ABSTRACT

FINANCIAL SPEAK: UNMASKING THE CRIMINAL DISCOURSE OF WALL STREET

The purpose of this study is to examine how the shadow banking industry threatens the public. Wall Street uses financial speak as a rhetorical strategy to mask criminal banking activity with insular language that functions to create and maintain elaborate public deceptions. Spears’s (1999) classification of prestige language and Schiappa’s (1989) concept of bureaucratization will be used to ground this concept. The April 2012 Securities and Exchange Commission (SEC) case against Goldman Sachs is used to demonstrate how a U.S. regulatory agency served to shield an investment bank from public scrutiny of deceptive trading practices. The ethical consequences of financial speak are examined by using Goodnight’s (1982/2012) concept of a division between the technical and public spheres. My fundamental critique of financial speak is that it is a rhetorical strategy defending the status quo, or the capture of language by neoliberal capitalism. The world desperately needs to restructure capitalism toward sustainable practices that incentivize equality, transparency, and fair banking practices.

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# TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CHAPTER</th>
<th>INTRODUCTION</th>
<th>FRAMEWORK OF FINANCIAL SPEAK</th>
<th>MECHANICS OF FINANCIAL SPEAK</th>
<th>NEOLIBERAL CAPITALISM AND SHADOW BANKING</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Definition of Financial Speak</td>
<td>Finding Financial Speak</td>
<td>Regulators vs. Goldman Sachs</td>
<td>Unmasking the Source</td>
</tr>
<tr>
<td></td>
<td>Size of Shadow Banking</td>
<td>Collapse Potential</td>
<td>How Huddles Worked</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Significance of the Crime</td>
<td>Theory and Methods</td>
<td>Bureaucratization</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Why We Should Care</td>
<td>Research Question Outcomes</td>
<td>SEC Settlement Functions as Prestige Language</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Prestige Lies at Goldman Sachs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Goldman’s Record Profits</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Summation of Prestige Language</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ethical Fallout from Sanitized Jargon</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>How Wall Street Harms Main Street</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Learning from Financial Speak</td>
<td></td>
</tr>
<tr>
<td>Section</td>
<td>Page</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------------------------------------------------------------</td>
<td>------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Casinos and Shadow Banks</td>
<td>70</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rehypothecation and Rome</td>
<td>73</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outcomes of Neoliberal Capitalism</td>
<td>77</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Problems vs. Predicaments</td>
<td>80</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CalPERS</td>
<td>83</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CHAPTER 5: CONCLUSION</td>
<td>85</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Call for Transparency and Regulation</td>
<td>89</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interventions and Public Liberty</td>
<td>91</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Use Credit Unions</td>
<td>94</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future Scholarship</td>
<td>95</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>REFERENCES</td>
<td>98</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER 1: INTRODUCTION

“We shall meet in the place where there is no darkness.”

–George Orwell, 1984

When I look outside, things seem to be okay and life is maybe a little bit harder than it was a few years ago. However, inside Wall Street and our banking system, things are very different than they were just 5 years ago. I am speaking from experience, having been a full-time stock trader during the years before and after the 2008 global financial crisis. What I witnessed was an industry that moved away from the ideology of free markets. I also noticed that language was being used to mask Wall Street’s move away from the use of open markets to ones that operate in shadow. For example, open outcry used to be a common method to trade everything from oil to soybeans. It is the classic version of Wall Street that most people see in the movies. Imagine a mob of men in a trading pit screaming orders at each other; this is open outcry.

Today, that time-tested practice of exchanging the goods of the world on the trading floors of Chicago and New York is practically extinct. The vast majority of the world’s money no longer moves between two human agents who are accountable to each other. It moves in shadow through digital channels and hidden contracts that crisscross the globe. This new exchange is called the shadow banking industry, and it was directly responsible for the 2008 global financial crisis. In the years after the crisis, the public has called for greater transparency and regulation of our banking system. Wall Street’s response has been to use rhetoric in a strategic manner to deflect accountability and to keep practices within the shadow banking industry hidden.
To the best of my knowledge, this will be the first work of its kind to establish the term “financial speak” as a distinct rhetorical phenomenon. However, there are a few print references to this phrase. Several dozen magazine and newspaper articles have used the term “financial speak” to describe basic financial jargon. For example, *The Los Angeles Times* published a guide for an investment strategies conference labeled “Financial Speak: A Glossary of Words and Terms” (“Financial Speak,” 1999). It merely contained basic definitions for traditional banking terms like “dividend” and “yield” that the average investor encounters. In 2008, during the height of the financial crisis, AARP Financial surveyed 1,203 American adults to gauge their basic investment knowledge. It was found that “more than half of those surveyed (54%) said they do not read financial literature because it’s too hard to understand” (p. 1). A common problem for people who want to manage their savings smartly is that financial terminology is overly complicated. AARP (2008) also reported that when it comes to understanding one’s investments, “many Americans believe industry use of financial speak makes matters worse” (p. 1). This concern begins to outline the phenomenon to be explored in this thesis.

People with some financial literacy often do not recognize the depth of influence that banking has on their way of life. The intent of financial literacy is to empower individuals to live, liberty and the pursuit of happiness. However, financial speak functions to empower a small group of banking elite at the expense of public liberty. For example, *The Los Angeles Times* described a “hostile takeover” as “financial-speak for date rape” (Morrison, 2008, ¶ 3). This metaphor hits close to the mark when it comes to the study of certain cultural norms on Wall Street. There are segments within the financial industry that reward a violation of the public’s trust. Frank Partnoy was a former Wall Street trader who witnessed
industry professionals profiting off the relationships they built with clients. He is now the director of the Center on Corporate and Securities Law at the University of San Diego. He described Wall Street culture as follows:

There was a phrase, “ripping someone’s face off,” that was used on the trading floor to describe when you sold something to a client who didn’t understand it, and you were able to extract a massive fee because they didn’t understand it. And the idea was that this was a good thing because what you were doing was making more money for the bank. And that sort of spirit of being antagonistic to your client actually took on a significant life on Wall Street. (as cited in Gaviria, Smith, Jennings, & Hamilton, 2012, ¶ 68)

In many recent cases, the financial industry of the 21st century has become a career path for criminals to mask practices that threaten the sustainability of the global financial system.

The financial industry has incentivized short-term profit making in order to boost year-end bonuses. The consequence is that the lifetime savings of long-term investors are often undermined by a profit making industry that is driven by corporate quarterly earnings. I argue that Wall Street strategically uses rhetoric to protect a system that rewards short-term trading to the detriment of a sustainable tomorrow. The motivation for instant profits has created myopic economic policies that are part of the ideology that drives financial speak. The long-term effect is to mask the ways that Wall Street undermines the ability of capitalism to produce a sustainable future.

I was first introduced to the concept of masking by George Orwell’s use of “newspeak” in his brilliant dystopian novel, 1984. He clearly demonstrated how social conscience can be manipulated by the ways in which language frames
thought. For example, any citizen of Oceania who questioned the status quo would be committing an act of “thoughtcrime.” The purpose of this thesis is to do exactly what Orwell’s protagonist named Winston did—to question the status quo. The following scholarship works to expose how Wall Street uses language to sustain the status quo and its domination over the public good.

