3

SPECULATION

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Introduction

Speculation has always been a central focus of the critique of finance—so much so that the rejection of speculation has become emblematic of what it means to offer a critical perspective on finance. What I consider to the paradigmatic critique of finance takes finance to task for its tendency to generate unstable bubbles of fictitious value that are not rooted in real value or solid economic foundations. It sees finance not as governed by neutral imperatives of efficiency and equilibrating mechanisms, but rather as driven by what Keynes called “animal spirits,” irrational bets on the future that are not warranted by fundamental values. On such readings, the attribution of self-stabilizing and self-correcting properties to financial markets is rooted in an inability to recognize the problem of the recurrent character of the speculative impulse and the instability that necessarily results. This paradigmatic critique is increasingly often formulated through Polanyi’s understanding of the process of market “disembedding.” It rejects the notion that markets can be self-regulating: through speculative trends, they tend to become disembedded from their environment in ways that are unsustainable and give rise to the need to restore limits and foundations.

This chapter formulates a critique of this general orientation of the critique of financial capital. It bears emphasizing that my target here is the critique of speculation precisely in its paradigmatic character. After all, there are plenty of financial practices of which we would be unable to understand the problematic effects if we did not have an appreciation of the role of speculative forces. Currency speculation by hedge funds and subprime credit extended by predatory mortgage lenders are cases in point, and large literatures exist on these topics that clarify the role of speculative practices in producing inequality and instability at the global and national level. Nor is this to deny the possibility of local
manifestations of irrational speculation that can easily be called as such: there have been plenty of instances in history where the unsustainably speculative character of a particular set of prices was perfectly obvious, even to the participants who are all waiting to get out at the right time. The problem that I am concerned with arises when the critique of speculation becomes detached from such empirical investigations and comes to feature as a general theoretical point. This also means that I am using the term “speculation” in a way that isn’t meant to be overly technical and that shades over into its more philosophical uses. For instance, I will rely on a re-reading of Hyman Minsky’s work to develop my argument, but I am here more interested in his observation that any economic investment is speculative than in his more technical classification of speculative financing structures—and in this way it serves as a useful bridge between economic and broader, more philosophically inclined perspectives on speculation. In other words, the critique of financial capital cannot be rooted in a rejection of speculation.

At the heart of the critique of speculation is a distinction between real and fictitious value: speculation is seen to generate financial forms that lack substance and whose claim to value is fake and illusory. In the terms of contemporary social theory, the critique of speculation is premised on a substantivist or foundationalist conception of value. This line of thinking has entailed a particular understanding of regulation and governance, which is focused primarily on the possibility of restraining or regulating speculative forces. In this way, a materialist foundationalism is often complemented by an idealist perspective on the nature of public authority: mechanisms of governance tend to be understood as standing in an external relation to finance, as standing above rather than being embroiled in the dynamics of economic life.

The problem with the paradigmatic critique of finance is also empirical: its inability to account for the fact that a history of the secular expansion of credit runs right through the history of financial volatility. At each point in history, there is a common-sense plausibility to the idea that the amount of speculative credit has become excessive, unsustainable when considered in relation to the productive capacity of economic life. But it has proved extremely difficult to operationalize this idea and to specify the point at which speculative credit becomes unsustainable. Capitalist finance enjoys a stellar track record of disproving predictions of collapse (Konings, 2011). In the introductory chapter of this volume, Borch notes the paradoxical resilience of financial systems: their ability to survive economic and political events (such as the crisis of 2007–2008 and the widespread critique of the role of finance in contemporary society that emerged during the following decade and is still in full force) that might have been expected to take the wind out of their sails.

When seen from a broad historical perspective, it needs to be acknowledged that any attempt to legislate standards of value or to specify foundations has been disrupted by actors pushing for the promissory character of credit to be extended beyond existing definitions and parameters, and by financial
innovations that open up new ways to make claims on the future through the creation of credit. To put this differently, the role of speculation in the making of the present state of capitalism is only comprehensible if we understand it as part of a self-referential logic. The paradigmatic critique of finance rejects that idea altogether: its point is precisely that finance is not self-referential, that capital does not have autonomous powers of self-multiplication. To think otherwise, it is argued, reflects a lack of critical insight, an inability to see through the ideological self-justifications and fantasies (such as the efficient market hypothesis) of orthodox economics. In this chapter I want to argue that we should acknowledge the self-referential character of finance and that it is possible to approach this in a critical way.

The critique of speculation has most currency in political economy (Keen, 2017; Streeck, 2014). But to foreground it as having a paradigmatic status, as I do here, is to emphasize that its influence extends well beyond those fields. This suggests a slightly different point of entry than that adopted by Borch, who emphasizes that there exist various avenues for articulating finance and critique. That is certainly true, and I agree about the vital importance of the new resources that he highlights, which are prominently represented in this volume. But I wonder if our existing habits of thought prevent us from deploying these resources to the fullest possible extent. Thus, whereas the introductory chapter outlined a number of (very sensible) methodological parameters for the emerging field of critical finance studies, I wonder if we need to do some additional preliminary work to address the blockages that prevent us from working with these to develop more productive lines of critique.

Once we move out of the field of political economy, the hold of the paradigmatic critique of finance as I have outlined it in the above is certainly more ambiguous and tenuous. New perspectives on finance in the social sciences and humanities in particular have tended to adopt a different style of analysis: refusing to take an external, strongly normative or judgmental point of view, they take more seriously the way financial actors themselves understand and narrate their practices. I agree with Borch that there is nothing inherently non-critical about such an approach—indeed, the shift from external to immanent forms of critique is a necessary move in the attempt to revitalize the project of critique. But I nonetheless feel it is important to recognize that, in practice, these new perspectives have often been less interested in renewing than moving “beyond” critique (Latour, 2014). Thus, whereas the paradigmatic critique of finance entirely rejects the self-image of finance as irrational, new scholarship has at times displayed a somewhat exaggerated fascination with the way financial actors view and model their own practices (e.g., Lépinay, 2011; Mackenzie, 2006; cf. Cooper & Konings, 2015).

