Un buon articolo che spiega, semplicemente, la dinamica dei derivati che costituiscono la linfa vitale della speculazione dei nostri tempi. Contrariamente ai luoghi comuni che circolano secondo i quali i derivati sarebbero la "nuova moneta" che garantisce una limitazione dei rischi, al contrario essi costituiscono il cancro del sistema economico moderno nel quale i rischi si amplificano sempre più a livello globale.

Economics

The Pass The Risk Trick

By Dick Bryan

Derivatives, often seen as the currency of casino capitalism, are the fastest growing, largest and potentially most volatile aspect of capitalist economies. Economist Dick Brian sees behind this image an even deeper danger.

Financial Derivatives. The term is appearing more and more in the media, but it is very hard to find out what they are and what they do. Ask a financial market dealer or analyst, and a spray of impenetrable jargon appears. The temptation is to ignore it all as paper shuffling, or to simply condemn it as hot money, speculation, and the means by which spivvy guys in suits support cocaine habits.

Those judgments are probably all true to varying degrees, but if we ignore financial derivatives, we ignore the fastest growing, largest and potentially most volatile aspect of capitalist economies. To understand what is driving international financial volatility and corporate strategies, and all the associated implications for workers and communities, you have to have some handle on derivatives.

Derivatives Are Ten Times As Important As International Trade

Before an explanation of what derivatives do, it is important to see the scale of activity we are addressing.

Table 1 shows some important facts:

- Total value of derivatives contracts at the end of 1998 was almost $US 65 trillion (65 thousand billion). This figure compares with $US 0.44 trillion dollars of international direct investment and $6.5 trillion in global exports in 1998 (UNCTAD 1998: 2). In other words, in the international economy, as part of the process of globalisation, financial derivatives are not just big, they are 10 times as important as international trade.
- Second, the table signals that the growth of derivatives has been phenomenal. From virtually non-existent at the beginning of the 1980s and still pretty small at the beginning of the 1990s (just $US16 trillion in 1993) they have grown at a totally unexpected rate in the 1990s, way faster than any other economic activity in the world.

Table 1 Markets for selected financial derivative instruments

Notional amounts outstanding at year-end, in billions of US dollars

	1993	1998
Exchange Trade Instruments	**7,7771.2**	**13,549.2**
Interest Rate Futures	4,958.8	7,702.2
Interest Rate Options	2,362.4	4,602.82
Currency Futures	34.7	38.1
Currency Options	75.6	18.7
Stock Market Index Futures	110.0	321.0
Stock Market Index Options	229.7	866.5
OTC Instruments	**8,474.6**	**50,997.0**
Interest Rate Swaps	6,177.3	
Currency Swaps	899.6	
Interest Rate Options	1,397.6	
Total		64,546.2

Source: Bank for International Settlements, Annual Report 1999:13

What are derivatives?

As the table shows, they are futures, options and swaps contracts applied to interest rates (predominantly) currencies and company shares, and they are traded in two forums: specific market places (like the Chicago Futures Exchange) or by private arrangement, where a broker stitches up a deal between two parties (called Over The Counter (hence OTC)). It's like the difference between a house sold at auction and a house being sold by the estate agent working with two parties.

The evidence above shows that virtually all the growth is in OTC contracts. The broking is done by financial institutions. That's where banks are now making so much of their revenue, and it is the profitability of this activity (called financial services) that makes them want to run down retail branch banks in country towns and shopping centres - there's more money in derivatives broking.

These futures, options and swaps - what role do they play? Here the analysis can get a bit technical, but they are essentially where companies place side bets on their risks of doing business. It's a bit like a bookmaker laying-off big bets with other bookmakers (or the TAB), but with more complex choices.

First, a bit of background. When markets (and especially for finance) went global in the 1970s and especially 80s, companies found themselves exposed to new and greater risk. They might borrow in Australian dollars, but invest in Thailand. They might need revenue in Australian dollars, but have contracts signed in Yen. The value of a copper mining company on the stock market will go up and down as the price of copper goes up and down. Should a company borrow at variable interest rates, or at fixed rates? What currency should they hold assets in?

The answer to all of these concerns is that there is no correct answer for all time. When the bank asks you whether you want your home loan at a variable rate, or at a guaranteed rate, but a bit higher than the variable rate, you are being asked how much you want to gamble, and how much

you are prepared to pay extra to aviod the risk of interest rates changing. When your superannuation company asks you 'do you want to be in a scheme with secure investments, but with a lower expected rate of return, or with riskier investments with a higher expected rate of return?' you are being asked how much you want to gamble. When you retire, and have to decide where to invest your superannuation funds, you have to gamble.

