Financial Speak: A Method to Unmask Neoliberal Capitalism and the Ideology of Perpetual Growth

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1. Abstract

Fostering dialogue about our banking system, and the security of a sustainable future, can be done by naming dangerous strategies that are supported by the ideology of neoliberal capitalism. This work examined the role that rehypothecation played in global financial crisis, and the rhetorical positioning of neoliberal capitalism in the media. Rehypothecation is a widely used but rarely discussed method of financial engineering that investment banks employ to grow debts beyond physical limits. This is not a new idea, but rather a new way to implement a very old and clever theft—something the Roman Empire used during times of crisis. Kotz's (2009) model of neoliberal capitalism and Gorton and Metrick's (2010) classification of shadow banking are used to explain how modern capitalism incentivizes unsustainable practices such as rehypothecation. One of the outcomes of this system is the use of financial speak, a strategy employed by Wall Street to mask criminal banking activity with insular language that functions to create and maintain elaborate public deceptions. The meta-argument is that financial speak conceals long-term social and economic consequences that are not apparent in the everyday functioning of the economy. My fundamental critique is that an unethical distribution of resources is incentivized by neoliberal capitalism and the ways in which sustainability issues are masked is endemic to financial speak.

2. Keywords: Neoliberal capitalism; Shadow banking; Financial speak; Re-hypothecation; Rome, Rhetoric

3. Financial Speak: A Method to Unmask Neoliberal Capitalism and the Ideology of Perpetual Growth

On a September morning in 2008, Matthew J. Eichner, an economist at the Securities and Exchange Commission (SEC), typed an email to a supervisor at the New York Federal Reserve Bank that stated: "Definitely some major outflows of PB balances at both GS ($5b) and MS ($7b). Not pretty" (as cited in Keoun, 2011, ¶ 33). Lehman Brothers, one of the world's largest investment banks, collapsed the day prior. The stock market symbols of GS and MS represent Goldman Sachs and Morgan Stanley. They are two of the largest remaining prime brokerages (PB) in New York and part of a select group of investment banks allowed to trade United States government debt through Treasury bonds. The email to the New York Fed by Eichner began to address a pivotal concept. When Eichner said "not pretty," he sanitized the fact that a crisis originating from within the shadow banking industry was unfolding. By the end of the day, Morgan Stanley had lost 24% of its stock value. The withdrawal of $7 billion from the stock market, just thirty minutes into the trading day on September 16, 2008, was the beginning of a $128 billion exodus over the next two weeks (Keoun, 2011, ¶ 3). Without the intervention of the U.S. government, Morgan Stanley would have likely declared bankruptcy a few days after Lehman Brothers. The collapse of Lehman came from their inability to raise more than $8 billion in cash during the prior weekend (MacDonald, 2008, ¶ 7). These outflows were partly a result of mortgage risk in the shadow banking system. But that is not the whole story.

Eichner's letter demonstrates the jargon of financial speak. It reflects a system of symbols designed to streamline communication in the world of global banking. However, the effect of this simplification is that the language can mask significant risks to the public. It functions to conceal long-term social and financial consequences that follow from the masking. The prime directive of financial speak is to protect the status quo image of capitalism as an economic system with infinite growth potential. The core argument presented in this work is that financial speak is an attempt to sustain the unsustainable ideology of neoliberal capitalism. There is a need to widen the lens to examine the scope of this discursive practice in a globalized world. Three primary and symbiotic structures of financial speak are examined: 1) the mechanism of Wall Street, 2) shadow banking, and 3) neoliberal capitalism. Kotz's (2009) model of neoliberal capitalism and Gorton and Metrick's (2010) classification of shadow banking will be used to explain the consequences of a perpetual growth paradigm based on debt. Wall Street is an organic system that operates based on the confidence of the market. However, one of the outcomes of neoliberal capitalism is that the same dollar bill is promised to more than one person. The financial system rapidly falls into crisis when the falseness of this promise unravels during periods of instability. The intent of this work is to expose how a direct threat to the ability of working class families to create a legacy for their children is masked by the ideology which drives the market.

