

While the music plays on – The opportunity structure of community formation in financial market capitalism

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WHILE THE MUSIC PLAYS ON – THE OPPORTUNITY STRUCTURE OF COMMUNITY FORMATION IN FINANCIAL-MARKET CAPITALISM

ABSTRACT

On 8 February 2010, some well-known hedge-fund managers got together for an exclusive dinner at a private Manhattan residence to discuss how they might profit from the debt crisis in the euro zone. While the manager's dinner was not a secret, the announcement of the meeting nevertheless caused an international uproar. It was considered shocking that a small group of financial investors would shamelessly exploit the burden taken on by state budgets shortly after governments around the world had supported banks and capital markets using taxpayer money. By means of this and other examples, the article shows that conspiratorial communities thrive in the less regulated sectors of the financial world and influence the market's prevailing logic of exchange. Insofar as the financial-market actors are interdependent, jointly committed and systematically exclude others, they can undertake riskier (more profitable) investment strategies, leave the societal regulatory framework behind and externalize the negative consequences of risky behaviour. The paper demonstrates that the spread of financial-capitalistic market structures has led in particular to the expansion of those exclusive and loosely regulated financial market areas in which the largely unimpeded formation of conspiratorial communities is possible.

Keywords: financial markets, community, financial-market capitalism, financialization, economic sociology

INTRODUCTION

One of the most famous quotes from the period of the 2007/2008 financial crisis is from Chuck Prince, former CEO of Citigroup. Regarding the probability of a crash, he remarked in July 2007:

“When the music stops, in terms of liquidity, things will be complicated. But as long as the music is playing, you've got to get up and dance. We're still dancing.” (Chuck Prince, CEO Citigroup 2003-Nov. 2007)

A few months later Prince was forced out of his position due to the effects of the economic crisis. By the year 2009, approximately 45 billion USD in government financial assistance had been required to save the bank – the world's largest in 2007 – from ruin. Although Prince had certainly understood the inherent risks in bursting the speculative bubble, for him there was no alternative but to 'keep dancing'. The dancing metaphor thus aptly described the state of intoxication that one not only experiences when dancing, but also when conducting financial transactions.

The metaphor, however, is also interesting in another respect. When dancing, people can in fact also come closer together. Some intimate friendships and partnerships begin this way. In the following, this article will deal with the aspect of community building in market capitalism. By highlighting some exemplary cases, I

will demonstrate that conspiratorial communities thrive in the less regulated sectors of the financial world and influence the market's prevailing logic of exchange, even though they are not typically associated with market transactions. Insofar as the financial-market actors are interdependent, jointly committed and systematically exclude others, they can undertake riskier (more profitable) investment strategies, establish defined areas with high-profit potential, leave the societal regulatory framework behind and externalize the negative consequences of risky behaviour. Viewed in terms of the empirical evidence, and keeping with our metaphor: the intoxicating 'dance' in the financial markets is apparently led by pair and group dancers, who are far from behaving like actors in 'perfect markets'.

My point of departure will be to discuss the economic ideal of perfect markets, several views from classical sociology, as well as some findings from recent economic-sociological research (Part 1). In more recent approaches, the social embeddedness of economic behaviour and the existence of common 'we-structures' have so far been mostly discussed as conditions of market activity. To supplement these research findings, Part 2 will explain using examples that the creation of alliances in the financial markets can lead to a problematic co-existence between market and community. It will also be shown how the spread of capitalist financial market structures has made possible the expansion of those exclusive and loosely regulated areas of the financial market where the largely unimpeded formation of conspiratorial communities is possible (Part 3). To conclude, a summarizing assessment will be given of the described processes of community formation (Part 4).