**Definition of Financial Speak**

Financial speak is a rhetorical strategy used to mask criminal banking activity with insular language that functions to create and maintain elaborate public deceptions. One of the more difficult concepts to explain is how crimes of the past are linked to crimes of the future. This thesis explores the relationship between financial crime and language in order to establish that linkage. Chapter 2 outlines the logic of financial speak and includes a review of literature relevant to this investigation. Chapter 3 uses a case study on Goldman Sachs to walk the reader through the methods that Wall Street has used in the past to steal from the public. Chapter 4 looks at three primary structures of financial speak: 1) the ideology of Wall Street, 2) shadow banking, and 3) neoliberal capitalism. The analysis in chapter 4 demonstrates that financial speak is an exploitative practices of international banks. Crimes of the past are not confined there, but are rather endemic to globalized neoliberal capitalism. The three structures of financial speak have combined to form a system that is incentivized to steal from our future.

When it comes to modern banking activity, it is important to note my use of the term “criminal” in lieu of using the word “illegal.” Since 2008, there has not been a single Wall Street executive held criminally liable for activities related to the financial crisis (Smith, Hirsh, & Gold, 2013). Instead, there have been a series of increasingly large civil fines. In one of several recent cases against the
investment bank of Goldman Sachs, the federal government levied a $550 million fine. Insiders at the bank demonstrated their indifference to the fine by referring to it as “a parking ticket” (Smith, 2012b, p. 189). The result of a zero prosecution policy for large-scale financial crimes is to further mask systemic risks. Banks have thus been empowered to perpetuate crimes on an even larger scale. If civil penalties for Wall Street are a reflection of criminal practices, each of the years following the 2008 financial crisis have been marked by fines of escalating magnitude. In 2012, investment banks paid over $10 billion in fines for engaging in various manipulation schemes (Isidore, 2012).

The inherent problem with financial speak is not simply the ways in which it employs arcane language and complexity, but how it has been conceived in a world of shadow. The public typically has no trouble understanding a crime when it is visible. However, Wall Street has been deregulated to such an extent that it has incorporated a monolithic shadow banking industry with little to no transparency. Shadow banking consists of money that is outside the realm of regulation. The purpose of financial speak is to mask such criminal activity, thus enabling the shadow banking industry’s culture of secrecy to pose real and immediate threats to the public (see Ferguson & Johnson, 2009; Gorton & Metrick, 2010). The 2008 financial crisis was a direct result of criminal, unregulated, and unprosecuted activity within the shadow banking industry. For example, Lehman Brothers engaged in shadow banking to hide $50 billion in toxic debts prior to their bankruptcy (Moshinksy & Brunsden, 2012). According to Forbes, in shadow banking, “long term savings can be turned into short-term transactions that are part of the counter-party web of global financial markets” (Lenzer, 2011, ¶ 4). The transfer of household savings into a profit-making global financial web was clearly seen in the mortgage market collapse.
Size of Shadow Banking

Before delving into the mechanics of financial speak, it is important to problematize the size of the phenomenon. Shadow banking is the body from which financial speak emanates. 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; Lenzer, 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). That year was a wake-up call that should have warned everyone about the unsustainable financial practices incentivized by the shadow banking system. Instead, the industry has continued to grow. In 2013, shadow banking has become so massive, surpassing $67 trillion, that it dwarfs 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 the regulated markets and into the deregulated ones.

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. This was just one sector of the shadow banking industry. The following chapters will use case studies on Barclays (DiSaviano & Leff, 2012), Goldman Sachs (Main, 2001),
JPMorgan (Kopecki, 2010) CalPERS (Lifsher, 2009), and other firms to demonstrate how financial speak is used to mask criminal activity on an unparalleled scale in global currency, interest rate swaps, and energy markets.

What is significant about these three markets is that they affect all other stores of wealth, including teacher pensions and retirement funds. 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 county governments going bankrupt, the ever increasing debt ceiling that Americans have to support, and the increasing financial burdens carried by the European Union. Each year life gets a little more expensive. How many people are making enough to keep up?

It is clear that Wall Street has not fundamentally changed as a result of the 2008 crisis. In fact, firms like JPMorgan, Goldman Sachs, and Bank of America have made record profits and established monopoly control over several financial markets (Dash, 2010; Kopecki, 2010). They are making more money than ever as a result of the crisis. Employees at these banks received enormous bonuses, while Americans and Europeans live with the decline of their homes and their economies. In contrast, U.S. financial firms in 2012 had a 21% increase in revenues earning $167 billion in profit for the year (Isidore, 2012). The average 2012 pay at JPMorgan was $216,928 per bank employee (Moore, 2012). Meanwhile, the more loosely regulated European banking system is facing the potential dissolution of the EU due to shadow banking activity.
At the 2012 European Commission’s shadow banking conference, Oliver Rothing, regional general secretary at UniEuropa, stated, “Shadow banking products are deliberately overly complex so that they are not understood” (“Shadow Banking,” 2012, p. 102). The market crash of 2008 caught the world by surprise, and we are still working to understand what happened. This demonstrates that financial speak is also a reflection of a regulatory system that has extremely poor transparency. How is effective regulation supposed to protect the public from a system that operates in shadow?

**Significance of the Crime**

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 thesis is the importance of naming the rhetorical strategy behind the ideology of neoliberal capitalism. Simply put, the modern version of free-market capitalism that transfers wealth through floating currencies and derivatives contracts has been named neoliberalism. 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. Extrapolate this paradigm 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. 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)

There is a recent and egregious case that demonstrates neoliberal capitalism’s radical nature. During the financial crisis, derivatives traders at Barclays investment bank orchestrated a combined manipulation of the London interbank offer rate (Libor) and electricity markets in the Western United States (see Commodity Futures Trading Commission, 2012; Federal Energy Regulatory Commission, 2012). Libor manipulation was a way to commit fraud across the entire financial system.

Most people have never heard of Libor or seen how it functions in their daily life. Libor is the setting of interest rates, which are the pulse of the economy. The rate is based on a daily survey of 18 investment banks and what they expect borrowing costs to be that day. One way to think of Libor is to imagine that it determines the value of a penny over the course of several days.
When people see a penny they think it is worth $0.01. However, it is very difficult to detect a change in value of the interest on such a small denomination over time. Libor manipulation is the equivalent of making a penny worth $0.009, where the incremental theft, and massive social cost, remains undetected for years.

Barclays allowed a few traders, in the pursuit of personal profit, to conspire with outside parties in the manipulation Libor and the setting of global interest rates. *ABC News* stated, “Libor is used in the U.S. and other nations to set some $564 trillion in student loans, mortgages, credit cards and car loans” (Greenblatt & Katersky, 2012, ¶ 4). Still, this does nothing to convey the massive theft involved in the manipulation of interbank lending rates that span 10 currencies. The scam directly impacted everyone who charged a credit card, paid a loan, or exchanged currencies.

Libor rigging can also be used to mask the size of a bank’s toxic debt load. This holds true for corporate and sovereign entities. *Bloomberg* reported, “Libor rate-setters, who usually work in a bank’s treasury department, are no longer allowed to consider the views of derivatives traders who stand to benefit from where the rate is fixed each day” (Vaughan, 2013, ¶ 13). It was proven that Barclays was operating this exact scheme between the Libor rate setter and several of its West coast electricity traders. That scam netted Barclays $35 million in revenue while costing 25 other market participants over $140 million in losses (FERC, 2012, p. 62). In fact, there was widespread collusion between traders at numerous American and European banks during Libor manipulation.

