more readily into non-conforming hedge funds following periods of short-term positive performance. Non-conforming funds are also less severely penalized for recent poor performance. Both effects persist despite strong steady-state normative pressures towards conformity. Deciphering this outcome and exploring what it means for theories relating to organizational identity, legitimacy, and isomorphism in markets, are the aims of this paper. Legitimacy-seeking processes are ultimately reinterpreted probabilistically according to the following simple intuition: whereas winning alone is rewarded, losing in a pack is penalized.

Session 2. Crisis and Regulation

Chairman: **Laurence Scialom,** Paris Ouest Nanterre EconomiX**,**

14:20 - 15:00 **Karel Williams**, University of Manchester, keynote speaker.

All's well that ends well ? The difficulty of reforming finance and the necessity for rethinking capitalism

This paper asks two interrelated questions: why is it now so difficult to reform banking and finance and how does the financial crisis require us to revise our ideas about capitalism? The questions are urgent because the financial crisis begins with knowledge blind sided: mainstream finance, banking regulators or the many tribes of critical social scientists (varieties of capitalism, social studies of finance, liberal governmentality and heterodox economics) all lacked prescience. And because the crisis continues with democracy sidelined: the unsolved puzzle is how to control a pro cyclical finance industry that socialises its losses.

The operations of finance were undisclosed and opposite to the reassuring pre 2007 story about financial innovation (authorised by economics, shared by policy makers and media) Innovation was not economically functional but socially dysfunctional as finance directed funds into asset price inflation. Innovation did not promote competition and disperse risk but concentrated risk on the trading books of large commercial and investment banks. Innovation did not increase transparency and robustness but opacity and fragility caused by long chains and unnecessary complexity. .The undisclosed was banking for itself as a transaction generating machine with a joint venture business model which split the gains between elite workforce and shareholders,

Mystified politics has since 2008 reduced the possibility of effective reform because it proves impossible to turn the crisis into one intelligible and actionable story that motivates politics. . Elites are divided. Financial elites deploy the bad old stories about the social value of finance and use the tropes of shareholder value to deflect re-reregulation. Technocrats are embarrassed by knowledge failure and embarked on a slow process of knowledge recovery. The political classes default onto populism (and calculations of national advantage) as politics becomes an exhibition game played before the masses on a media court eg serve, return and volley in the European responses to Obama. Points of intervention are not determined by analysis and crucially banking business models (wholesale and retail) survive unreformed.

With finance undisclosed before 2007 and politics adding mystification after 2007, the political outcome is uncertain but the prospects of democratic control and effective reform both recede. Our analysis challenges earlier, reified concepts of capitalism as a kind of machine whose key relations are pre recognized in the categories of theorised science (and challenges the constructionist variant of performativity where knowledge formats the world). Capitalism is a Shakespeare problem play confusion of genres: a comedy driven by misunderstandings and confusions about identity or motive, without the happy ending that traditionally separates comedy from tragedy and history. If we wish for a happier ending we should anticipate the limits of expert knowledge by proposing fail safe intervention and appreciate the need for political mobilisation through a popular vision of what finance could do for sustainability and resilience.

15:00 - 15:40 **Yamina Tadjeddine**, Université Paris-Ouest, Nanterre

Emergence of a New Regulation: Informational Disclosure Modalities In The Hedge Fund Opacity World

The 2007-2008 crisis has highlighted the tensions related to lack of transparency and asymmetrical information in hedge fund industry. This opacity was accepted by public and private actors as a way to promote informational efficiency, financial innovation and liquidity in markets. But this opacity may induce market failures. Damages could be estimated at a micro level by a misallocation induced by a double asymmetry (ex ante and ex post) and at a macro-level by an increasing financial and banking instability. A way to resolve market failures is to require hedge funds to disclose more information. But, the revelation of information can be made in different ways: To whom hedge funds have to disclose information? What kind of information do they have to disclose? Personalized, standardized, aggregated public information? Must revelation be requested or not? These entire quests reveal the complexity of practical informational disclosure. Different reports, guidelines, law drafts have been published about Hedge Funds regulation. The analysis of the reports' recommendations allows us to emphasize the different designs of informational disclosure. We propose an original typology of disclosure modalities built on a *consequentialist* approach by distinguishing the aim of informational disclosure (macro/micro allocation) and the modality of information disclosure (by a free bargaining with co-contractors, by a standardized contract, by an obligation toward Regulatory Authority, by publicity). By this way, informational disclosure appears as a social norm with different uses and different finalities. Using Kohonen maps to classify these reports, we can characterize the different logics to think the financial regulation as the opposition private versus public interest and Anglo-Saxon versus Continental European approach. This typology allows us to apprehend the social emergence of the new financial regulation in hedge funds industry