FINANCIAL MARKETS AND COMMUNITY FORMATION

Conspiratorial communities neither correspond to the usual notions of financial markets in economic theory, nor to the understanding of the market represented in classical economic sociology. The market, for instance, in neoclassical economic theory (Jevons 1957, Walras 2010) is typically viewed as a mechanism that determines – under the conditions of perfect competition, complete information and the stable preferences of the economic actors – a price at which supply and demand come to equilibrium. To the extent that the conditions of a perfect market are met, the buying and selling decisions of market participants allow for the optimal allocation of scarce resources. Besides the price, there are no further relevant purchasing factors, and in the conception of the pure market exchange, social considerations are immaterial. In economic literature, the stock market is typically thought to approach the perfect market the closest.¹ Here it is assumed that securities best meet the criterion of asset homogeneity, that personal, temporal, material or geographic preferences have at most limited importance in financial transactions, that suppliers as well as buyers are able to respond to changes in market conditions in the fastest possible manner and, finally, that the condition of market transparency is generally met. Even though institutional economic research rejects the assumption of completely informed agents, it also classifies financial markets as highly efficient, whereby the actors merely have to respond to price signals. According to Eugene Fama (1970), all the relevant information that determines the value of a publicly traded security is already included in the given rates. The decision to form a community for the sake of greater information efficiency with regard to financial markets would, therefore, bring no advantage. According to the market efficiency hypothesis, the markets thus do not need to be protected from the formation of communities. On the other hand, the expansion of market freedom is considered advantageous, e.g. in the form of unrestricted short selling (Copeland and Weston 1992: 331). Recently, the assumption of efficiency in economic theory has become a subject of increasing criticism. At the same time, mostly the psychological conditions of behaviour

have been emphasized, with less attention being given to the social processes of community formation (Akerlof and Shiller 2009, Shleifer 2000, Thaler 2005).

The idea of a perfect market has been unable to get a foothold in sociology, however. Classical sociology rather generally perceives the market as a place where communities do not thrive well. Georg Simmel accordingly argues: "The desirable party for financial transactions – in which, as it has been said quite correctly, business is business – is the person completely indifferent to us, engaged neither for us nor against us." (Simmel 1990: 227). Thus, at the end of the day: "Whatever is sold for money goes to the buyer who offers most for it, quite regardless of what or who he is." (Simmel 1990: 436). Even more explicitly, Max Weber characterizes the strictly rational, goal-directed, freely made exchange on the market as an impersonal, yet practical mode of existence: "Where the market is allowed to follow its own autonomous tendencies, its participants do not look toward the persons of each other but only toward the commodity, there are no obligations of brotherliness or reverence, and none of those spontaneous human relations that are sustained by personal unions. They all would just obstruct the free development of the bare market relationship, and its specific interest serve, in their turn, to weaken the sentiments on which these obstructions rest" (Weber 1978: 636).

By contrast, in the more recent economic-sociological research, personal ties and the social embeddedness of economic behaviour (Granovetter 1985, Krippner et al. 2004) play a much larger role. With respect to the research on financial markets, several findings can be highlighted: in the studies of empirical network research, for instance, it has been shown that actors use highly differentiated social networks in financial transactions. With his analysis of the social networks of options traders, Wayne E. Baker (1984) thus explains that the intensity of the competition in this segment of the financial market decreases with the growth of market size. The more the actors participate in the market, the less the sole aspect of competition matters. It leads rather to greater consultation and cooperation between traders, resulting in the generation of differentiated substructures in the network. According to Brian Uzzi (1999), companies can enhance their access to financial capital if they use networks in a differentiated way, relying on both long-term customer-client relationships as well as purely 'arm's-length' contacts.² While in the long-term relationships private information and resources are exchanged, making it possible to reduce the uncertainty of transactions, the 'arm's-length' contacts, according to Uzzi, have the advantage of being able to provide more comprehensive information on public market prices and financing opportunities.