That is certainly not meant as a blanket judgment, nor to deny that many scholars working in new approaches to finance are critical of the way finance operates. But it is not clear that the field has been able to translate theoretical innovations into a compelling new approach to critique. In particular, despite
its rejection of foundationalist modes of thinking, it has had considerable difficulty theorizing the self-referentiality of finance from a critical perspective. That is why—to the extent that it has been unwilling to go along with the post-critique trend—it has been susceptible to relapsing into the more established narratives furnished by the paradigmatic critique of finance. Critique has continued to center on the idea that there is something excessive about finance, that its speculative dynamics fail to respect limits and foundations.

That our conceptual intuitions have been primed in a way that is not easily bypassed is suggested by the travails of one of the key concepts in the conceptual armature of critical finance studies—performativity. The latter concept is central to the field’s ambitions to move beyond foundationalist assumptions and, on the face of things, would appear to be a decisive move in providing a critical perspective on self-referentiality, allowing us to understand speculation not as a wilful disregard of ontological value foundations but as the temporally situated logic whereby values are constructed in a world that lacks pre-existing ontological foundations. Performativity implies a different approach to the speculative dimension of economic life: speculation is not primarily seen as a dysfunctional deviation from fundamental values but rather taken as a normal aspect of modern economic life, as reflecting the absence of foundational certainties and the impossibility of eradicating risk. Economic action by its very nature engages uncertainty; it is inherently anticipatory and forward-looking. This means that speculations are constitutive and potentially productive: they are not simply right or wrong predictions about the future, but they can provoke the future, bring into being the economic reality that they project (Adkins, 2018; Muniesa, 2014).

This represents an important shift in perspective. But its implications have yet to be pursued in ways that challenge the paradigmatic critique of speculation. The performativity theme has been pursued primarily at the micro- and meso-level, often through the empirical or ethnographic exploration of risk practices, and its implications for broader questions of order and system-level dynamics have remained highly uncertain. It could of course be argued that this simply reflects a different thematic focus. To some extent that may be the case, but there are nonetheless good reasons to think that there is something about the way the performativity question has been framed that limits its critical reach. Here we can follow Butler’s (2010) concern that the performativity literature has at times been prone to returning to idealist conceptions of social constitution as a primarily discursive process. Seen from this angle, it is useful to situate performativity as part of a wider constructivist turn, one that has had a major impact on the political economy literature as well, and to emphasize the difficulty that this constructivist turn has had in escaping from the gravitational forces of Kantian idealism.

This chapter argues that the problematics of “construction” and “performatance” can be usefully reframed in terms of Niklas Luhmann’s understanding of self-reference. Luhmann’s radical-constructivist understanding of self-referential constitution militates against any attempt to fall back on notions
of construction as a linear process governed by the rational logic of discursive legitimation. This is then used to offer a new perspective on Hyman Minsky’s work. In political economy and beyond, Minsky is known as a critic of financial speculation and excessive levels of debt, who looked to the state to impose restrictive regulations on these dynamics. This chapter suggests that Minsky’s work can be read in a very different way: for Minsky all investments were to some degree speculative in the sense that their market price does not reflect an underlying fundamental value but is shaped by the interactive logic of valuation. Minsky was closer to the Keynes who likened the dynamics of valuation to those of a beauty contest than the Keynes who became an iconic thinker of financial repression.

This also means that his work contains a more subtle understanding of financial governance than has so far been recognized. His commentary on the monetary policy situation of the 1970s shows that he understood all too well that the state simply did not possess the kind institutional independence that might have enabled it to curtail speculative financial processes. He viewed the problems as stemming precisely from the fact that the central bank was unable to extricate its operations from the logic of the financial system itself. This analysis of the 1970s bore striking resemblance to Hayek’s critique of what he termed “rational constructivism,” which argues that it is essentially impossible for public authority to rise above the economic logic of risk and uncertainty and to occupy an external, neutral point of view from which to govern. But whereas Minsky seemed to have taken his own analysis as cause for despair about the possibility of returning to a well-functioning economy, Hayek’s neoliberalism saw a clear way out of the problem. For him, the problem was the belief in the possibility of social engineering that progressive liberalism had entertained in the first place, and the solution was accordingly seen to consist in the active repudiation of irrational fantasies of rational construction and a more committed embrace of the necessity of contingency. Hayek enjoins the economic subject to view speculation as a productive impulse—not simply in a narrowly economic respect but as the only road to social order in general—and to actively engage it.

The Hayek connection is relevant because it is a way to give specific content to the notion that the governance of contemporary finance is of a “neoliberal” character. The question of neoliberalism has been hotly debated in recent years, and along with this growing interest has arisen a prominent position that bears out the post-critique stance and rejects the concept as essentializing, empirically vacuous, and therefore redundant (Venugopal, 2015). This response may be understandable in view of the tendency in much of the neoliberalism literature to frame its emergence in terms of the specific initiatives and ideas of discrete actors and organizations (Mirowski, 2013), but if fails to engage Foucault’s (2008/1979) argument that neoliberalism involves a more diffuse form of governmental reason, an imaginary of order that is not reducible to specific ideas or interests (Brown, 2015). Distancing itself from perspectives that view
neoliberalism as primarily involving the capture of public institutions and discourses by financial elites, the chapter argues that the importance of neoliberal reason consists in the changing ways in which public authority has aligned its operation with the speculative logic of the financial system.