In parallel

Chairmen: **Sabine Montagne**, CNRS-IRISSO and **Fabian Muniesa**, CSI, Mines ParisTech

Conference room, ground floor,

16:00 - 16:40 **Paul Langley**, Northumbria University

Liquidity Lost: The Sub-Prime Mortgage Crisis and the Troubled Asset Relief Program

The concepts of dispositif and apparatus of security from Deleuze and Foucault are deployed to understand the U.S. Treasury Department's $700 billion Troubled Assets Relief Program (TARP) of autumn 2008 which proposed the public purchase of the 'illiquid' and 'toxic' assets of the sub-prime mortgage crisis. The TARP is shown to have been a contingent and distributed form of agency, and not simply a manifestation of the centralised sovereign power that is typically thought to operate in financial crisis management. Produced through particular relations between economic theory, financial market models and strategies, and calculative devices which broadly framed the scale and extent of the problem, the TARP rendered the crisis as an aberrant moment when the market norm of liquidity was lost. Restoring market liquidity and the circulation of sub-prime assets in the name of freedom, security and the liberal way of life was highly problematic, however. The workings of the TARP became orientated towards the purchase of preference shares and the direct recapitalisation of banks, and the dilemma of reviving financial circulation in the name of the population was recast as how to get the banks lending again. The TARP was thus both the high-point and turning-point in the rendering and government of the recent crisis as a moment when liquidity was lost.

Room K103, first floor

16:00 - 16:40 **Glenn Morgan**, Cardiff Business School, University of Cardiff

Constructing Financial Markets: reforming Over-the-Counter derivatives markets in the aftermath of the financial crisis

The inter-relationship between theories of the market and market devices and market practices has produced a range of studies which have underpinned an understanding of finance as socially embedded. This paper continues in this vein by examining the debate on reforming and re-regulating over-the-counter (OTC) derivatives markets (for previous papers on this topic see Morgan 2008; 2010). In the aftermath of the financial crisis, regulators identified OTC derivatives trading as a major contributor to the collapse. This was because such trades were unregulated and weakly monitored; they were private, visible only to the two sides of the trade. New ways of making this market have been proposed. The paper examines these new forms of market and compares them with the previous OTC markets. The most significant new model is that of creating a Central Clearing Party which holds the counterparty default risk and thus reduces the risk of wider contagion. This change has an impact on what can be offered for sale as well as the profits to be made from the trade; it requires an element of standardization that is absent from OTC trades. A further model of the market is provided by exchange trading which standardizes products even more than CCP trading; it is also characterized by price transparency. The paper explores the inter-relationship between different groups of actors (regulators, financial institutions, non-financial organizations, the CCPs, exchanges and other providers of clearing and settlement) and different models of the market (OTC, CCP and regulated exchanges). What models of markets are being proposed, what material devices and practices make the markets, what are the interests engaged in these models, what is at stake for different actors in these models, how are such models being enacted and with what effect on power?