During the crisis period in 2008, when Morgan Stanley's stock dropped 24% in a day, CEO John Mack sent a memo to the firm's 46,000 employees stating: "There is no rational basis for the movements in our stock. We're in the midst of a market controlled by fear and rumors, and short-sellers are driving our stock down" (as cited in Keoun, 2011, ¶ 38). This statement is an excellent example of financial speak. First, it attempted to mask the fact that it was internal mechanisms within Wall Street that created a global financial crisis. Secondly, it demonstrated the ideology of neoliberal capitalism as an enterprise where growth needs to be perpetually sustained. There was indeed a rational basis for the bank's stock to lose a quarter of its value in a day. Not only was the entire global financial market in crisis, but a fundamental of trading is that stock prices drop when there are more sellers than buyers. Investors were fleeing the market at a record pace. Lastly, when the world view of a neoliberal capitalist is challenged, blame is often deflected away from the system. To illustrate this point, Žižek (2012) stated:

> One might think that a crisis brought on by rapacious, unregulated capitalism would have changed a few minds about the fundamental nature of the global economy. One would be wrong. . . . The

core premises of the ruling ideology are not put into doubt. They are even more violently asserted. Could we in fact be seeing the conditions for the further radicalization of capitalism? (¶ 1)

Mack was essentially saying that the crash was not the fault of capitalism but a band of rogue traders. Just prior to Mack's announcement, Morgan Stanley had reported $179 billion in assets (Keoun, 2011, ¶ 39). It would take the power of a central bank to crash that stock. Blaming short-sellers, traders who profit from a drop in price, is a tactic of misdirection. The reality was that Wall Street could no longer sustain, or hide, the debt it was carrying. Greene (2006) described the relationship between language and capitalism in the following manner: "Communication has been subsumed by capital; therefore, any attempt to think about the possibility of a critical rhetoric must begin with understanding rhetoric's capture by capitalism" (p. 90). My fundamental critique of financial speak is that it is a rhetorical strategy defending the status quo, or the capture of language by capitalism. The effect is to mask the world's desperate need to restructure capitalism toward sustainable practices.

Signs pointing to the emerging problems created by the neoliberal model of capitalism are all around us. Problems found in failing banks reveal a system that is incapable of perpetually sustaining a debt load that has been expanding at an exponential rate (McNally, 2009). Official U.S. government reports acknowledge this phenomenon. The Financial Crisis Inquiry Commission (FCIC, 2011) concluded:

Despite the expressed view of many on Wall Street and in Washington that the crisis could not have been foreseen or avoided, there were warning signs. The tragedy was that they were ignored or discounted. . . . Exponential growth in financial firms' trading activities, unregulated derivatives, and short-term "repo" lending markets, [were] among many other red flags. Yet there was pervasive permissiveness; little meaningful action was taken to quell the threats in a timely manner. (p. xvii)

The following sections will examine what the FCIC labeled as pervasive permissiveness. The ideology being examined is neoliberal capitalism and the vehicle sustaining the ideology is shadow banking. My critique of financial speak is focused on this specific banking model.

4. Scope of Neoliberal Capitalism

Financial speak masks the relationship that shadow banking has to neoliberal capitalism and the inherent risks therein. This is an economic system that depends on the perpetual growth of debt owned by private banks such as the Federal Reserve, Goldman Sachs, Morgan Stanley, and collapsed firms like Lehman Brothers. Debt has been described as the pump that runs economies. Graeber (2011) stated:

Capitalism is a system that demands constant, endless growth. Enterprises have to grow in order to remain viable. The same is true of nations. . . . What we see at the dawn of modern capitalism is a gigantic financial apparatus of credit and debt that operates—in practical effect—to pump more and more labor out of just about everyone with whom it comes into contact, and as a result produces an endlessly expanding volume of material goods. (p. 346)

The material of the shadow banking industry is debt. When the global financial crash occurred, the system was rescued through the Federal Reserve Bank's creation of credit—which for the purpose of this critique functions the same as debt. An exponential growth of debt can clearly be seen by the massive expansion in the Fed's balance sheet from $800 billion in 2007 to $3 trillion just four years later ("Credit," 2012). The three trillion reflects a central bank nationalizing toxic debts in an interconnected financial system. Investment banks were using fraudulent home mortgages as collateral for a wide range of products such as: writing municipal bonds, contracts servicing sovereign debt, and lines of credit for shipping companies. The danger of finacialization is that it supports essential public services that keep the lights on, the trains running, and food being delivered to market.

