The Derivative World

Caitlin Zaloom

Wall Street is often compared to a casino. But what exactly does this mean? The popular press uses the association to tar the statistical whizzes and raucous traders of the financial world with the brush of illegitimate gains. The image also conjures a closed system in which each trade represents a zero sum game. The house collects what the rubes ante up. In the years leading up to the financial crisis, this line of thinking proceeds, we were all suckers at the Manhattan table of Caesar's Palace.

As an anthropologist who studies the daily work and global technologies of financial traders, I have always resisted this comparison. Thousands of dealers trade in capital markets, each with their own strategies and time frames in mind. The system does not necessarily set their interests against each other directly. More importantly, moralizing often obstructs analysis. If we are to understand the Street's working beliefs about risk and markets, we should hold our own judgments in abeyance—at least until we learn how financial trading works. Those interested in political engagement will be far more effective once they develop an accurate picture of what Wall Streeters think they are doing.

Still, commentators across the political spectrum fling the comparison freely, and I often field requests to comment on its utility. A thought experiment, then, might indeed yield some surprises. After all, Erving Goffman used casino floors to understand how people reveal their character to themselves and to others.[1] Casinos, he argued, create zones of action, physical and social spaces where people place their own qualities on the line, proving themselves courageous or cowardly when the chips are down, literally. Like athletic fields and surgery suites, casinos organize "activities that are consequential, problematic, and undertaken for what is felt to be their own sake."[2] By getting in on

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the action, players link wagers of financial standing with personal and social stakes. Academic lore also tells that Goffman was banned from Las Vegas's gambling halls. His insights into interaction, the story goes, helped him to break the house just as statistics and physics afforded Wall Street traders winnings as they tested their mettle on gaming room floors.

Observed through Goffman's lens, casinos and Wall Street bear dramatic, and dramaturgical, resemblances. First, both are designed to operate as stages. Worlds nestled within worlds, casinos and financial markets heighten the action by regulating space differently from everyday life. Like casinos, Wall Street is a tightly bound site designed to draw in profitable materials from the exterior world while drawing out social distance. Operating remotely from their effects, casinos and financial markets direct their own systems of reward, building action around agonistic contests of calculation. The action also focuses more individual satisfactions, offering access to states of flow, the absorption and exhilaration where all else falls away. In the boom years, finance became its own world, separated from its impact on outsiders, where traders engineered their peak experiences of competition and attention akin to the thrills players seek on Vegas's casino floors. Let's call this place Derivative World.

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A Derivative World

Like casinos, financial markets are explicitly designed to be a world apart. Geographically, though, Wall Street now lacks a single address. Its sites are dispersed across the metropolitan landscape and linked through fiber optic cable, cell signals, cars, and helicopters. Banks and trading floors have mostly moved to midtown Manhattan, clustered together with the high-end law firms that service their needs. Goldman Sachs maintains its downtown location, but now owns a tower in Jersey City. America's hedge funds cluster in Greenwich. Homes of scale and decadence dot the wealthiest districts of the city, but also New Jersey, Westchester, and Connecticut. Recently, financial firms made massive cutbacks, and investment bankers with big homes and large country club dues suddenly found themselves out of work. But for the survivors, those who disappeared have been quickly forgotten. Two years after financial Armageddon, it's business as usual once again. Drivers in sleek private cars line the streets outside office buildings and town houses, waiting to shuttle money managers and dealers from site to site among these epicenters of financial profit and payoff. Bankers and traders seek their action within the closed confines of this social world. Consequences—profits and reputations—are rendered within.

The families and neighborhoods walloped by foreclosure remain distant, encountered only through a glimpse out the window of a limo. As the housing bubble inflated, bankers saw only a steady stream of figures, newly initiated mortgages and refinanced home loans streaming into bank coffers. These mortgages were ripe to be converted into tokens of exchange in the financial world. The story is now a familiar one: The numbers reduced the middle class dreams and lives of those Americans to simplified payments. Armed with models of default risk, bankers sliced and diced and bundled them together again. Repackaged, loans could be matched with the financial desires of the banks and their clients, converting the wages of America's increasingly strained homeowners into the Street's particular currency.

Investment bank sales forces zapped these securities with market magic, seducing themselves and their investors with dreams of riskless trades, of loans that no longer pulsed with the longings and troubles of the borrowers. These instruments, they imagined, cut this derivative world afloat, creating a kingdom where markets could trade securities so well tuned to their owners' portfolios that they were essentially risk free. Working to cleave the world of homes and loans from the financial sphere, their inventions referenced but did not rely on the underlying economy and established their separateness and their dominance over the messy business of producing and distributing credit and running households.