In parallel

Conference room, ground floor,

16:40 - 17:20 **Leslie King**, Smith College

From ShareHOLDERS to ShareOWNERS: The Fledging Movement to Empower, Educate and Incite to Action the Owners of Corporate America

In their 1932 study, scholars Berle and Means revealed how U.S. corporations were coming to be owned by numerous small shareholders who had no power over how firms were run. They speculated that the emerging structure was leading to an extreme concentration of wealth, controlled by a small managerial class whose interests were often not aligned with those of the shareholders. Today, the separation of ownership and control is profound and the class of managers small and powerful. This paper investigates a fledgling effort to change the current state of affairs. By the early 2000s, some shareholder activists were working to wrench some amount of control away from top managers. Shareholder activism moved away from issue-specific concerns (e.g. using divestment as an anti-Apartheid tactic) to a concern with revision of the corporate governance process. I identify three groups of shareholder activists: 1) those seeking greater shareholder value; 2) those seeking to attach values (such as environmentalism) to capital; and 3) those concerned with the future of capitalism itself. Politically, these activists range from conservative Republicans to progressive Democrats; their politics may diverge but they have found common cause in the effort to transform corporate governance. My data derive from activists' websites and blogs, depth interviews, and publications of those involved in the movement. I delineate the key actors and examine what these actors are doing and saying about shareholder involvement in corporate governance. I show how certain political opportunities (e.g. increased public concern about climate change) are both shaping the movement and providing openings for shareholder engagement. Finally, I examine the institutional dynamic that allows for such a diverse set of actors to engage in this cause.

Room K103, first floor

16:40 - 17:20 **David Martin**, Negocia CCIP

Embedding CDS: How Far Should Credit Default be Swapped, Commoditized and regulated?

"Credit derivative contracts, and chiefly so-called CDS (credit default swaps), have strikingly developed for more than 15 years, reaching several trillions of dollars of notional amount outstanding as Bank for International Settlements has been reporting in its quarterly surveys. Recently, they have been much discussed in the post-subprime critique of ?toxic? finance. It is a matter of fact that CDS are one of the many financial innovations created by private banks to bypass solvency constraints implied by Basel Committee prudential regulation. Though, there is a misleading idea among observers that these OTC (over the counter) CDS have escaped all kind of regulatory concern until 2008 collapses and should now be reembedded in the regulated financial exchanges.

We dwell upon the 12 year juridical and regulatory debates about CDS (1998-2010) and have an in-depth insight on the process of con-struction and legitimization of worldwide sophisticated markets for CDS. Beside some founding professional initiatives such as Interna-tional Swaps and Derivative Association?s, CDS caught the attention of several regulatory bodies from the very beginning of their development: US Congress, SEC or Federal Reserve were involved in the comment of a Concept Release issued by the Commodity Futures Trading Commission. The repeated rejection of some ? but not any ? kinds of regulations has been justified by a set of evolving and heterogeneous arguments, appealing to highly public-like concerns: such as general credit risks assessment efficiency, improvement of corporate access to liquidity, or even preservation of domestic (US) leadership in financial industry!

We suggest that binary oppositions between embeddedness/desembeddedness or OTC/Regulation cannot account for CDS regulation process and might legitimate the mirage of a more secure financial system whereas some crucial issues related to credit defaults, such as moral hazard, remain unaddressed.

Friday 21st May 2010

Session 3. Practical Financial Calculations

In parallel

<u>Chairmen:</u> **Philippe Steiner**, Paris IV and **Marc Lenglet**, European Business School

Conference room, ground floor

10:00 - 10:40 **Pierre De Larminat**, Université de Reims Champagne Ardennes

Interpretative devices and the choice of a portfolio manager

Asset managers trade securities on capital markets on behalf of other investors, who have given them a discretionary mandate to do so. Investors expect asset managers to make more out of their savings and capital than they would have done themselves. The output of asset managers is rather univocal, because it is measured as a monetary return. However, choosing a good portfolio manager is not necessarily a straightforward action. Depending on the proximity the investor has with financial markets it can turn to be somewhat difficult. Indeed, one cannot know in advance what series of returns one should expect from his investments in a fund. Asset managers thus provide a service characterised by its uncertainty. An ethnography of a company specialised in multi-management has shown how multi-managers interact with material and immaterial artefacts and how these measurement and calculative devices create a frame that helps them deal with uncertainty. They contribute to the rationalisation and institutionalisation of different attitudes towards the future, such as the most prudent cautiousness or the calculated economy of means. Building on this study and on additional field research with other asset management professionals, I analyze the diversity of asset managers' clients and of the interpretative devices that these investors interact with, as they seek a fund to invest their money in. By introducing various levels of sophistication, it is possible to apply an analysis in terms of fields. It will put some order in this empirical example of another "bazaar of rationality". Agents distinguish themselves from each other through this synchronic diversity. However we can diagnose a somewhat broader unity of financial practices dominated by the "modern portfolio theory". I assume that such domination is the product of a symbolic work that has been institutionalised in the major interpretative devices of contemporary finance and I explore the validity of this hypothesis.

