

Anthro/HistCon 268B *Rethinking Capitalism* (2011)

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9:35 AM

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Office Hours: Thursday, 2-3 and by appointment

Eligibility:

Open to graduate students in all departments. Anthropology/HistCon 268A is not a prerequisite, although both courses are conceived a part of the Bruce Initiative on Rethinking Capitalism.

This year's Bruce Initiative conference will be help jointly with the Cultures of Finance Group at NYU, which is holding a monthly seminar on the Philosophy of Capitalism to which members of our group have been invited to Skype-in. I have tried to merge some of the readings for that seminar (http://www.nyu.edu/ipk/working_groups/cultures-of-finance) into the syllabus for this course. Weekly readings are subject to cuts or modifications based on the needs and interests of students actually enrolled.

Course Description

Our focus this year will be on **debt**. The obvious reason is that the financial collapse of 2007-2009 now manifests itself as a series of "crises" related to personal debt, government debt and bank debt. Although we will address these crises throughout the term, the course as a whole will consider debt as a kernel that grows into both the market and the state, and that is fundamental to the relation between them.

Why rethink capitalism today in terms of debt?

- It allows us rethink the relation of free labor to bondage. A growing proportion of workers around the world are being sold loans in addition to being paid wages. In classical Marxism the wage can be considered a premium a capitalist pays to purchase an option on the value the workers' product--the capitalist has bought a *call* on the surplus value, which he then appropriates without further exchange. Today, however, the worker can financialize expected future wages to borrow far larger amounts from what is now a global financial services industry. Debt service thus becomes a new need on the part of the worker and a way for the financial system to extract surplus value from his future earnings. Is this a *democratization of finance* or a new form of *indentured labor*? The credit mechanism must now be studied alongside the wage mechanism as a means of reproducing and increasing economic inequality.
- It allows us to rethink the techniques for valuing capital that have allowed financial markets to grow far faster than the economies that underlie them . What allows financial products, such as options, to be *priced* (and thus distinguishes them from pure bets) is that owning a stock option would have the same payoff as using leverage (debt) to buy the underlying stock. This means that a pure technician--a non-speculator--can manufacture options *risk-free* by creating a portfolio that has the same (or an exactly offsetting) payoff at any possible future price of the stock. There is *no theoretical limit* to the total volume of financial products because a perfect hedge (certain outcome) can be replicated for any known risk --what makes the hedge a perfect elimination of risk is that, even if we take no position on the relative probability of these future prices, it is a truth of mathematics that one of them must occur. Using this financial technologies either the private sector or government can manufacture options that hedge against any known

risk--and can do so without risk to investors or taxpayers provided that the hedge is priced correctly to reflect real risk. But why would people find it valuable to own options correctly priced options? It is valuable to have options because people know that their knowledge of the real risks *is uncertain*. Their degree of *confidence* in their knowledge can be affected by what economists call "noise" (as distinct from "information"), by criminal/political acts that affect the rules of the game, and by rumors of apocalypse (an idea implying catastrophe, revelation and final judgment) that affects their faith that everyone will be saved in the end. One assumption of the capital pricing model is that borrowing is unconstrained (i.e. the availability of credit is unlimited); another is that there is a government that won't default (i.e., that it has a large tax base that has been pledged as the ultimate collateral for capital markets. That government's bonds are "risk free" because markets assume in the final analysis taxpayers will guarantee existing debts in order to maintain liquidity during crises. We must thus understand how the growth of the financial sector requires an ever increasing demand for loans and supply of credit and the degree to which "confidence" (or "uncertainty") in these markets depends upon the willingness and ability of states to pledge their tax base as the collateral of last resort. When is politics merely "noise" (or news) that makes markets happen? When is political "uncertainty" (especially about whether government stands behind the financial system) a drag on investor "confidence" that makes markets illiquid? Can the vulnerability of markets to political risk be leveraged in other ways by a political movement focused on the debt question, which is itself increasingly about the role of economic uncertainty and anxiety in politics?

