

# Justice Is an Option

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A Democratic Theory of Finance for the Twenty-First  
Century

Robert Meister

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## Preface

Ten years after the Great Recession of 2007–9, it was common for opinion leaders to blame the rise of both left- and right-wing populism on the perceived injustice of the government bailout of Wall Street. As *Bloomberg Businessweek* reports:

It's clear Obama was foolish to think public sentiment could be negated or held at bay. Financial crises are every bit as much about politics as economics. How could they not be? . . . Wages were stagnant when the crisis hit and have remained so throughout the recovery. . . . A bitter irony dawning on Geithner at the time . . . was that a substantial number of Americans saw the rising stock market not as a gauge of economic revitalization but as an infuriating reminder that the financial overclass responsible for the crisis not only got off scot-free but was also getting richer in the bargain. The iniquity stung. One complaint voters at campaign rallies still share . . . is that no Wall Street figure of any consequence served jail time as a result of the meltdown. By contrast, the U.S. Department of Justice prosecuted more than 1,000 bankers after the savings and loan crisis of the 1990s.

The story of American politics over the past decade is the story of how the forces Obama and Geithner failed to contain reshaped the world. The day-to-day drama of bank failures and bailouts eventually faded from the headlines. But the effects of the disruption never went away, unleashing partisan energies on the Left (Occupy Wall Street) and the Right (the Tea Party) that wiped out the political era that came before and ushered in a poisonous, polarizing one. The critical massing of conditions that led to Donald Trump had their genesis in the backlash. And the rising tide of economic populism among Democrats makes it all but certain that the next presidential election, and Trump's possible successor, will be shaped by it, too.

The biggest effect of the financial crisis and its aftermath was a loss of faith in U.S. institutions. Initially, and not surprisingly, this loss of confidence was concentrated in the financial sector. . . . Antipathy toward Wall Street eventually became distrust of the government, which not only struggled to mitigate the effects of the meltdown but also began producing its own crises, including a debt default scare in 2011 and a shutdown two years later. In 2013, five years into the recovery, Gallup discovered that Americans no longer considered "economic issues" to be the most pressing national problem: "Government" had replaced them as the top concern.<sup>1</sup>

*Bloomberg* is far from the only business publication that takes such a view. On the same day the *Financial Times* published a lead opinion piece with the headline "Populism Is the True Legacy of the Global Financial Crisis,"<sup>2</sup> and the *New York Times* Nobel Prize-winning columnist Paul Krugman praised two Democratic senators for introducing legislation requiring the federal government to collect and report data on who benefits from GDP growth.<sup>3</sup> At the same time, the *New York Times* columnist Andrew Ross Sorkin looked back and praised the Bush and Obama administrations for their courage in putting the rescue of Wall Street first despite the inevitable populist anger that this aroused.<sup>4</sup>

The central actors in the bailout were at least somewhat conflicted about its possible

political repercussions. President Barack Obama, who rejected the “Swedish” option of nationalizing the banks, nevertheless urged executives of all banks that were “too big to fail” to curb their compensation, saying that he was all that stood between them and the “pitchforks.” But the fact remains that, though he was willing to save them from the pitchforks, he looked the other way when his Treasury secretary, Timothy Geithner, “slow-walked” (i.e., resisted) his order to break up Citibank. Neither did he stop Geithner from using the Troubled Asset Relief Program (TARP) money, originally appropriated to purchase the toxic assets of big banks at deep discounts (“trash for cash”), to simply recapitalize the banks and thus restore market confidence that they were “safe.” Looking back on Geithner’s apparently unauthorized use of presidential power, *The New Republic* noted, “Every action fit Geithner’s worldview: The financial system must be stabilized at all costs, as the only way to heal the economy so real people benefit.”<sup>5</sup>

Such retrospective accounts of the financial crisis implicitly agree that Obama and Geithner did not know at the time whether the bond markets were at their mercy or vice versa, and that their policy was not to find out. Their highest priority was, rather, to avoid doing or saying anything that would further threaten the liquidity of financial markets, and that they measured the success of that policy by the restored ability of failing banks to raise funds on private capital markets.