Room , 2nd floor , K202

10:00 - 10:40 **Martha Poon**, Institute of Public Knowledge

From New Deal Institutions to Capital Markets: Commercial consumer risk scores and the making of subprime mortgage finance

The paper I am proposing traces the history of subprime mortgage finance in the US. To understand how the subprime became a burgeoning global financial industry, we must first understand how a category of loans that were by definition excluded from the US government-sponsored secondary market, was transformed into the primary materials for private-label securitization. As I have shown, the rise of subprime lending in the late 1990s was not due to an arbitrary, imprudent or fraudulent slackening of credit standards (i.e. broadening the definition of prime); nor was it due to politic pressure from Congress in support of equal housing opportunity. To the contrary, subprime finance was a thoroughly calculated effort by private players to securitize a class of loans that had failed to meet Freddie Mac and Fannie Mae's conservative underwrite standards.

Mass market action can not occur without the support of technical equipment whose design and establishment in common is difficult to achieve. This research demonstrates a type of government involvement in financial markets that has perhaps been overlooked because it is not strictly 'regulatory' in the sense of imposing restrictions through the force of law. As this research shows, in 1995, Freddie Mac and Fannie Mae's introduced a specific brand of commercial consumer credit risk scores (FICO® score) into their automated underwriting systems. The agencies' choice of FICO® was a parsimonious solution to the problem of reducing multiplicity in the calculation of consumer default risk.

The re-expression of consumer credit risk through these scores catalyzed changes in both the primary and secondary markets. Technically, it meant that default risk could be expressed in the same terms at the level of both the individual and aggregate pools; organizationally, it meant that players could circumvent the agencies by purchasing a scientific assurance of credit quality from a private yet government-endorsed second-party analytic firm; and financially, it meant that private-label players could funnel investment capital directly into residential real estate through an array of newly developed (exotic) risk-layered credit products that catered to US home buyers with non-standard situations and/or lower-than-prime FICO® scores. In

sum, by stabilizing the definition of 'credit risk' so efficiently, commercially available credit scores displaced the authoritative control of the government institutions. The scores became a common platform upon which seemingly 'free' financial innovation could flourish.

The contribution of this paper is to show that the rise of routine subprime lending was not the result of a deviation from sound economic or risk management principles. Subprime resulted from the adoption of quantified credit risk in mortgage origination, spearheaded by agencies acting on behalf of the state, and amplified by parasitic private players. The case adds complexity to the description of how governments interact with finance. It suggests that (in addition to deregulating so-called 'free' markets, or driving them into overdrive through ill-conceived equal housing policies,) state actors can play a constructive role the progress of financialization when they define common calculative apparatuses, interpret new technologies and initiate infrastructural reform.