**Persistent Foundationalism**

The prominence of the critique of speculation and the appeal to ontological value foundations that it makes would seem to suggest that the critique of foundationalism has altogether bypassed political economy scholarship. But the opposite is in fact the case: the critique of economic determinism and essentialism is one of its central concerns, and the idea that economic life is “constructed” is at the core of a great deal of political economy work (Blyth, 2002; Widmaier, 2016). The central idea of such work is to reject the assumption of “the economy” as a self-contained, monolithic entity and to emphasize the way it has been constituted through historical processes. Some authors focus primarily on the role of ideas, others on cultural norms, and still others on formal political institutions (see Abdelal et al., 2010 for a representative collection). But what is important for our purposes here is that this literature by and large understands the process of “construction,” that is, the relation between the constructive force and what is being constructed, on a model of linear causation. In other words, constructivist political economy has taken the form of an intentionalist (or rational) constructivism, which assumes acts of construction to be self-transparent and views ideas and norms as working in largely predictable ways (cf. Bucher, 2014; Palan, 2000).

Assessed by such an idealist conception of construction, much of human life is of course not constructed, and a great deal of political economy scholarship has accordingly continued to resist the idea that social life is constructed “all the way down.” As a result, the constructivist political economy literature has come to revolve around the need to “balance” ideal and material factors, that is, the need to combine an emphasis on constructedness with an acknowledgment of an external reality of hard facts. This has tended to undermine the distinctiveness of the approach, and when it comes to empirical research the constructivist turn in political economy has often assumed the guise of a somewhat conventional mixed-methods perspective—what has been termed “analytical eclecticism” (Sil & Katzenstein, 2010).

Of course, constructivist scholars would readily reject the idea that they remain attached to a version of foundationalism. A common line of defense here is to reduce the problem of foundationalism to the problems with Marxist materialism (in particular the labor theory of value). At work here is what may be termed a Kantian leap, which takes the critique of material necessity and the rediscovery of contingency as the occasion for a return to an idealist essentialism. It reinstates an instrumental perspective on knowledge, which abstracts precisely from the constitutive effects of observation and substitutes for this an idealist emphasis on the causal importance of norms and ideas (e.g., Abdelal et al., 2009). This often relapses into a materialist foundationalism of its own:
assessments of the stability of social life are profoundly shaped by the contrast between speculative finance and the “real economy,” and by a tendency to take the manufacturing economy of the Fordist era as a normative point of reference.

Scholars working in critical studies of finance have drawn on actor-network theory to develop the problematic of construction in different ways. Key here has been the theme of performativity (Callon et al., 2007; Mackenzie, 2006), which has aimed at a more radical break with foundationalist assumptions. The concept serves both as a means to underscore the contingent, constructed character of institutions and identities, and as a means to understand how they achieve whatever degree of coherence they enjoy. The dependence on iterative enactment makes entities inherently fragile, but it also introduces a ritualistic element into the dynamics of their constitution. The central ambition of performativity scholarship has thus been to move beyond a traditional epistemological problematic, and to think of measures and forms as immanent yet productive: they are performative both in the sense that they need to be performed (have no independent existence) and in the sense that they do something (they alter something in the existing state of affairs).

For all the promise that this idea holds when it comes to bringing speculation into the heart of thinking about economic life, the performativity literature has displayed a notable tendency to be drawn back into a more idealist perspective (Butler, 2010; Cooper & Konings, 2015). There has remained a marked conceptual gap between performativity as a means to highlight the contingent nature of social facts and human institutions, on the one hand, and analyses of the constitutive powers of performativity, on the other. It is often precisely the history, context, or micro-level operation of the felicitous speech act that is insufficiently specified—meaning that its normative force is not so much accounted for but rather relied upon as an explanation (Bryan et al., 2012).

In order to understand the logic at work here, it is useful to briefly trace the way in which actor-network theory has moved from its original province—social studies of science—into the study of money and finance. Founded on a definite anti-Kantianism, actor-network theory has always been highly suspicious of traditional notions of representation and rejects the idea that the patterning of associations is regulated by external principles. By viewing questions of signification and reference in terms of the topological dynamics of networks, it seeks to take the magic out of meaning and signification. Along such lines, actor-network theory has tended to think of itself as a “material semiotics” (Law, 2009: 142) or as “an empirical version of poststructuralism” (Law, 2009: 145). According to Latour, it is the failure to carefully follow the material processes through which identities are constructed that leads into the dead-end of representational theory—what he refers to as a “salto mortale” (Latour, 1999: 74, quoting William James), the Kantian leap from the material actuality of things to an idealism of symbols and language.

But as actor-network theorists have moved into the study of finance, they have found it very difficult to avoid that very Kantian leap. This is evident in
Callon’s prominent work, which has evolved from a material semiotics (Callon, 1986) to a framework that views economic logics as effects of epistemic devices and economic theories (Callon, 1998). The way in which the ideational dimension is brought back suggests that it was never properly accounted for in the basic framework of actor-network theory—that semiotics was never convincingly integrated into materialism without leaving a remainder, and that the poststructuralist dimension was never convincingly rendered intelligible in empirical terms. If actor-network theory’s initial reluctance to engage with imaginaries and fictions was motivated by a concern to avoid traditional metaphysics and representational idealism, this all too readily morphed into a somewhat dismissive attitude towards questions of observation and reflexivity. But questions regarding the status and role of human knowledge are not so easily displaced. Latour’s “irreductionist” project (1988) seeks to offer a clean solution to the problem of the epistemic moment, and this can plausibly be seen as its own kind of reductionism. Paradoxes that are sidelined too quickly have a way of making themselves felt in unexpected ways and at inconvenient times, and, as the travails of actor-network theory into the study of finance have made clear, can lead to a somewhat unstable back-and-forth between materialism and idealism.