David M. Kotz's work on neoliberal capitalism is used as a lens through which we can examine 21st century financial practices. It is also a useful theoretical boundary for limiting the scope of financial speak to a specific version of capitalism and the shadow banking system. We live within a form of capitalism that is operationally different from preceding generations. It is important to realize that our financial system reflects an ideology that often remains unquestioned in public discourse. Kotz (2010) stated, "To be effective at understanding and challenging capitalism, we must analyze its particular institutional features in the current time and place" (p. 377). To create a sustainable future, we must break out of the illusion of the status quo and examine the unquestioned assumptions about the role of money within the capitalistic system.

The neoliberal economic model of capitalism creates large asset bubbles that result in crises and suffering on a global scale. Kotz (2009) stated that the global financial crash "should be seen as a systemic crisis of a particular form of capitalism, namely neoliberal capitalism" (p. 306). He identified three modern developments that define this system:

1. Growing inequality, within the capitalist process between wages and profits, and within society as a whole among households.
2. A financial sector that became increasingly absorbed in speculative and risky activities.
3. A series of large asset bubbles. (Kotz, 2009, p. 307)

What this means is that the current generation will most likely not realize the promise of a better life. For example, he measured growing inequality by tracking the wages of the middle class in the United States. Kotz (2010) stated, "In the period 1979-2007 average real hourly earnings of nonsupervisory workers actually declined slightly, by 1.1%, while output per hour grew by 69.8%, indicating that all of the productivity gain over the period went to capital" (p. 368). The efforts of the last three decades are being siphoned away by a deregulated banking sector. If the wages of the middle class are not growing, then how is capitalism to grow without them? Kotz (2008) resolved that neoliberal capitalism is in a structural crisis where growing output and stagnant wages generate "high and rising inequality" (¶ 7) leading to debt peonage for the average worker. He concluded that "the deregulated financial system of neoliberal capitalism is inherently unstable" (¶ 7). This is a situation where what is good for Wall Street is not good for Main Street.

Each of Kotz's (2009) three outcomes of neoliberal capitalism were demonstrated by the 2008 market crash and recession. The United States and Europe model three primary markers of an unsustainable capitalistic system: a) the average family has negative life savings and decreasing household income, while corporate profits are at record highs; b) criminal trading practices within the shadow banking industry resulted in thousands of personal bankruptcies and hundreds of small bank failures; and c) the 2008 market crash, and the European financial crisis, are based on expanding debt bubbles that constantly threaten global financial security. The current instability of "finance capital" (¶ 23) demonstrates what Orthodox Marxists like Gramsci (1925) warned about nearly 100 years ago (see also Gramsci, 1977).

However, capitalism is not an ideology fixed in time and space. It shifts and adjusts to reflect the world view of its agents—capitalism is fluid. For example, in his evaluation of Gramsci's critique of economic systems, Boggs (1984) stated: "Capitalism in 1900 was a completely different system from what Marx had analyzed in *Capital*" (p. 154). The ideology that set the stage for the global financial crisis was a systematic deregulation of investment banking. Driven by a quarterly profit making system, the lessons and regulatory structures learned during the 19th century and leading up to America's Great Depression were stripped away. This is part of the defining feature of neoliberal capitalism. Kotz (2010) described this policy change as a "hollowing out" of the state's regulatory structure that dramatically diminished its "capacity for effective management of the economy" (p. 376). Kotz's (2008) full definition of neoliberal capitalism is the following:

> The shift to neoliberal capitalism in the United States involved the deregulation of business and finance, the reduction of active government macroeconomic policy (and a shift of aim to assuring low inflation, not low unemployment), sharply reduced social programs, a big business and government attack against labor unions, unrestrained ("cutthroat") competition among large corporations, and relatively free movement of goods, services, and capital across national boundaries. This neoliberal transformation of capitalism was relatively thorough in the United States, the United Kingdom, and in international financial institutions such as the International Monetary Fund and World Bank. (p. 13)

This definition robustly summarizes the ideology and structure of globalized capitalism, and is especially pertinent to the current situation in Greece which will be examined later in this work.