Conference room, ground floor

10:40 – 11:20 **Ekaterina Svetlova**, Zeppelin University

Some Ideas on Refinement of the Uncertainty Concept

In the last decade, ideas about risk and uncertainty as formulated by Knight and Keynes experienced true revival within economic sociology and social studies of finance. The distinction between risk and uncertainty seems to be taken for granted by social scientists but what about practitioners in financial markets? Do they distinguish between risk and uncertainty? What is their approach to probability calculus? The discussion of those questions in the paper will be based upon an empirical study conducted in the context of the DFG (the German Research Foundation) project "Economic Calculations: Creation of the Calculative Realities in the Financial Markets." The data pool encompasses 25 structured interviews with portfolio managers in Frankfurt/Main and Zurich. The formal interviews were complemented by a participant observation. The empirical work demonstrates that uncertainty concept requires further refinement. In financial practice, one finds many different ways of understanding uncertainty and dealing with it. In my paper, I would discuss some calculative practices used by portfolio managers. For example, some portfolio managers define economic situations as situations of risk and use probability distributions. In some other cases, market participant are convinced that they face situations of uncertainty, evade probabilistic calculus and use alternative methods that will be explored in the study. I will try to connect practitioners' calculative practices with concepts of uncertainty that exist or emerge in other disciplines as alternatives to classical probability approach. Elements of interval analysis, fuzzy logic, imprecise probability theory, scenario analysis and possible worlds concept can be found within social framing practices that are used by market participants to cope with limited knowledge about the future. The overall goal of the paper is to suggest a multifaceted concept of uncertainty that goes beyond the Knightian distinction.

Room , 2nd floor K202

10:40 – 11:20 **Isabelle Chambost**, Cnam

The consensus of security analysts: An institutionalized cognitive artefact

While it is often asserted that "the financial markets think…", the markets, a chain or network with unclear boundaries, remain difficult to grasp as a reality. This fleeting view is nonetheless materialised in an eminently tangible way in stock market prices, and also through the "analyst consensus". Intended primarily for investors, the consensus provides an overview of the opinions issued by securities analysts in the form of figures. This objective of this paper is to analyse, thanks to a field study, how this representation in figures fulfils a role as a "cognitive artefact" for the analysts themselves, and is part of an "economic agencement". The dialectic of this tool is underlined, as the creation of the consensus results from interactions between actors, who "model" it, each in their own way. But once rolled out, the consensus produces a representation in itself, presenting objectivised characteristics and disciplining behaviours. As an information instrument, a benchmark, a standard, these "management tools" lead the analyst to pay attention to 'what the market thinks", "why it thinks so", and also "what the analyst himself should think". But in fact agency remains. Analysts maintain reflexivity, have their own rules of the game and stress the importance of the real consensus which is the "whispered one".

Full session Conference room, ground floor

Chairman: **Philippe Steiner**, Paris IV

11:40 – 12:20 **Anette Mikes**, Harvard Business School

Counting Risk and Making Risk Count: Metrological Dramas in Risk Management

2008 has seen the most severe bank crisis since the Great Depression. Regulators, risk professionals and politicians are busy examining the internal risk management practices of banks, and raised the question that has evoked a high profile debate in the financial sector: what roles do risk management practices play in the management and internal control of organizations?

While some suggest risk management practices were merely incidental to the fortunes of the enterprise, others claim risk models in particular were seriously flawed and contributed to the demise of organizations. Yet another camp of observers attributes the survival of certain institutions to their good risk management practices. This paper does not presume or seek to test any links or correlations between risk management and organizational performance. However, it does assume that risk management, and the building and interpretation of risk models in particular, is organizationally significant. A highly "technologized" activity, risk management may assume organizational significance in a way other fields of recognized expertise have done so (MacKenzie, 2005): through the efforts of risk practitioners to "blackbox" risk measurement systems and enlist these in organizational decision making and action. In order to open the "black box" of risk management, this study takes a field perspective. Based on two detailed case studies and 125 additional interviews with risk management staff at 8 major UK banks, I examine what risk officers do, what kind of risk models they use and how they interpret these, and in what decision domains and actions their interpretations are consequential.

Overall, two distinctive plots sum up the "metrological dramas" (Power, 2004) played out in risk management before the financial crisis. The first one, with the dominant theme of risk measurement, centers on the development of formal risk-adjusted performance management system in organizations. In this plot, senior risk officers, enacting the role of the strategic controller, preside over the integration of risk and performance measurement, and ensure that risk-adjusted metrics are deemed reliable and relied upon. The second plot, with the dominant theme of risk envisionment, highlights risk officers' attempts at providing top management with alternative future scenarios and expert opinions on emerging risk issues. Senior risk officers, enacting the role of the strategic advisor, search for relevant intelligence and channel it to the apex of the organization. The existence of the envisionment - alternative to that of measurement shifts the concept of risk management from a disciplinary and backward-facing practice to one which is forward-looking and anticipatory, and which sees itself as providing knowledge leadership and strategic advice to top management.

