Rezensionen

Banking and financial history today: An important specialism or just a kaleidoscope of case studies?

Korinna Schönhärl (ed.): Decision taking, confidence and risk management in banks from early modernity to the 20th century. Basingstoke: Palgrave Macmillan, 2017, 342 Seiten.

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https://doi.org/10.1515/sosys-2016-0017

The volume contributes to the field of banking and financial history which is a rather small but interesting specialism within the historical discipline. This field gained a particular attention after the financial crisis of 2008 due to the increased interest in historical parallels to the former financial meltdowns (Cassis et al. 2016, 1). At the same time, the last crisis accentuated the importance to understand the ways in which banking and financial practices have taken their modern shape. In other words, the question of how it came that practices of granting loans, risk evaluation, asset valuation etc. are organized exactly as they are today. Those insights can help to approach the question of why and how the current financial system is vulnerable. In particular, the volume at hand focuses on practices of decision-making and risk management in banks and describes how these practices have changed over time and how they can be explained and analysed by banking historians.

Most case studies in the book highlight the tension between decision-making/risk management as based on personal ties, networks and institutions, on the one hand, and quantitative techniques, on the other hand. The volume particularly demonstrates the importance of non-quantitative factors for banking decisions in the past and thus emphasises that banking and financial history is connected with social, political, legal and cultural history. The relevance of the social, political and cultural issues for decision-making in banks allows financial and banking historians to open up to the neighbouring research areas such as sociology, political economy, institutional economics and behavioural finance. Those connections become obvious when we briefly review the theoretical and methodological concepts applied in the case studies of the book.

Daniel Wylegala uses for example *system theory* to analyse risks associated with human resources policy in some selected financial institutions in the 20th century, particularly risks related to promotion of a “wrong” person. In other words, in their career policy, banks try to ensure that individuals who reach the executive level are able to cope with responsibility and do not expose the organisation to unnecessary risks. Andrew Dilley’s contribution engages with *North’s new institutional economics* and *Bourdieu’s praxeology* to show how “a combination of legal and political considerations, institutional and interpersonal networks, and culture” (125) contributed to creation of a particular “habitus” of risk taking and risk perception within financial centres. He suggests to understand financial centres not (just) as cities (London, Paris, New York etc.) but also as “fields” in terms of Bourdieu, as venues which possess a unique habitus that defines and shapes approaches to risk. This shaping happens alongside four “vectors”, namely the North’ hard formal and soft (informal) institutions (economic and business structures as well as law and politics, on the one hand, and social networks as well as *cultures and discourses of risk*, on the other hand). Hard and soft institutions determine how risk is managed and how this management varies over time and by location. *Social capital* is used as a central concept in the contribution of Morten Reitmayer.

Convention theory and the related theory of justification as developed by Boltanski and Thévenot (2006) find their application in the chapter of Sebastian Knake on justification of investment decisions. He particularly highlights the “reputation approach” introduced by Monika Pohle Fraser (1995; 1999) who analysed the investment decisions of German and French banks in the 19th century. She found out that “bankers based their decisions on the assessment of the people who were involved in a proposed investment rather than assessing the proposed project itself”; thus, “risk management was the same as assessing the reputation of the people involved” (148). Knake highlights in his case study about the Braunschweigische Staatsbank that still in the mid of the 20th century bankers applied justification principles based on *trust in people* and a *“non-rational” feeling of confidence*. At the same time, decisions were presented as rational and calculative to the external audience. In other words, bankers do not decide as “rational risk-averse actors” but just “portray” themselves as such. Thus, different regimes of justification exist for each specific audience by which the decision maker is being observed in the processes of *making decisions*, on the one hand, and *presenting decisions*, on the other hand.

Nadia Matringe considers *network analysis* to be a useful methodology for banking historians as networks played an important role in the decision-making of early modern banks (the Salviati bank of Lyons in the sixteenth century in her case). She clearly demonstrates that involvement into relevant networks was at times even more important for bankers than the profit maximization: they were ready to accept financial losses in order to support their commercial partners and thus to maintain the network. Network in Matringe's paper is understood as social capital in the sense of Bourdieu, as resources that allow for information flow and thus for the efficient decision-making and risk management. *Social capital* is used as a central concept also in the contribution of Morten Reitmayer in the book.

Analysing the medieval and early modern long-distance trading across the borders, Daniel Velinov questions our traditional understanding of *the principal-agent relationship* and puts forward the concept of trust and reputation. He highlights that though traders often had to delegate decision-making and to rely on others (as it is typical for the principal-agent framework), those relationships were often not about control and punishment. Rather, personal communication within tight networks of operators – who could be a principal and an agent at the same time – mitigated risks associated with trading on behalf of others. Analysing business correspondence of the seventeenth-century Antwerp banker Jean-Baptiste de la Bistrate, Velinov demonstrates how close monitoring of the other's business conduct compensated for the lack of official regulation in the early times of commission trading.

