

“Organising and Financial Markets: Lessons for Regulation”

Presentation by Nicholas Hildyard
The Corner House
at

[Political economy, financialization and discourse theory conference](#)

Cardiff Business School, Wales

28-29 May 2009

Six months ago, I was asked to give a presentation on the causes of the financial crisis at a meeting organised by a “Think-do” tank (their description) in Brussels. I felt rather like a 15-year-old faced with one of those questions that used to come up regularly in history exams: “What were the causes of the Second World War”? Even if I’d done my homework or revision, I still wouldn’t know where to start. With the proximate causes of the War (at least from a British perspective) – Germany’s invasion of Poland, for example? Or with the ravages of Germany’s “Great Inflation” during the 1930s depression years? Or with the humiliation felt by many Germans over the Treaty of Versailles at the end of the First World War?

Or, as historian Ian Kershaw suggests in his biography of Hitler,¹ with the superiority of the Nazi Party’s organising skills over those of its rival parties and consequently its success in exploiting the opportunities thrown up by economic depression and nationalist slight for its own racist and expansionist ends?

I mention this last explanation because, although undoubtedly only part of the answer as to what caused the Second World War, it is a part that is often overlooked. Moreover, there was nothing about either the 1918 Versailles Treaty or the Great Inflation or the economic depression of the 1930s that would inevitably lead to a racist, militaristic and nationalist party gaining such power. Without understanding how the Nazi Party organised itself to achieve power, other “explanations” merely raise further questions that demand further answers.

I think there may be some lessons or insights here for those of us who are not only seeking to understand the origins of the financial crisis – what caused it – but also to develop ways forward that would ensure that it is not repeated and that, in future, finance serves a public purpose.

My own work on the financial crisis emerged out of a practical need to understand derivatives, who was using them and why. That practical need arose out of the solidarity work that The Corner House, the environmental and human rights research and solidarity group with whom I work, engages in. Many of our Southern partners were finding that proposed large-scale infrastructure projects, such as mines and pulp mills, that they were opposing because of the environmental and social devastation they would cause were being funded by hedge funds and other new financial actors, often after more conventional funding sources, such as the World Bank, had turned them down on environmental and social grounds – and the World Bank is hardly a paragon of environmental or social virtue.

The questions the various groups asked were practical ones: What are hedge funds? Who are they? How do they work? And, perhaps most importantly, how do we challenge them, stop them, engage with them, talk to them? (Some examples of the types of projects they were talking about are given in the paper that I have circulated – available at <http://www.thecornerhouse.org.uk/pdf/briefing/39wallmoney.pdf>.)

In trying to answer questions such as these, I learnt of the existence of derivatives and embarked on a steep learning curve, which, thanks to the insights and help of numerous other groups and colleagues, led to something (and I stress “something”) of an understanding of the many linkages between derivatives and tax havens; tax havens and securitisation; securitisation and financialisation; financialisation and the withdrawal of the state from many previously publicly-funded services; and the withdrawal of the state from such public services and the financial crisis.

But even once I’d understood what derivatives were and the key role they’ve played in causing the current financial crisis – or at least, I think I’ve understood until I’m presented with yet more alphabet spaghetti representing their latest incarnations – I realised that any analysis of the financial crisis that focussed on derivatives as instruments, without looking at how derivative traders, bankers and other financial actors had *organised* to establish and capitalise on their use meant that a vital part of the picture was missing. And because part of the picture was missing, it seemed to me that this was encouraging “explanations” (and attendant discourses) that were not only misleading but which also served the interests of certain powerful social networks and institutions.

To give some examples.

First, it is often claimed that “deregulation” lies at the root of the financial crisis. Deregulation certainly opened the way for High Street banks and mortgage societies to move into investment banking and vice versa. But it was regulation, in the form of the US Community Reinvestment Act, that encouraged the first forays of the banking sector into the so-called “sub-prime” mortgage market. And, even after the repeal of the Glass-Steagall Act in the US removed restrictions on commercial banks acting as investment banks, the US financial markets remained highly regulated – one reason why many set up shop in less regulated jurisdictions, such as the UK. Indeed, close attention to how derivative practitioners organised themselves to expand their influence within markets reveals that one of their biggest “selling points” was their ability to devise money-making products that enabled traders to circumvent regulation or to profit from regulatory arbitrage. This insight suggests that new regulation – though undoubtedly necessary – is unlikely to bring lasting control over financial markets: indeed for many derivative traders, new regulations will simply provide new opportunities for making money.