Representatives of the performativity thesis emphasize a different dimension of community formation as a kind of social embeddedness. In their analysis and commentary, they postulate that the economic sciences practically create the economy – the subject of their discipline – itself. According to this point of view, the economy is embedded in economics (Callon 1998). Economic theories are realized in practice in the financial markets, which leads to the creation of entirely new markets. MacKenzie (2006) demonstrates this phenomenon with the example of the development of the Black-Scholes model,³ which significantly promoted trade in option warrants. In further studies centring on the practical knowledge of the actors, an increasing supremacy of numbers due to the mathematical representation of economic facts was similarly identified (Miller 2008). The economic activities are thus bound to the specific knowledge of the actors and the manifestation of knowledge in technological instruments and institutional procedures (Markus and Pfeffer 1983, Pollock and Williams 2009), which, in turn, systematically excludes other practices and other stakeholders.

The dependence of the global financial market transactions on local social embeddedness is the focus of an alternate strand of economic-sociological research on financial markets. According to Daniel Beunza and David Stark, the arrangement of workstations in trading areas may be understood as constituting an 'ecology of knowledge' in which traders can witness the market's ups and downs and informants and cooperation partners are available on-site (Beunza and Stark 2004). Saskia Sassen similarly points out the social connectivity of financial centres, explaining why in the wake of globalization and technologization there was also a concentration of business operations in only a few locations: 'The global capital market today (...) remains deeply embedded and conditioned by non-market and non digital-dynamics, agendas, contents, powers' (Sassen 2005: 17). The state of embeddedness in fields of interaction is also central to Mitchel Y. Abolafia's theory concerning the radical increase of competitive behaviour. Utilizing interpretative-ethnographic methods, Abolafia (2001) shows how cliques emerge due to Wall Street traders' (to some degree) hyper-rational, opportunistic self-interest. At the same time, what is mostly at stake here is the allocation of reputation and influence. According to Abolafia, evolving out of each field of interaction of the respective financial market segments are specific market cultures that are an expression of the inter-subjective understandings of groups of actors. Whereas rules and norms develop with regard to the appropriateness of prices and tacitly performed and accepted practices, routines and ritualized behaviours also creep into the group that are not strictly explainable in terms of utility maximization. In contrast to this, another line of discussion in fiscal sociology emphasizes the issue of embeddedness in global micro-structures. Knorr Cetina and Brügger (2002) demonstrate that even in the case of technologically supported global communication, specific conversational structures, rules and honour codes are generated from human interactions. 'We-relations' are also similarly formed via computer terminals. It is precisely because decisions in these electronic markets must be made quickly and with high uncertainty that relationships play such a significant role in the search for information in the 'flow world'. Even the physical experiences developing from face-to-screen interactions maintain a connection to the micro-structured reality.

Thus, in contrast to economics and earlier economic-sociological perspectives, recent economic-sociological research emphasizes the social embeddedness of financial-market actors. For the most part, social bonds and communal 'we-relations' are characterized from this standpoint as a precondition for market activity. This is explained either by the prevailing view that the fields of interaction of economic activity are shaped socially by the actors themselves or by the supposition that the condition of social embeddedness ultimately makes the realization of exchange behaviour more likely. Much less common in economic-sociological literature, however, is the understanding that markets and communities may not only emerge in a harmonious type of co-existence, but also in one that is problematic. The truth of this assertion, especially in the case of highly deregulated market environments, will be shown in what follows by means of several examples.

THE CO-EXISTENCE OF UNREGULATED MARKETS AND CONSPIRATORIAL COMMUNITIES

Several events in the context of the financial crisis made clear to the public that collective action in the financial markets had some problematic characteristics. The most obvious example of this was Lehman Brothers Bank, which had to register for bankruptcy in September 2008. According to the investigation report of insolvency auditor Anton Valukas, the bank had used short-term repurchase agreements (repo 105)⁴ since the 2001 to systematically cover up the extent of its debt (Valukas 2010). The implementation of these accounting tricks was moreover only possible with the involvement of other banks, the accountancy firm Ernst & Young and a British corporate law firm. At the end of each quarter, Lehman Brothers sold a