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Tacitly these instruments acknowledge an underlying truth: Risk tethers the lender to the borrower and to the local conditions of the loan. Freed from the consequences of an economy failing to support poor and middle class homeowners, banks could inhabit their own world, generating more loan funds without sharing in the fate of the borrowers. Greater and greater distance spread between the management offices of the economy and the loans that drove profits, creating a sterile barrier between the financial theater and the grit and gore of the economy below. Or such was the fantasy.

The reverie of control without contact bears a long history and an extensive geography. As the late political economist David Gordon showed, since the turn of the twentieth century, industry bosses have been pushing production farther and farther away from their offices. Faced with the threat of demands from workers in dense urban centers, executives began to move their plants to the suburbs. Outside the city, the distance between factories made comparing labor conditions more difficult and slowed the organizing process. The story of economic globalization just picks up from there: Management relocated production yet farther, to distant countries where workers were cheaper and executives did not have to be bothered with the odor of their sweat. Factories owned and managed by locals lent executives distance from the people and places that made their goods. While Asian women's hands sewed on Nike's swoops, Portland maintained control of the design and promotion process, developing markets in new products and innovating technologies that would improve sneaker function.

Wall Street pursued a similar strategy. Credit derivatives attenuated the connections between banks and the strapped homeowners who sent monthly payments to far away offices. From perches hovering above Manhattan's streets, bankers could observe the ragged contours of America's postindustrial economy. Whether they were sitting in jets or the high floors of skyscrapers, they saw the metropolitan landscape less as a place for living than as a differentiated field of profit-producing risk.

Rewards of the Derivative World

Cut afloat, the derivative world generates its own set of pleasures and rewards. Speculative tournaments, in both finance and gambling, offer the means to reap them. Traders will bet on anything. When I worked on the financial futures pits in Chicago, dealers filled the gaps between rounds of intensive trading with nonsense gambles. Who would come through the door next? Whose head will this paper airplane hit? More serious games offer opportunities for both profit and amusement, and for what Clifford Geertz famously called "deep play," because more than money is on the line. In casinos and on dealing room floors, players ante their masculine self-possession with displays of calculative acumen. In this cockfight as in all such contests, players "put their money where their status is."[4]

Poker tournaments, high-level backgammon games, and bridge matches all demand mastery of social and financial risk. Banks and hedge funds often pluck prospective derivatives traders from the ranks of these competitors. The statistical approach that many of these gamers practice aligns trading and gambling techniques. Casinos are also proven training grounds for Wall Street's mathematical adepts. Ed Thorp, a king of quantitative trading, began his career as a physicist who played, and won, against the house in roulette and blackjack. Since his reign, younger and brasher contenders have carried tiny computers to the tables. The linked thrills of these Wall Street and casino games have spawned a sub-genre of business adventure books that chronicle the exploits of these gamblers turned "quants." From *The Eudaemonic Pie* and *The Predictors* to *Bringing Down the House,* which reaped $24,000,000 in its first weekend as the film "21," and, most recently, *The Quants*, these tales offer math geeks everywhere a way to imagine themselves as bigger and richer than the jocks.[5]

For quantitative traders, markets offer a bigger and broader canvas for calculation than casino games. Wall Street brings together mathematical prowess and serious money; it is a giant gambling arena that also offers a way to pursue scientific truth. Quants use past market patterns to fashion signature deals based on mathematically obscure relationships among securities. They develop strategies without reference to underlying debts or to companies that generate value. In their systems, the market is like the physical world. Subject to the laws of the universe, markets stand apart from the inelegant vagaries of the human actions

that compose them. If the market runs on laws of its own, quants aim to grasp its fundamental principles. The prize? Outrageous sums of money but also something more abstract: access to the truth about markets themselves. Profit proves mastery of the market code.

The whirl of markets can also deliver more sensory satisfactions. In the midst of a deal, traders can fully give themselves over to the moment, achieving the optimal experiences that Mihaly Csikszentmihalyi calls "flow."[6] Although traders would prefer the analogy with skilled, masculine counterparts like fighter pilots or soccer stars, machine gamblers, like slot or video poker players, may be the accurate comparison case. The architecture and technologies of both markets and casinos structure chaos, creating environments that spark flow experiences. In the heyday of open outcry trading, derivatives exchanges used just this language to justify the markets they made. The pandemonium of the trading pits, they claimed, channeled market competition, helping buyers and sellers make deals as the prices of currencies, pork bellies, and stock indices rose and fell. In the pits, bodies crowded toward every bid shouting matching offers with red-faced tension. Now that derivatives markets have moved online, order seems to reign. Prices and lots blink across screens second by second in neat rows. Whether on the screen or in the pit, the market organizes an experience of acting amid structured chaos that ushers the players toward feelings of mastery and rapt states that athletes and video poker players alike call "the zone."