Understanding how derivatives practitioners “DIY-ed” their markets into existence also helps to puncture mainstream discourses that seek to defend derivative products as a much-needed response to pressing market demand for products that enable the better management of risk. Far from arising organically to facilitate a marriage between existing supply and demand – as free market theory would dictate – the modern derivatives market was born out of active lobbying; nurtured through a period of near-death by calling in social favours; legitimised through alliances with

academics; and dependent on the *engineering* of demand for a newly-created commodified product (risk) that few initially wanted. [Well, some people did – but that’s because they couldn’t face life without globalisation ...] As ever, the derivative practitioners used what was at hand: dinner-party colleagues, political contacts, ideologues-for-hire and mutual back scratching.

The existence and influence of such social networks, and their role in creating markets, strikes at the heart of free market theory. The derivatives market is revealed not as the outcome of the grad-grind laws of “supply and demand” supposedly acting to define the “public interest” but as just one “public” whose rules, structures and daily practices and collective purpose are directed, in this instance, at its own continuation for the money-making benefit of its members. For activists outside of the financial markets who are affected by the activism of derivative traders within markets, exposing the social networks to which the derivative markets respond may thus provide a powerful tool for puncturing the public interest claims of free market theory – and indeed the theory itself.

Recognising how derivative markets are organised socially also gives an insight into the pressure points that might influence their behaviour. One reaction of the public to the hugely inflated bonuses and pensions enjoyed by those at the top (though not the bottom) of the banking sector has been anger at the sheer “greed” involved. The outrage is understandable: in 2006, the top 25 hedge fund managers earned more than \$14 billion between them, equivalent to the entire annual GDP of Jordan.

But expecting bankers or hedge-fund managers to curb their excesses in response to moral outrage is to misunderstand the protective power of the social networks in which they operate. The problem is not, as some have argued, that banking has been “disembedded from society” but that it has been disembedded from those forms of social organisation that might view its current excesses – and the accompanying conflicts of interest – as “wrong”.

And it is the power enjoyed by the sub-cultures now dominating the financial sector that ensure that the derivative market is organised not around solidarity with poorer people, prudence and public service but around self interest, risk-taking and private profit. Changing that culture will require more than new regulations to govern salary rates – regulations that can be avoided (and which it will be a badge of honour to avoid) by the judicious use of tax havens. It will require rooting finance in different social institutions and relationships – institutions where greed, avoidance of socially-agreed rules and accumulation at other people’s expense are frowned upon, not encouraged.

There are many other possible insights that could emerge from closer scrutiny of the everyday organising of market practitioners to cement, deepen and extend their power and influence. Hopefully, some others may emerge during our discussions.

But there is one potential lesson that I would like to reflect upon. There is much that activists for social and environmental justice can learn, it seems to me, from the activism of City operators. For the derivatives revolution has not been achieved through “this year’s campaign” or through mass emails to ministers. It has come about through the everyday actions and organising of traders. In itself, this provides

important insights into the dynamics of change within markets – dynamics that suggest that critical responses to the financial crisis that rely primarily on “policy-oriented” tactics aimed at regulating what already exists may be far less effective in reclaiming markets for the public good than other everyday acts of grassroots “bricolage” aimed at organising – and through organising, constructing – alternatives to “The Market”.

Such acts of *bricolage* might include active solidarity with those seeking to develop (or to defend) social networks that share risk consensually, such as credit unions, where savers potentially have more direct control over what gets financed and how, or, as an alternative to derivative-based hedging in agriculture, community-supported farms,² where farmers sell directly to community members, who provide the farmer with working capital in advance, thus lowering farmers’ risks and ensuring they receive better prices for their crops. Active solidarity with movements, such as those committed to defending the “commons”, would also be critical to constructing a moral economy in which no one has the right to accumulate at another’s expense but where all have a shared right to decent and dignified livelihoods.

The everyday *bricolaging* of derivatives markets suggests that, far from being insufficient to leverage structural change, such grassroots activism and self-determination is, in practice, the primary organisational form that change is based upon.

Having the confidence to trust in the power of grassroots activism may well be the greatest challenge facing many professionalised – and often depoliticised – NGO activists. Grasping that nettle, with its organisational implications, may be the first act of *bricolaged* resistance that is required if the current financial crisis is to result in the reclaiming of finance for the public – and its defence against inevitable future attempts to recapture it for private profit.

¹ Ian Kershaw, *Hitler, 1889-1936*, Penguin, 2001

² See: US Department of Agriculture, “Community Supported Agriculture”,

<http://www.nal.usda.gov/afsic/pubs/csa/csa.shtml>;

Local Harvest, “Community supported agriculture”, <http://www.localharvest.org/csa/>;

Soil Association, “What is Community Supported Agriculture?”

<http://www.soilassociation.org/web/sa/psweb.nsf/cfff6730b881e40e80256a6a002a765c/467f8fa248c31d89802574c9004d526e!OpenDocument>;

Clunies-Ross, T. and Hildyard, N., *The Politics of Industrialised Agriculture*, Earthscan, London, 1992.