portion of its credit-backed securities for cash to other financial institutions for a short period. Immediately after each quarter, the bank bought them back again. In conventional repo transactions, which are used for short-term bridge financing, the respective investments would have remained in place in the balance sheet. The repo 105 transactions of Lehman Brothers, however, were structured so that they were counted as actual sales, which allowed the bank to present a less risky balance sheet at the end-of-the-quarter closing date. On the surface, the bank was able to represent itself as a healthy institution. Until early 2007, the volume of repo transactions at Lehman Brothers was still less than USD 25 billion. In the first and second quarters of 2008, USD 50 billion was moved immediately before and after the end of the quarter due to a significant deterioration of the financial situation (Hines et al. 2011). Because the 105-repo transactions under United States law would not be counted as a sale, the bank had to handle the transactions through its London office, where the law firm Linklaters tested the legality of the transactions. Apart from the law firm, the accountants from Ernst & Young (internally referred to as 'window dressing') were informed about the transactions. The investigation report of the insolvency auditor quoted the following sample of dialogue from the e-mail correspondence between Lehman executives (Valukas 2010: 860):

'It's basically window-dressing. We are calling repos true sales based on legal technicalities (...)'
'I see (...) so it's legally do-able but doesn't look good when we actually do it? Does the rest of the street do it? Also is that why we have so much BS [balance sheet] to Rates Europe?'
'Yes, no and yes. :)'

Lehman's former financial controller Martin Kelly, who was questioned by Valukas, admitted afterwards that the only purpose of the repo-105 transactions had been to shorten the balance sheet. Financially, they were meaningless. The accounting firm Ernst & Young also looked past the dubious transactions when one of Lehman's managers informed the company of his concerns about the repo-105 transactions. In his report, Valukas came to the conclusion that legal action against the Lehman Brothers' management team, as well as against the accountancy firm Ernst & Young, was possible. Lehman Brothers, Ernst & Young and Linklaters jointly carried out business transactions that existed within, and beyond, a tacit legal borderland. Over the years, the relationship only intensified between the companies involved.

In its use of cosmetic accounting practices, Lehman Brothers was by no means an isolated case. An inspection of the books of the two state-rescued banks, Citigroup and Bank of America, revealed that they had both falsely declared 105-repo transactions as sales for numerous years (Acharya and Öncü 2010). With Bank of America, transactions in the amount of USD 10.7 billion made between 2007 and 2009 were under scrutiny. In its own defence, the bank explained that, although the transfers had not been done by mistake, they nevertheless 'had no significant effect on the balance sheet' (Mildenberg and Campbell 2010). However, the 'comparatively unimportant' transactions that the bank had carried out jointly with other companies were, from a legal standpoint, no less problematic than those that were conducted by Lehman Brothers. The American investment banks' practices were also in evidence among European banks. The Anglo Irish Bank, nationalized in early 2009, was especially brazen in its activities. In February 2011, the Irish government decided to liquidate the bank permanently. Over a period of eight years, the Anglo Irish Bank repeatedly signed over large credit items before the closing dates to the Irish Nationwide Building Society, only to subsequently transfer them back. In 2008, EUR 7.5 billion in support payments flowed from Irish Life & Permanent to Anglo Irish Bank to disguise the economic difficulties. Due to the involvement of at least three financial firms in the deception, the Irish press dubbed the affair the 'circular transactions controversy' (Brennan 2009).