Writing in 2019, the self-proclaimed rescuers of the financial system—Geithner along with former Treasury Secretary Henry Paulson and Federal Reserve Chair Ben Bernanke—could still imagine the financial system’s end in the form of “fire sales” of the assets in which global wealth had been accumulated. For them, the financial system’s awareness of its imminent apocalypse—the ever-present possibility of death by fire—lies at the heart of that system itself. Its inherent flammability is the very reason why it must be saved by government intervention. They are thus able to portray themselves in hindsight as the heroic “firefighters” who put out the flames before they spread, destroying everything.<sup>6</sup>

The paradox of 2007–9 is that the financial system became politically invulnerable at the very moment when its survival was otherwise in doubt. The reasons for this paradox are not obvious; the Great Depression made the interests of the financial sector within capitalism politically controversial, and its opponents extracted their price in the form of a welfare state. Following the Great Recession, however, the growing belief that the financial system must not



be attacked when its weakness might have been leveraged suggests that financialized capitalism may have ultimately trumped the project of historical justice.

The thus far definitive history of the Great Recession by Adam Tooze largely supports this point of view while lamenting its accuracy. Tooze's careful assessment is that the pitchforks were all on the political right—"the Obamians lacked pitchforks of their own"—and that the new regime of "stress tests," despite carrying the whiff of federal interference in capital markets, in effect made the government responsible for any subsequent bank failures, and this in turn made it easier for banks to raise capital. Tooze is here directly describing a policy of financial stabilization through guaranteeing liquidity that has greatly exacerbated economic inequality while simultaneously stoking right-wing narratives that the system is "rigged" by liberal elites in favor of the rich.<sup>7</sup> As he says in his introduction,

The Fed's liquidity provision was spectacular. It was of historic and lasting significance. Among technical experts it is commonly agreed that the swap lines with which the Fed pumped dollars into the world economy were perhaps the decisive innovation of the crisis. But in public discourse these actions have remained far below the radar. . . . The technical and administrative complexities of the Fed's actions no doubt contribute to their obscurity. But the politics go beyond that . . . to the analytical agenda of reimagining international economics, forced on us by the crisis and articulated by the proponents of the macrofinancial approach.

. . . This is hugely illuminating. It gives economic policy a far greater grip. But it exposes something that is deeply indigestible in political terms. . . . If in intellectual terms the crisis was a crisis of macroeconomics, if in practical terms it was a crisis of the conventional tools of monetary policy, it was by the same token a deep crisis of modern politics.<sup>8</sup>

As Tooze regretfully points out, it was the right-wing populists in 2008, and they alone, who professed their willingness to call the bluff of the financial sector when it threatened the larger economy with capital market illiquidity. He does not disagree with the view of mainstream opinion leaders that their opposition to the bailout was intellectually irresponsible and politically reckless.

Unlike that of the right-wing populists in the Tea Party movement, my project is to transform the concept of financial market liquidity from an assumed precondition of capitalism to an object of political contestation. I hope thus to show that the development of vehicles through which capital market liquidity can be materialized, priced, and shorted might also serve as a signifier through which historical injustice—the effect of past evil on present inequalities—can be interpreted and made actionable. This is to say that a new analysis of capitalism's vulnerability to liquidity crises can for its opponents become a source of new ideas, tactics, and

demands.

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Why did a heightened awareness of the fragility of the financial system in 2008 result in a political consensus in favor of supporting it at all costs, even when this meant allowing economic inequality to increase rather than intensifying efforts to reduce it? The reasons run deep and go beyond the skill of Geithner, Paulson, and Bernanke in managing the egos and fears of the elected officials with whom they dealt. Today's sense of "capitalist realism" is widely seen as an effect of capitalism's passage from an industrializing phase into an era of globalized finance.<sup>9</sup> This view is only partially true, but to the extent that it is, we need an analysis of capitalist financialization that is comparable in breadth and depth to Marx's account of capitalist industrialization.

What, then, is capitalism's financial turn? It is, at least, the well documented political dominance of the financial sector over other sectors of capital that indisputably occurred following the stagflation and global turbulence of the 1970s.<sup>10</sup> This dominance has arguably resulted in lower public investment in industry and infrastructure and stagnant real wages, even as asset markets soared. But, if this were all, then the capture of state power by a financial elite would be weakened by a severe financial crisis, leading to its recapture by other sectors of capital that could have demanded greater state investment in industry and infrastructure. Much of the writing on this period by progressive economists, like Paul Krugman, complains that this did not happen, but without addressing the paradoxical fact that the political power of finance over the economy and the state was, if anything, strengthened by the weakness of the financial sector.<sup>11</sup> The real question is why relative gains of financial actors were not at least partially reversible, especially during the largest financial crises since the Great Depression.