Neoliberal capitalism drives the profit making mechanism of Wall Street through circulation. Modern economies depend upon credit being pumped through financial systems in order to keep capitalism functioning. Credit also acts as oil for the engine of Wall Street. That oil, or debt, has to continuously circulate through the financial machine. McNally (2009) stated, "Capitalism rests on the circulation rather than the production of goods" (p. 56). Since 2008, as the circulation of credit slowed, the Federal Reserve began a massive money printing regime. The policy of quantitative easing, most easily understood as a bailout for investment banks, is not the creation of new capital. It is the issuing of funds based on projected labor of future generations. This method of expanding the monetary base not only reduces the real income of workers through inflation, but it is a tax on future generations (see Gillespie, 2010; Kotz, 2010; McNally, 2009). Paul Volcker, former Chairman of the Federal Reserve stated, "You have a situation in the U.S. where there's been almost no growth in real income for the average family for 10 or 15 years" (as cited in Rose, 2011, ¶ 10). Financial speak therefore functions to mask the essential truth that neoliberal capitalism perpetually siphons wealth out of the working class and into Wall Street. This is done to support the status quo need for perpetual capital growth, better known as credit creation.

At the core, financial speak is masking the system of perpetual debt slavery that is neoliberal capitalism. The years immediately following the global market crash saw investment banks rebound with record setting profits. At their most basic level, banks operate by extracting fees for servicing debts. Larger debts equal larger fees, and there are no larger debts than those held by sovereign nations. Europe had been in a state of economic distress even prior to the 2008 crisis. Their financial regulatory structure is less restrictive than the United States, which has made the continent more open to the exploitation of shadow banking.

5. Size of Shadow Banking

Before delving into the mechanics that link financial speak to shadow banking to rehypothecation, it is necessary to problematize the size of the phenomenon. Derivatives are what legendary investor Warren Buffett (2002) called "financial weapons of mass destruction" (p. 15), and shadow banking is the industrial complex that manufactures them. If America's shadow banking industry was a country it would be the fourth largest economy in the world, surpassing Japan's entire net worth (Central Intelligence Agency, 2012; Lenzner, 2011). At the height of the crisis in 2008, the global shadow banking system surpassed the size of the combined economies of the United States and China (Luttrell, Rosenblum, & Thies, 2012). In 2013, shadow banking became so massive, surpassing $67 trillion, that it dwarfed the entire value of every stock exchange on the planet (Moshinksy & Brunsden, 2012; World Federation of Exchanges, 2013). It has become the world's newest and most sophisticated form of wealth transfer, by moving money out of regulated markets and into deregulated ones. This is where the productive gains of the middle class are siphoned away from personal savings and into a predatory Wall Street machine. And each year life gets a little more expensive. How many people are making enough to keep up?

Shadow banking manufactures a direct threat to the ability of working class families to create a legacy for their children. This was clearly seen in 2008 during the collapse of the U.S. housing market. Not only did home values collapse, but global financial markets lost half of their value in a matter of months (McNally, 2009, p. 37). Before the crisis, banks were holding unprecedented levels of toxic debts through the use of leveraged derivative products that virtually no one understood. The complexity of financial speak functioned to mask the risk inherent in unregulated products like mortgage-backed securities. Today, there is no way for money to escape the influence of shadow banking's use of unregulated derivatives. Taibbi (2013) stated, "An unregulated derivatives market essentially gives Wall Street a way to place hidden taxes on everything in the world" (¶ 53). The industry's drive for short-term profits imposes a significant cost on the future. Banks that are now "too big to fail" are the result of derivatives trading in the shadow banking system. The hidden tax has manifested in U.S. county governments going bankrupt, the ever increasing debt ceilings that workers have to support, and the increasing financial burdens carried by the European Union. The market crash of 2008 caught the world by surprise, and we are still working to understand what happened. Policy makers are in the difficult position of regulating capitalism, in order to protect the public good, from a system that operates in shadow.