A public scandal also broke out following the meeting between hedge-fund managers on 8 February 2010.⁵ The Wall Street Journal reported on the 'idea dinner' at a Manhattan townhouse, where the securities and brokerage house Moness, Crespi, Hardt & Co. had invited senior representatives of the hedge-fund scene (Pulliam et al. 2010). According to the paper, there was a lengthy conversation about the opportunity to work together to speculate against the euro. Since the euro was expected in the medium term to fall to parity with the dollar, there would be an opportunity '(...) to make a lot of money', as Hans Hufschmid, chief of the hedge fund GlobeOp Financial Services SA is quoted as having said in the piece. Those who were also supposedly present included, among others, David Einhorn, founder of Greenlight Capital and a specialist in short sales, as well as Aaron Cowen, manager of SAC Capital, who is said to have deemed all of the proposed solutions for Greece at the meeting to be harmful for the euro. The hedge funds Soros Fund Management and Brigade Capital were also named by the Wall Street Journal. In their statements, the hedge-fund managers strongly rejected the fallout from the meeting. It had only been an informal industry get-together and a casual chat. David Einhorn also responded with a post at Wall Street Journal's 'Deal Breakers Friday' blog, in which he characterized the dinner as 'one of thousands' (Levin 2010) that hedge-funds managers have to attend. The situation in Euro zone was further only discussed in passing at the meeting. Because the hedge-fund managers' gathering coincided with a surge in the euro net short positions, the piece in the Wall Street Journal gave rise to an investigation of the US Securities and Exchange Commission (SEC) on the suspicion of having permitted illegitimate consultations to take place. Although there was ultimately no clear evidence of inappropriate conduct on the part of the SEC, the meeting was considered in policy debates as an indication of the need for reform. The notion that hedge-fund managers would meet regularly for a 'casual chat' at least came close to the public perception that they understood themselves as a community that pursued related speculative interests.

A record-setting legal settlement ended another case of joint action requiring the SEC's response (SEC 2010). In April 2010, the investment banking and securities trading company Goldman Sachs had to accept a penalty in the amount of USD 300 million and the allocation of a payment of USD 250 million to cheated investors. It was determined that they had concealed from buyers their involvement with the hedge fund Paulson & Co. in the construction of the synthetic CDO⁶ product, 'Abacus 2007-AC1'. So that it could bet against the security itself, Paulson's hedge fund outsourced the development of the CDO. Rather than disclosing this to buyers, Goldman Sachs gave the impression that Paulson & Co. would invest about USD 200 million in the equity tranche.

The cases presented here were to some degree only brought to light because the companies wound up in economic straits from the financial crisis. However, the practices that have become publicly known suggest that major financial market players are far from behaving like actors in 'perfect markets'. On the contrary, collective actions were undertaken which often no longer had any relation to society's regulatory framework. Legal gray areas were entered and alliances formed, implying the mutual acceptance of a nearly undetectable fraud. The media discussion of the cases were always accompanied by commentaries suggesting that Lehman Brothers, Goldman Sachs and the other scrutinized financial-market actors had in no way acted unusually.

THE EXPANSION OF EXCLUSIVE ZONES IN FINANCIAL-MARKET CAPITALISM

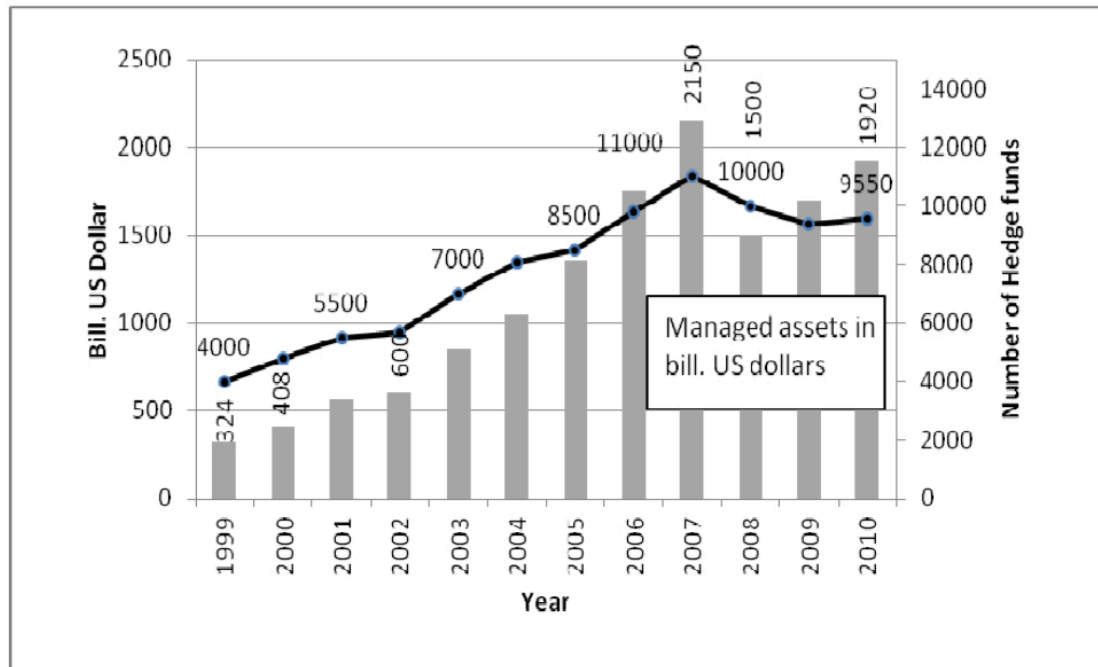
The above examples illustrate that the problematic co-existence between 'market' and 'community' emerged precisely where the autonomy of the market was supposed to come to bear in a particular way.

