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The global financial crisis: Essay on the possibility of substantive change in the discipline of finance

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ABSTRACT

In this essay, we reflect on difficulties that may constrain the achievement of substantive change in areas of public policy. Our focus is the discipline of finance – as a field of practices and a field of research – in the aftermath of the Global Financial Crisis. Our exploratory analysis indicates difficulties in concretizing substantive change in both fields, although difficulties do not imply absolute inertia and structural inalterability. In particular, we found indications that, apart from a few exceptions, the core of finance research has largely failed to invest in the promotion of paradigmatic diversity, and continues to resist the idea. Yet, the stakes involved are significant, since finance's lack of diversity in research paradigms arguably translates into a body of knowledge that presents important limitations when trying to make sense of important phenomena, not least of which are infrequent but highly significant events unfolding in the political economy. Although we are aware of the underlying obstacles, we maintain that there is a need for finance academics to increase their commitment to research diversity and engage more thoroughly in the examination of finance in action. While the development of behavioral finance constitutes an interesting intellectual ramification, which allows the field to experiment in relaxing the assumption of investor rationality, a stronger engagement in diversifying knowledge, paradigmatically and methodologically, is needed for richer and grounded understandings of finance in action to concretize.

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Uniformity in the physical apparatus of life would be no grave matter, but uniformity in matters of thought and opinion is much more dangerous. (Russell, 2004, p. 133)

1. Introduction

Claims of social progress are embedded in today's webs of significance. Take, for example, the invention of democracy, social welfare, and insurance, which are typically assumed to be entirely positive outcomes, part of a process towards more "evolved" societies. Of course, barbarian and pestilential practices continue to emerge here and there, but most people in the Western cultural tradition adhere to the view that our "modern" societies are "better off" than the previous ones (Wright, 2004). As mentioned by Nisbet (1994, p. 4): "No single idea has been more important than [...] the idea of progress in Western civilization for nearly three thousand years." Claims of progress also permeate knowledge production activities.

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Karl Popper's view of continuous progress in research, through the collective use of the hypothetico-deductive approach, is significantly influential in academic circles, especially those predicated on the use of positivist principles (Chalmers, 1999). Even in research streams informed by different traditions, editors and reviewers are often keen to assess journal submissions from the viewpoint of "contributions" (Gendron, 2008, 2013), as if the development of knowledge necessarily translates into an accumulating body that continually expands and solidifies over time (Boxenbaum and Rouleau, 2011).

Logically speaking, claims of progress should ultimately translate into substantive change—either in practices, beliefs or knowledge. Yet, a number of social theorists are skeptical of claims of continuous progress and claims of substantive change in domains of practice and academia, on the ground that change may be only rhetorically apparent, while, behind the veil, status quo prevails (Meyer and Rowan, 1977; Rabinow, 1984). As such, the Global Financial Crisis (GFC) provides us with the opportunity to re-examine the interrelationship between change and continuity in areas of public policy. Calls for substantive change in the political economy, in the immediate aftermath of the GFC, were heard widely (Arnold, 2009; Whittle and Mueller, 2012). Focusing on the finance discipline, the present paper reflects on difficulties that may constrain the achievement of substantive change in finance practice and research. Our analytical gaze is on the following questions. To what extent are finance practice and academia characterized with indications of substantive change in the aftermath of the GFC? What mechanisms support the continuity of practices and knowledge in the finance discipline? Being informed by a "modest" attitude towards one's own research (Lincoln and Guba, 1985), our work reinforces the view that the achievement of substantive change constitutes an uncertain endeavor, not only in fields of practice, but in academic research.¹

Before going further, it is warranted to justify our use of the academic essay. Essays constitute a legitimate means for articulating one's thoughts on a given problem, as produced through an exercise of "disciplined imagination" (Weick et al., 1989). The objective is not to demonstrate beyond reasonable doubt, rather to develop a *plausible* argument or storyline through the mobilization of logic, theory, and analytical interpretations of artefacts and trends drawn from the field under examination. As argued convincingly by Feyerabend (1993), the research domain is certainly not constrained to the production and validation of facts from systematic and detailed empirical analyses. As mentioned by Latour (1987), the fate of a knowledge claim is in the hands of the audiences; it is in this spirit that we wrote our paper. Further, we want to emphasize the exploratory nature of our essay, which involves a significant amount of "bricolage" (Boxenbaum and Rouleau, 2011); that is, we combined some strands of literature, pieces of theory and empirical materials to produce insights on the extent of substantive change in finance, in the aftermath of the GFC.

We sought to avoid oversimplifying reality. As maintained by Lincoln and Guba (1985), it is not clear what academics gain exactly by constraining their role to the production of studies that remove, from the analytical gaze, much of the field's complexities. Although some of our observations may be deemed by some as exaggerated, we are willing to take this risk for the sake of developing a plausible argument on a very important, though highly complex matter – substantive change subsequent to the GFC.

Our intellectual journey begins through the construction of our theoretical lens, informed by social theory on the interrelationship between change and continuity. One of the key themes emerging from this literature is that substantive change may be difficult to achieve both in fields of practice and knowledge production. We then rely on our lens to reflect on the extent of substantive change in finance practice and academia following the GFC. We bring to light several mechanisms that support the continuity of practices and knowledge.

As such, our analysis casts doubt, at the time of writing, on the extent of substantive change in finance practice following the GFC. In addition, our essay points to the enduring difficulties, which the core of finance research has had, in promoting and concretizing the ideal of paradigmatic diversity.² Substantive change in the core of academic finance is not apparent when we take note of the field's continuing lack of paradigmatic diversification. While finance academics are quick to tell investors to diversify their investments, it seems that they largely fail to practice their doctrine in that deviations from the positivistic paradigm are rare. However, from a pragmatic perspective (Kelemen and Rumens, 2012), it can be maintained that the more diversified knowledge is, the better stakeholders will be at making sense of and reflectively intervening on important events occurring in their lives. We surmise that the lack of diversity in research paradigms, prevalent in the "core" of finance research, translates into a body of knowledge that presents important limitations when trying to make sense of infrequent, yet highly significant, events unfolding in the political economy. If this is true, then the core of finance academia should open itself up to a broader range of approaches and avoid the epistemological mistake of embracing paradigmatic homogeneity. As such, this essay extends on previous studies that have investigated the foundations and consequences of the hegemonic and marginalizing power of mainstream finance research, while deploring the lack of variety in the field (Hudson et al., 1999; McGoun, 1997; McGoun et al., 2003; Reiter, 1997; Whitley, 1986). We hope that this essay will expand and solidify the network of actors adhering to a research diversification agenda, especially in the discipline of finance.

¹ We do not, in this paper, engage in genealogical work examining how finance practice and academia (and the habitus of practitioners and academics) developed as they did. Studies that partially address the matter comprise MacKenzie (2006) and Whitley (1986). These studies point to a range of social and organizational influences upon the finance discipline.

² Through the "core" of finance academia, we refer to the research that is typically published in the "top-tiered" journals of finance which, through conformism and other social forces, exerts trickle-down influence on journals in the lower strata of the hierarchy.

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