Neoliberal capitalism, and its ideology of a hands-off deregulated approach to fiscal policy, has given rise to the shadow banking industry. This is a relatively new phenomenon that makes the understanding of financial speak critical to the modern era. The main innovation that financial speak masks is the ability of shadow banks to grow debts to levels that are so large and unprecedented that they threaten world economies. In a traditional banking system, massive perpetual debts would threaten to devalue a currency until it reaches zero. However, the shadow banking industry operates in unregulated markets to absorb rising inflation using off-balance-sheet instruments as “the major source of collateral” (Gorton & Metrick, 2010, p. 289).

The shadow banking industry emerged from a deregulated U.S. banking system. Gorton & Metrick (2010) define shadow banking as the “outcome of fundamental changes in the financial system in the last 30 to 40 years, as a result of private innovation and regulatory changes that together led to the decline of the traditional banking model” (p. 269). This means that any bank account that is not housed in a credit union or small thrift is part of the shadow banking system. Some experts will disagree with this definition by stating that large banks like Chase, Citi, and Bank of America offer traditional savings accounts and are therefore not part of the shadow banking system. In the United States, those accounts are insured by the FDIC and subject to regulatory oversight. However, recent lawsuits emerging out of the bankruptcy of MF Global highlight the inability of many large banks to separate retail assets from commercial ones (see Elias, 2011). Another important difference is that multinational banks have the ability to transfer U.S. domestic funds overseas and thus sidestep U.S. banking regulation. I am confident in stating that any money not kept in a small, local, domestic bank (that has no international footprint) is either exposed to or enables the shadow banking system.

The most conclusive official U.S. government report to examine the 2008 market crash was done by the Financial Crisis Inquiry Commission (FCIC, 2011). One of their key findings was to highlight shadow banking as a root cause of the crisis:

> First, we describe the phenomenal growth of the shadow banking system—the investment banks, most prominently, but also other financial institutions—that freely operated in capital markets beyond the reach of the regulatory apparatus that had been put in place in the wake of the crash of 1929 and the Great Depression. (FCIC, 2011, p. 27)

One of the many problems with unregulated financial practices are that debts levels become so large that the system fails to control the risk. The attempt to restructure mortgage debt through shadow banking was the source of the 2008 crash.

Shadow banking was the location for the U.S. housing market to be turned into a debt packaging casino by Wall Street, or what McNally (2009) called “financial gambling” (p. 58). The value of a family home, which is the single largest store of wealth for the average American, was moved from a regulated market into the unregulated shadow banking system, stripped into private insurance contracts between banks, leveraged up and pumped through the system until it seized.

Funds that were entrusted to the safety of government regulation entered the global derivatives markets and became susceptible to disappearing.

Gorton and Metrick (2010) stated, "The features of [a] breakdown are similar to those from previous banking panics: safe, liquid assets suddenly appeared to be unsafe, leading to runs" (p. 267). The letter that Eichner at the SEC wrote to the Fed represented his observation of a multi-billion dollar run on the banks. The larger story is that the public is generally unaware that the crash of 2008 originated from within the shadow banking system:

> The ensuing panic did not begin in the traditional system of banks and depositors, but instead was centered in a new "shadow" banking system. This system performs the same functions as traditional banking, but the names of the players are different, and the regulatory structure is light or nonexistent. (Gorton & Metrick, 2010, p. 261)

For example, Lehman Brothers and MF Global exploited U.S. banking regulations by moving funds out of the United States and into accounts in London. Money was moved out of a transparent and regulated system into an unregulated shadow banking system. Moving money out of regulated markets threatened all of global capital and the relationships that multinational banks have with each other. There is actually a term for the phenomenon of turning money that is safely regulated one day into money that can disappear next week.

5. Intro to Re-hypothecation

If financial speak can be demonstrated by a single technical banking term, it is rehypothecation. Tewary et al. (2012) described shadow banking as a "House of Cards propped up by rehypothecations" (76). Their extremely in-depth report used accessible metaphors to help redefine the role of money in today's capitalistic system. Rehypothecation is a term typically found buried in financial statements, but we can see its effects everyday on the global stage. For example, Wall Street banks earned $167.7 billion in profits in 2012 which was a 21% gain over 2011 (Isidore, 2012, ¶ 12). In contrast, the story on Main Street has been very different:

> One of the most pressing short-term, and indeed long-term global challenges today is youth unemployment. Its scale is overwhelming, yet the irony is that right now, corporations are awash with the financial resources to invest in new talent, if they want to. (Gratton, 2013, ¶ 1)

The dichotomy of high corporate profits against low social returns is the outcome of rehypothecation. It is the primary instrument of the shadow banking system that sustains neoliberal capitalism. Rehypothecation demonstrates several key features of financial speak: 1) it is sanitizing technical jargon that masks criminal activity, 2) the process defends unsustainable practices in the status quo, and 3) it is a function of shadow banking that has the potential to create a systemic collapse. The previous section on shadow banking was loosely describing rehypothecation. Understanding this term starts with the definition of hypothecation:

> By way of background, hypothecation is when a borrower pledges collateral to secure a debt. The borrower retains ownership of the collateral but [the collateral] is "hypothetically" controlled by the creditor, who has a right to seize possession if the borrower defaults. (Elias, 2011, ¶ 13)

The easiest way to view this arrangement is in the example of a standard home loan. The borrower makes a down payment (collateral) to a bank that finances the eventual purchase of a home. Interest and other fees are also paid for the services of the bank. However, rehypothecation is where the initial payment is used as collateral at another bank and then repackaged and used as collateral at consecutive firms.

Banks using deposits to lend to other banks is good in theory, but the reality is that shadow banking rehypothecates secured funds. Basically, all the money that is supposed to be protected through regulatory requirements can be used for high-stakes trading (gambling) in the international derivatives markets through vehicles such as currency and interest rate swaps. The protected money in account X is used to sell a contract to account Y which then uses the same funds to bet against account X. Division A does one thing and Division B bets against it, and neither knows.

Such was the case with American International Group (AIG) and the ensuing bailout that saved them from insolvency. Gorton and Metrick (2010) stated, "Participants are able to borrow and lend a single piece of collateral repeatedly over the course of a day" and "it is impossible to say how large [the practice] is in the United States" (pp. 277-278). The system of rehypothecation is central to the shadow banking industry. The mechanics of rehypothecation get incredibly complicated. However, the end result of this byzantine system is quite simple. One day a bank will issue a margin call (demand of payment) on collateral which no longer exists and a collapse ensues. This is what happened to MF Global, Lehman Brothers, Bear Sterns, Merrill Lynch, AIG, and hundreds of smaller banks (FCIC, 2011, p. 240).

In this frame, the weakness of the shadow banking system is easy to understand. Gorton and Metrick (2010) examined how government debt sold as bonds are the largest form of rehypothecation. For example, "Bonds received as collateral can be posted to a third party as collateral in a derivatives transaction; that party can then borrow against the same collateral, and so on" (p. 277). The initial loan can theoretically be extended to dozens of banks. Elias (2011) stated, "What this creates is chains of counterparty risk, where multiple re-hypothecation borrowers use the same collateral over and over again" (¶ 42). This is the vehicle that neoliberal capitalism uses to create perpetual growth. It fulfills all three of Kotz's (2009) requirements of the financial sector by creating inequality through the use of speculative and risky activities that lead to large asset bubbles. The shadow banking industry operates with "a staggering level of activity in what may be the world's largest ever credit bubble" (Elias, 2011, ¶ 49). I also argue that this new credit bubble can be found in the servicing of sovereign debts.

A five part *PBS* television series written by *Frontline's* Marcela Gaviria and Martin Smith titled "Money, Power & Wall Street" has been one of the most thorough documentary news series about the global financial crisis to date. Their investigation uncovered how JPMorgan was secretly employed by Italy to restructure some of its sovereign debt. *Frontline* stated, "The first known case of a country using a derivative to window-dress its accounts was in Italy" (Gaviria et al., 2012, ¶ 176). Journalist Nick Dunbar was interviewed by *Frontline* for exposing how Greece negotiated a secret loan with Goldman Sachs. In 2003, Greece was unable to manage its debts through traditional banking and would be ejected from the European Union if it did not meet several economic targets. Their finance minister employed Goldman Sachs to package a loan and service it through the shadow banking system. Dunbar stated, "It [was] a very expensive form of borrowing for Greece. By going through Goldman, Greece ended up paying something like 16 percent a year. It's a bit like a subprime mortgage … a crazy borrowing rate for someone that's desperate to borrow money" (as cited in Gaviria et al., 2012, ¶ 196). Greece continues to rely upon bailouts from the International Monetary Fund (IMF) with a total debt surpassing 154 billion euro from March 2012 to August 2014 ("European Commission," 2014). The outcome of rehypothecation at the national level can be seen in not only the struggling economy of Greece, but several European nations with extremely high unemployment. The aforementioned financial practices have created a multi-generational debt burden which may never be solved within the current structure of capitalism. However, Greece has survived a somewhat similar problem from its ancient past.