The practice of investment banks manipulating Libor from 2005-2010, without any regulatory oversight, is possibly the single greatest crime in the history of Western finance. It is so complex and endemic to capitalism that the financial media has had a hard time describing its nuance. A July 2012 article in
The Economist simply called this scandal “the rotten heart of finance” (p. 1). Once again, this was a morally reprehensible act with no criminal prosecutions, but simply a record-setting civil fine. If Libor manipulation is the rotten heart of finance, then the language of financial speak is the disease.

Why We Should Care

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. It is important for us to 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 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 change. Hariman (1999/1986) stated, “Rhetorical inquiry is better appreciated as an opportunity for engagement with, rather than escape from, the problems of authority and marginality and the methods of concealment and revelation” (p. 48). What I have witnessed emerging from the shadow banking industry bothers me to my core. 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.

This is the first direct scholarship within the field of communication on the rhetorical strategies that have emerged from the shadow banking industry. My voice is slightly new, but I am one of a thousand voices speaking out against the status quo—against those who are sustaining the unsustainable. The difference is that my voice comes from behind the mask of finance. It is hard to hear and hard to understand. Greene (2006) described this phenomenon as communication being
“subsumed by capital” (p. 90). My fundamental 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 of capital, and how a public comprised of debt slaves will no longer comprise a true public. What this means is that while the vast majority of Western societies are enslaved to large debt burdens, there is still time and energy to become free of them. When governments cannot fund themselves, and the majority of the world’s money operates in shadow, there is no accountability and the risk of unmanageable crises. Western nations desperately need to restructure their economies, and banking regulation, to incentivize sustainable practices.

The concepts in this chapter go to the heart of my work as a rhetorician. In order to study specific aspects of financial speak, the discussion will be limited to the economic system of neoliberal capitalism and Wall Street’s shadow banking industry. The thesis has two major sections that examine financial speak from the micro to macro level. Chapters 2 and 3 focus on the mechanics of financial speak as a rhetorical strategy. Chapter 4 widens the lens to examine the scope of the ideological pillars supporting financial speak. The following chapter will explore the underlying meanings of metaphors used in economic rhetoric, how they operate as barriers to access for public knowledge, and the ethical consequences of these practices.
CHAPTER 2: FRAMEWORK OF FINANCIAL SPEAK

“Evil is the product of the ability of humans to make abstract that which is concrete.”

–Jean-Paul Sarte

The communication field is incredibly sparse when it comes to an examination of Wall Street’s use of language. Anthologies such as Lewis and Miller (2003) or Heath and O’Hair (2009) are useful for generating ideas about research methods, but they offer no analysis on the role that language plays during economic crises. There are dozens of useful journal articles from economics and political science, but they are typically grounded in methods of empiricism and fail at demonstrating the profound social impact Wall Street has on the development of a sustainable future. Much of my work borrows from economic journals and reframes the evidence through the lens of communication in order to advocate for sustainable practices.

When I discuss my work with rhetorical scholars, one of their first suggestions is to read McCloskey (1983, 1987, 1998). I have reviewed several of her articles and McCloskey’s (1998) book titled The Rhetoric of Economics. She has a useful critique on the philosophical foundations of modern economics, but I have not found her work to be directly useful for an examination of criminal banking activity. Because her scholarship is grounded in philosophy, it is too abstract for my goal of examining financial speak as a concept to facilitate public intervention on Wall Street. McCloskey (1998) mostly participates in a technical debate over the ontology and epistemology of economics. Miller (2005) argued that such academic theory typically does not become public knowledge. She examined how technical debates within the science of nuclear energy often emerge as public knowledge. However, “Cases of purely epistemic controversy do not
come to our attention in the same way, remaining cloistered in their esoteric forums and later revealed as part of the history of science” (p. 36). Even though McCloskey makes arguments that warn about the assumptions economists make regarding their theories, this analysis runs the risk of being buried in an academic history.

However, her work could be used for a critique of the philosophy behind neoliberal capitalism and the infinite growth paradigm that drives it. McCloskey (1983) did warn about economic scientists who cannot fulfill their promise of long-term financial stability when she stated: “The literal application of modernist methodology cannot give a useful economics” (p. 488). Part of the phenomenon she was exploring was the method economists use to predict and control growth while being restricted to a planet with finite resources. It is possible that economists look at credit, or debt creation, as a way to circumvent physical reality. However, it is my opinion that she used rhetoric as a tool to critique the profession, but not the broader system of capitalism that supports a criminal masking of language. McCloskey has a useful critique on the empirical tradition of economics, but this thesis examines a very specific rhetorical strategy rather than the philosophical foundation of the discipline of economics. It is for this reason that McCloskey’s work is not useful in the analysis of financial speak.

Finding Financial Speak

The artifacts presented in the thesis draw heavily from media sources such as Bloomberg and the The New York Times. Because the mechanisms of Wall Street are well hidden, financial crimes often come to public attention through the efforts of the press. Investigative journalists like Susanne Craig at the The New York Times and Matt Taibbi at Rolling Stone magazine have an outstanding body
of work on the culture and practices of Wall Street. Another magazine that often features investigative work on banks is the *Atlantic*. Frank Partnoy and Jesse Eisinger wrote an outstanding piece titled “What’s Inside America’s Banks?” that peels back the mask of high finance. Daily financial news reports are also used extensively in this thesis. The research provided by journalists at *Bloomberg*, who are specifically trained to report on the economy, has been essential to my study of financial speak. There are a few other quality financial news services, but *Bloomberg* is free, easily accessible, and provides depth that is hard to find elsewhere.

The culture of Wall Street is not well studied in academia, and financial firms are notoriously closed-mouthed about their corporate culture. Multinational banks operate a vastly complex and insular business where employees can be financially rewarded for their silence or complicity. One of the most prestigious and politically connected banks is Goldman Sachs. Consequently, they attract a great deal of press coverage. It is for this reason that much of the evidence presented in the thesis regarding investment banks details the inner workings of Goldman Sachs. Greg Smith’s (2012) front page op-ed piece in the *The New York Times* was entitled, “Why I am leaving Goldman Sachs.” He used one of America’s largest public forums to expose a cultural shift at his former bank:

> Today is my last day at Goldman Sachs. After almost 12 years at the firm … I believe I have worked here long enough to understand the trajectory of its culture, its people and its identity. And I can honestly say that the environment now is as toxic and destructive as I have ever seen it. (Smith, 2012, ¶ 1)

More than any other time in U.S. history, the financial services sector controls the largest share of the economy. The 2008 market crash led to the bankruptcies of
dozens of firms on Wall Street and in London’s financial center. It empowered the remaining investment banks to hold an even greater monopoly over global economies. Smith’s claim about the destructive nature of banking culture is a compelling narrative that will be examined throughout this thesis.

Lastly, a five part PBS television series written by Frontline’s Marcela Gaviria and Martin Smith titled “Money, Power & Wall Street” is one of the most thorough documentary news series about the global financial crisis to date. These media artifacts have been chosen not just for their thoroughness in reporting, but also because they are the few sources that directly report on the shadow banking industry. For an academic researcher, working backward from news stories can be very useful for the examination of individual cases. However, this method can fall short when looking at the larger rhetorical structures of financial speak. Chapter 4 draws from the few academic journal articles that directly address shadow banking and neoliberal capitalism. These are still fairly new terms and there is very little scholarly coverage regarding the phenomenon of shadow banking.