The existence of alternatives in the metrological dramas of risk management calls for a reassessment in expectations on risk management and the types of uncertainties it can deal with. This study contributes to our understanding of the role of risk models (Mackenzie and Millo, 2009) and "technologized" financial calculation (Buenza and Stark, 2004; Power, 2007, 2009) in organizational actors' search for information and sensemaking.

12:20 – 13:00 **Bill Maurer**, University of California, Irvine, keynote speaker.

Interoperability, Extraction and Reimportation: Experiments with Money and Mobile Technologies

A new "payments space" has emerged in the past five to ten years that promises to bring access to funds transfer, banking and financial services to millions of "unbanked" people in developing countries and in the diasporas that remit funds to them. This payments space is characterized by the innovative use of new information and communications technologies, and, potentially, a reconstitution of the infrastructures - the plumbing, if you will - undergirding all interbank and other funds transfers. Payment and communication technologies from the developed world are merging with the informally developed systems of migrants and the poor around the world to create what some in industry and the regulatory community have dubbed "mobile money." At the same time, the economic crisis in the industrialized North is now leading engineers, designers, regulators, financial service companies and nonprofits to explore the possibilities of "reimporting" n ew payment systems from the Third World to the First, as more and more citizens of developed countries become unbanked themselves. This paper provides an orientation to the emerging payments space and reflects on how experiments with money and mobile technologies are leading people to reimagine what money is and what it can do, including a potential "re-socialising" - and privatization - of money beyond "bank" currency.

Session 4. From Models to Reality

Chairman: **Eric Brian**, EHESS

14:20 - 15:00 **Daniel Beunza**, London School of Economics

Models, Reflexivity and Systemic Risk: A Critique of Behavioral Finance

This study considers the problem of systemic risk in financial markets dominated by models. Existing approaches debate the relative importance of financial models versus the biases introduced by social cues. In place of models versus social cues, our alternative account examines the interaction between models and social cues. Our ethnographic observations in the derivatives trading room of a major investment bank demonstrate that systemic risk arises from the precautionary efforts of traders. Traders check for errors in their own calculations by using models in reverse that represent the positions of their anonymous and impersonal rivals. We thus find traders modeling social cues. Such reflexive use of models leverages the dissonance among rival traders, but in the absence of requisite diversity such dissonance turns to resonance. If enough traders overlook a key issue, their mistake will reverberate to others. The resulting cognitive lock-in leads to arbitrage disasters. The trading room we observed suffered one major such disaster. Our analysis challenges behavioral accounts of systemic risk by locating its roots in the socio-technical mechanisms of reflexivity rather than individual biases.

15:00 - 15:40 **Vincent Lepinay**, MIT

Theories of insider trading between Economics and Law.

In this paper we discuss the role of non-legal expertise on legal decisions. We work with a set of more than15000 federal court cases and use citation analysis to track the role of economic theories on the interpretation of a 1942 rule promulgated by the Securities and Exchange Commission. This rule defines insider trading, i.e. the use of material non-public information. Its stakes – evidenced by the number of cases since the early 50s – are high as they are no less than the definition of appropriate behavior for stock market actors. Economic and legal reasoning have a long tradition of conflicted relationships and efforts have been made on both sides to either keep them separate (legal reasoning as strict interpretation of the Law) or to merge them (Law and Economics' school efforts to reduce Law to calculations of efficiency). This paper looks at the actual influence of economics on courts. It investigates the transfer of economic concepts and legal theories looking at the set of court cases. Its contribution to the field of legal studies is its unique look at three sets of documents and the extraction of transfer path from among them: court cases – law journals/reviews articles – economic/business journal articles. As court cases rarely cites, extracting the transfer paths through law journal and reviews articles is one of its achievement. Our methodology combines citation analysis, network analysis and semantic analysis. Unlike previous studies, we do not focus exclusively on the network of judges. Neither do we isolate the citations networks of precedents from existing non-legal theories. Instead, we make justice to the several layers of meanings acquired by legal opinions as they become legal theories.