Speculation and Self-Reference: A Luhmannian Perspective

To cut through this problem, we might follow Esposito’s (2013) Luhmannian attempt to reconstruct the performativity problematic in terms of the logic of self-reference. For Luhmann, there is no way to truly know whether the nature of things is essentially mind or matter. Any attempt to “solve” the question through a particular theoretical formulation is likely to end up in a back-and-forth between materialism and idealism, reifying each in turn and so reproducing rather than productively engaging the paradoxical character of the problem. The ability of an assemblage to relate to itself is an inescapably paradoxical affair: reflexivity involves the continuous breaching of the bounds of immanence without ever attaining a transcendental position. This makes Luhmann’s brand of constructivism “radical”: the process through which an identity is assembled never generates a consciousness that can comprehend itself in a transparent manner and can know itself objectively. A Luhmannian problematic thus starts from an acknowledgment that traditional problematics of realism and idealism cannot be resolved on their own terms—that whatever side we take on such issues, we will always be left with a remainder, a part of our experience that is not accounted for. Instead, it treats the paradoxical character of self-reference as a clue to how systems are constructed and operate (Esposito, 1996).

Like the performativity concept, Luhmann’s notion of self-reference is marked by a certain duality. In its minimal sense, it denotes “mere” self-referentiality, the ability of a system to recognize itself as a complex assemblage of contingent connections and to register its dependence on the ongoing enactment of that relational configuration (Luhmann, 2013: 44). In its maximal
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sense, self-referentiality denotes the way in which systems reproduce themselves through their own operations, that is, the emergence of “autopoietic” capacities (Luhmann, 2013: 77). But whereas performativity scholarship tends to be characterized by a strong disconnect between its minimal and maximal senses (performativity understood as a condition of contingency, on the one hand, and as an operation that overcomes that contingency, on the other), this is not the case with Luhmann’s idea of self-reference: the system’s recognition and engagement of contingency always remains the driving force of dynamics of self-organization and social construction (Borch, 2011). A system is always under pressure to do something, to select from among the myriad connections possible (Luhmann, 2002: 160). Incapable of transcending its own point of view and unable to get an objective perspective on what it needs, it must speculate, make decisions without having all relevant knowledge. A system’s Gödelian inability to transcend its own premises and its Münchhausenesque ability to set itself in motion are always different sides of the same self-referential coin.

At its root, the speculative character of life derives from the fact that the act of observation cannot observe itself. The classic image here is that of the eye that cannot see itself, and the constitutive blind spot this indicates is central to Luhmann’s work (Luhmann, 2013: 103, 114; Moeller, 2006: 73). A system’s machinery of seeing can be extremely sophisticated, but it cannot observe the totality of its own operations in real-time and it cannot therefore ever fully predict or comprehensively control the effects of its own functioning. System reproduction always generates novelty and complexity that the system cannot anticipate or symbolize through those very capacities (Luhmann, 2013: 105). Every attempt to self-reproduce is therefore speculative, beset by an irreducible element of uncertainty that cannot be neutralized as a matter of principle. Crucially, however, it’s not just that my relationship to the world is characterized by uncertainty; it’s also that the world, made up of other actors, responds to this fact, which is something that I know and must also respond to. The world is composed of observers who observe other observers, and our speculations need to constantly adjust as they seek to size up and locate a moving target: “Speculation takes its cue from speculation” (Luhmann, 2002: 184). This dynamic entails a rapid multiplication of sources of contingency: the world is not just contingent, but often highly volatile. Luhmann’s work is essentially an extended meditation on the question of how double contingency generates more or less stable (but never static) forms of organization from within its own logic, in the absence of an external engineer making clean, surgical interventions.

Luhmann’s conception of double contingency corresponds closely to Orléan’s (1989) economic logic of specularity, which expresses the idea that speculation is not a process whereby we guess at foundational values (although that is how we may rationalize our speculations) but rather a process whereby we position ourselves vis-à-vis the speculative investments made by others. This refers to a Keynesian tradition of thought that has always been highly critical
of mainstream ideas of perfect information and equilibrium. Post-Keynesian theory in particular, which has sought to rescue Keynes’s thought from its incorporation into mainstream economics, has argued that orthodoxy’s exclusive focus on quantifiable risk ignores the importance of real, incalculable uncertainty (Davidson, 2002). But to separate uncertainty from calculable risk in this way is itself highly problematic. Such an approach relies on an understanding of probability as positive knowledge about the future rather than as a means to handle our lack of such knowledge (Esposito, 2007), and it views uncertainty as an external limit to statistical probability rather than as something that is always already at play in the engagement of risk (Kessler, 2009). We may recall here Keynes’s famous comment about value being like a beauty contest. Although this drives at a notion of specularity, in practice it is almost always referred to in support of arguments that contrast the self-referentiality and groundlessness of speculative finance to the rational kind of finance that serves the production of real value. Genuine uncertainty is thus taken to indicate the point at which economic action becomes irrational, driven by speculations rather than real value. The upshot has been an inability to systematically foreground the problematic of economy as the question of how order emerges through contingency.

Minsky as Postfoundational Theorist

Hyman Minsky’s work can be read as offering a penetrating analysis of that problematic. Of course, Minsky is widely known as the quintessential post-Keynesian critic of speculation, and the notion of the “Minsky moment” is nowadays widely used to refer to the moment when an unstable structure of speculative fictions begins to unravel. That interpretation is closely bound up with a strong emphasis on his characterization of financing structures, attributing instability to the move away from hedge financing (seen as grounded in the real value of material production), and the growing reliance on increasingly speculative (and eventually “Ponzi”) financing structures (see Minsky, 1977). Such readings are by no means without textual support but they are certainly one-sided. Minsky was acutely aware that all investments were to some degree speculative in the sense that their success or failure would only be determined in an unknown future: “the essence of capitalism is that units have to take positions in an uncertain world” (Minsky, 1980: 515). Uncertainty is at the heart of the problem of economy: if the future could simply be discounted, all economic questions would be trivial.