One of the few journal articles from the communication field that directly addresses the language of Wall Street is McGeough (2010). He clearly demonstrated a critical approach by applying Howard’s (2008) theory of dialectical vernacular to the technical language of Wall Street. McGeough also draws from Goodnight’s (1982/2012) work on the personal, technical and public spheres, and did a brilliant job of using close textual analysis, framed through dialogic vernacular, to unmask one of the Street’s biggest mouthpieces—CNBC’s Jim Cramer. As a former broker at Goldman Sachs who formed his own hedge fund, Cramer is an industry expert who gives financial advice on his CNBC show called Mad Money. Cramer became infamous on a Tuesday in 2008, a few trading days before Bear Sterns collapsed, by endorsing their stock at $63/share, saying it
would be “silly” for investors to take their money out of the collapsing bank. Anyone who held Bear Sterns stock over the weekend lost 97% of their investment the following Monday when the price crashed to $2/share (Feldman, 2010; see also Godoy, 2008). This example begs the question that if an expert can be so fundamentally wrong about the banking industry, what chance does the public have to understand the risks found within capitalism? McGeough (2010) stated:

Should those experts’ statements prove to be incorrect or misleading, that same mystification denies the public access to the vocabularies necessary to hold experts accountable and thus allows them to retreat to the language of the technical sphere to escape public accountability. (p. 308)

Although McGeough never used the term “financial speak,” he clearly demonstrated how an insider like Cramer used industry jargon to mystify and defraud the public.

Jon Stewart interviewed Cramer about the 2008 collapse and stated, “You all know what’s going on . . . and so now to pretend that this was some sort of crazy, once-in-a-lifetime tsunami that nobody could have seen coming is disingenuous at best and criminal at worst” (as cited in McGeough, 2010, p. 311). Stewart reinforced the concept that there is a significant element of public trust involved with money managers and financial experts. In fact, the term financier was first used in 1618 to describe “one who is skilled in levying and managing public money” (“Financier,” 2012). This reinforces Goodnight’s (1982/2012) belief that the technical sphere often functions in opposition to the public. McGeough (2010) also warned that a “reliance on specialized discourse is debilitating to the public, as those without a mastery of it are unable to move beyond the statements of the expert” (p. 308). Unmasking financial speak is a way
to hold financial experts accountable for the methods they use to manipulate language. However, it can be extremely time consuming.

In order to avoid a reliance on specialized discourses, I have tried to avoid using Wall Street reports steeped in jargon. It is important to acknowledge a linguistic trap that can occur when engaging the technical sphere. An example of this can be found in the financial statements of large corporations, where the complexity of their annual reports functions to hide their actual business practices. In the case of investment banks, they have been known to publish sanitized press releases depicting their company in favorable terms. The reality of what they are doing will often be hidden in other lengthy documents. For example, *Bloomberg Businessweek* stated:

> It's common for big global banks to publish lengthy supplements along with their earnings releases. Business reporters, analysts, and investors turn to those supplements to get a real insight into a bank's quarter. When JPMorgan Chase (JPM) announced earnings on Apr. 16, for instance, it not only published a traditional 15-page release but posted a 40-page financial supplement and a 23-page investor presentation on its Web site. (Goldstein, 2009, ¶ 6)

Practices such as this serve as a major barrier to the public’s access to knowledge and information about the corporations with which they bank. It takes years of education and a professional routine to be able to dig through a financial statement and begin to understand what is being described. Investigative financial reporters are typically the most resourceful professionals when it comes to decoding the language of Wall Street. There is no singular method to unmask financial speak, but a journalistic approach that encourages a public dialogue is probably the most effective.
The work done by attorneys and their staff at regulatory agencies like the Securities and Exchange Commission (SEC) and the Federal Energy Regulatory Commission (FERCA) is typically the most detailed source for unmasking financial speak. Time permitting, I have done my best to pull from government reports on the banking industry. My prima facie case is a three year criminal investigation of Goldman Sachs conducted by the SEC. It concluded in April 2012, and the SEC discovered that the investment bank of Goldman Sachs was running an institutionalized insider trading program. However, there were no criminal charges and a small fine was levied (Harper, 2011). This case will be used to demonstrate the discursive practices Goldman Sachs used to disguise their trading activity. It also clearly demonstrated coercion between a financial institution and its regulator where both agencies actively masked criminal activity. The majority of chapter 3 involves an examination of this case.

**Collapse Potential**

Lastly, it is important to recognize Tainter’s (1998, 2000) work on money debasement and the collapse of the Western Roman Empire. The fiat money system used today by industrialized nations is not fundamentally different from the methods Rome once used to inflate its currency. The Federal Reserve responded to the 2008 market crash with a policy of quantitative easing. At one point in 2010, they were injecting $8 billion a day into financial markets. For reference, an entire year’s farm subsidy in the United States during this time was approximately $8 billion per year. What is difficult to understand about debt and inflation is the scale of the problem. Since the beginning of 2013, the Fed has been injecting $85 billion per month through the purchase of U.S. Treasuries (Applebaum, 2013). A major criticism of the Fed’s policy response is that they
are effectively privatizing gains and socializing losses. Investment banks got massive bail outs, and taxpayers are responsible for covering the toxic debts. This form of money debasement is creating unsustainable markets that threaten to collapse global economies (see Kaufman & Levin, 2011).

It can be argued that financial speak will eventually lead to the collapse of global economies by masking criminal banking activity. Tainter (1998) examined the policy response of governments that accelerated their collapse through financial practices that are similar to the U.S. government’s collusion with the Federal Reserve Bank. This relationship will be examined in chapter 4. One of my many concerns about financial speak is that, if it is left unchecked, it can bring about a systemic collapse of the global financial system. Is Western civilization at risk because we do not have the language skills to fully understand modern finance?

Theory and Methods

There are several academics whose scholarship and methods are useful for exploring the role financial speak serves within the public sphere. Much of my work is modeled after methods used by rhetorical scholars such as Ronald Greene and G. Thomas Goodnight. This will include rhetorical criticism, close textual analysis, and examination of the ideology inherent in the discourses of Wall Street. Close textual analysis has been defined as a study of the “inner workings of public discourse and its historical context” (Burgchardt, 2010, p. 199). Close textual analysis will be the meta-methodological approach used in this thesis for analyzing the rhetoric of investment banking and the shift it has created in 21st century capitalism. The thesis will attempt to answer the following two research questions:
RQ1: What are the rhetorical mechanisms employed by Wall Street to mask criminal practices within the shadow banking industry from public scrutiny?

RQ2: What are some possible interventions that can liberate the public from financial speak?

My intent in using rhetorical criticism is to examine the 2008 global financial crisis in a way that provides fundamentally deeper analysis than what is offered by the financial media. The crisis was the catalyst for a historic shift in capitalism that exacerbated imbalances of power between the financial and public sectors. What makes the communication discipline uniquely relevant to this study is its ability to focus on the ways that financial power operates through language.

McKerrow (1989) stated, "A critique of domination is on the discourse of power which creates and sustains the social practices which control the dominated" (p. 92). His perspective informs my critique of financial speak. Wall Street is designed, and highly motivated through profit making, to sustain domination over the public. Its agents are incentivized to use language in order to sustain practices that the general public would define as criminal. Terms like “muppets” (Smith, 2012) or “dumb money” (Smith & O’Neil, 2012) are often used by insiders to define the public as unsuspecting victims.