- It allows us to rethink the role of capital markets in supporting the state. Sovereignty itself consist of the power of states to borrow and/or tax in whatever sequence and portion is necessary to meet public spending goals. Financial discipline regulates states to the extent borrowing costs control how much states can spend and how heavily they must tax. (But what explains the power of bond markets over public spending and taxing at a time when the cost of short-term public borrowing is nearly zero?)
- It allows us to rethink the role of states in supporting capital markets. States regulate capital markets by requiring financial institutions to keep a portion of their assets in supposedly risk free government bonds (including their own), the pricing of which is also the means by which financial institutions exert power over the state.
- It allows us to rethink the moral/theological kernel of market systems in general and of financialized capitalism in particular. What does it mean for debt to be marketable? To be unpayable? To be redeemed? To be forgiven? To be assumed? What does it mean to assume the *risk* of non-payment for a limited time in the light of fundamental (political?) uncertainty about what happens in the *end*? We must address the the extent to which freedom, both moral and political, presupposes the existence of an unpayable debt (to society?) that has somehow been forgiven or redeemed. Behind this lies the ontological question of whether contingency is the source of value (or perhaps what is valuable itself about freedom) and, if so, whether this is a purely psychological fact, a matter of doubt, or whether it is also a political fact, a matter of power.
- It allows us to rethink the way capitalism has rethought itself in the aftermath of the recent financial collapse. What Marxian and/or Keynesian problem did it think financialization had solved?
 - Is the problem that remains philosophical--that the self-regulating market presupposes a fundamental uncertainty about its very existence--that it is not something natural--that cannot be assimilated to a risk that can be hedged? Is the problem theological--now that we know, should we try to prolong or save what we have by any means possible, even if it means recognizing, e.g., that we are in the hands of financial institutions that are too big to fail? Is the problem regulatory--that the state should require these large institutions to hold more capital and to do so in the form of low-risk government bonds? Is it financial--that the credit and hedging opportunities that

financial institutions trade among themselves are not yet available to citizens and governments seeking to insure against market volatility? Is it political--that citizens paying levels of debt service that are approaching the level of taxes in traditional welfare states will not pay taxes to support a welfare state that is cutting benefits because of "financial discipline" from the very bond markets that the state itself is supposed to be disciplining?

Although this course will be framed by the academic literature on these issues, I hope our discussion will also be political. I want to understand why the failure of our financial system has resulted in an apparently successful revolt by bond markets and taxpayers against the deficit spending that was used by government to bail out the financial system. Is there a different, more redemptive, narrative of the history we have lived, perhaps similar to the *Communist Manifesto*, that will focus of debt bondage alongside wage labor, and will point toward a post-capitalist future--a reason for saving the world--that does not reconcile us to prolonging what we have until it ends?

To satisfy your writing requirement I will accept a Manifesto that reflects an analysis of capitalism today or a scholarly paper developing aspects of such an analysis.

Required Reading:

I have order four books at the Literary Guillotine. David Watson has assured that they will be there early next week.

David Graeber, *Debt: The First Five Thousand Years*
Carmen Reinhart and Kenneth Rogoff, *This Time is Different*
Raghuram Rajan, *Faultlines*
Margaret Atwood, *Payback*
Fox, *The Myth of the Rational Market*

The works of Marx are all available online (see below) along with many classical works in the history of economic thought, including Keynes' *General Theory*.

All other assigned readings are (or will be) archived in the "Courses" section of www.rethinkingcapitalism.org . The password is "changeme".

To familiarize yourself with the UCSC initiative you should read through the first two *Rethinking Capitalism* newsletters (www.rethinkingcapitalism.ucsc.edu .) You should also watch the talks on our website.

Topics and Tentative Readings (subject to change based on student research interests):

1. Introduction: On Knowing Where We Stand

As soon as they are available I would like you to get started reading Graeber (chs. 1-5) and Rogoff and Reinhart, chs. 1,4, 7 and 10. This will be the background for our discussion as the course progresses. (To get an idea of what I think, you might also look at my talks at both the 2010 and 2011 conferences.)

Mitchell, "Carbon Democracy"
Graeber, "Debt, Violence, and Impersonal Markets"
Rajan, "Let Them Eat Credit" (online as *Faultlines*, ch. 2)
Meister, "Debt and Taxes: Can the Financial Industry Save Public Higher Education"

Mehrling, "The New Lombard Street" (a "money view" of how the state can save the financial industry)

Recommended:

Brenner, "Origins of the Current Crisis"

Mitchell, "Rethinking the Economy"

2. Labor Markets and Credit Markets: Is There a Financial Mode of Production?

Marx, "Value, Price and Profit" and/or "Wage Labor and Capital"

Walker, "Rethinking Money and Finance Capital" in *Rethinking Capitalism*, no. 2

Foley, "On Marx's Theory of Money"

, "Recent Developments in the Labor Theory of Value"

Bryan, Martin and Rafferty, "Financialization and Marx"