This finding has additional import against the backdrop of the growing importance of financial markets. In order to come to terms with this particular change, the concepts of ‘financial-market capitalism’ (Deutschmann 2010, Windolf 2008) and ‘financialization’ (Krippner 2005, Stockhammer 2004) were introduced in the sociological debate. One of the change’s unprecedented aspects, among others, is that mutual funds, analysts and rating agencies have become decisive actors whose verdicts are even feared by nation states.

In the context of the spread of financial-capitalistic market structures, sectors also developed especially aggressively where the largely unimpeded formation of conspiratorial communities was possible. Exclusive zones of potentially high profitability were created to which only professional investors and wealthy private investors had access. This exclusivity means, e.g., that most hedge funds are able to trade in OTC derivatives and settle transactions in so-called ‘dark pools’. The funds that are moved in these exclusive zones have grown considerably in recent years.

According to estimates by International Financial Services London / The CityUK more than USD 1.9 trillion in hedge funds were invested by the end of 2010. Compared to the USD 400 billion that was invested in 2000, this represents nearly five times the amount. The financial crisis also inflicted the hedge-fund industry, which is evidenced by the first recorded decline in the number of funds of just under 9 per cent in 2008. Nonetheless, with 9,600 hedge funds that same year, the number was still more than twice as high as in 1999 when some 4,000 funds were active (see Figure 1).

FIGURE 1: NUMBER OF HEDGE FUNDS WORLDWIDE AND VOLUME OF MANAGED ASSETS IN BILLIONS OF U.S. DOLLARS



Source: The City UK

Most hedge funds only take investors once a certain minimum capital requirement is met. Consequently, only professional investors or high net-worth private investors are permitted to invest in them directly. In addition, hedge-fund managers typically invest a portion of their own private assets in hedge funds. Thus, according to The Wall Street Journal, John Paulson, for example, was able to bring in an annual salary of approximately USD 5 million in 2010 by means of his 'Paulson & Co.' fund. Hedge funds are subject to relatively few legal provisions, especially since a good portion of the funds is registered in an offshore financial centre.

An even greater degree of dynamic growth is found in the trade of derivatives. This applies particularly to OTC derivatives (OTC = over the counter), which are traded on regulated exchanges. The inventory of OTC derivatives shows a much larger volume than with stock exchange-traded derivatives. In 2010, the nominal value of derivatives traded over the counter was at USD 601 trillion (see Table 1). Compared to the year 2000, the value thus grew more than sixfold, exceeding the nominal value of exchange-traded derivatives nearly ninefold. In the wake of the 2008 financial crisis, trade in OTC derivatives was down for a short time, which remains true to this day for credit derivatives. But the trading in misvalued credit derivatives is also identified as a major cause of the global financial and economic crisis. As a result of the often highly speculative trading with these derivatives, substantial credit risks were distributed worldwide to a variety of financial institutions. Since 2008, the growth of OTC derivatives, now in foreign-exchange transactions, has been notably large. OTC transactions can be designed to meet the needs of the contracting parties. They are, accordingly, not standardized and were originally used exclusively by professional investors. While the market has meanwhile also been opened to private investors, professional investors continue to dominate the market conditions in significant ways.