The logic of banking is central to Minsky’s account of how the dynamic of interacting speculative positions generates economic order. A bank is an institution that enjoys no special foresight and does not escape risk, but is positioned in such a way that its promises come to function as a standard (that is, a more or less stable currency), conferring on it a distinctive infrastructural importance. Of course, the endogenous origins of money (as arising out of dynamics of credit and debt) is a well-rehearsed theme in heterodox economics, but such
arguments have never been able to divorce themselves from the more general idea that financial stability is at its core dependent on external interventions to suppress speculative impulses and return market dynamics to conformity with underlying values (e.g., Wray, 2015). For Minsky, however, this is to miss the point about endogeneity and represents a misleading way to think about financial governance (cf. Mehrling, 2000): there is no clear dividing line between practices of banking and their governance, no qualitative break between the endogenous logic of specularity and the governance of that logic. The banking crises that are so central to capitalist development usually trigger new forms of banking: when confidence in a particular currency falters, the response is typically a scramble to prop up that particular measure by integrating it in a wider pattern of banking. Financial crises have historically been a motor behind processes of financial integration and the emergence of national currencies.

Central banking does not represent a means of exogenous regulation: even if it is charged with a public purpose, in terms of its basic operations it is itself a form of banking. When a bank comes under pressure, the response is never an across-the-board credit contraction: large borrowers, too-big-to-fail constituents, are the last to experience the contraction of credit and can count on the most accommodation. Central banking similarly responds to the particular topological properties exhibited by financial networks, that is, the existence of financial nodal points and the possibility that their failure will take down wider social structures. The central bank responds to strains in the financial operations that connect it to other banks as these make themselves apparent in the payments system. The process of financial management can accordingly appear remarkably banal: when failure threatens, there is little to be done other than to fortify the key nodes of the payments system by providing them with additional credit and forms of insurance. The central bank’s ability to safeguard the integrity of the system as a whole is centrally predicated on its capacity for risk shifting, the selective socialization of risk. A too-big-to-fail logic based on backstopping and bailout is thus a core feature of capitalist financial management, which is something that Minsky understood very well and led him to be highly skeptical towards claims of discretionary precision management made on behalf of modern monetary policy. As he put it, “Unless the economy is such that depression-inducing financial instability would occur from time to time in the absence of Federal Reserve intervention, the Federal Reserve System is largely superfluous” (Minsky, 2008/1996: 49).

Here we can link to older debates in the history of economic thought. Following Mehrling (1999), we should read Minsky not so much as a post-Keynesian who insisted on the role of true uncertainty as a limit to economic rationality, but rather by placing him in a distinctive tradition of thinking about the nature of central banking that saw the lender-of-last resort function as the essence of financial governance (Bagehot, 1873; Hawtrey, 1932; Thornton, 1802). As long as questions of central banking have been on the political agenda, commentators have sought to provide rules and criteria to ensure that its policies would
observe fundamental values and so forestall the need for morally objectionable too-big-to-fail interventions. Such proposals have often assumed the form of some variation on Hume’s quantity theory of money (which asserts the possibility of defining money from a neutral, external point of view and legislating limits to its creation) or Smith’s concern to anchor credit creation in an objective distinction of real and fictitious forms of credit. However, as Thornton already pointed out, the logic of risk is not easily contained within the parameters of a specific doctrine (Mints, 1945: 52). He viewed speculative credit as playing its own constructive role, facilitating productive events that otherwise might not have materialized. He was well aware that the flipside of this productive non-neutrality of bank credit was the instability that it caused, and he placed great emphasis on the role of the central bank in the stabilization of the banking system. Thornton’s appreciation of importance of the central bank’s lender-of-last-resort function was thus motivated by a concern that it is not in fact possible to exogenously regulate the dynamics finance in a way that brings them in line with fundamental values.

**Rethinking Financial Governance**

Whereas political economy scholars typically view the Glass-Steagall prohibition on stock market speculation by commercial banks as key to the stability of the post-New Deal financial system, for Minsky this played only a secondary role. He thought of the New Deal reforms rather as representing a way to adjust and expand the lender-of-last-resort function (which had failed to prevent American and global capitalism from sliding into the interwar crisis)—that is, to make it operate more preventatively, to extend its scope, and to make it less dependent on the discretion of Federal Reserve policy-makers. Key here was deposit insurance, which was crucial in taking away the rationale behind bank runs by removing the rationale behind bank runs and so functioned as an integral part of the central banking function (Minsky, 1982: 144; 2008/1986: 52). The government-sponsored enterprises similarly functioned as permanently available sources of liquidity, while practices of financial policy-making became increasingly oriented to stabilizing the payments system by preventing liquidity bottlenecks. From the 1930s to early 1950s the effects of this were greatly magnified by the Federal Reserve’s support for the market in government debt (Gaines, 1962). In other words, the New Deal reforms created what has come to be known as an extensive “financial safety net” for the banking system (Schwartz, 1987).