Particularly interesting part of the book is comprised by the contributions of Victor Ricciardi and Korinna Schönhärl who point out to the relevance of the *behaviour finance* approach for the historians. Ricciardi's chapter highlights that though behavioural finance and banking history are generally uninformed about each other both strive to explain similar phenomena, e. g., bubbles, crashes, panics and speculating behaviour. In his contribution, Ricciardi sketches a very general research program for historians: He claims for example that the interest in behavioural biases might "open up new perspectives on historical sources and stimulate new narratives" (270). Korinna Schönhärl fills this program with life and delivers a historical case study that clearly illustrates how two biases – "belief in experts" and "overconfidence" – influenced bankers' decisions to finance the construction of a maritime canal at Corinth in 1882–1893.

The case studies in the volume highlight two rather contradictory issues. On the one hand, banking history is inevitably open to social, political and cultural history and is informed by conceptual and methodological approaches from other social disciplines. On the other hand, the relative isolation of the financial and banking history as a research topic in its own right is striking; the Reitmayer's contribution in the volume is at times sceptical even about the successful integration of the field into historical mainstream, let alone other disciplines. Addressing this contradiction is clearly of importance. While the volume at hand has made some important steps in this direction, the issue remains of how we can further interrogate the questions it sets out.

I think that the most important contribution financial and banking history makes is that it provides the history of *professional practices*. This contribution is unique and crucial because it takes further the *practice turn* that took place in sociology of knowledge, social studies of knowledge and technology (STS) as well as in philosophy of science in the last two decades (Schatzki 1996; Schatzki et al. 2001; Reckwitz 2002). While investigating into scientists' practices, those disciplines have however been primarily interested in the history of *scientific ideas*: How did they emerge? How did they become influential? Financial and banking history for its part provides insights into how banking and investment professionals – not scientists – used to do their work in the past, e. g., how they used to make concrete decisions about staff recruitment, granting loans and choosing a trade partner (this volume). Those findings could complement research efforts in many fields.

First of all, there are now promising tendencies in economics that opens up (again) to its own history. It slowly recognizes that the rigorous mathematical formalism should be contextualized and thus acknowledges history of economic thoughts, behavioural economics and heterodox economics as valuable streams. Keeping in mind that many central developments in economics, e. g., the new institutional economics, originated in historical investigations of economic practices, financial and banking history could provide important impulses here. There is a clear connection of the book's findings to the concept of the bounded rationality (Simon 1957). For example, our understanding of signalling, reputation games and trust more generally might be significantly enhanced by contributions in the volume at hand. Also the collaboration between banking history and behavioural finance – as highlighted in the volume – could turn out to be particularly fruitful. Their interplay might question the implied assumption of behavioural finance that a number of "human constants" drives financial markets; indeed, historians might help to understand whether biases, heuristics and emotions as exhibited by market participants are truly invariable or yet "this time is different" (Reinhart/Rogoff 2011).

Furthermore, the research program of economic sociology and social studies of finance (SSF) could be complemented by financial and banking history. Particularly social studies of finance share an interest – also methodologically, by applying the qualitative methods of empirical research – in how investment and banking professionals go about their everyday work. The reflective (not always rational) practices of professional decision-making (Schön 1984) as typical for financial market players are documented, for examplw, in the seminal work of Abolafia (2001), Beunza/Stark (2004), Beunza/Garud (2007) and Chong/Tuckett (2012) within the SSF. However, as the SSF investigate in how professional practices are organized *today*, they inevitably miss the insight into how things used to be done. Financial and banking history might help to establish this insightful continuity.

For example, coming back to the tension between formal (calculative) and informal (personal) decision-making and risk management, one might ask how exactly the interplay of those factors have changed over time. The contributions in the book suggest that non-quantitative considerations clearly dominated banking decisions from early modernity to the 20th century. However, they also indicate that the relevance of the reputation-based decision criteria lessened when quantitative techniques gained in importance in the second half of the last century. At this point, the social studies of finance could tune in with their investigations of the *modern* financial practices based on qualitative interviews, participant observations and case studies. Related to the historical insights, the findings of the social studies of finance might appear less surprising and just natural (also for the mainstream economics and finance). Namely, what we observe today in financial decision-making is rather a combination of both groups of factors: despite all the technical innovations in banking and risk management, interpersonal relationships, networks, institutions and regulatory regimes remain very relevant for our understanding of how bankers and investment professionals arrive at their decisions (Svetlova 2018). For example, the recent research on hedge funds clearly demonstrates the importance of mutual observations and networks for financial decision-making today (Kellard et al. 2017). Mikes (2009, 2011) discusses various – not exclusively calculative – *cultures of risk* in banks echoing some contributions in the book. More generally, the comparison of the SSF research outcomes with findings in the volume at hand might be very interesting.

Generally, the active dialog with the neighbouring disciplines might protect the banking and finance history from being reduced to a source of (econometric) data for the mainstream economics and finance (Cassis et al. 2017). It also might enhance its own importance and relevance in helping to recognize the whole richness of political, cultural, behavioural and regulatory contexts of financial practices. The discussed volume is an important step in this direction. At the same time, the kaleidoscope of theories and methods addressed in the book might hinder the clear identification of banking and financial history with one discipline becoming an impediment for its academic success. This issue remains however inevitably open and might be solved by future research in the field.

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