

Luyendijk, Joris – Swimming With Sharks: My Journey Into the World of the Bankers

Guardian Books, 2015, [Finance] Grade ★★★★★

“How can these people live with themselves?” Joris Luyendijk is a Dutch journalist with a degree in anthropology and with a prior post in the Middle East. Luyendijk, without any prior knowledge, was assigned by the Guardian to try to understand the people that populate the City. After discussing with friends and searching for a theme, the initial angle was to understand how these people who had inflicted so much pain on the world by causing the 2008 financial crisis and receiving bonuses meanwhile could live with their evil selves.

In the first half of the book we get to follow an exploration of the people of finance. A journey more complex than the author had realized. In the second half Luyendijk wrestles with what can be done to right faulty system features. The first half is the more entertaining one; the second is the more important. However, without understanding the illness of the people the effectiveness of various prescriptions cannot be understood.

After breaking through an initial wall of silence the first lesson learned was the diversity and size of the sector. People in finance make up a vast collection of tribes that perform very different tasks and where the tribesmen are recognizable to each other by subtle codes in clothing, language, behavior and titles. A second realization was that basically no one had anything to do with the financial crisis or had even understood that it was brewing. When the crisis came they had however contrary to outsiders realized what was at stake and how close the world was to freezing. If the system collapses there are no payments. Then there are no salaries and no food in the stores. Then there will be riots and military tanks on the streets. A further lesson was that most people in the City were really normal and many even actually quite nice. So, there was no evil conspiracy by a whole sector!

Now starts a quest to understand the incentives of people and the structure of investment banks. What emerges is a sector immersed with fear where people are fired on 5 minutes notice if they

don't live up to ever escalating profit targets, an amoral trading culture where it is okay to dupe customers (or “rip their face off”) as they should be able to take care of themselves and where zero job security and amorality leads to an extreme short-sightedness – everybody for himself. If you can be out in 5 minutes, then your time horizon becomes 5 minutes. Investment banks are ripe with conflicts of interest and compliance officers with very low internal status police these. There is also a seriously asymmetric risk/reward structure where profits go to employees and managers while losses fall on shareholders and in the worst case the taxpayers, as the banks are “too big to fail”. Further, banks and their products have become so complex that no one really understands them – including their managers and the regulators.

People seemed to have a number of reasons for putting up with all this where some felt that they were trapped to keep up a lifestyle and without alternative skillsets, some had institutionalized and normalized the practices, others enjoyed the permanent competition as it gave them their self-worth and under constant scorn from the rest of the world the people closed ranks and received few alternative views. “[...] greed seemed a highly inadequate explanation for their behavior. In fact I have come to believe that our focus on greed is the biggest mistake outsiders have made in the aftermath of Lehman's collapse.”

The author in easy writing hits the mark on many of the characters of the financial markets even if to describe what distinguishes them they unavoidably become caricatures. He comes to understand most of the issues but by focusing on people and incentives Luyendijk's text somewhat misses to describe how the explosiveness of the fragile system arises from leverage and the dependencies in derivative contract counterparty relationships. Banks are too interconnected to fail.

This is perhaps not a 5 star book but it's certainly a 5 star message in terms of its importance. It's business as usual in the City again.

Mats Larsson, February 17, 2016