



## Going Forward: The Perpetual Crisis of Finance

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“Going forward (formal, especially business): in the future starting from now.”  
Oxford Business English Dictionary

“They are always going forward, always looking to release the ball.”  
French rugby coach describing the style of play of the New Zealand

The Bank for International Settlements triennial survey of foreign exchange and derivative market activity shows a significant growth in financial turnover between 2007-2010. Turnover has been relatively unaffected by the Global Financial Crisis. This paper contends that these markets have become integral to capitalist financial markets, and they are integrating households into accumulation in new ways. The contradictions and tensions of global financialization are to be found in the dynamics within finance--the way it is transforming social calculation--more than in market volatility per se. Use of the term “going forward” as a way of saying “in the future” has spread from the world of finance and business into the popular lexicon. For politicians and economic soothsayers “going forward” now seems to be the preferred term. Perhaps it sounds sophisticated. But the term is, of course, not an innocent neologism. It has within it a conception of purposeful momentum, which embodies a discourse of competition.

The origin of the term, while never formally attributed, is thought by some to lie in the New Zealand office of global management consulting firm McKinsey & Co.<sup>1</sup> This is entirely credible. The term “going forward” has long been used in the sport of rugby. New Zealand is a rugby-mad country, and the sorts of people who strategise futures in global management are also the sorts of people who like to

talk rugby over expensive wine and to occupy corporate suites at international rugby contests.

Rugby is a game of territorial conquest where the objective, as in American football, is to break through opposition defensive lines and reach an end zone. To go forward means to carry the ball towards the end zone. Going forward in this context is a spatial (territorial) concept involving (partial) conquest, but more than that it signals that the present (“now”) is contested in a way defined by reference to what awaits “forward.” In finance and wider popular use this spatial terminology has now taken on a temporal meaning, and with the same connotations.

There is nothing particularly novel about a blurring of the concepts of time and space. But it is important to note here how it serves uncritically to cast time in a competitive discourse. The future is framed as innately imbued with profitability, and it presents a future in terms of winning and losing on rates of return on capital. Temporality itself becomes framed with particular dimensions that portray distinctly “capitalist time.” The CEO who announces, “Going forward we will . . . ,” is invariably seeking to equate the future with competitive success. It is hardly surprising that the term caught on in financial discourse, for finance is, in its simplest meaning, money with a rate of return, and hence is itself a competitive conception of time.

But “going forward,” and all it connotes, has indeed changed the meaning of finance. The etymology of the term finance lies in the French word *fin* (end). Finance was the transaction that occurred at the end of a deal (or, we might say, at the risk of creating another incongruity, at the “end” of a “circuit of capital”). When the commodity is exchanged for money, or the loan repaid, the transaction is ended and the competition is over. That was, essentially, a mercantilist conception in which money is either (both) means of exchange and credit: buying and selling, borrowing and lending: an M-C-M' circuit.

In recent decades finance has left that essentially mercantilist origin behind because money is transcending the roles of means of exchange and credit – or it is transcending our ordinary conception of those roles. Competition for rates of return is now a more diffuse process. Finance is searching out and constructing what is liquid (saleable / convertible) in all “assets” and in the process giving once-non-financial things a liquid, financial dimension to which a rate of return attaches. Something as fixed as a house can be reconfigured as liquid in the form of a mortgage-backed security. Telephone bills and health insurance payments become the income-generating assets which underlie highly liquid asset backed securities.

The calculation of finance consumes more and more facets of social life. It is making all different sorts of assets commensurable and in the process broadening the concept of capital itself. This is, surely, the substantive meaning of “financialization.”

This process, rather than inflated asset prices followed by the bursting of bubbles, constitutes the crisis of finance. It is a crisis of valuing an unknowable future: a process that occurred long before and will continue long after the financial crisis of 2007-09: the so-called “Global Financial Crisis.” Framing crises as events depicts a discrete period of failure. It denotes financial contradictions as having beginnings, ends, and returns to non-crisis. It has led to calls for a return to “normalcy,” often involving sentimentalizing the past role of finance or at least going back to old practices – the world before derivatives. But going forward, there is no going back. Our agenda is to not to find the flaw which led to crisis (as if crises are to be cast as failures), or the key to end the crisis (as if failures could have been avoided), but to identify the newly-framed contradictions of the present.

The issue is not just that the future cannot be known, and that commodified risk is innately bounded. It is also that there are not stable units of measurement. The conventional global unit of account – the US dollar – is itself both volatile and unpredictable. The fragility of the dollar has exposed that the only units of measure are relative ones – and hence measurement is itself an innately competitive process, where benchmarks are measured not in units (dollars, or ounces of gold, or even labor time), but rates of return. The US dollar may still be a preferred store of value, but its value is continually commensurated with a vast range of other asset values. Financial markets price US dollars relative to Euros, and both relative to GM bonds, Google equities, the likelihood of interest rate changes on the yen, and the likelihood of frosts in Florida. And those securities backed by houses, health insurance, and telephone bills come into these calculations too. In effect, everything is being priced relative to everything else in terms of their anticipated future rate of return. So the crisis of valuing the future is a perpetual crisis: it has no solution. Occasionally it manifests as a “global financial crisis.” This relative valuation process is what goes on within markets for financial derivatives (including financial securities.<sup>2</sup> When we strip away the issues of lack of transparency (the features of derivatives made prominent in Enron) and excessive leverage (the features of derivatives made prominent in Lehman Brothers), derivative markets are the site where the different attributes of capital (framed as commodified risks) get priced relative to each other. Moreover, when the attributes of capital are framed as com-

modified risks, capital's very definition is being framed in terms of the future: the likelihood of future events. It's about going forward. The present relative values of dollars, yen, GM, the Florida orange crop, home loan, and telephone bill repayments, and Google are all cast as discounted versions of future expectations of each of these assets.