This configuration of financial institutions transformed financial dynamics in significant ways, and the early post-war period saw no major instability or meltdowns (Minsky, 2008/1986: 50). But the result was a permanent inflationary pressure (Minsky, 2008/1986: 17). As Minsky put it, “instead of a financial crisis and a deep depression being separated by decades, threats of crisis and deep depression occur every few years; instead of a realized deep depression,
we now have chronic inflation” (2008/1986: 106). This created a distinctive set of governance challenges: although the post-war Federal Reserve viewed managing inflation as one of its main tasks, it was essentially counteracting the pressure that the New Deal arrangements had built into the system at large (Burns, 1979). Whenever the Fed sought to constrain banks’ capacities for credit creation, the result was a rapid growth of new forms of banking outside the existing regulatory framework—what has recently come to be known as a “shadow banking system,” much of which could draw on these facilities (for a discussion of shadow banking, see the chapter by Wigger and Fernandez in this Handbook). Minsky (1957) was one of the first to note this trend and viewed it as a forceful reminder that, pretenses of precision notwithstanding, the basic operational rationality of financial management consisted in last-resort lending and the provision of insurance. The accuracy of this assessment was borne out by the course of financial management during the 1960s and 1970s: even as regulators were increasingly concerned about inflation, they saw no alternative to accommodating the financial practices that were responsible for the problem (Mayer, 1999). During the 1970s, as it became clear that even economic stagnation would not slow down inflation, the Federal Reserve increasingly came to understand the problem as one that was sustained at basic operational levels of financial management.

The dilemmas of financial governance became even more pronounced as it became clear that uninsured shadow banking meant a return to dynamics of financial leveraging and deleveraging that entailed significant system-level risk and therefore would need a response. Extending insurance arrangements to the capital markets was not a viable option for both political and economic reasons, and so a future of ad hoc bailouts seemed to be in the offing. Minsky seemed to feel that there was no real way out of this predicament: absent a major overhaul of American capitalism, there seemed to be no way for the American state to escape the kind of awkward dynamic in which was constitutively embroiled. These feelings were to some extent shared by Arthur Burns, Federal Reserve Chairman for most of the decade. In a 1979 speech entitled “The Anguish of Central Banking,” he complained that the Federal Reserve could simply not conquer inflation without generating a range of intolerable side effects (Burns, 1979: 16). It just did not find itself in a position that permitted it to access clean policy solutions, and so the previous decade “monetary policy came to be governed by the principle of undernourishing the inflationary process while still accommodating a good part of the pressures in the marketplace” (Burns, 1979: 16).

Burns concluded that “fairly drastic therapy will be needed to turn inflationary psychology around” (Burns, 1979: 24). Such therapy came soon after he left, in the guise of the turn to monetarism initiated by Paul Volcker. Monetarist doctrine can be viewed as a modern incarnation of Hume’s quantity theory: to ensure that money functions in its neutral capacity, it proposes that the central bank maintains strict institutional control over the quantity of its creation (Friedman, 1956). Volcker was skeptical about its merits as an economic theory
and never believed that the creation of money could be exogenously controlled (Silber, 2012). He was well aware that the state’s lending and insurance functions were an integral part of the endogenous process whereby the dollar was constituted as a stable measure and were for that reason indispensable infrastructure. But at the same time he saw the role of the state as a problem insofar as it contributed to inflation. He looked to monetarism not as a means to enforce an external limit on the financial system, but as a means to affect expectations (cf. Holmes, 2013; Kaplan, 2003). He took it as a rhetorical device, as a way for the state to productively engage—rather than just accommodate—the endogenous dynamics of banking.

In other words, Volcker perceived the problem as one of how financial governance might change the way it related to a process in which it was constitutively implicated and could not simply extricate itself from. We might say that he engaged a Hayekian problematic—how is ordering possible if there is no political agency that can place itself outside of the logic of risk and speculation? Hayek’s work contains a radical-constructivist problematic, which addresses the question of how steering is possible in the context of an endogenously driven logic that rules out sovereign decisions and exogenous interventions (Cooper, 2011; Kessler, 2013). Although he referred explicitly to systems and complexity theory only later and occasionally (e.g., Hayek, 1967: 22–42), his work substantively became organized around the problematic of economic self-organization from the time he formulated his critique of socialist planning as a critique of rational constructivism (1937). In this way, Hayek’s thinking foregrounded a problematic that led a more subterranean life in other strands of neoliberalism—how the awareness of the limits of rational constructivism could be internalized into practices of ordering and governing.

My point here is not to stress the practical role of neoliberal intellectuals like Hayek in shaping monetary policy-making. Rather, I am foregrounding Hayek’s work to suggest a specific perspective on the contours of a neoliberal rationality of governance, an issue that has received considerable attention in the wake of the publication of Foucault’s lectures at the Collège de France (Brown, 2015). At the core of the understanding of neoliberalism that Foucault advanced in his later work is the idea that it does not involve a simple revival of classic liberalism (e.g., 2008/1979: 118, 131, 147): whereas classic liberalism simply demanded space for the utilitarian logic of market exchange to unfold, neoliberalism embraces a speculative orientation towards the future as an organizing principle. The modern subject is centrally driven by a security dispositif, but its attempts to deal with challenges and threats never transcend the condition of risk and the need to speculate (de Goede, 2012).

When this logic comes fully into its own, the pressure to make decisions amidst uncertainty poses a challenge to any clear-cut distinctions between defensive and offensive moves. This notion has been helpfully elaborated by François Ewald, who suggests that the development of risk governance can be understood in terms of a transition from defensive orientations that are primarily concerned
with organizing insurance to more purposely proactive orientations that work on “an ethic of the necessary decision in a context of uncertainty” (Ewald, 2002: 294). Whereas the former employ the logic of the normal distribution, the latter push into areas of risk that challenge meaningful actuarial calculation. With specific respect to modern financial governance, we can note that even though it has always involved the alignment of governmental operations with the logic of risk, until well into the twentieth century this had a rather passive and reactive orientation, accommodating rather than using the dynamics of speculation. It is here that neoliberalism intervenes, insisting that governance should proactively engage the speculative dimension of economic life.