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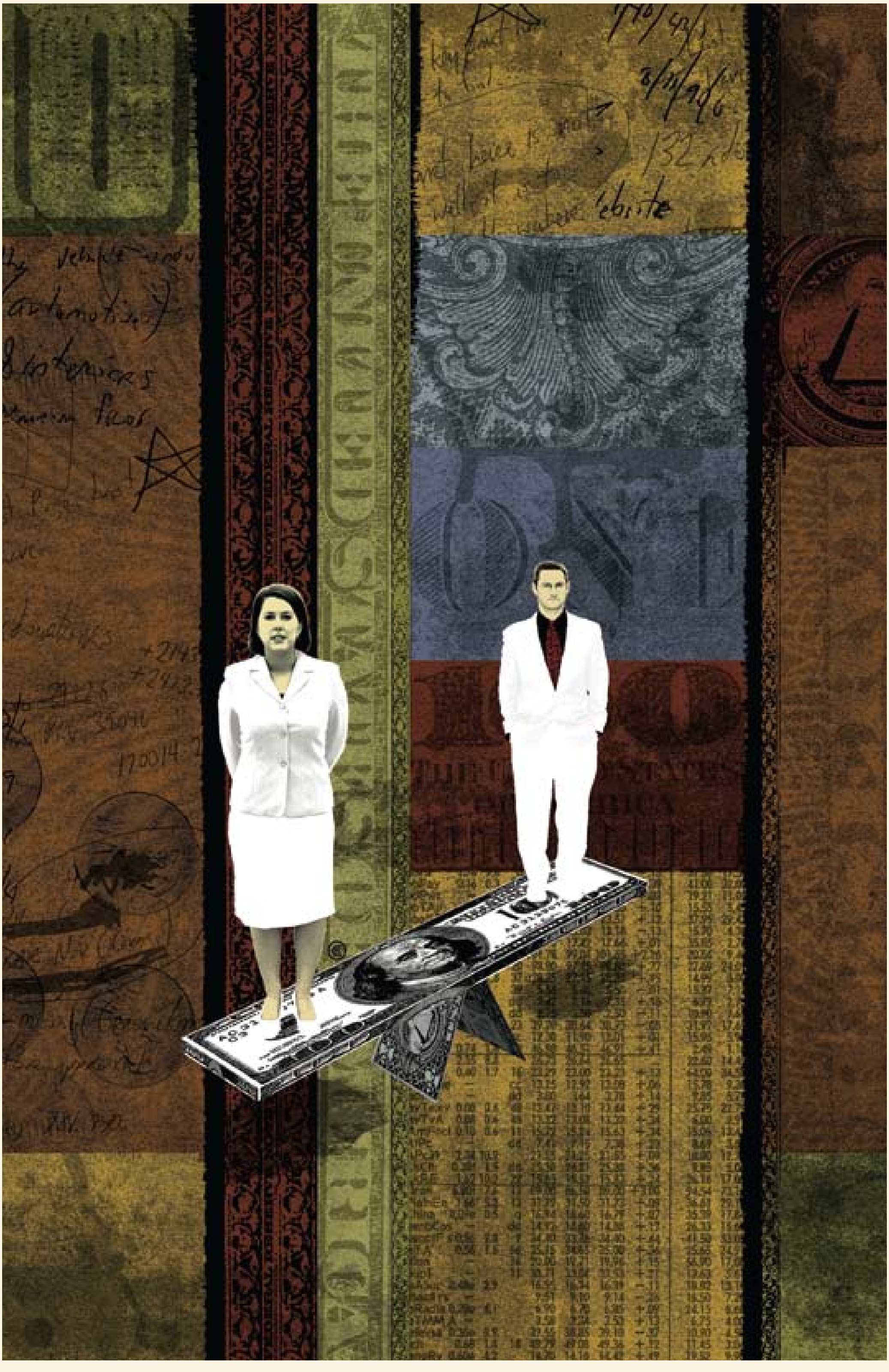
Gamblers, like traders, seek out the zone, and gambling spaces and technologies assist in the quest. The anthropologist Natasha Schull has analyzed how gaming architects and entrepreneurs assist players' entry into the zone and heighten their flow experiences by employing easy curves in gambling floors, engineering ambient noise, and creating a sense of comfortably enclosed space to usher gamblers toward absorption in the games. One leading design firm, she reports, calls this the "immersion paradigm." They fashion environments "to hold players in a desubjectified state so as to galvanize, channel, and profit from" the experience of gaming oblivion.[7] During play, gamblers lose sense of space and self. Completely captivated by the swift shifts in their glowing cards, their sense of their own presence dissolves into the smooth motion of poker hands through time. With credit cards racking up a tally and waitresses offering ample drink, gaming designers make sure that only bathroom breaks interrupt.

