Economy and Society ›
Volume 36, 2007 - Issue 1

3,009 Views | 70 CrossRef citations to date | 1 Altmetric

Original Articles

Financial derivatives and the theory of money

Dick Bryan & Michael Rafferty

Pages 134-158 | Published online: 22 Dec 2006

Cite this article https://doi.org/10.1080/03085140601089861

Sample our Economics, Finance, Business & Industry Journals
>> Sign in here to start your access to the latest two volumes for 14 days

Abstract

Financial derivatives are used and counted as money, but it is unclear exactly what sort of money they are. This article explores the monetary role of financial derivatives in securing the global financial system. It finds that derivatives commensurate the values of different forms of financial assets, and, in the process, they facilitate continuity across different forms of money. In this role they are a form of commodity money, but very different from conventional understandings of commodity money. In developing this idea the nature of mone which cannot a of money, and mmodity mone

Keywor

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our Privacy Policy

Accept All
Essential Only
Settings

Notes

1. For the purposes of this paper, the term ‘derivative’ will be used in relation to financial derivatives, except when specifically noted. Not all derivatives are financial and, indeed, while derivatives have been traded for thousands of years in relation to commodities (rice, cotton, tulip bulbs, etc.), derivatives specifically related to finance have existed for only three decades. But such has been the speed of their growth that commodity derivatives now make up less than 5 per cent of all derivative transactions.

2. Just how derivatives are counted remains an on-going debate. The fact there is a debate is a signal that derivatives are a very different form of money. For an IMF perspective, see Vrolijk (1997).

3. This is the International Swaps and Derivatives Association (ISDA) estimate of the notional amount outstanding at the end of 2004 in interest rate, credit and equity derivatives. All but $12 trillion is interest rate (including currency) derivatives. Two years earlier (December 2002) the aggregate figure was just $105 trillion.

4. This is the BIS measure of daily turnover on OTC (over the counter, as opposed to exchange traded) derivatives.

5. See Ingham (2004) for a sustained exposition and critical evaluation of this conception.

6. This was the effect of the Black-Scholes options pricing model, whose (living) authors received the Nobel Prize for Economic Sciences in 1997.

7. Robert Shiller, and others, through his company Macro Securities Research (see <http://www.macromarkets.com/index.htm>) has patented a range of derivatives designed to give life stability – for example, securities which are either positively or negative ake on an exposur house owner, y Shiller hims

8. From the poor are exploite l, or even eliminat thority (Eatwell and Taylor 2000).

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

9. See also Derrida (1992: 129 n.9) for a similar depiction of global finance. Tratner (2003) astutely notes the parallels between Derrida's depiction and Milton Friedman's monetarism: the quintessential depiction of money as a ‘veil’, separate from the ‘real’ economy.

10. Lysandrou (2005) develops a similar argument in relation to securities: that developed securities markets serve to impose competitive norms across asset types and across space.

11. Aglietta (2002) provided a sweeping review of the history and future of money that centres on the issue of trust.

12. The distinction between money and money of account is important, for failing to distinguish leads to confusions. For example, in summarizing ‘structuralist’ theories of money, Gilbert (2005: 364) depicts an evolutionary development of the money from single purpose to general purpose monies, which have ‘culminated in national currencies as the apotheosis of the modern form’. But national currencies are monies of account, not money per se and, in a global context, they do not function as general purpose monies – indeed, most national currencies are not means of exchange outside their nation-of-origin.

13. Gilbert, in attempting to combine the ‘economic’, ‘social’ and spatial dimensions of money (and the way in which these dimensions are mutually defining), refers to the need to reveal money's paradoxes. In the midst of polemical debate, this is an important contribution. Revealing the paradoxes ‘provides a more nuanced understanding that money is at once both homogeneous and heterogeneous, a metaphor of modern society and a material object rooted in daily practice, and that it circulates through time and place, across and through various scales that it helps constitute on its passage’ (2005: 361).

14. The Economy and Soci of money's origin is facilitate gene unt. It is a sign of this debate.

15. In re eadily fit into Ingh tronic

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

transfers as about not monetary exchange but monetary transmission. Only cash can be a means of exchange. Issues of different forms of money are thereby swept away by invoking taxonomy.

16. For the Keynesians who focus on state money, it is necessary to distinguish which particular tokens constitute ‘money’ and which do not. In a closed economy, this reduces to the specification of where to draw a line between money and other tokens, such as train tickets, which are also denominated in national money of account. But the question also needs to be posed in an open economy, where the tokens that contend to be considered as money are not just train tickets, but liquid financial assets (bonds, futures contracts, etc.) and often denominated in another national money of account.

17. Ingham several times refers to the state or some other ‘authority’, so that the state is ‘not essential to the analytical, or logical, argument about the primacy of money of account’. Yet he also contends that non-state monies of account ‘are chronically unstable’ and are not sustainable (Ingham 2006: 271, 273).

18. In Ingham's 200+-page book The Nature of Money (2004), the discussion of contemporary floating exchange rates amounts to just a few paragraphs.

19. To this point we could add that organizations that participate in financial markets seem to have a remarkable record of not seeming to accrue many taxation obligations that might challenge their asset portfolios.

20. Derivatives need state money as their money of account; states use derivatives as part of the prudential requirements of their own operations (especially the central bank) and of financial institutions within the national territory. See Bryan and Rafferty (2006: 207–10).

21. Broadly, there are three paths – one is the TINA argument: that if derivatives are not state y money. Another commodity function ply: ‘The fact t laims on the profit lies that the underlyi 5: 776). A third pat erivatives

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

as commodities. This is the path taken here, but the issue is clearly larger than can be explored in this context. See also Bryan and Rafferty (2006: ch. 6).

22. For Ingham's state theory of money, this is fundamental: the state and the trust its money of account elicits is all about guarantees of stability, and stability is a precondition for objectivity in measure.

23. Of course, derivatives do not engage ‘monies’ without convertibility that associate with non-capitalist processes, such as local exchange trading schemes. LET schemes have received some attention as ‘alternative’ money (e.g. Ingham 2004: ch. 9; see also Dodd 2005).

24. Lapavitsas's (2000) excellent summary of Marx's theory of money shows clearly the centrality of commodity money to Marx's analysis of money. But twenty-first-century money is another matter, and Lapavitsas's analysis of contemporary money (e.g. 2003) has left commodity money aside.

25. We are drawn to Fleetwood's (2000) explanation of the necessity of commodity money to the integrity of Marx's theory of value, but not to his (tentative) conclusions that the abandonment of commodity money means the end of a universal equivalent form of value. Nor is there the question of why nation-states have abandoned the universal equivalent and the value form. This appears a rather instrumentalist approach to value theory, and, more critically, fails to open up the terms on which Marxian value theory can be used to understand new forms of money.

26. Notice how Zelizer's (esp. 1994) approach, with its emphasis on the individualized, social and cultural uses of money, complements Shiller's conception of derivative contracts to meet individual life circumstances.

Relat

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings

Copyright © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions Accessibility

Taylor & Francis Group an informa business

Registered in England & Wales No. 3099067
5 Howick Place | London | SW1P 1WG

About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click “Settings”. For further information about the data we collect from you, please see our Privacy Policy

Accept All

Essential Only

Settings