Financial advisors will usually advise you to hedge - to spread it around - to take some risk, but have some securely tied up. So it is with companies. They face high exposure to risk all the time, and derivatives markets are designed as a place to spread risk.

Take a futures contract for oil. An oil producer is fearful that prices will fall in the future. An airline company is fearful prices will rise in the future. They can hedge their risk by agreeing to trade oil at a certain price in 6 months time: they will sing a futures contract They will both accept to pay a bit more (or receive a bit less) to buy certainty.

An options contract will do something similar. Our airline may be willing to put down some money today on a contract that gives it the right to buy oil at a $50 a barrel in 3 or 6 months time. It will not have to buy the oil (for the price may have fallen) but the option gives it some security that if the price keeps climbing, it will still get its oil for $50 (plus the cost of buying the option). It is insurance.

An interest rate swap is slightly different. It is where two companies borrow in different currencies (or in different interest rate systems (short term/long term or variable/fixed interest rate)). Companies borrow where they get the best deal, and swap repayment obligations with other companies that get a better deal in other parts of the market. (Why the deals are different in different parts of the market is a complex calculation on the part of lenders). This may sound a technical nicety, but notice that this activity is the primary activity on derivatives markets. Tens of trillions of dollars of repayment obligations are swapped each year.

Dealing With Risk

The above description sounds a bit like a lesson in corporate accounting - how to keep companies financially stable and not exposed to unwanted risk. It sounds like the market is a nice balance - oil companies that want to sell and airlines that want to buy.

But notice a couple of points.

First, in these derivatives markets, participants can buy and sell without having to put down a significant amount of cash. Options in particular mean that you can invest money in future prices (of shares, oil, etc.) by putting down a tiny portion of the value of the item. I'll pay well under a dollar to but an option to buy (or sell) shares (at a certain price at a certain time) that may themselves trade for 30 dollars.

This means that there is huge scope for speculation, for dealers can be highly 'leveraged' - they have put down a small amount of money but have assets worth a lot of money riding on it. Derivatives markets certainly provide fertile ground for speculators who will buy and sell futures and options contracts hoping to make a quick buck.

So there is an irony: derivatives markets have grown to provide a means for companies to lay off risk, and the ideal version is that companies have complementary perspectives on risk (like the oil

company and the airline). But there is also scope for the gambler pure and simple to enter the scene to speculate on oil prices by trading futures and options contracts.

Second, turnover on derivatives markets is many times larger that trade in the 'real' item. The barrel of oil may change hands once, but the futures or options contracts on that barrel may change hands many times. That fact then has implications for how the price of a barrel of oil is determined. Evidence suggests that the value of the 'real' item is now being driven by the derivatives market transactions, not the other way round: 'real' prices are being determined in speculative markets.

Hence, when the Reserve Bank of Australia wants to influence the value of the Australian dollar, it does so in currency swaps markets, not the 'cash' or 'spot' market. It says that turnover in the swaps market is greatest and, because of the leveraging, any expenditure has a greater impact on the value of the dollar.

More Than Speculation

Derivatives markets do have lots of speculation involved, and that makes them volatile and unstable. But we cannot dismiss them as just speculation or markets for 'hot money'. They are a place where companies attempt to reduce risk - by selling it off. And here is the real danger; much deeper than the image of the casino that is popularly applied to derivatives.

Buying and selling risk doesn't make risk disappear, it just means that those who want to avoid some can sell it to those who want more. But should those who buy risk go broke, it repercusses through the system. If the other party to your options, swaps or futures contract doesn't come to the party as they are contracted to - if they are in the hands of the receivers - then you too are in trouble. You've paid good money to buy the oil or the copper at a certain price next March, but there's no oil or copper there, because the risk taker went belly up.

Derivatives therefore increase the chance of big, system wide volatility, for they piece companies together like dominoes - if one falls, so do others, and then others, etc. We have seen crises when hedge funds (big traders in derivatives markets), like Long Term Capital Management, go broke and the repercussions go far and wide.

In that case, we saw the US Federal Reserve (the central bank) step in to set up a bail out. But one day, the crisis will be too big for even the Fed to resolve. That's what happens when derivatives markets make the financial interdependence of corporations around the world greater and greater: it works well when it works well, but when it doesn't . . . .