Within this process, labor and households become incorporated into capital in new ways: not just as workers (paid and unpaid), nor just as borrowers (the mercantilist conception of finance), but now also as providers of income streams on which financial securities are based. Household payments on mortgages, credit cards, auto loans, education loans, and so on, are all integral to global finance and asset diversification and commensuration. The effect is to turn labor from a class in production also into a form of financial asset with a distinctive risk profile.

Herein lies a potential power of labor and households, akin to, and parallel with, its potential power in the workplace. Just as labor is essential in production, so it is now essential in financial markets. It is a battle now being played out in many parts of Europe as state fiscal austerity cuts employment and living standards, but the potential lies not just in relation to state budgets, but to a politics of resistance also in financial markets themselves.

But this is not the popular radical political agenda, which has predominantly focussed on reforming the financial sector, on making finance more compliant via constraints on salaries and derivative trading by investment banks. A prediction in the midst of the global financial crisis was that financial derivative markets were in disrepute: they had been "outed" as sites of speculation, "weapons of mass destruction," to quote Warren Buffet, and sources of volatility.<sup>3</sup> It was contended they would diminish their role in a post-crisis world. The argument goes that financial derivatives are too fragile a form and too inexact a science to be relied on to express relative values.

The Bank for International Settlements Triennial Survey of Foreign Exchange and Derivative Market Activity provides evidence of what happened to derivative markets before and after the Global Financial Crisis. The 2007 survey was held in April, a clear margin before the global financial downturn in September. The April 2010 survey may have been conducted in fragile business and economic conditions, but a clear margin after the 2008 defaults and bailouts. From 2007 to 2010, turnover on foreign exchange markets increased 20 percent, and turnover in OTC interest rate derivative markets increased by 24 percent. Growth was not as rapid as between 2004 and 2007, but there is not evidence in 2010 of a post-Global

Financial Crisis retreat from derivatives. On the contrary, it is evident that derivatives have now to be understood as integral to capital markets, to the commensuration of capital values and hence integral to how we understand the concept of “capital.”

Within the foreign exchange market, the growth in turnover was predominantly undertaken by what the Bank for International Settlements terms “other” financial institutions: predominantly hedge funds, pension funds, mutual funds, and insurance companies. Between 1998 and 2010, their collective share of turnover in foreign exchange markets has grown from 20 percent to 48 percent, while the share of big banks has declined from 63 percent to 38 percent.<sup>4</sup> Compared with the big banks, whose *raison d’être* is “credit” (our traditional conception of finance), these “other” financial institutions play different roles in financial markets. They have diverse constituencies, but it could be reasonably said that the one thing they share in common is that they are engaged in the “search for yield”: their investing is focussed on new forms of asset markets, discerning “mispricing” and hence arbitrage opportunities. Even the smallest “mispricing” can generate large returns if it is backed by large enough investments. They can generate large losses too.

This “search for yield” is the form taken by the relative valuation processes that commensurate different future asset values and provide us with our unit of measure. In effect, hedge funds and pension funds can be seen to be emerging as the custodians of the valuation of capital. They are the ones who oversee the unit of measurement because they are at the center of the commensuration process that binds all asset markets together. Once it was gold, then it was central banks. Going forward it is hedge funds and pension funds. Finance creates the social world in the image of capital, and the social world becomes the anchor of finance. Going forward, this precarious regime is the perpetual crisis of finance.

#### Notes

<sup>1</sup> Personal communication, former McKinsey New Zealand consultant.

<sup>2</sup> Securities are derivatives in the sense that what gets traded in a securities market is exposure to the performance of an asset; not the underlying asset. A mortgage-backed security trades the performance of the mortgage (rates and levels of loan repayment), but the owner of a security has no ownership of the mortgage itself.

<sup>3</sup> Nonetheless Buffet’s hedge fund, Berkshire Hathaway, is an active user of derivatives, and not simply as “hedging” instruments. Even when he was warning about derivatives Buffet explained, “At Berkshire, I

sometimes engage in large-scale derivatives transactions in order to facilitate certain investment strategies.” More recently, in response to observations about the company’s extensive derivatives trading he noted somewhat less allegorically, “[W]e’ve used derivatives for many, many years. I don’t think derivatives are evil, per se, I think they are dangerous... We use lots of things daily that are dangerous, but we generally pay some attention to how they’re used.” Cited in Alex Crippen, “Democrats Reject Warren Buffet’s Bid for Derivatives Exemption,” CNBC, 26 April 2010, available at <http://www.cnbc.com>

<sup>4</sup>The other 15 odd per cent is non-financial institutions: essentially corporations and states. For further discussion of these categories, see Dick Bryan, “The Global Foreign Exchange Market: An Interpretation of the Bank for International Settlements’ Survey of Foreign Exchange and Derivatives Market Activity, 2007,” *Global Society*, 22 (4), 2008.

#### References

Bank for International Settlements (BIS) (2010) Triennial Central Bank Survey: Foreign Exchange and Derivatives Market Activity in April 2010. Preliminary Results - Turnover. September. Downloaded from <http://www.bis.org/publ/rpfx10.htm>