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Original Articles

Financial derivatives and the theory of money

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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.

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elimination, by a Tobin tax (e.g. ul Haq et al. 1996) or a World Monetary Authority (Eatwell and Taylor 2000).

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 nat

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15. In response to Dodd's (2005) concerns that electronic money does not readily fit into Ingham's framework, Ingham's response (2006: 260) is to identify electronic 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.

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third path, building on the second, seeks to identify the productiveness of derivatives 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 universa ... list approac ... which Marxian

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