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The Socialization of the Financial Instruments

Review by Ehsan Lor Afshar

The Social Life of Financial Derivatives: Markets, Risk, and Time
Edward LiPuma
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According to Edward LiPuma, a dominant name in the anthropology of finance, we now live in a new and transformative phase of capitalism in which the proportion of wealth "held in financial as opposed to physical assets" is continually growing. This monetary capitalism is increasingly marked by financialization, speculation, risks, creation of derivative instruments, and circulation rather than production. To comprehend the economy of present and its politics, LiPuma argues, we need an adequate theorization of the social life of the new financial instruments such as the derivatives (p. 2). His project, thus, aims to offer an articulate social theory of the derivative, its markets, and the agency of those who drive these markets. He investigates the interrelated dynamics between the social, the culture and the subjectivity that engender the derivative and simultaneously are transformed by it. Institutions of knowledge and finance are central to this dynamic whose primary function is reproducing the derivative-driven capitalism. In ten chapters and close to 400 pages, LiPuma tries to explore sociostructural aspects of this new phase of capitalism. As each chapter deals with only one aspect, such as temporality, performativity, and rituality of the derivative markets they could be read independently.

LiPuma's argument is built on his two decades of experience and observations as both an active trader in the derivative markets and a researcher who has analyzed thousands of hours of financial media broadcasting. His background in economics in addition to his longtime engagement with the derivative markets have well positioned him to assess the financial markets.

Having argued crises can best illuminate the hidden sociality of financial markets and the performativity of those markets, he takes the financial crisis of 2008 as his departing point. According to LiPuma, the financial view is unable to capture the crisis because it tends to remove the socio-structural and is mainly interested in working only with “wayward individuals.” The social aspects of financial markets, for this reason, have remained invisible to the financial eye. A social theory of finance not only helps us to construct a better understanding of the crisis but also shows how a derivative-inspired crisis is fundamentally different from those motivated by a withdrawal of cash from banking systems. Whereas the finance economics tries to naturalize and individualize financial markets and their participants, a social analysis illustrates markets are in fact relational and products of social life, infused with exchange and use values.

The crisis, for LiPuma, contains epistemological and intellectual merit. It was only because of the crisis that one was able to comprehend how the knowledge produced about economy and finance was to a great extent flawed and misleading. In fact, the crisis invited a reconsideration of such well-established economic theories as “markets are efficient and self-correcting” and “systematic failure is impossible,” that were previously imagined as unquestionable. The crisis has also revealed that how the financial markets are increasingly inclined towards risks, speculation and circulation rather than work and production.

The book benefits from the concepts and perspectives developed in social sciences to portray the crisis and its nurturing environment as being generated through the relatively new circulatory capitalism. Concepts like performativity, objectification and sociality were frequently employed to portray people’s lives and experiences as the social grounding of the derivative. Therefore, the derivative is considered as a form of value production which requires and reproduces its own unique markets, culture, and subjectivity. Subjects, for instance, in this monetary capitalism are required to advance their financial literacy and deepen their speculative ethos to sustain a life with some security.

The first chapter of the book investigates the question of what a derivative is and how it works. The author’s answer to this question expands from ideology to phenomenology and history. At the ideological level derivatives are mechanisms for making money and profit. At the phenomenological level, however, derivatives are “relations about relations” (p. 28). Time and volatility are the central parts of these relations and accordingly central parts of wealth-making strategies. What is at stake is the relative change or volatility in the relationships between underliers over the specified time. An underlier is an entity, a commodity or a financial index, whose price gives value to the derivative. In other words, the derivative is a time-dependent wager on the volatility of underliers (p. 37). Since the very existence of the derivative and its markets depend on volatility, they require the social world with its enormous disruptive forces to continually destabilize the market. From a temporal perspective, the derivative markets are the "historically determined yet arbitrary means by which capitalism assigns value to capital at risk when it evolves a transformed platform for self- expansion whose mainspring is the circularization of nation state based production" (p. 29). This idea is developed under the author's notion of "deterritorialization of economy." Deterritorialization of an economy refers to the conditions in which capitalism transforms from the independence of productive economies to interconnectedness of derivative markets.

The second chapter explores the relationship between derivatives and production of knowledge (e.g., big data) in regard to the crisis. What kind of knowledge do agents use to reproduce the markets and how do those markets reproduce agents who populate them? High-money finance is getting increasingly complicated and invisible to academics as it tends to happen behind closed doors. LiPuma suggests that "an alternative theorization of the social," as a prerequisite to comprehend the financial markets, not only considers the derivatives as global and intrinsic to the production of (abstract) value, but also treats culture and the production of knowledge as intrinsic to the social form of derivative driven capitalism" (p. 114).

A social theory of the practice of derivative creation and circulation is outlined in chapter 3. The first step to set out such an approach is to consider the financial markets as "socially imagined totalities." The second principle is to understand the construction of the objects, be they the markets or the derivatives, the objects of investigation are the product of humans' collective actions. In addition, the objectification of these markets requires scholars to account for a performative dimension that directs inherent rituality of social practices. A financial habitus founded on a speculative ethos constitutes the heart of LiPuma's social theory of the derivatives. The social theory of finance, according to LiPuma, must entail eight principles: multiple determinations; historical specificity; theoretical openness; social collectivity; agency's production; the doctrine of realism; social practice; and self-reflexivity.

Temporality is an essential part of each market. In fact, markets' participants build their relationships on their assumptions about the continuity of those markets. The fourth chapter of the book explores the temporality of the derivative markets which allows individual agents to construct the markets through their collective actions. Here, LiPuma's argument is the derivative market's internal temporal dynamic generates the propensity for instability through its inevitable continually risk-increasing process (p. 144).

The idea of the temporality of the financial markets has been stretched to the fifth chapter which discusses the social grounds for producing and reproducing of the derivative markets. The derivative markets first and foremost enact a presupposition of the continuity of transactions. Chapters seven and eight deal with the agents and their practices in the derivative markets. Concepts such as the speculative ethos, the financial habitus, and the monetized subjectivity have been developed to take the analysis beyond the simplistic narrative of greed and egotism.

In general, with little or no reference to the political system and power relations, this book remains relatively apolitical, despite the tremendous potential overlaps with political economy. Specifically, when you come from a social sciences background, you expect a severe criticism of the political system while reading a book about capitalism. However, if you can neglect this shortcoming, you will find the book extremely interesting in terms of opening new windows to the financial landscape.

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