TABLE 1: NOMINAL AMOUNTS OF OVER-THE-COUNTER TRADED DERIVATIVES (OTC DERIVATIVES) COMPARED WITH THOSE OF EXCHANGE TRADED DERIVATIVES, IN BILLIONS OF US DOLLARS, 2000-2010

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Foreign exchange	15.7	16.7	18.5	24.5	29.6	31.4	40.2	56.2	44.2	49.2	57.8
Interest rate	64.7	77.6	101.7	142.0	190.5	212.0	291.1	393.1	385.9	449.8	465.3
Equity	1.9	1.9	2.3	3.8	4.4	5.8	7.5	8.5	6.2	6.6	5.6
Commodities	0.7	0.6	0.9	1.4	1.4	5.4	7.1	8.5	3.8	2.9	2.9
Credit default swaps*	0.0	0.9	2.2	3.8	8.4	13.9	28.7	58.2	41.9	32.7	29.9
Unallocated**	12.3	13.4	16.1	21.7	17.5	29.2	39.7	71.2	65.4	73.5	39.5
OTC derivatives total	95.2	111.2	141.7	197.2	251.8	297.7	414.3	595.7	547.4	614.7	601.0
Exchange traded derivatives	14.2	23.7	23.8	36.7	46.6	57.8	70.4	79.1	57.9	73.1	67.9

Sources: Bank for International Settlements (BIS) Quarterly Review, various years; ISDA International Swaps and Derivatives Association Market Survey 2008, * 2001-2004 Data from ISDA Market Survey, ** 2001-2004 Data from BIS adjusted by subtracting credit derivatives.

In addition to hedge funds and OTC derivatives, so-called dark pools offer an especially conspicuous sign of the expansion of exclusive zones, in which almost exclusively professional investors, particularly wealthy investors, can operate. Since they first emerged in the 1990s in the US, dark pools have experienced an increasing proliferation. According to the financial services company Rosenblatt Securities, in June 2011 around 12 per cent of all US stock trades were settled in dark pools (Rosenblatt Securities 2011).⁷ Dark pools are trading platforms that allow for anonymous trading in securities (Degryse et al. 2008). Whereas in public stock markets, both the amount of securities traded and the respective prices are well-known because of the so-called 'order books', the same information is not made public in dark pools. The dark pools owe their existence to this lack of transparency. Here, transactions may be conducted whose very appearance would

cause unrest in the market (Mittal 2008, Domowitz 2009). The handling of a large order on a public exchange may attract the attention of other market participants. If speculators, for instance, realize the need of a major investor to buy a lot of shares of a company, they can drive up the price through their own purchases, at the expense of the investor. The investor's transaction costs can rise considerably, depending on the liquidity of the securities and on the transaction's size. In dark pools, however, large client contracts can be handled 'discreetly'. They permit big investors like hedge funds to make voluminous securities transactions, unseen by the public and other potentially interfering speculators. Among the most important operators of dark pools are large, internationally established banks such as Goldman Sachs, Credit Suisse, BNP Paribas and Cr dit Agricole. Since August 2010, Deutsche Bank has also operated its own dark pool, based in Hong Kong. The trading platforms set up by several international banks – Turquoise and Chi-X – also have dark pools at their disposal. As a result of this covert trade, a kind of two-tiered society is created in securities trading that keeps out a large portion of investors.

Accordingly, in the context of the spread of financial-capitalistic market structures, the financial market areas that have expanded in particular are those in which the largely unimpeded formation of conspiratorial communities is possible. The financial crisis was triggered, among other reasons, by the fact that very risky investment strategies were undertaken in the exclusive zones at great risk to society. The 'dancing' continued, and ultimately the losses were nationalized.