This question arises because today's financialization is something more, and different, from the capture of the commanding heights of both the economy and government by financiers who can thereby advance interests presumed to be narrower than those of capital as a whole.<sup>12</sup> The financialization that has occurred since the 1970s must be understood, beyond this, as a generalization and extension of financial ways of thinking to all sectors of capitalism, and also as a set of technologies for financializing activities that are otherwise outside the financial sector. It is the pervasive growth of financial ways of thinking and of financial technologies that has made the financial sector hegemonic, and the alternatives to its political power much more difficult to

imagine and bring about.<sup>13</sup>

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My thinking on this topic began in collaboration with the late Randy Martin, whose work has enabled scholars in the humanities and social sciences to see the social logic of derivatives, hedging, and portfolio management operating everywhere.<sup>14</sup> The cultural studies literature on commodification had recognized by the late twentieth century that the financial sector had taken control of large portions of the so-called real economy dominated by the commodity form.<sup>15</sup> Randy's twenty-first century intervention was to identify a cultural shift in which the idea of self-ownership that grounded neoliberal theories of human capital was superseded by a conception of the self as, essentially, a strategy for creating and rehedging its options in a world of ever-changing risk.<sup>16</sup> For Randy, the fully financialized self is a portfolio of assets with ever-changing exposures to risk and opportunity that must be actively managed over the course of a lifetime in response to inherently uncertain future conditions. Describing this sense of selfhood as essentially precarious—the self is always struggling to stay on its feet—Randy, as a choreographer, saw this new subjective orientation as a mode of embodiment—what he called a “kinestheme”—because in the dances he loved, the performers are never not falling down. His conception of sociality as itself a “precarious dance”—and of dance itself as a “derivative sociality”—is, of course, the contribution to cultural studies for which Randy is best known.<sup>17</sup>

Perhaps fewer of his readers know that in the last four years of his life, Randy moved from discovering cultural analogues to financial derivatives (what he called “the derivative form”) to exploring how his social understanding of derivatives could be deployed in political struggles for historical justice. Justice, he thought, can be made more present—more embodied, more actionable—if it is reframed through a new social and political understanding of the manufacture and pricing of options. I was saying something similar, and this was the point at which our collaboration began.

The distinctive feature of our approach was to consider together the ideas of value (supporting life) that Marx developed and of liquidity (supporting markets) that are stressed in modern finance.<sup>18</sup> We saw these conjoined concepts, value and liquidity, as social emanations of the institution of money as it develops within capitalism.<sup>19</sup> The value form had thus been identified by Marx as the materialized abstraction that allows the ready substitutability of one thing for another in social transactions based on monetarily equivalent exchange. A preference

for holding cash itself, value in its money form—the “liquidity preference” identified by Keynes—is based on the equally abstract assumption that in a market-based economy, holding cash is desirable in itself because it embeds an element of optionality that commands a premium. Keynes’s liquidity premium was the prototype of what Randy and I called “the option form” in the sense that any asset embodying value that isn’t money has to be turned into money (liquidated) for one to have the option of converting it into another asset. The universal equivalence promised by the value form thus makes the optionality provided by the money form, its liquidity, intrinsically desirable in and of itself.<sup>20</sup>

We were both aware, however, that this view of the relation of liquidity to value could be reduced to an observation that the exchange of money is simply a social precondition for using markets to support and reproduce life. This observation, accurate in itself, is often taken to imply that the liquidity that results will then be viewed as a positive externality, or free good, thrown off by the existence of markets themselves. The Chicago School of economics could thus be paraphrased as thinking it’s a good thing that markets happen to support life and that life happens to support markets.

Unlike the Chicago School, however, Randy and I believed that a focus on liquidity could highlight the political vulnerability of the financial markets themselves, which may disappear almost instantly, reducing the accumulation of value they contain to zero. We thus saw in finance’s capacity to create value from an awareness of potential threats to liquidity the key to making its continuing existence politically contingent and thus subject to subversion, manipulation, and sabotage.