Traders, like gaming designers, manipulate bodies, machines, and mental states to promote peak experience; and they pride themselves on the ability to delay the call of nature while they are holding a position. The gaming industry employs the intimate experiential requirements of the zone to encourage gamblers to play "faster, longer, and more intensively." Similarly, traders engage with machines and frame their senses of physical and social space to merge with the flow of the market.

In electronic dealing rooms, the computer interfaces draw traders into structured chaos in much the same way as machine gamblers. Like the video poker machine,



the trading screen creates a window onto a minutely calibrated temporal landscape. Numbers shift second-by-second in front of traders' eyes, heightening awareness of time while their bodies, offices, and buildings melt away. When I conducted fieldwork in a London dealing room, one trader developed acute tendonitis in his right index finger. With his attention sutured to the screen, the pain in his trading digit went unattended until the stabbing pains sent him to the surgeon. Schull interviewed a gambler and retired nuclear geologist whose words could easily have been this trader's: "I go into a tunnel vision where I actually do not hear or see anything around me, only the screen. If you really evaluate that moment, the only thing that exists is the screen."[8]

Traders' techniques of self-discipline can seem deeply ascetic, and often mystical. Under discipline's strictures, traders must immerse themselves in the present; the market lives in the here and now.

Traders help the screen along by exercising internal techniques to engage this state. "Discipline," to use their term, helps them gain access to an immaterial market deity that they engage through the screen. In the language of the derivative world, traders describe the zone as communion. With discipline, one trader explained to me, "you can experience the market and become a part of this living thing, intimately connected to it."[9] These techniques manipulate traders' sense of time and space.

Market money, for instance, is specific to dealing rooms. Traders can quickly total their gains and losses, but when trading they count in ticks, the market-assigned price interval for a financial product. Like poker chips, ticks are tokens that belong to an enclosed world. They render money momentarily incommensurable with the cash traders use in their personal lives or to deliver to their firm's bottom line. Ticks establish distance from the consequences of a good or bad day on the floor and thicken the boundary between the market and the world beyond.

Traders' techniques of self-discipline can seem deeply ascetic, and often mystical. Under discipline's strictures, traders must immerse themselves in the present; the market lives in the here and now. To achieve real discipline, the first step is to separate from life outside of the market. Responsibilities to pay mortgages and send their children to school draw attention away from the market in space and time. Families must be banished from thought. One trading room manager reported to me that he could always tell when his traders were having marital troubles. Under pressure that draws minds and hearts toward home, discipline often fails and trades became erratic, he avowed. The market is a jealous God. Discipline replaces individual judgment and outside lives with submission to the will and purpose of the market. And the market is always right. "Only God knows value," a dealing room manager told me.[10] To find its signs hidden in financial flux is the trader's creed. It is both profit and reward itself.

Endnotes

[1] Erving Goffman, "Where the Action Is," *Interaction Ritual: Essays in Face-to-Face Behavior* (Chicago: Aldine, 1967) 149–270.

[2] Goffman 185.

[3] David M. Gordon, "Capitalist Development and the History of American Cities," *Marxism and the Metropolis: New Perspectives in Urban Political Economy*, ed. William K. Tabb and Larry Sawers (New York: Oxford University Press, 1978) 25–63.

[4] Clifford Geertz, "Deep Play: Notes on the Balinese Cockfight," *The Interpretation of Cultures* (New York: Basic, 1973) 434.

[5] Thomas A. Bass, *The Eudaemonic Pie: The Bizarre True Story of How a Band of Physicists and Computer Wizards Took On Las Vegas* (Boston: Houghton Mifflin, 1985); Thomas A. Bass, *The Predictors: How a Band of Maverick Physicists Used Chaos Theory to Trade Their Way to a Fortune on Wall Street* (New York: Holt, 1999); Ben Mezrich, *Bringing Down the House: The Inside Story of Six MIT Students who Took Vegas for Millions* (New York: Free, 2002); and Scott Patterson, *The Quants: How a New Breed of Math Whizzes Conquered Wall Street and Nearly Destroyed It* (New York: Crown, 2010).

[6] Mihaly Csikszentmihalyi, *Flow: The Psychology of Optimal Experience* (New York: Harper, 2008).

[7] Natasha Dow Schull, "Digital Gambling: The Coincidence of Desire and Design," *The Annals of the American Academy of Political and Social Science* 597.1 (2005): 65–85.

[8] Natasha Dow Schull, *Addiction by Design: Machine Gambling in Las Vegas* (Princeton: Princeton University Press, forthcoming).

[9] Caitlin Zaloom, *Out of the Pits: Traders and Technology from Chicago to London* (Chicago: University of Chicago Press, 2006) 128.

[10] Zaloom 127.