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Watching the Watchers: A Comment on Esposito's "Economic Circularities and Second-Order Observation: the Reality of Ratings"

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Essays

Watching the Watchers

A Comment on Esposito's "Economic Circularities and Second-Order Observation: the Reality of Ratings"

by Sarah Quinn

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In "Economic Circularities and Second-Order Observation: the Reality of Ratings," Elena Esposito asks us to consider finance as a vortex of observations, a system in which participants are continually scanning their environment for clues about what others are seeing. Financial actors observe things, observe other people observing things, observe other people observing how they are observing things, and on it goes. If Geertz's [1973] anthropological subject lived in a world of meaningful winks, Esposito's subjects are caught up webs of observation, suspended in a world of looks upon looks upon looks.

From this she draws two fundamental implications. First, no one gets to watch without also being seen. She writes: "the observer who observes the observation of others turns out to be himself observed by others as an observer." There is no outside position to which one may retreat, no social equivalent of an invisibility cloak to provide cover. If you observe finance, your observations will affect it. The best you can do is to be reflexive about your own place in the system. Second, all these observations of other people swamp the observation of things, so that "the reference to objects is lost." Financial actors are primary moved by what they see their peers doing. Her point is not that there is no underlying reality, but that most meaningful action will be explained by the system of observations itself. The goal of social science should be to study how financial actors observe one another, and social scientists should not be waylaid by the illusion that shifts in an underlying reality are the real movers.

To make this case, Esposito weds systems theory to scholarship on performativity in financial markets. Her main argument is that observation theory helps us understand finance in terms of Keynesian beauty contests and moral hazard. Winning in financial markets is not about finding the best investment – it is about finding what other people, on average, think is best. The hitch is that actors themselves cannot help but change the calculus even as they try to take a measure of the system. Finance is then a world of chronic uncertainty in part because people are never able to know how their own presence will affect the environment. The best they can do is rely on tools, like credit ratings, that give them a sense of what other people are looking at. Credit ratings agencies, then, are not simply conduits of information, but a means to coordinate observations. Their core function is to allow people to know what the group generally observes. Esposito asserts that credit ratings have become increasingly important as the financial system becomes increasingly risky, and she surmises that the advancing risk society [Beck 1992] means that similar devices will become increasingly important outside of finance as well. In this way she posits that credit ratings reflect the core of finance, and finance reflects much broader social trends.

Eposito joins an important wave of scholarship that shows how financial instability does not simply derive from individual irrationality or greed but from historically specific group dynamics. If we are to understand the swings of finance we need to look past individual psychology and interrogate social systems. She has convinced me that that observation in financial systems is endemic, systematic, inescapable, and worthy of study. But I worry that her emphasis on observation, paired with the idea that no one is "outside" of finance, obscures how systematically "not seeing" certain groups and facts matters in financial markets.

To make this point I would like us to consider an image from Occupy Wall Street (see Image 1), one that reminds us of the politics of observation from an elevated distance. Taken in October 2011, it is a photograph of the JP Morgan Chase & Co. headquarters. It shows a row of people, mostly in suits, looking out at a crowd of protestors from a large second-story window. A group of police officers stands guard below.

IMAGE 1: JP Morgan Chase & Co. employees and policemen watching an Occupy Wall Street Protest, October 2011

Source: AP Photo/John Minchillo

Esposito's article helps us understand some of the social origins of the risks the Occupy protestors are rallying against. But the picture also points us to where observation theory, as presented in this piece, has less to tell us about how and why social position organizes what is *not observed*. That is, Esposito discusses social position in terms of orders of observation: someone is observing a thing (a first order observation), or observing someone else observing a thing (second order observation), or observing an average of observations (the third order and beyond). To the extent that some elements are obscured or lost, it is because they fade away in the social distance, not because of inequalities in social space mean that systems of observation are systematically skewed towards the interests of some and not others.

The Occupy picture reminds us to theorize how Wall Street chooses not to see. The insularity of banks facilitates distaste and disregard for the people who bear the brunt of the risk those banks spread [Ho 2009]. Finance is a system that tends to look up and in, instead of out and down, a tendency illustrated in Caitlin Zaloom's [2006] work. Zaloom found that people with power in the trading pits literately stood on the top steps where they culled material advantages from being more easily seen than people relegated to the lower steps, while people on the lower steps intently observed people above them in the social hierarchy. Moreover, the reactivity of ratings literature [Espeland and Sauder 2007; Sauder and Espeland 2009] reminds us that processes of quantitative abstraction tend to highlight those things that are best suited to commensuration. Things that are hard to measure – values, feelings – are what get pushed to the wayside. Systems of abstraction may be privileged precisely *because* they relieve people from having to reckon with the political implications of their work [Fourcade 2009].

The image of JP Mortgage Chase & Co. also calls attention to the state as an entity that has a say in how bankers observe the world – note how the row of police officers watch the protestors and protect the building. The ascension of finance since the 1970s was a political project made possible by interested actors and waves of deregulation [Krippner 2011; Lin and Tomaskovic-Devey 2013]. The Occupy protestors remind us that agencies exist with the power to compel banks and traders to look differently, to use different tools, and to take other things into account. We might imagine a world where the representatives of the state, here looking out at the crowd and protecting the bank, are actually turned around to better see what is really happening in finance.

When we train our eyes to observe what financial actors observe, our reflexivity must go beyond understanding how those people also observe us. Social scientists must also note how we are positioned to shine a light on the things others would rather ignore. If we question the idea that there exist an inside and outside of finance, but do not put other bodies more fully into the conversation – be they the political bodies of the state or the actual human bodies of those most devastated by financial downturns – we have not been reflexive enough. We must insist at looking at more things. We must imagine other ways of managing risks. And when we do, we would be well served to remember Esposito's lesson: the system will respond to that too.

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Abstract: Elena Esposito's "Economic Circularities and Second-Order Observation: the Reality of Ratings" contributes to our growing understanding of finance by considering ratings as systems of coordinated observations. In this comment on her article, I consider how we might extend her work to think about systematic ways of "not seeing" in finance, and the politics that entails.

Keywords: performativity, finance, credit, politics, inequality

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