In today’s globalized world, a few Wall Street traders can incrementally steal from millions of people using sophisticated technology. The shadow banking system masks their criminal predation upon the public through the use of financial speak as a strategy to escape accountability. One of Wall Street’s most powerful barriers to access is language. Financial speak can effectively barricade insiders from public scrutiny through the use of technical language. This is a system that touches the lives of everyone in the industrialized world.
The Technical Sphere

Goodnight (1982/2012) advocated for public argument as “a way to share in the construction of the future” (p. 198). His work on three distinct spheres, the personal, technical and public, is used to draw a rhetorical line in the sand between the public’s understanding of language and how technical jargon creates barriers to that understanding. Goodnight observed that “reason giving in the technical sphere is in opposition to requirements of personal and public life” (p. 205). He was evaluating the transformation of American government, with a long history of public deliberation, into a government that is highly influenced by large-scale private economic concerns. These are private groups that often operate beyond the reach of immediate public knowledge. For example, closed-door meetings within the investment banking community are not part of the public sphere. However, the outcome of those meetings can quickly become public policy, such as the creation of too-big-to-fail banks that are supported at the tax payer’s expense. This marriage between corporate and public interests has led the media to coin the term “Government Sachs” (Creswell & White, 2008, ¶ 4) to describe the depth of influence an investment bank like Goldman Sachs has on the U.S. government. This is also reflected in the fact that Hank Paulson left Goldman Sachs as CEO to become the U.S. Secretary of the Treasury and made key public policy decisions during the 2008 crisis.

Public sphere theory is useful for examining the relationship between public discourse and systems of power. Due to the vast scope of public sphere theory, I am going to focus primarily on how it is used in the pursuit of liberty. Fraser (2007) described the intent of public sphere theory as a means to “keep faith with its original promise to contribute to struggles for emancipation” (p. 24). One of the catalysts bringing people together to talk about their discontent is
economic stress. Throughout the global financial crisis, table conversations, town hall meetings, and other public gatherings spawned a call for direct action. The Occupy Wall Street (OWS) movement used public discourse to build awareness of and opposition to the technical sphere of Wall Street. Within OWS, a smaller group was formed called Occupy the SEC. This organization published a paper by Tewary et al. (2012) that is extremely useful in understanding the banking and regulatory climate that led to public protests. The paper is very clear in giving recommendations to federal regulators on methods to move investment banking toward more sustainable, fair and transparent practices that will be examined in chapter 4.

Prestige Language

Financial speak also functions in ways that are similar to what Spears (1999) called “prestige language” (p. 66). He is referring to the methods used by groups in power to impose their rules upon society that can result in the oppression of others. What Spears was specifically concerned with are the linguistic methods used to oppress marginalized groups. What I am concerned with is the way language is used to oppress people who do not have expert financial knowledge. Spears stated, “Language, implicated in the whole of human activity, provides an indispensable vehicle for understanding the dynamics of oppression” (pp. 63-64). A background in anthropology gives Spears a unique viewpoint on language, and he calls for us to question the assumptions we make while using it. He advocated for an understanding of language as existing within a system that is vastly more complex than a standard education equips people to handle. Spears (1999) explained how we are essentially students of language:
The context, the big picture into which language fits, is the semiotic landscape in which language is situated. By semiotic landscape I mean the collection of all sign systems, not just language, that students must confront daily. These sign systems are of diverse types, and are involved in everything from the most basic to the most arcane of activities, including everything from the sign system for pedestrians and automobile drivers to the expressive repertoires used by members of fraternal orders such as the Freemasons and the Knights of Columbus. (pp. 64-65)

The construction of language goes far beyond grammatical rules and forms that are easily learned. For example, financial systems do not use a language system that is transparent and easy to understand. There is a bias toward technical complexity.

The second lesson to be gained from Spears is that the bias for one linguistic system over another grants the former language prestige. He was referencing certain dialects in Europe that obtained a social prestige, which often afforded those who spoke it a higher economic standing. For example, the English dialect spoken by Queen Elizabeth established a standard for Britton. People who spoke a different dialect, such Cockney, were considered to lack prestige and were thus marginalized (Spears, 1999, p. 67). Spears stated, “We study language attitudes not because of their value in and of themselves, but because they tell us something about social structure” (p. 72). His work on prestige language is essential to my argument regarding the effects that financial speak has on regulatory agencies and how they operate to obstruct public understanding of criminal activity on Wall Street. Chapter 3 examines how the language used by the SEC, during its investigation of an insider trading program at Goldman Sachs, resulted in masking criminal activity.
Bureaucratization

Schiappa’s (1989) concept of “bureaucratization,” developed initially to describe the exclusionary language of nuclear weapons policy, will be used to explain the mechanics of financial speak. Although this thesis is a unique look at the discourse emanating from the financial sector, previous scholarship on nukespeak is extremely useful in framing financial speak. One of the definitions of nukespeak is that it is a language “consisting primarily of euphemisms, jargon, and bizarre acronyms which serve to cloud the true nature of nuclear weapon systems, nuclear fighting concepts, and nuclear war itself” (Totten, 1984, p. 43). Finance is also filled with bizarre acronyms like TARP, PDCF, TSLF, MBS, ARM, CDS, and CDO. They reflect practices with consequences similar to masking strategies found within nukespeak. The thesis will explore a few acronyms to demonstrate how they make financial practices opaque to public scrutiny. On Wall Street, acronyms can function to mask strategies that work to benefit a class of banking elite at the expense of the public.

There are several parallels between the ways nukespeak and financial speak function within the public sphere. The concepts of insular and sanitizing jargon, or technical language, are particularly important, as they can be applied to both nuclear policy discourse and language used to discuss risky banking practices. The use of nukespeak functions to obscure the consequences of deploying weapons of mass destruction. Similarly, financial speak hides the risks inherent in the use of derivatives contracts, colloquially known as financial weapons of mass destruction.

Warren Buffett (2002) coined the term “financial weapons of mass destruction” (p. 15) to describe highly leveraged derivatives products that he saw as “time bombs, both for the parties that deal in them and the economic system”
Buffett’s metaphor for derivatives also does a marvelous job of intertwining the two parallel practices of nukespeak and financial speak. A derivative is a contract that derives its value by representing the movement of other contracts, assets, variables, or financial agreements. These transactions are often accomplished without any real goods or services changing hands. They are typically cash settlements not unlike one would find in a casino. A simple example would be the trading of oil futures on the New York Mercantile Exchange. Oil derivatives represent a contract to buy or sell oil to be delivered at a future date and price. However, traders can significantly move the price of oil without ever exchanging real money or physical oil. This was seen in 2008 when Parnon Energy ran a manipulative scheme that helped to artificially raise the price of U.S. oil to $140 a barrel. Six months later, the price then crashed to $40 while Parnon traders continued to “generate unlawful profits” (see CTFC v. Parnon Energy, 2011, p. 10).

Buffett’s description of derivatives as financial weapons of mass destruction was a very prescient observation. Six years after his warning, the U.S. housing market collapsed and large corporations trading derivatives based on home loans went bankrupt. The result was a global financial recession. Buffett initially shared his concern about derivatives in a letter to his investors. His firm Berkshire Hathaway, Inc., invests in large corporations. Part of their due diligence involves investigating the activities of companies in the financial industry. After reading the financial statement of major banks, Buffett stated: “The only thing we understand is that we don’t understand how much risk the institution is running” (p. 15). What is to be said when one of the world’s leading financial experts cannot understand the language of finance despite tremendous effort?
Nukespeak is one of the conceptual tools we can use to better understand the mechanism at work that can befuddle an expert like Warren Buffett. The story of his recognition of the dangers posed by derivatives exemplifies the problems created by technical language systems. One of the most straightforward analytical pieces on nukespeak is Schiappa’s (1989) work, “The Rhetoric of Nukespeak.” He clearly outlines how bureaucratization is used to obscure the consequences that technical language systems actively mask. He stated, “Bureaucratization is defined as a rhetorical strategy by which nuclear concepts are insulated from public inspection by acronyms or sanitized jargon” (p. 253). This concept is also useful for unmasking the discourse of financial speak in the technical sphere of investment banking. For example, chapter 3 examines how an “asymmetric service initiative” was an institutionalized insider trading program used to steal from an investing public. Understanding the deployment of bureaucratization can help to bridge the gap between the technical and public spheres.