The way in which neoliberalism has brought speculation into the heart of governmental rationality means that it has come to function on what the critical security studies literature has referred to as a logic of preemption (de Goede, 2008; Massumi, 2007; for an attempt to extend the relevance of this concept to economics questions, see Opitz & Tellmann, 2015), a paradoxical practice that fully blurs the distinction between prevention and activation. Preemptive reason can be understood as an operationalization of the dispositif that Hayek insisted was the only possible way to produce order through contingency: it is characterized by a reflexive awareness of its own speculative foundations and a willingness to move beyond a naïve doctrine of prevention. Even as it presents itself as eliminating threats and obstacles to security, its modus operandi and ordering capacity is predicated on the possibility of activating and engaging new sources of contingency, proactively enforcing adjustment by allowing crises and instability to play a productive role. Neoliberalism thus signifies the movement of governmental rationality from a logic of anticipation and prevention to one of speculative preemption: it goes beyond a generic concern with the future to embrace an orientation to the pragmatic uses of instability, uncertainty, and crisis (Ewald, 2002: 294).

**Neoliberal Reason**

Neoliberal policies have often been oriented not to the prevention of failure but rather to its preemption—in the dual sense of the word, both activating it and forestalling its most serious consequences. Volcker saw the American financial system heading for decline (reflected in the growing reluctance of foreigners to hold dollars), and he acted on this awareness preemptively, by triggering a potentially productive crisis: the turn to monetarism was meant to provoke, driven by the intuition that a sudden policy turn could activate some of the financial system’s endogenously situated ordering mechanisms. Volcker’s move was offensively speculative—motivated not by a clear perception of the outcome of his moves but by an intuition of their productive, ordering potential. Far from the Federal Reserve making external interventions, it aggressively engaged the banking mechanisms of money production, creating new sources of uncertainty in hopes of stabilizing the financial standard.
What was not in itself surprising was the rapid expansion of shadow banking that followed the policy turn: that was precisely why in the past the Federal Reserve had held back from contractionary policies or quickly reversed them. The Volcker speculation consisted precisely in the wager that the instability caused by the Fed’s persistence with those policies would set in motion wider processes of adjustment. The Volcker shock restored the value of the dollar not by enforcing an external quantitative limit on the creation of credit but by activating some of the financial system’s key self-organizing mechanisms. The extent to which the success of the monetarist turn was contingent on wider adjustments was illustrated by Volcker’s (2000) own admission that the Reagan administration’s confrontation with organized labor had been crucial to the conquest of inflation (cf. Axilrod, 2011: 99). And that was only one element in a wide-ranging set of policies that accelerated the destruction of the secure employment contracts of Fordism (Lazzarato, 2009; Martin, 2002).

Even as neoliberal restructuring brought down inflation and alleviated external pressure on the dollar, these developments were accompanied by significant financial volatility and a series of bank failures. The 1980s saw a series of bailouts of systemically important institutions, which fostered expectations regarding the way the American state would handle such events in the future (Stern & Feldman, 2004). Sufficiently large and interconnected financial institutions increasingly did business in the expectation that if their speculations went sour, the state would step in to alleviate their payments constraints. Although this amounted to an insurance regime for the shadow banking system, it did not fan inflation because it remained informal and so could operate much more selectively than blanket deposit insurance (Panitch & Gindin, 2012: 179). If it was certainly recognized that this exacerbated moral hazard issues (that bailout interventions sustain and reinforce the very practices that brought on the need for them), this reflected not a moment of governmental irrationality but the fact that neoliberalism’s preemptive rationality undermines any hard-and-fast distinction between problems and solutions.

This new institutional configuration facilitated a further reorientation of financial governance, as the ability of banks to create credit outside of the central bank’s regulatory capacity was no longer the source of anxiety that it had been before. The Federal Reserve now began to use interest rate to proactively relieve liquidity pressures on large financial institutions (Ferguson & Johnson, 2010; Watson, 2014); it enhanced insurance for the key nodes of the payments system; and the growth of the government-sponsored enterprises and the infrastructure of securitization techniques supported had similar effects. The new approach that emerged recognized that crises were likely to continue to occur periodically and that the use of bailouts could not be ruled out and that the aim should be to manage their application and minimize their undesirable side effects. As Golub et al. (2015: 657) put it, during the neoliberal era the Federal Reserve increasingly focused on “post-hoc interventionism,” aiming to improve its ability to contain the effects of a crisis after it occurs. Panitch and
Gindin (2012: 266) capture this development in terms of a shift of concern from “failure prevention” to “failure containment.” Among Federal Reserve insiders this became known as the “mop up after” strategy (Blinder & Reis, 2005).

It is crucial here to recognize that, as Ewald emphasizes (e.g., 2002: 285), the transition to preemptive modes of governance should not be understood as a clean replacement of one principle with another: the speculative orientation of neoliberal governance always articulates with the continued operation of normalizing forces and the principle of insurance. The neoliberal concern to provoke the future is complemented by a reactionary moment that manifests itself fully when uncertainty threatens to tip over into failure. At such times, society has no option but to fortify the nodal points of financial interconnectedness, historically generated patterns of leverage and power. During the financial crisis sovereignty became highly speculative, investing itself in assets whose value was fundamentally in doubt; but at the very same time its policies were grounded in the widespread (if resentful) recognition that it was simply doing what had to be done. The future simply imposes itself, albeit in the shape of the past. As Massumi (2005: 6) puts it: “The before-after seizes the present. The future-past colonizes the present.” The logic of preemption now manifests itself in yet a third sense, as a foreclosure on the future. And yet, bailouts do not simply stabilize the system in a straightforward way or effect a return to foundations. Bailouts are themselves highly speculative interventions that involve a great deal of dislocation and demand a response, rekindling the preemptive rationality even as they make apparent its contradictions.