We had no doubt that, in thus repoliticizing financial technologies of wealth, we were also talking about historical justice. This is the component in which the aftereffects of past injustice, such as interracial gaps, compound rather than dissipate with the passage of time. Not all past injustices ramify and intensify over time; many are not deepened by the machinery of capital accumulation. But those that are become historically more important for that very reason and must be a central concern for a Marxist politics today. Our approach was thus to show how modern financial concepts fit into Marx’s ideas in ways that once again connect them to the pursuit of historical justice.

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- <sup>1</sup> Joshua Green, “How Anger over the Financial Bailout Gave Us a Trump Presidency,” *Bloomberg Businessweek*, August 30, 2018, <https://www.bloomberg.com/news/articles/2018-08-30/the-biggest-legacy-of-the-financial-crisis-is-the-trump-presidency>. For more on “sin eaters” becoming “scapegoats,” see Margaret Atwood, *Payback: Debt and the Shadow Side of Wealth* (London: Bloomsbury, 2008); René Girard, *The Scapegoat*, trans. Yvonne Freccero (Baltimore: Johns Hopkins University Press, 1989).
- <sup>2</sup> Philip Stephens, “Populism Is the True Legacy of the Global Financial Crisis,” *Financial Times*, August 30, 2018, <https://www.ft.com/content/687c0184-aaa6-11e8-94bd-cba20d67390c>.
- <sup>3</sup> “We need ‘distributional national accounts’ that track how growth is allocated among different segments of the population.” Paul Krugman, “For Whom the Economy Grows,” *New York Times*, August 30, 2018, sec. Opinion, <https://www.nytimes.com/2018/08/30/opinion/economy-gdp-income-inequality.html>.
- <sup>4</sup> Andrew Ross Sorkin, “From Trump to Trade, the Financial Crisis Still Resonates 10 Years Later,” *New York Times*, September 10, 2018, sec. Business, <https://www.nytimes.com/2018/09/10/business/dealbook/financial-crisis-trump.html>.
- <sup>5</sup> David Dayen, “He Was the Resistance inside the Obama Administration,” *New Republic*, September 11, 2018, <https://newrepublic.com/article/151159/tim-geithner-resistance-inside-obama-administration>.
- <sup>6</sup> Ben S. Bernanke, Timothy F. Geithner, and Henry M. Paulson Jr., *Firefighting: The Financial Crisis and Its Lessons* (New York: Penguin Books, 2019).
- <sup>7</sup> Adam Tooze, *Crashed: How a Decade of Financial Crises Changed the World* (New York: Viking, 2018), 296, and ch. 13 more generally.
- <sup>8</sup> Tooze, *Crashed*, 11–13.
- <sup>9</sup> See, e.g., Mark Fisher, *Capitalist Realism: Is There No Alternative?* (Winchester, UK: Zero Books, 2009).
- <sup>10</sup> Greta R. Krippner, *Capitalizing on Crisis: The Political Origins of the Rise of Finance* (Cambridge, MA: Harvard University Press, 2012). Describing the political influence of finance, even at its weakest moment in 2008, Tooze says the following: “It took a month of panic, political confusion and unprecedented financial turmoil to reach the point in mid-October when the barons of Wall Street would listen when Paulson thumped the table and declared that everyone must take the Treasury’s money. Even then, the executive branch had the power that it appeared to do in large part because J. P. Morgan swung behind the Treasury proposal. If this was an act of sovereignty, whose sovereignty was it? The American state’s, or that of the “new Wall Street”—the network personified by figures like Paulson and Geithner who tied the Treasury and the Fed to America’s globalized financial sector?” Tooze, *Crashed*, 198.
- <sup>11</sup> Paul Krugman, *Arguing with Zombies: Economics, Politics, and the Fight for a Better Future* (New York: W. W.

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Norton & Company, 2020).