**Neoliberal Capitalism**

The concluding methodology of this work is to question the economic assumptions that underlie the language of financial speak. 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 form of capitalism and the shadow banking system that was born out of it. We live within a form of capitalism that is operationally different from preceding generations. The meta-argument is that financial speak conceals long-term social and economic consequences that are not apparent in the everyday function of the economy. The prime directive of this rhetorical strategy is to protect the status quo image of capitalism as an economic
system with infinite growth potential. I use Kotz’s (2009) model of neoliberal capitalism and Gorton and Metrick’s (2010) classification of shadow banking to dispel the myth of the perpetual growth paradigm that fuels the status quo.

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 has 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, the growing inequality can be measured by tracking the wages of the middle class. 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). Chapter 4 includes a critique of the neoliberal economic system from which financial speak has emerged, and chapter 5 explores some possible solutions.

**Shadow Banking**

The shadow banking industry was born out of a deregulated U.S. banking system, and financial speak is directly linked to this industry. 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 essentially 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. The 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 enabling the shadow banking system.

Shadow banking is the primary financial mechanism that enabled the U.S. housing market crash to reach a global scale. It is also the arena where the productive gains of the middle class are siphoned away from personal savings and into a predatory Wall Street machine. So what does this system look like? If derivatives are what Warren Buffett called financial weapons of mass destruction, then shadow banking is the industrial complex that manufactures them.

There are two fundamental reports that do a marvelous job of explaining the metamorphosis of the banking sector into the system that created the global financial crisis. 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. (“Financial Crisis Inquiry,” 2011, p. 27) Tewary et al. (2012) describe shadow banking as a “House of Cards propped up by rehypothecations” (76). This description helps to explain the role of money in today’s capitalistic system.

A report on shadow banking that explains rehypothecation in detail was authored by Tewary et al. (2012). These are industry insiders who established a specific branch of Occupy Wall Street with the purpose of reforming banking. Martin Smith’s investigative series for *Frontline* includes oral histories by several
of the report’s authors. The document contains some of the best direct analysis on the shadow banking industry. It also has public policy guidance that offers reasonable banking reform designed to move the status quo toward transparent and more sustainable banking practices. For instance, Tewary et al. (2012) call for a ban on rehypothecation:

This practice is particularly dangerous because rehypothecations can occur in chains, such that the same collateral is reused multiple times in successive borrowings. The obvious problem is that the actual assets backing the borrowings never change, whereas the overall exposure is multiplied at each successive level. The amount of potential counterparty risk in these transactions is astonishing. For instance, the last creditor in a chain of five rehypothecations is reliant on the creditworthiness of six upstream entities. Worse still, the creditor may not be aware that the posted collateral has been churned in this fashion. (p. 76)

Rehypothecation is the core essence of shadow banking—it is a way to promise the same dollar bill to more than one person.

There is a simple way to picture this system. Imagine a casino that closes its doors, trapping everyone inside while forcing them to gamble in order to survive. The participants will eventually run out of money, but the casino wants to maintain a culture of civility and keep everyone at the tables. Since the house cannot receive outside funds, it designs extremely clever and complicated methods to reuse its fixed supply of funds. Some people started with $1 and watch it turn into $400. This phenomenon convinces the participants that they are actually growing cash in-house. Pretty soon no one knows the difference between what was once real money and what has become house credit. The technical term for this scheme is rehypothecation.
Research Question Outcomes

The research questions led to the following analytical framework: 1) Wall Street has established itself as a technical sphere that acts as a barrier against public inquiry; 2) the effect is to position financial speak as a prestige language for a class of banking elite; 3) one of the rhetorical strategies through which the financial sector protects its status is bureaucratization, which actively masks the criminal activities that empower shadow banking; 4) the ideological foundations of neoliberal capitalism have incentivized this activity; and 5) all of the above manifest through the shadow banking industry and practices such as rehypothecation. These five pathways are foundational to the study of financial speak.

The sociolinguistic and rhetorical scholarship discussed in this chapter serve as the methodological foundation for the criticism performed in the thesis. The baseline of my critique is that Wall Street has become parasitically attached to Main Street. This critique closely identifies with Craig’s (1999) description of the critical tradition within communication theory and its objective of examining ideology that leads to social injustice:

Communication conceived in this way explains how social injustice is perpetuated by ideological distortions and how justice can potentially be restored through communicative practices that enable critical reflection or consciousness-raising in order to unmask those distortions and thereby enable political action to liberate the participants from them. (p. 147)

His explanation of how awareness can “unmask distortions” does a marvelous job of framing the purpose of my work. Unmasking the language of Wall Street has the potential to raise the consciousness of everyone harmed through secret and criminal practices. A new awareness was partially seen in the aftermath of the
2008 crash and the emergence of Occupy Wall Street. The movement created a national discourse that needs to continue working toward a transparent and fair banking system—one free from shadow.
CHAPTER 3: MECHANICS OF FINANCIAL SPEAK

“The secret of a great success for which you are at a loss to account is a crime that has never been found out, because it was properly executed.”

–Honoré de Balzac

In the summer of 2009, a Wall Street Journal (WSJ) senior financial reporter was digging into the trading activities of one of the world’s largest investment banks. What Susanne Craig discovered was a suspicious trading activity that was likely very familiar to her. Prior to joining the WSJ, she won a National Newspaper Award for an investigative series on insider trading (“Susanne Craig,” 2012). It was Craig’s article, printed during the lazy days of August, which brought a serious financial crime to the attention of regulators at the Securities and Exchange Commission (SEC). Her story was the catalyst for an investigation into communicative practices used to disguise criminal trading activity at the investment bank of Goldman Sachs. What the SEC discovered took 3 years to unpack. This investigation resulted in one of the first major fines since the 2008 stock market crash and forced Goldman Sachs to close down their Asymmetric Service Initiative (ASI). While the SEC investigation was ongoing, four of the world’s largest banks, including Goldman, each reported a perfect trading quarter in the first 3 months of 2010 (Dash, 2010). How were they able to accomplish the seemingly impossible task of not losing a single dollar in 61 consecutive trading days? The following is an exploration of several communication principles that will be used to bring additional transparency to the SEC’s investigation.
This chapter will explore some of the hidden mechanisms that are found in the language of financial speak. I argue that communication used in the financial industry has a bias that actively operates to conceal fraud. Financial speak is a rhetorical strategy used to mask criminal banking activity with insular language that functions to create and maintain elaborate public deceptions. This definition draws upon the predicament Goodnight (1982/2012) raised where the technical sphere can produce “elaborate symbolic events” (p. 210). The concept of a technical sphere is pretty basic, but the ramifications are profound. In the case of financial speak, the technical sphere is reflected in the discourses of industry insiders, Wall Street experts, and regulatory agencies. They are positioned to explain the banking system to the public. Experts who have specific technical knowledge are relied upon to decode banking terminology. However, they often reinforce and perpetuate the division between technical and public knowledge.