CONCLUSION

Markets are often described in academic literature as mechanisms that, according to Max Weber's characterization, actually push community formation out to the margins: "Where the market is allowed to follow its own autonomous tendencies, its participants do not look toward the persons of each other but only toward the commodity" (Weber 1978: 636). This article has shown that especially in the less regulated financial markets, where the autonomy of the market should come to bear, problematic co-existences between 'market' and 'community' can flourish. The new economic-sociological research that has variously discussed and empirically demonstrated the 'social embeddedness' of economic activity has nonetheless given rather short shrift to these specific types of 'we-relationships'. The examples of conspiratorial alliances discussed in this article have clearly demonstrated that sociological research should pay greater attention to not only the social structures on the trading floors, but to the practices in the 'back office'. The examples have also shown that, given current conditions, the notion that financial markets constitute the closest approximation to the 'perfect market' is completely mistaken. On the stock exchanges, in addition to equities, there are now highly specialized assets, such as synthetic 'credit default swaps', which are more transparent to the designers than to the buyers. One can therefore no longer speak of homogeneous assets. Conspiratorial communities are also susceptible to personal, substantive or geographic preferences that can lead to interest-driven speculations (such as those against the European zone). Professional investors have also long had speed advantages⁸ over other investors and the expansion of business activities in recent years has occurred particularly in unregulated and hence often non-transparent areas of the financial markets (OTC derivatives, dark pools, hedge funds). To the extent that financial-market actors form mutually beneficial conspiratorial communities in which they are interdependent, jointly committed and systematically keep out others, the logics of exchange change. The financial market actors increasingly adopt higher-risk (more profitable) investment strategies, develop defined areas with a high potential for profitability, leave the societal regulatory framework behind and are willing to externalize the negative consequences of risky behaviour.

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Endnotes

- 1 Léon Walras had already used the Paris stock exchange as a showpiece for his theory of price formation, because he regarded the process of price formation in the spatially restricted securities market as an idealized image of the functioning of competition in all markets.
- 2 Brian Uzzi characterizes non-permanent customer-client relationships (such as acts of exchange with foreigners) as 'arm's length' contacts.
- 3 The Black-Scholes model is a mathematical model for the financial valuation of securities options, which starts with the idealized assumption of a perfect and complete capital market. It was developed in 1973 by Fischer Black, Myron Scholes and Robert C. Merton. For the development of the model, Scholes and Merton received the Nobel Prize in Economics in 1997.
- 4 Repo-105 transactions are transactions with a repurchase obligation, in which securities are lent and the exchange partner is offered securities in the amount of 105% of present value. The bank Lehman Brothers used those transactions as an accounting trick, since in normal repo transactions (e.g. 100% present value against 100% security value) the repurchase obligation must appear in the balance sheet.
- 5 Hedge funds are independent investment instruments with greatly varying strategies. They all make the claim, however, that they are able to make profits whether rates are rising or falling. Hedge-fund managers therefore employ a variety of techniques, such as the speculative short sale of securities or the systematic exploitation of some minimal price differences between related securities.
- 6 Collateralized debt obligations (CDOs) are securitizations backed by a diversified portfolio, usually in the form of loans or bonds. In general, CDOs are divided into different tranches with different credit ratings in order to later be sold in the capital market. With synthetic CDOs, the securitizations do not relate to bonds and loans, but to derivatives.
- 7 Rosenblatt Securities estimates the transaction values on the basis of information provided to the financial services providers of several operators of dark pools. Even if the financial service providers give the calculated percentage of transactions to two decimal places accurately, it is nevertheless an estimate, because only a few of the completed transactions in dark pools have to be disclosed later due to legal regulations.
- 8 The so-called algorithm or high-frequency trades are called to mind, where even the time that the information needs to get through the cable makes a difference. Consequently, stock exchanges offer major professional clients computer stations near the stock-exchange computers.