ephemera | forum
theory & politics in organization

ISSN 1473-2866
www.ephemeraweb.org
volume 9(4): 330-334

Sydney Forum on the Financial Crisis: Introduction

Dick Bryan and Michael Rafferty

Financial Analysis and Pedagogy

The financial crisis has been a crisis not only for financial institutions and those exposed to them, but also for financial analysis and pedagogy. Whilst some claim to have picked the 2007 asset price downturn, and even identified the US housing market as a key trouble spot, far fewer saw the scenario of a crisis of credit default swaps leading to a freezing of global liquidity. Generally, those who claim to have predicted the downturn, being of a bearish disposition, then took long positions on a deep recession, and the asset market upturn of 2009 has left their astute reading of the crash looking more like a lucky guess. The point is that there is no clear pattern or explanation of this crisis and its aftermath.

The sheer scale of the swings in asset prices, currency values and employment is confronting to market analysts and corporate managers, and also to finance scholars as both researchers and teachers. The conventional wisdom in finance does not generally "do" financial crises. Look at the undergraduate finance curriculum and rarely will there be courses on financial history, or on the social foundations of money and finance. Volatility itself is not a difficult challenge to finance pedagogy. There is no shortage of theories, strategic games and quantitative methods that can depict price volatility. The problem is that in an intellectual culture of equilibrium and balance, volatility is too readily cast as an aberration or deviation from a norm. Behavioural finance, for example, seeks to tell us why the calculations of individuals, alone and in herds, may deviate from a preconceived "rationality". It is the economics of deviance, generating the finance of distortion prediction and leading to the policy of distortion abatement.

Systemic volatility, as we have seen for the last two years, creates a different order of analytical and pedagogical problem, for its meaning must extend beyond the familiar terrain of individual behaviour. Reaching beyond that framework is an unsafe place to be. As a result, we have received from the finance profession descriptions of events, processes and products more than explanation, for within the essentially microeconomic tools of finance, systemic volatility is cast as an analytical void: as irrationality extended to an absence of coherence; as uncertainty as opposed to risk, with the corollary that uncertainty is beyond investigation. Risk is to be managed, but uncertainty is cast as the random, unconquerable enemy. In the markets, systemic volatility is when the herd ditches the scholarly models and the well-honed trading strategies and simply heads to cash.

In such circumstances, it is time to call in the state as the *deus ex machina* of financial crisis resolution. The response of policy is a war on uncertainty, in the style of a war of terror, where conventional techniques (risk management) must be supplemented by a culture of vigilance and compliance. Transparency and accountability, and severe punishment of those who transgress, are the hallmarks of such a response.

But, as in the war on terror, there is a need to challenge the response of compliance, for compliance blocks all challenges, not just the financial bombers. The challenge is not to be found in explaining aberration and distortion, but identifying profound economic and social change, in which categories of conventional understanding have broken down. Networks challenge the boundaries of the corporate entity. Financial derivatives break down the connection of asset ownership to returns on asset performance; they break down the distinction between debt and equity and between money and capital. Three decades of regulatory reforms have served to break down what is state and what is private: private credit ratings agencies perform state functions; state assets are held not in vaults but in hedge funds. Pension funds confront the demarcation of a class of labour and a class of capital, for all are living off profits. The home is both a place to live and, via mortgage securitization, it has become also a liquid asset. Corporations become networked communities at the same time as households are drawn from their communities into the individualized practices of financial risk management. "All that is solid", say Marx and Engels, "melts into air". It is an aphorism from the *Communist Manifesto* that is probably quoted too often, but it captures the process exactly!

Pedagogically, therefore, we are in a challenging environment. Volatility and unpredictability must be explained as expected and "standard", but the explanations cannot be undertaken using categories that have stability and order in their basic makeup. The categories that were once the benchmarks of understanding and quantitative recording of finance are now themselves breaking down. Accounting processes, value at risk and portfolio management theory are seen to be expressions of the crisis, not accounts of it. Instrumentalist approaches to teaching finance in the belief that quantitative techniques denote employability appear increasingly as formalistic indulgence, whilst understanding the profound changes in financial calculation finds a more comfortable home in the discourses of political and social theory than in business schools. The frontier issues of financial interpretation are now as likely to be in the cultural understanding of households and attitudes to debt, as in the mathematics of designing and pricing specialist products.

The challenge is how to teach finance in a way that both respects and confronts convention; that does more than radicalize a student population by outing the failures of technical analysis to say anything coherent about financial crises. To resurrect an old phrase, to depict finance curricula as "bourgeois finance" may be an edifying cheap shot, but it tells us nothing about how to understand the world (nor, for that matter, how to change it).

Yet, ironically, the discourse of conventional finance does indeed tell us much about how the world is changing, for more and more facets of everyday life are constructed and comprehended in its image, as processes of individual risk management. Everyday life needs to be rethought so as to bring coherence to the risk management agenda. In educational institutions, for example, we see continuous assessment to extract value, strategic investments for positional gain, star-driven metrics of productivity, expansive student debt and construction campaigns underwritten by captured student debt. These developments all suggest the ways in which the university itself abides and incorporates a financial logic.

However, finance theory lacks the critical self-awareness to realise that its own hegemony lies not in its mathematical precision, but in its vision of the computational self as the model of citizenship. The pedagogical task, therefore, is to push financial education into new areas of social analysis, not so that it can conquer them analytically, but the opposite: so that financial analysis can itself be conquered, for only then can the momentums that finance sets in place be explained and made sites of debate, contestation and intervention.

