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Capitalism with Derivatives: A Political Economy of Financial Derivatives, Capital and Class
D Bryan and M Rafferty
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At the heart of last summer's 'subprime' crisis lay so-called Collateralised Debt Obligations, a type of financial derivative instrument. In fact, derivatives have been implicated in a whole series of financial crises over the past decade or so, leading to many denunciations that they are 'destabilising', and calls for the 'reigning in' of finance. Such critics mostly hail from the Left or from the various traditions of heterodox economics, but those at the heart of the financial system have also voiced concerns. Warren Buffett, CEO of investment company Berkshire Hathaway and the world's richest person, has described derivatives as 'financial weapons of mass destruction'. In May of this year, Horst Köhler, German President and former head of the IMF, suggested that 'international financial markets have developed into a monster that must be put back in its place'. Even George Soros, the man accused by some of precipitating both the sterling crisis of 1992 and the Asian financial crisis of 1997 by 'shorting' those currencies, has warned of the dangers of insufficient regulation of finance.

Quite clearly, Soros knows a thing or two about derivatives. At least, he knows how to use them to make money. But for the most part, according to Dick Bryan and Michael Rafferty, critiques of financial markets 'appear as moralistic rather than analytical. They present finance as the vulgar expression of what capitalism is all about: greed, competitiveness, individualism and alienation. The effect of such moralism is the creation of instant opposition to finance, without invoking the need to understand the workings of finance within capitalist accumulation: the specific contradictions embodied in developments in finance' (p. 23). (I might add that these moral critiques of financial activity frequently contain the implicit assumption that activity in so-called productive or real sectors — the accumulation of alienated labour in factories, fields, call centres and schools — is somehow more 'ethical'.) These critics have left the study of the detailed mechanics of derivatives to bankers, traders and risk analysts; and to the finance theorists and economists interested in serving these clients. 'The analysis of derivatives therefore arose (and continues to exist) primarily as an instrumentalist knowledge — how to measure financial risk, how to price options and how to trade derivatives. This seems to have virtually precluded the development of a more critical perspective within the academic tradition of finance and financial economics' (p. 20).

To Bryan and Rafferty, the 'black box' of derivatives *does* matter. In *Capitalism with Derivatives* they seek to dig beneath the proximate causes of their astonishing growth — globalisation, new risk exposures arising from the collapse of Bretton Woods, etc., and deregulation — in order to 'explain the social role of derivatives ... [with] the emphasis ... squarely in the sphere of class relations and, especially, competition between capitals' (p. 5). Derivatives, it turns out, 'go to the heart of calculation and competition within a capitalist economy' (p. 9). A number of propositions are developed. Here I will mention a few of the most important and interesting, before suggesting other implications for our understanding of capital(ism) and class relations.

The authors begin by proposing that the 'system of derivatives' — the millions of various contracts taken as a whole — perform two key functions, those of *binding* and of *blending*. Derivatives have a role in binding the future to the present. A futures contract, for example, sets the price for the exchange of a commodity three months hence. Blending is the process by which derivatives 'establish pricing relationships that readily convert between different forms of asset. Derivatives blend different forms of capital into a single unit of measure' (p.12).

From these attributes stem two key arguments. First, collectively, as a system, financial derivatives are capital, or perhaps 'meta-capital'. But they constitute a form of capital that has become separated from the corporation. (In fact this is capital's third 'degree of separation': the first is humans' separation from their conditions of reproduction, that is effected through primitive accumulation or enclosure; the second is the separation of ownership from management that came about with the creation of joint-stock companies and limited liability.) 'Derivatives have taken the logic of capital beyond the bottom line (annual profit rates) and into the details of each phase of production and distribution, because they permit the corporation as legal entity to continually verify the market value of its component "pieces" of capital. They have provided a form of capital in which competition has ... "pierced the corporate veil".' (pp. 96-7)

Second, derivatives are money, with the system of derivatives forming a (flexible) anchor to the global financial system. 'The process of commensuration, in which spatial and temporal continuity in the measured value of capital is constructed, is the *raison d'être* for modern financial derivatives. Prices are anchored through the network of financial derivatives' (p. 131). Moreover, since derivatives are traded products they are commodities too: 'they exist at the intersection of money and commodities' (pp. 131-2). Thus, since the collapse of the Bretton Woods system a new commodity basis to money has been established.

What follows from all of this is that, far from being mere epiphenomena, financial markets are transforming the very nature of capital and of money, and thus of accumulation and class relations. Through their emergence as a universal equivalent, one flexible enough to handle space, time and also value's contestable nature ('they turn the contestability of value into a tradable commodity' (p. 37)), and through their role in commensurating 'bits' of capital across the globe and across time, derivatives are focusing attention back on production. By intensifying the process of competition, they essentially intensify the pressures on managers to maximise the extraction of surplus value and on workers to produce this surplus value.

Bryan and Rafferty conclude this thoughtful and highly persuasive book by suggesting that, 'to confront derivatives is to confront the class nature of capitalism itself. For better or worse, that is the challenge of those who would resist' (p. 214). One such challenge concerns the nature of antagonism. Under feudalism, the peasant or serf's relationship with the lord was personal and direct. The lord was *there*, on his horse, in his manor, visible. With the transition to capitalism (the first degree of separation) the class relation became more fluid and antagonism was displaced, as both capitalists (who were once lords) and workers (né serfs) became free to seek employees or employment wherever they chose. But the relationship remained face-to-face and thus quite personal: the industrious Victorian factory-owner would probably have spent almost as long each day stalking his satanic mill as his overworked 'hands'. (What's more, his livelihood was on the line, just as theirs were. If his business failed, his creditors wouldn't spare his horse, his home or his wife's silk.) This relationship changed again with the creation of joint-stock companies (the second separation). And antagonism was further displaced: capital might be understood as a social relation, but who personifies the capitalist pole of this relationship? The professional manager? The owner(s)? With the rise of derivatives, antagonism gets yet further displaced (the third degree of separation). The worker's antagonist is now the hedge fund, the investment bank, the private speculator, even her own pension fund. In short, the entirety of world's financial markets stand opposed to the worker; but not as institutions, rather, in their role as the (nebulous and pervasive) expression of capital, as measurers and enforcers of value. But if we say that an emancipatory politics should take the form of resistance to competitive calculation, what does this mean practically?

What's interesting about this crisis is not so much that financial institutions have lost a lot of money — so far $300 billion has been 'written down' — but that, a year on, they still don't know exactly *how much*. Nobody knows what all those derivative products on these institutions' books are actually worth. If Bryan and Rafferty are correct, derivatives are all about the commensuration of capital, about the measurement of value. This means the current crisis is not only a financial crisis or a credit crisis. It is a crisis of measure, a crisis of the measure of value and of the commensuration of capital. And as such, it is a crisis of capital itself.