Poon, "Commercial Risk Scores and the Making of Subprime Mortgage Finance"

Callon and Muniesa, "Economic Markets as Calculative Devices"

Mitchell, "Dreamland" and "Rethinking Economy"

Graeber, *Debt*, ch. 5 ("A Brief Treatise on the Moral Grounds of Economic Relations")

, "Why Capitalism is a Transformation of Slavery"

Benveniste, *Indo-European Language and Society*, chs. 5-6

Cassidy, "The Minsky Moment"

Reinhart and Rogoff, *This Time is Different* chs. 10, 13

Bryan, "Going Forward: The Perpetual Crisis of Finance" in *Rethinking Capitalism*, no. 2

Riles, *Collateral Knowledge*, Intro. (pp. 1-11 only and Conclusion)

Recommended:

Benveniste, *Indo-European Language and Society*, sec. II ("Giving and Taking")

Kuznets, "Income Growth and Income Inequality"

Minsky, "Financial Institutions"

Saez, "Striking it Richer: The Evolution of Top Incomes in the United States"

MacKenzie, "Marx and the Machine"

Bull, "Levelling Out"

MacKenzie, Review of Tett's *Fool's Gold*

Rajan and Zingales, *Saving Capitalism from the Capitalists*, chs. 3-4

Harvey, *Limits to Capital* (ch. 10, "Finance Capital and its Contradictions")

Meister, *Political Identity*, part III

Foley, *Understanding Capital*

Recommended:

Meister, *Political Identity*, pt. 3

3. The Philosophy, Science and Theology of Capital Markets

Patterson, "Christianity and the Institutionalization of Freedom"

Weber, "The Protestant Ethic", ch. 4

Lee and LiPuma, IPK Cultures of Finance Presentation

Attwood, *Payback* ("Debt and Sin" and "Debt as Plot")

Knight, *Risk, Uncertainty and Profit*, part III

Brouwer, "Weber, Schumpeter and Knight"

Maurer, "Repressed Futures: Financial Derivatives' Theological Unconscious"

Mitchell, "The Work of Economics"

Graeber, *Debt*, chs. 3, 11-12

Fox, *The Myth of the Rational Market* (excerpts)

Derman, *My Life as a Quant*, ch. 4

Derman, Interview

Riles, *Collateral Knowledge*, ch. 1 ("What is Collateral?")

Meister, "Capitalism, Confession and the Initiative" in *Rethinking Capitalism*, no. 1

Recommended:

Benveniste, *Indo-European Language and Society*, chs. 7-8

Bernstein, *Capital Ideas*, chs. 2,9-11

Knight, *Selected Essays*, (esp. "The Ethics of Competition" and "Statics and Dynamics")

Mirowski, *More Heat than Light*, chs. 4-5

Duffie, "Black, Merton and Scholes: Their Central Contribution"

Gisiger, "Risk Neutral Probabilities Explained"

From Neftci, *An Introduction to the Mathematics of Financial Derivatives*

Žižek, from *Living in the End Times*

4. The Role of the State in Capital Markets and of Capital Markets in the State

Polanyi, "Societies and Economic Systems"

, "The Self-regulating Market and the Fictitious Commodities,"

, "The Economy as Instituted Process"

Schumpeter, "Can Capitalism Survive?"

Schumpeter, "The Tax State"

Musgrave, "The Fiscal Theory of the State"

, "Schumpeter's Crisis of the Tax State: An essay in fiscal sociology"

Skidelsky, *Keynes: The Return of the Master*, Intro., ch. 1, ch.8

Domar, "The Burden of Debt"

Krugman, "The Trade Deficit", "The Budget Deficit" from *Diminished Expectations*

Krippner, "What is Financialization?"

Rogoff and Reinhart, *This Time is Different*, Part V

Gamage, "Preventing State Budget Crises: Managing the Fiscal Volatility Problem"

Soros, "The Crisis and the Euro"

Milhaupt and Pistor, *Law and Capitalism*, chs. 1-2

Rajan, *Faultlines*

Shiller, *The New Financial Order*, part III

, from *Macro Markets*

Akerloff and Shiller, *Animal Spirits*, chs. 1, 6-8

Lynn Stout, "Betting on 2008" in *Rethinking Capitalism*, no. 2

Paul, "Finance, Politics and the Fiscal Crisis of the State" in *Rethinking Capitalism*, no. 2

Riles, *Collateral Knowledge*, chs. 2, 4

Recommended:

Krippner, "The Social Politics of U.S. Financial Deregulation"