Conclusion

By identifying the logic of preemption, this chapter has tried to suggest a way in which an immanent critique of contemporary finance may be formulated. The paradigmatic critique is preoccupied with the irrational character and ontological incoherence of speculation, and it looks to public institutions, conceived as acting in independence from the rationality of capital, to suppress this. The approach developed in this chapter has emphasized the constitutive, generative character of financial speculation and the internal logic of the processes that it sets in motion, and it has developed a perspective on public institutions as fully imbricated with speculative financial processes. It has also argued that this is particularly important when it comes to the assessment of neoliberalism: the paradigmatic critique of finance has been unable to recognize or engage the distinctive rationality of neoliberal governance, which is grounded in a recognition of the limits of rational-constructivist conceptions of authority and cognizant of the need to activate contingency.

Of course, many would wonder whether this kind of immanent critique is really a critique at all. When seen from a certain angle, this chapter has enlisted Luhmann’s systems theory and an unknown version of Minsky to develop a Hegelian dialectic of speculative capital, which depicts contradictions and
obstacles as limits that are overcome each time and move the rule of capital to a more totalizing level of social control—aided and abetted by that institution (the state) in which progressives of all stripes continue to invest so much of their political hope. It would be easy to disavow this point. But my sense is in fact that such an emphasis on the secular expansion of promissory connections through the very contradictions that those connections generate needs to be part of any viable critique. If there is one thing that the past decades have taught us, it’s that so many of the things that we thought would be clear limits to the growth of capital have only become the kind of negativities or irritations that drive the system of capitalism’s self-referential expansion. That should have been the occasion not for a retreat from thinking about capital, but fertile ground for elaborating the postfoundational insight about the inherent impossibility of accessing an objective, external position that allows for the objective identification of limits.

The real mistake here would be to conflate this point about the secularizing thrust of capitalist development with a more normative assessment about progress in history. I am here following a particular line of theorizing about Hegelian dialectics (Cole, 2014; Malabou, 2004; Rose, 2009/1981): trying to rescue it from its wholesale rejection by poststructuralist thought, these contributions have sought to re-appropriate dialectics not as a theory of historical progress but as a this-worldly analysis of the rationality of history-making. My supplement to this line of thought—driven by my specific political economy orientation—is the need to bring the “system” back in, thereby positioning Luhmann in relation to the legacy of Hegel and Marx. The dialectic describes how determinate entities emerge and systemic logics operate in a world without foundations.

Not to include this appreciation of the secular self-expansion of capital would simply be to hold on to the fantasy that we may be able to find an outside position, a set of external criteria against which we can assess the existing state of affairs and which offer solid ground for our political interventions. This is indeed the kind of critique that has run out of steam, as Latour (2004) has correctly noted. But the very fact that the disavowal of totalizing dynamics and an affirmation of pluralism has become the signature move of postfoundational theory means that it has not in fact broken with the terms of the problematic that gave rise to that critique in the first place. And this typically manifests itself when people start contemplating the thorny reality of capital.

Latour’s own work stands as a prime example of how postfoundational theory has come to dance around the suppressed awareness of capital. In one of the more revealing instances, towards the end of his recent *An Inquiry into Modes of Existence*, he identifies it as the central obstacle to a more plural world that modernity might have delivered:

By identifying technological innovations [TEC], the splendors of works of art [FIC], the objectivity of the sciences [REF], political autonomy [POL], respect for legal linkages [LAW], the appeal of the living God [REL], they
would have glowed in the world like one of the most beautiful, most durable, most fruitful civilizations of all. Proud of themselves, they would have had no burden weighing them down, crushing them like Atlas, like Sisyphus, like Prometheus, all those tragic giants. But they went on to invent something else: the continent of The Economy. (Latour, 2013: 379)

Elsewhere he notes that the economy is “an infinite and boundless domain totally indifferent to terrestrial existence and the very notion of limits, and entirely self-centered and self-governed” (Latour, 2014: 6). Crucially, however, these totalizing tendencies noted here have no place in Latour’s work taken as a whole—they are truly incompatible with his pragmatic ontology, and so they end up being treated as a manifestation of plain irrationality, denounced in a spirit of moralistic lament that is entirely in keeping with the paradigmatic critique of finance. The endpoint of Latour’s thinking, then, is exactly the kind of critical stance that he has done more than anyone else to discredit.

If the post-critical impulse does not escape capital’s field of gravity, that by itself might be taken as a starting point of sorts. That is to say, we might consider abandoning our preoccupation with the possibility of accessing an objectively grounded critique that can be positively formulated and start with an acknowledgment that the existing world provides no ready-made set of procedures or instruments that permit its deconstruction. The fact that we are caught in a strange, self-referential loop means that any attempts to move against the systemic logic of capital have a deeply aporetic character. In this sense, the kind of critical theory that Luhmann’s postfoundational systems theory implies is perhaps not too far from a negative dialectics, which seeks to disrupt the immunitarian logic of capital that while fully recognizing its historical reality and its totalizing dynamic. “Universal history must be construed and denied” (Adorno, 1973/1966: 320). The task of critique is not to discursively disavow systemness in order to facilitate a soothing faith in unviable practical solutions; instead, the task of critique is deeply contradictory, namely to “[t]o use the strength of the subject to break through the fallacy of constitutive subjectivity” (Adorno, 1973/1966: xx)—how to change the course of history without being able to identify in a positive way the blind spots on which the historical process currently feeds.

The question here is of course what it might mean to “deny” universal history. Adorno gave us little to go on in this respect: as Rose (2014/1978) points out, his work over time tended towards a performative and indulgent hyper-consciousness of the impossibility of a positive, objectively grounded critique. But it seems to me that there is no way around returning to the place of impossibility indicated by Adorno, and an embrace of the critical attitude that he felt was entailed by this—one that aims to reframe our understanding and experience of the world and recognizes that practical interventions skipping this step are likely to leave intact or fuel the universal history they are hoping to adjust or subvert. No attempt to interrupt the immunitarian logic of capital is likely to do much unless it starts with a recognition of our own implication in it.
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Speculation