Workshop contributions

At the University of Sydney, the Australian Working Group on Financialization (AWGF) seeks to draw together the diverse intellectual strands that are required to frame these sorts of issues. Participants from across the business and social science disciplines, along with invited journalists, market players and regulators, meet regularly to discuss such matters. In July 2009, AWGF held a workshop on the Financial Crisis. That of itself is hardly a unique event. Some faculty members attended anticipating a descriptions-explanations-solutions sort of day, perhaps in the hope that clever analysis might point to regulatory manifestos. Some left empty handed; others could see the challenges as intellectually liberating. The papers presented at the workshop are seeking to confront the technical analysis of finance with its contradictions, to play with financial discourse so as to bring focus to its own enemy: the ambiguous, the resistant and the possibilities of change. To leverage an alternative politics off the discourse of finance is to pay that discourse the greatest of respect: to recognise its capacity to say far more than it currently does. This was the agenda of the papers presented here.

All these papers, in different ways, seek to bring a distinctive politics to what have become standard issues of financial reform agenda. A common theme is a critical engagement with the popular belief that reform programs will bring to an end the practices that generated the crisis.

Two papers, those of John Roberts and Randy Martin, address this in relation to corporate practices. John Roberts poses this issue within the practice of accounting itself, noting, in the tradition of Callon, the way in which the conventions of accounting performed the crisis. The implication is that reform agendas that focus on the creation of market transparencies will only serve to re-frame self interest. What is needed, he argues, is new forms of accounting that focus on relations and interdependencies.

Randy Martin's contribution addresses managerial expertise, a term we associate readily with Enron and "The Smartest Guys in the Room". He argues that the patent inability of "experts" to command the operations and products of financial markets opens up a more concern for the social power commanded by expertise. It is not just that experts got it wrong, but that failing shows to us the inability of experts to set their own contexts for knowledge, The failing shows the need for each expert to not challenge but to accept without criticism the range of specialist knowledges with which they must articulate. The labour of the professions is perhaps to be understood like financial markets themselves, as discrete portfolios of knowledge which must mutually articulate but cannot be relied to do so in a way that brings coherence.

Like Randy Martin, Martijn Konings focuses on professional expertise, but in relation to public media, not corporate boardrooms. He follows the discourse of Paul Krugman's analysis of policy agendas, and his swing between optimistic expectations of Obama's reform agenda and despair about reform outcomes. Konings notes how Krugman's populism served to create popular expectations, the effect of which was to leave his audience passive and disempowered.

The issue of populism is at the centre of the paper by Dick Bryan and Michael Rafferty. They, like Melinda Cooper and Angela Mitropoulos, turn the focus to the changing role of the household in the financial crisis, picking up on what Randy Martin termed "the financialization of daily life". Both papers, in different ways, draw out the tensions between the liquidity presumed of financial assets and the illiquidity of life, expressed in the "solidness" of the home. Bryan and Rafferty address the centrality of mortgages and mortgage-backed securities as a catalyst for the crisis. They note how, in populist and state responses to the crisis, households are cast as victims, outside the financial system, who now need support for financial literacy and consumer protection. The effect, they argue, is to constitute and reconstitute households as passive consumers, despite the fact that they displayed the capacity to create a global financial crisis.

Cooper and Mitropoulos extend this same line of analysis beyond the specifics of mortgage-backed securities and into the wide constitution of the household as a financial agent, in which financial processes which shift risk onto households is normalized and cast as expressions of freedom and democracy. They depict a frontier space in which the value form and a process of financial accumulation engage a household conceived in quite different dimensions. It is a site in which the value form can, and did, come undone.

Fiona Allon continues this focus on the household, suggesting that the redefinition of the home as an "asset" and an "investment" is one part of a much wider *cultural rationality* that emphasises an image of the enterprising and responsible citizen who seeks out opportunities for asset-accumulation and investment not just as a sign of a self-directed and autonomous life, but as a much-need source of welfare and security over the life course. For Allon, the idea that the crisis was the function of exogenous financial forces and associated *irrational* "herd behaviour" fails to acknowledge the cultural rationality that saw the constitution of the citizen as someone enjoined, indeed required, to invest in their lives through debt-fuelled, and frequently asset-based, consumption that most often than not depended on the home as an object of leveraged investment.

In each of these contributions, a new politics is flagged. It is a politics which is conceived in making stark what is systematically excluded – conceiving of potential in neglect, and challenging the foundations which usually go unquestioned. It is not a politics with a ready-made policy solution, and intentionally so, for the objective is to probe and reveal, as an on-going agenda. To nominate formal policy solutions is to stop probing, and to privilege just one dimension of an issue.

This conception of political response, perhaps, reveals starkly the critical pedagogical issue for finance. The study of that which celebrates fluidity and optimising must itself be conceived in the same mindset, where the key to understanding comes from challenging possibilities as well as mastering techniques.

the authors

Dick Bryan is professor of Political Economy at the University of Sydney. His research, published predominantly with Michael Rafferty has for a decade focussed on money and on innovation in financial markets, and financial derivatives in particular. This research includes the monograph *Capitalism with Derivatives: A Political Economy of Financial Derivatives, Capital and Class* (Palgrave 2006). Prevalent issues in current research relate to the evolving role played by labour in financial markets and products.
E-mail: dick.bryan@sydney.edu.au

Michael Rafferty is a Senior Research Analyst at the Workplace Research Centre at the University of Sydney. He work focuses on money and finance and the finance industry. As well as work with Dick Bryan on derivatives, he currently works on the performance of superannuation (pension) funds and on issues of capital stewardship. His publications include the monograph *Capitalism with Derivatives: A Political Economy of Financial Derivatives, Capital and Class* (Palgrave 2006).
Email: michael.rafferty@sydney.edu.au