McGeough (2010), in his brilliant work examining the discourse of the financial media, stated that experts can “retreat to the language of the technical sphere” (p. 308) as a means to escape public accountability. The following SEC case against Goldman Sachs highlights how linguistic mechanisms of the technical sphere are deployed. It also demonstrates how regulatory agencies can serve to mask deceptive and criminal trading practices from public scrutiny. Goldman Sachs’s ASI program exemplifies Goodnight’s (1982/2012) definition of a symbolic event and the burden it places upon the public to “test and create social knowledge in order to uncover, assess, and resolve shared problems” (p. 198). The public relies upon the SEC to demystify insider trading programs that undermined the integrity of the stock market. However, the strategy of the SEC was to reinforce the use of obscure banking jargon that allowed criminal actions to escape accountability. Instead of prosecuting those responsible for rigging the
stock market, the SEC demonstrated collusion with an investment bank by masking a criminal use of public and nonpublic information—a masking accomplished in part through the SEC’s reliance upon financial speak.

When a regulatory system works to maintain extremely poor transparency, it fosters practices that can hide large scale financial crimes. I want to be clear that my use of Goldman Sachs as a case study does not limit financial speak to a single firm. Recent cases against HSBC, UBS, Barclays and JPMorgan, with fines surpassing $10 billion, point to widespread criminal practices in global banking (see DiSaviano & Leff, 2012; Isidore, 2012; Kopecki, 2010; Partnoy & Eisinger, 2013). I chose the following case against Goldman Sachs because it is relatively easy to explain to a general audience without sacrificing depth. However, the mechanisms that are unmasked are not limited to any single investment bank, but can be demonstrated by a majority of the firms.

**Regulators vs. Goldman Sachs**

On April 12, 2012, the SEC fined Goldman Sachs $22 million for violating Section 15 of the Securities Exchange Act of 1934 (SEC, 2012, p. 1). They discovered that the bank had effectively institutionalized a program of insider trading. However, terms like fraud or insider trading, with which the general public is familiar, were never used by the SEC. One of the SEC’s definitions of insider trading is the “misuse of material, nonpublic information, which can undermine investor confidence in the integrity of the markets” (SEC, 2012, p. 9). In theory, this concept is fairly simple. A person with information that can directly change the price of a stock has to reveal that information to the public prior to sharing it with private individuals. Imagine the CEO of a pharmaceutical company telling his golfing buddies that their latest drug is about to receive FDA
approval. He anticipates that when the news is publicly released in 2 days the stock price will triple, so he wants to tip off his friends. That would be the release of material, nonpublic information, the result of which could clearly be a loss of confidence in market integrity.

In the case of Goldman Sachs, the bank’s own in-house analysts were discussing potential ratings changes with private clients prior to releasing the information publicly. What makes this case particularly egregious is that Goldman Sachs is one of the largest remaining Wall Street banks in the U.S. In many ways, they set the standard for the industry. For example, the firm publishes a Conviction Buy List that represents a “focused list of Goldman’s best ideas” (SEC, 2012, p. 2). This is a high-profile method for Goldman to recommend publicly certain stocks within the financial industry. And it acts as institutional advice to “buy,” “sell,” or “hold” stocks that outside fund managers use as a basis for their investment decisions. This is a very public and legal method to disseminate material information. However, the public was unaware of how in-house traders at Goldman manipulated stock prices, while colluding with hedge fund clients, prior to making public announcements. This misuse of material nonpublic information falls within the SEC’s definition of insider trading. The second issue to consider is the level of confidence investors have in a market that has been monopolized by a few elite banks.

It is important to note that, prior to the 2008 market crash, there were five major investment banks in the United States: Bear Stearns, Lehman Brothers, Merrill Lynch, Morgan Stanley and Goldman Sachs. The crash allowed two remaining firms, Morgan Stanley and Goldman Sachs, to monopolize what was left of the market. They “survive as independent firms, perched atop a restructured Wall Street hierarchy” (Taibbi, 2010, ¶ 12). If Goldman establishes a
pattern of breaking the law without fear of regulatory repercussions, it creates a very dangerous precedent on Wall Street. This goes to the heart of the SEC’s definition of insider trading and how Goldman was operating to undermine the public’s confidence in the integrity of the markets. What message is being sent when the SEC simply fines Goldman Sachs for abusing the public’s trust? The following section highlights the work of Susanne Craig, the Wall Street Journal’s senior financial reporter, and her efforts to unmask one of the largest insider trading programs in history.

How Huddles Worked

When the bank established a “trading huddle” program (Craig, 2009, ¶ 3) it seemed like an innocuous method of streamlining communication within the organization. A writer for Bloomberg financial news explained the program as follows: “Goldman Sachs analysts, who publish stock recommendations for long-term investments, attended weekly meetings where they shared short-term trading ideas” (Harper, 2011, ¶ 3). However, the SEC discovered that the bank was doing more than simply sharing ideas between analysts and in-house securities traders, which can be a legal practice. According to the SEC’s (2012) administrative cease-and-desist proceedings:

In January 2007, Goldman launched its Asymmetric Service Initiative (ASI), which was an effort to generate additional revenue for the firm by providing market commentary and trading ideas in a structured format to a select group of approximately 180 hedge fund and investment management clients. (p. 4)

There was a very thin line the investment bank was walking between generating ideas and acting upon material nonpublic information. They began using
deceptive semantic tricks to help blur that line which had the effect of masking criminal activity. What the SEC discovered is that Goldman’s ASI program was being used to trade inside information prior to public dissemination.

In April 2008, Goldman held a huddle regarding the stock of Janus Capital Group. Goldman Sachs employee Marc Irizarry, the analyst covering this stock, had a neutral rating on it, but at the huddle he told the in-house traders that the stock was “likely to head higher” (Craig, 2009, ¶ 1). According to the Wall Street Journal:

The next day, research-department employees at Goldman called about 50 favored clients of the big securities firm with the same tip, including hedge-fund companies Citadel Investment Group and SAC Capital Advisors, the documents indicate. Readers of Mr. Irizarry’s research didn’t find out he was bullish until his written report was issued six days later, after Janus shares had jumped 5.8%. (Craig, 2009, ¶ 2)

Every party that was privy to the huddle profited by purchasing the stock. The trades were placed prior to the official and public report upgrading it from a neutral to a buy rating. This is insiders acting on material nonpublic information and a fundamental example of insider trading. However, official documents and media reports could not label it as such, because Goldman Sachs and Mr. Irizarry were never prosecuted for this criminal activity. Instead, they were fined for using a clever rhetorical strategy.

By this point, could an educated person understand how an Asymmetric Service Initiative, or a huddle, could be an insidious form of criminal activity? Greg Smith, an executive director at Goldman Sachs during this period, described asymmetric information as the method the firm used to see all relevant market data (Smith, 2012b, p. 248). This included knowing what trades its clients were
making and where the largest orders were coming from. He contends that asymmetric information allowed traders at the firm to position themselves to directly profit from inside information. Smith wondered, “Were some people at the firm simply making too much money to make ethical decisions?” (p. 227). He was not specifically referring to Goldman’s huddle trading program, but rather a culture at the firm that was condoned by various managing directors.