6. Re-hypothecation and Rome

Rehypothecation is not a new idea, but rather a new way to implement a very old and very clever theft. It is something the Romans began using during times of crisis. In fact, the Romans taught us most everything we know about finance and empire building. The collapse of the Western Roman Empire was preceded by numerous warning signs and failed currencies. Anthropologist Joseph A. Tainter (2000) explained the financial practice that accelerated Rome's collapse:

> The government financed by agricultural taxes barely sufficed for ordinary administration. When extraordinary expenses arose, typically during wars, the precious metals on hand frequently were insufficient. Facing the costs of war with Parthia and rebuilding Rome after the Great Fire, Nero (54-68) began in 64 A.D. a policy that later emperors found irresistible. He debased the primary silver coin, the denarius, reducing the alloy from 98 to 93 percent silver. It was the first step down a slope that resulted two centuries later in a currency that was worthless and a government that was insolvent. (p. 20)

Most Americans have no idea that the international derivatives markets are doing the same thing today that Nero did two thousand years ago. When Rome needed more money, it stretched the denarius. When the United States needs more money, it stretches the dollar. The currency of modern empire are loans made through the Federal Reserve Bank, the IMF, the World Bank, etc. For example, during the last part of 2012, the Fed began purchasing $45 billion a month in U.S. Treasuries to cover debts accrued through shadow banking (Kearns, 2012). The Fed "prints" money to buy government bonds. In reality, they are creating credit from thin air, and these electronic funds then enter the shadow banking system. This form of debt expansion has a delayed effect of currency debasement. In the cases of Greece, it uses the IMF to stretch the euro by moving currency through a multinational bank like JPMorgan, which then rehypothecates Greek credit (debt) through the global derivatives markets. This is the largest cash market in the world, where €1 can be stretched into $400, and no one knows where the initial euro went.

During the stock market crash of 2008, there were hundreds of demonstrations across the globe protesting the activities of international banks. Iceland had massive banking failures and required the intervention of the IMF to keep the government operating. Barnett (2009) described the attack on Icelandic banks as "tantamount to financial terrorism" (¶ 10). Greece was dysfunctional for this entire period, and many Eastern European countries had severe economic problems. The youth unemployment rate for the majority of Europe is also a staggering problem. NPR reported, "A United

Nations agency has recently projected that the jobless rate for 15- to 24-year-olds in the eurozone will hover around 22 percent for the next four years" (Cornish, 2013, ¶ 1). In contrast, the Federal Reserve pumped an estimated $7.7 trillion into the global banking system to keep it functioning, "more than half the value of everything produced in the U.S. that year" (Ivry, Keoun, & Kuntz, 2011, ¶ 8). Historic levels of credit infusions do not seem to be enough to plug the holes in the financial system.

An unethical distribution of resources is incentivized by neoliberal capitalism and the ways in which sustainability issues are masked is endemic to financial speak. Kotz (2009) stated that in the past "growing borrowing [required] increasing collateral against which to borrow, and asset bubbles have provided that increasing collateral" (p. 312). The Federal Reserve Bank hopes the economy can borrow its way back to the status quo. However, none of their economists can predict what will happen if the Fed, or balance sheets at other central banks, become an asset bubble. Problems with unemployment put into question the rationality of expanding debts being covered by shrinking labor.

