

Restoring Credit

Gillian Tett, Financial Times

The crisis

- Financial crisis was partly rooted in poor macro-economic policies; excess leverage, liquidity etc
- Also rooted in human failings; credit not just about numbers, greek letters; *credere* – “to believe” = a human construct; social factors often ignored by financiers with many consequences

Man versus models

- Ignoring human dynamics has lead to...
- 1) excessive faith in models; failure to see “reflexivity” (cf Soros) or apply common sense – models only understood by specialists = tunnel vision
- 2) excessive faith in free market ideology; ideologies tend to prop up elites (cf Pierre Bourdieu); “complicitious silence” is key; no one spotted flaws in dominant intellectual framework (free “market” where many CDOs never traded; capitalism without creative destruction of banks)

Dangerous silos

- Lack of appreciation of human dynamics meant no one spotted crazy level of fragmentation...
- madness of financial companies structured as warring silos (cf the CDO tribes that went mad at UBS or ML)
- madness of a financial system that was structurally and mentally fragmented, in terms of how regulators and financiers acted (cf AIG)
- Madness of separating monetary and financial policy; cf Bank of England

Finance as a silo

- Most dangerous of all, finance as a whole tended to act as a silo separated from society; “bloomberg village” mentality
- Lack of commitment to explain; lack of reflection of social impact or potential for future political backlash; lack of wider public oversight = lack of common sense; tunnel vision in every sense!

The future?

- Getting beyond the numbers; need to reflect on social dynamics; both *inside* finance and in terms of engagement in wider society
- Challenging fragmentation; most pernicious challenge of 21st century is simultaneous need for specialists who understand complex innovation – and generalists who understand how pieces add up; need micro **and** macro vision; not just problem of finance

Rebuilding credit

- Challenging fragmentation very hard; but crucial; above all else – need common sense; that requires oversight, debate, sense of wider engagement; demystifying finance in whatever way possible (cf leverage ratios)
- Only then have faith that regulatory reforms and macro economic policy changes will rebuild credit for the system – in the widest sense