MacDonald and Paul, "The Politics of Milton Friedman's Economics"

in *Rethinking Capitalism*, no 2

Musgrave and Domar, "Tax and Risk"

Gilmore, "The Secured Transactions Article of the UCC"

Llewellyn, "Problems of Codifying Security Law"

Sinclair, *The New Master of Capital*, chs. 1, 6, 8

Bobbitt, "The Society of Market States" from *Achilles Shield*,

Keynes, *General Theory*, Concluding Notes

Taylor, *Maynard's Revenge*, esp. chs. 6-10

Harvey, *The Limits to Capital*, chs. 9-13

Recommended:

Northrop Frye, *Anatomy of Criticism*, "Theory of Modes" and "Theory of Genres"
White, "Ideology and Counterideology in Northrop Frye"
Taubes, *Occidental Eschatology*
Agamben, *The Time that Remains*.

7. Are there redemptive stories about the contingency of capitalism that raise hope, and not merely uncertainty and fear, in political subjects? Must such stories be realistic?

Callon, *Acting in an Uncertain World: An Essay on Technical Democracy*
Barry, "The Anti-political Economy"
Barry and Slater, "Interview with Callon"
Graeber, "Direct Action, Direct Democracy and Social Theory"
LeGuin, "Some Approaches to the Problem of the Shortage of Time"
White, "Getting Out of History: Jameson's Redemption of Narrative"
Badiou, "The Communist Idea"
Zizek, "Starting from the Beginning"

8. What do we really owe each other? What desire underlies the discourse of justice? Is uncertainty the source of value? Is risk the basis of reward?

Scanlon, from *What We Owe Each Other*
Parfit, from *What Matters*
Bataille, from *The Accursed Shared*
Lyotard, from *Libidinal Economy*
Zupančič, "On Surplus Value and Surplus Enjoyment"
Meister, *After Evil*, chs. 7-10

Recommended:

Kaufman, "The Desire Called Mao"

9. What political subjects would be addressed or called into being by a new anti-capitalist manifesto? In what voice would it be written? What would be its affirmative political program? How would that program address questions of austerity, privatization, financialization, investor confidence and government default as these are raised by mainstream parties? Is this a time for philosophy?

Marx and Engels, *The Communist Manifesto*
Marx, "Critique of the Gotha Program"
Badiou, *A Second Manifesto for Philosophy*
Badiou, from *Logics of Worlds*, (on real change vs ordinary becoming)

Web resources on Political Economy:

Marx Engels Archive <http://www.marxists.org/archive/marx/index.htm>
History of Economic Thought Website, <http://homepage.newschool.edu/het//index.htm>
Marx, *Capital*, vol. III. <http://marxists.org/archive/marx/works/cw/volume37/index.htm>
Keynes, *General Theory*, <http://www.marxists.org/reference/subject/economics/keynes/general-theory/index.htm>
Hobson, *Imperialism*, <http://marxists.org/archive/hobson/1902/imperialism/index.htm>
Classics of Political Economy, <http://marxists.org/reference/subject/economics/index.htm>
Economic authors, http://oll.libertyfund.org/index.php?option=com_staticxt&Itemid=28
Athusser and Balibar, *Reading Capital* <http://www.marx2mao.com/Other/RC68ii.html>

Finance Journals site list <http://www.cob.ohio-state.edu/fin/journal/jofsites.htm>

Some writings by Black, Scholes and Merton are archived on www.rethinkingcapitalism.org

Related Initiatives and their Websites:

Social Studies of Finance (U. of Edinburgh) <http://www.sociology.ed.ac.uk/finance/>

Australian Working Group on Financialization, <http://awgf.econ.usyd.edu.au/>

Financial Policy Forum and the Derivatives Study Center <http://www.financialpolicy.org/>

NYU Cultures of Finance Working Group http://www.nyu.edu/ipk/working_groups/cultures-of-finance

Academy of Behavioral Finance and Economics <http://www.behaviouralfinance.net/>

Yale Workshop in Behavioral Finance <http://www.econ.yale.edu/~shiller/behfin/index.htm>

Behavioral Finance Initiative, Yale School of Management,

http://icf.som.yale.edu/research/behav_finance.shtml

Columbia Center on Capitalism and Society, <http://capitalism.columbia.edu/>

Capitalism and Society (e-journal) <http://www.bepress.com/cas/vol4/iss3/art2/>

Social Studies of Finance (France) http://ssfa.free.fr/hoprubrique.php?id_rub=0