George Carlin once famously said, "The reason they call it the American Dream is because you have to be asleep to believe it" (as cited in Berry, 2011, ¶ 10). What the world is starting to experience is a waking up from the dream of perpetual growth. The argument disputing the risk of financial shocks is that we will simply grow our way out of the problem. We can even look back to the 1990s for an example of how new technology allowed the U.S. and Europe to grow out of recessions. However, Paul Volcker, chairman of Obama's Economic Recovery Advisory Board, is not convinced about the benefits of market innovation. He stated, "I wish someone would give me one shred of neutral evidence that financial innovation has led to economic growth" (as cited in Rich, 2010, ¶ 10). The Roman Empire grew out of its first series of financial shocks but was unable to grow sustainably, and thus avoid collapse after centuries of expansion. The economic engine of that time was agriculture, but the economy could not farm its way back to the glory days (Tainter, 2000, p. 22). The economic engine of today's form of capitalism is debt. The potential exists where nations will not be able grow out of their exponentially increasing debt loads.

7. Conclusion

My fundamental argument is that neoliberal capitalism is entering a transition period where the supply of cheap credit can no longer sustain capital growth. The discursive problem is that we need new ways of conceptualizing sustainable economic practices. Some scholars are concerned that the 2008 market crash was more than a warning about the limits of neoliberal capitalism. Akin to Gramsci's concerns about finance capital, there is a worry that financial engineering will get completely out of control. An exponential collapse could emerge out of shadow banking with a sudden and violent loss of capital. If that day comes, the way of life for everyone on the planet would be change forever.

The modern banking innovation that financial speak masks is the ability of shadow banks to grow debts to levels that are so large and unprecedented that they threaten world economies. Not only is financial speak cloaked in shadow, but it can also hide in plain sight. Part of the significance of this article is to name the rhetorical strategies propelling neoliberal capitalism. Simply put, the modern version of free-market capitalism that transfers wealth through floating currencies and derivatives contracts has been named neoliberal. McNally (2009) explained the essential truth to this ideology: “In the neoliberal context, debt has become a powerful weapon for disciplining the working class in the Global North” (p. 72). At its heart, neoliberal capitalism is debt ownership over wage slaves. A basic example is how a bank can take financial ownership of a student’s education. Through student loans, the neoliberal capitalistic system saddles the emerging working professional with decades of debt in order for him or her to participate in the marketplace. This pattern also applies to car loans, home loans, cash advances, and credit card loans people use to function in their daily lives. The multi-trillions of dollars of debt created through the ideology of neoliberal capitalism has to be serviced somewhere. The result has been the growth of the shadow banking industry as the world’s largest and most powerful financial system. This segment of the financial industry has been designed to service each year’s new historic levels of debt.

Shadow banking happens in unregulated markets where credit is put to work in order to hide debts that can never be paid off. This industry cannot exist without the deregulated version of capitalism that has emerged with the rise of global markets. My concern with financial speak is that it does such a good job at filtering the language of capitalism that we might not understand the larger significance of what is being masked. We must widen our lens on capitalism to examine the scope of financial speak in a globalized world. A call to change the status quo can clearly be seen in industries outside of finance, particularly with environmental issues. However, the larger structure of capitalism seems to have secured a place in the world that it is impervious to systemic change outside of crises. A study of financial speak is one grounded in a deep concern for our future. We have to actively engage industries that threaten civilization’s ability to maintain a sustainable way of life on this planet.

My critique of financial speak is that such discourse is a rhetorical strategy defending the status quo, or the capture of language by capitalism. Warner (2002) warns of being peasants to capital, and how a public comprised of debt slaves will no longer comprise a true public. A horrifying majority of modern societies are enslaved to unmanageable debt burdens. When governments cannot fund themselves, and the bulk of the world’s debt operates in shadow, a lack of accountability increases the risk of unmanageable crises. Every nation desperately needs to restructure its economy, and banking regulations, to incentivize sustainable practices. Critiquing neoliberal capitalism is a depressing subject, but there is hope! We as a civilization still have the time and energy to become free of wage slavery. We need to fight to continue building a legacy for future generations through multi-generational policy reform. This requires incentivizing capitalism in radically new directions before crises mature into a global collapse. And yes, there is the dilemma of having to use capitalists to fix the problems of capitalism, which was the short-term solution to the 2008 global crisis. However, an informed citizenry, empowered with a new understanding of language, has the ability to shape political will toward sustainable reforms. Our collective consciousness can find a path of wisdom where all economies can grow freely and sustainably—beyond the shadows.

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