- <sup>12</sup> There have been financial elites in every period of capitalist development. Their influence waxes and wanes, and has been described by some Marxist historians as cyclical. For versions of this view, see Giovanni Arrighi, *The Long Twentieth Century: Money, Power, and the Origins of Our Times*, 2nd ed. (London and New York: Verso, 2010); Robert Brenner, *The Economics of Global Turbulence: The Advanced Capitalist Economies from Long Boom to Long Downturn, 1945–2005* (London and New York: Verso, 2006).
- <sup>13</sup> SServaas Storm, “Financial Markets Have Taken Over the Economy: To Prevent Another Crisis, They Must Be Brought to Heel,” Institute for New Economic Thinking, February 13, 2018; Gerald Davis and Sun-Tae Lee, “The Financialization of the Economy,” *Review of Sociology* 5:203–21; Dick Bryan and Mike Rafferty, “Political Economy and Housing in the Twenty-First Century: From Mobile Homes to Liquid Housing?” *Housing, Theory & Society* 31, no. 4 (2014): 404–12, <https://doi.org/10.1080/14036096.2014.947080>; Bruce G. Carruthers, “Diverging Derivatives: Law, Governance and Modern Financial Markets,” *Journal of Comparative Economics* 41, no. 2 (May 2013): 386–400; Duncan Wigan, “Financialisation and Derivatives: Constructing an Artifice of Indifference,” *Competition & Change* 13, no. 2 (June 2009): 157–72; Paul Langley, *The Everyday Life of Global Finance: Saving and Borrowing in Anglo-America* (Oxford and New York: Oxford University Press, 2008).
- <sup>14</sup> Randy Martin, *Financialization of Daily Life* (Philadelphia: Temple University Press, 2002); Randy Martin, *An Empire of Indifference: American War and the Financial Logic of Risk Management* (Durham, NC: Duke University Press, 2007).
- <sup>15</sup> Fredric Jameson, *Postmodernism; or, The Cultural Logic of Late Capitalism* (Durham, NC: Duke University Press, 1991).
- <sup>16</sup> Stated in the language of Marx’s *Grundrisse*, Randy showed that the formal subsumption of capitalist production to the demands of financiers had become a real subsumption in which the logic of financialization, rather than of commodification, was the basis of subjectivity and selfhood under capitalism. Karl Marx, “Fragment on Machines,” in *Grundrisse*, trans. Martin Nicolaus (London: Penguin, 1993), 690–712; Massimiliano Tomba and Riccardo Bellofiore, “The ‘Fragment on Machines’ and the Grundrisse: The Workerist Reading in Question,” in *Beyond Marx*, ed. Marcel Linden and Karl Heinz Roth (Boston: Brill, 2013), 345–67; Paolo Virno, “General Intellect,” *Historical Materialism* 15, no. 3 (January 2007): 3–8.
- <sup>17</sup> Randy Martin, “Thinking Finance Otherwise,” <https://vimeo.com/12410766>; Martin, “Dance and Finance” (Bruce Ininitative on Rethinking Capitalism, University of California, Santa Cru, April 9, 2011), <https://vimeo.com/25193625>; Martin, “Dance and Finance: Social Kinesthetic and Derivative Logics” (NYU, May 14, 2014), <https://vimeo.com/95306125>; Randy Martin, “A Precarious Dance, a Derivative Sociality,” *TDR/The Drama Review* 56, no. 4 (Winter 2012): 62–77; Gerald Nestler, *Contingent Optionality. Portrait of a Philosophy Series III, Randy Martin, 2015*, <https://vimeo.com/127505126>.
- <sup>18</sup> Our reading of contemporary financial macroeconomics aimed to make its insights directly useful to anticapitalist political movements in ways that resembled what Marx himself did in making classical political economy
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accessible to a rising working class. For extended discussion of this approach, see Robert Meister, *Political Identity: Thinking through Marx* (Oxford: Blackwell, 1990).

- <sup>19</sup> We later learned from our collaborators—Ben Lee, Ed LiPuma, and Arjun Appadurai—that money itself functions in exchange both as a token or medium that changes hands, whether physically or virtually, and as a type through which the exchange is represented as occurring at a “price.” For the fruits of this collaboration, see Benjamin Lee and Randy Martin, eds., *Derivatives and the Wealth of Societies* (Chicago: University of Chicago Press, 2016).
- <sup>20</sup> J. M. Keynes, “The General Theory of Employment,” *Quarterly Journal of Economics* 51, no. 2 (1937): 212–19, <https://doi.org/10.2307/1882087>; Fabian Muniesa, “On the Political Vernaculars of Value Creation,” *Science as Culture* 26, no. 4 (October 2017): 445–54.