This project is run as a collaboration with Andrei Mogoutov (IFRIS and MIT)

16:00 - 16:40 **Olav Velthuis**, University of Amsterdam

Performing transparency. The European Central Bank's communication policy and its interactions with the media.

In the 1990s a paradigm change within monetary economics took place: within the old paradigm of 'monetary mystique', policy was understood to be most effective if central bankers took financial markets by surprise. Within the new 'transparency paradigm', by contrast, communication with the market became one of the key policy instruments. This paradigm change was soon 'performed' within the newly established European Central Bank. Monetary economists have subsequently focused on the effectiveness of this new policy. Very little attention has been devoted to the way transparency is socially constructed and to the institutional obstacles and professional opposition central bankers face when performing the 'transparency paradigm'. This paper will study one specific set of obstacles: the interaction between the ECB and the media, who are within the paradigm supposed to transmit communicative utterances to the public. The paper focuses on the framing efforts and the oppositional reward systems of journalists and central bankers that are key in this performance of transparency. For instance, whereas the ECB holds that "[i]f markets are accidentally moved, it is likely that a communication mistake was made" (Bini Smaghi), within in the reward system of financial journalism 'moving the markets' is one of the main objectives and sources of prestige. Based on their diverging interests, a structural opposition between the media and the ECB is at stake. The paper will show how

attempts are made to realign diverging interests of journalists and central bankers through among others gift exchanges and through power struggles. The paper will contribute to a better understanding of monetary policy conduct and to the interactions between journalism and the financial markets. Empirically, the paper is based on in-depth ethnographic material collected between 2004 and 2008, when the author worked as a financial journalist for a large Dutch newspaper.

16:40 - 17:20 **Mitchell Abolafia**, State University of New York, keynote speaker.

The Institutional Embeddedness of Market Failure: Why We still Have Speculative Bubbles.

This paper argues that advanced industrial societies have the knowledge to prevent crippling speculative bubbles. But it will also argue that we are unlikely to put an end to such man-made disasters. The reason, I will show, lies less in our understanding of the economics of speculative bubbles than it does in our understanding of the institutional factors shaping the formulation of economic policy. It is not a failure of knowledge about the economy, rather it is a failure of knowledge about academic, political, and regulatory institutions and their interpenetration in the United States. It is a failure to understand the extent to which economic policy and, in fact, the financial market system in the U.S., is embedded in this institutional field. More specifically, it is a failure to predict the corrosive impact of a radical ideology on the robustness of those institutions.

This paper develops an analytic framework in which academic, political, and regulatory entrepreneurs take advantage of events to socially construct what they believe to be “market friendly” institutions. Difficult economic conditions, such as the Great Inflation of the 1970s, create opportunities for political and regulatory entrepreneurs to unravel the existing regime of stability and restraint in favor of increased profits. The enactment of weakened social institutions leads to the kind of system failure discussed here. This paper identifies three institutions in particular that contributed significantly to the disastrous societal effects of the recent speculative bubble. These institutions are: 1) the profession of academic economics, 2) the ruling political discourse of the era, and 3) vulnerable regulatory structures. The failure of these institutions to moderate the “self-destructive mechanism” in markets calls their legitimacy into question.

How to get to the workshop?

To reach *Université Nanterre Paris-Ouest La Défense*, take the suburb train **RER A** direction Saint Germain en Laye and stop at ***Nanterre Université*** (special fare, zone 3 ; beware that trains going to *Cergy-le-haut* or *Poissy* do not stop at *Nanterre université*). Count 20 minutes journey from Luxembourg, 12 minutes from Auber (waiting time not included). You can also take the train (SNCF) at *Gare Saint Lazare* for *Nanterre Université* (17-20 minutes journey).

Map of Université Paris-Ouest Nanterre La Défense.

When you walk out of the station *Nanterre Université* in direction of the campus, the building K is at the end of one of the first alley on the left (five minutes walk).