**Bureaucratization**

Goldman Sachs started the ASI program in 2007. It was 2 years later that the *Wall Street Journal* discovered that the practice appeared to be highly suspect. However, the *WSJ* never used the term “insider trading” because it was never legally established by the SEC. Instead, the SEC used the term “trading ahead” (SEC, 2012, p. 8). What the *WSJ* did highlight were several instances that had the appearance of illegal insider trading. This basic difference between the two definitions of “trading ahead” versus “insider trading” is fundamental to financial speak and a masking of criminal activity. This rhetorical strategy meets Schiapp’s (1989) definition of bureaucratization where “concepts are insulated from public inspection by acronyms or sanitized jargon” (p. 253). Jargon can be a tool of the technical sphere to obscure the consequences of corrupt decision making.

Goldman was not publishing information from huddles in a timely fashion. Instead, they were tipping off their ASI program clients. Actually, to be fair, that is not what the SEC said, because the term “tipping” is synonymous with the SEC’s definition for illegal insider trading. The term the SEC used was “sharing trading ideas” (SEC, 2012, p. 4). This is another example of insular bureaucratizing jargon. Both the SEC and Goldman should be held accountable
for their use of financial speak to mask criminal activity. The sharing took place among the 180 hedge fund and investment management people who got tipped off first. Schiappa (1989) argues that the semantic effect of these word choices is to “sanitize the concept so that it appears neutral and inoffensive, or to technologize the concept by applying technical terms or acronyms that only insiders or ‘experts’ can ‘really’ understand” (p. 256). Using sanitized jargon like “trading ahead” and “likely to head higher” disguised a highly unethical insider trading program. This same strategy was repeated hundreds of times, often with stocks later placed on Goldman’s Conviction Buy List. The bank would take a position on a stock, share this private information with a few privileged clients, and then publicly announce a recommendation for the same stock. This practice allowed company traders to lock in performance-based bonuses for the year.

The SEC actually reported how many times Goldman did manipulate stock prices: “Between . . . November 2008 and May 2011, 740 alerts were triggered based on trading ahead of research rating and Conviction List changes” (SEC, 2012, p. 9). That is 740 documented occurrences, which is astonishing for several reasons. The first is that there were only 252 trading days in 2010 (“No Trading Days,” 2010). Goldman was caught manipulating the price of at least one public company per day during this single investigation. Second, given the high level of secrecy within the firm, the actual number of times this criminal activity happened is unknown. The 740 known cases are based on recoverable records.

There is one last important point to finish up the background on Goldman’s ASI program. If it were not for a whistleblower informing the Wall Street Journal about the reality of these practices, it is possible that no one outside the firm would have discovered the truth behind huddles. This level of secrecy at Goldman is another effect of bureaucratization. It served to insulate the firm from public
inquiry for 2 years. The three regulatory agencies that have brought action against Goldman Sachs did so immediately following the publication of Craig’s (2009) *WSJ* article. The Secretary of the Commonwealth of Massachusetts, William Galvin, sent a subpoena to Goldman Sachs shortly after the story broke. The SEC and FINRA also followed suit (Harper, 2011). In 2011 Goldman agreed to pay a $10 million settlement with Galvin, the state’s chief securities regulator, and to stop the practice of huddles. *Bloomberg* reported, “While the settlement finds that Goldman Sachs ‘engaged in dishonorable or dishonest conduct,’ it adds that nothing in the settlement ‘shall be construed as a finding or admission of fraud’” (Main, 2011, ¶ 7). This is where financial speak moves into the realm of prestige language.

**SEC Settlement Functions as Prestige Language**

The act of charging Goldman a fine, instead of prosecuting them for criminal trading activity, was justified by the SEC through the use of prestige language. By ordering them to cease-and-desist their huddle trading practice, the SEC clearly demonstrates how the firm was trading ahead—a criminal practice. In fact, this correlation is the only time the term insider trading was mentioned: “Section 15(g) is intended to guard against a broad range of potential market violations, including insider trading and trading in advance of material research changes” (SEC, 2012, p. 9). The SEC found Goldman Sachs in violation of this section and levied a fine.

However, none of Goldman’s regulators declared that the bank was committing fraud. A reasonable person might agree that the 740 instances where the SEC discovered that Goldman was trading ahead of an analyst’s ratings change should be considered criminal acts. However, none of the regulators involved in
this case have pushed for prosecution of the firm. The result is to exonerate the international bank from the direct effects of malfeasance or fraud. It is for this reason that I have been careful to use the term “criminal” in lieu of “illegal.” This partially demonstrates how financial speak functions to transition the SEC from acknowledging the appearance of criminal activity to exonerating Goldman Sachs of that very same charge.

The message to the rest of global finance is: Any bank caught stealing millions of dollars from firms too numerous to prosecute will be taxed for the investigation of deceptive practices. This is essentially a tax or legal service fee, depending on one’s point of view. The financial consequences for Goldman were fines that represented less than 0.04% of their revenue for the period in question (“Goldman,” 2012, p. 41). That is four one hundredths of one percent, or four basis points, which would be a laughable excise tax. When Goldman was fined $550 million by the SEC, 3 months after they settled the ASI case, insiders referred to the amount as “a parking ticket” (Smith, 2012b, p. 189).

This is a situation that demonstrates the power of what Spears (1999) called “prestige language” (p. 66). He is referring to the methods used by groups in power to impose their rules upon society, which results in the oppression of others. In this case, it is the coercion of a financial institution and its regulators against the interests of the investing public. Spears (1999) stated, “Prestige languages (or dialects) owe their status primarily to factors that are ultimately political and/or economic, not to any inherent superiority claimed on the basis of grammatical features” (p. 66). I want to stretch this concept a little and argue that language used within a legal statement, such as the SEC absolving an investment bank from the criminal activities it was found to be practicing, qualifies as prestige language.
I argue that the SEC’s fine and ruling against Goldman Sachs is a deceptive act, and that their policy response functions as prestige language. What is curious about the roots of the term prestige is that it was first used in 1372 “denoting an illusion produced by magic” (“Prestige,” 2012). The Oxford English Dictionary also defines it as a deception. The illusion of financial consequences, when a multinational investment bank is caught gaming the system, functions to deceive the American public.

The rhetorical strategies Goldman used to hide criminal activity had a spillover effect with the regulators at the SEC. The second paragraph of the SEC order states, “without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings” (SEC, 2012, p. 9). In plain English this essentially states: The only thing Goldman Sachs has to acknowledge is that the SEC still retains regulatory authority over the bank. To simplify things even further, this was an elaborate deception were both parties created an illusion of legality—behold the magic of prestige language.

The outcome for Goldman Sachs has merely been a financial settlement with a promise not to do it again. According to the SEC, “Goldman shall certify, in writing, compliance with the undertakings set forth above” (SEC, 2012, p. 11). Those undertakings essentially require Goldman to verify that the firm will not hold huddles and to adjust their policy to reflect the fact that huddles do not meet with the regulations in Section 15(g) of the Securities Exchange Act of 1934. Then they will send their compliance in writing to an SEC administrator in Washington, D.C. Nowhere did it state that the bank has been in existence as long as the regulation and that Goldman Sachs should know all of this by now, and therefore be fully compliant. Instead, the bank was gaming the system. The SEC also failed to mention any additional restrictions or oversight of the firm.
Regulators are relying upon a firm that has been shown to have poor internal compliance to regulate itself without any additional external oversight. The following sections will examine why the bank has a profit incentive not to regulate itself.

Prestige Lies at Goldman Sachs

Demonstrating how Goldman Sachs engaged in more than dishonorable or dishonest conduct regarding its deceptive trading practices is rather easy. The bank played word games using three simple terms. Financial analysts give one of three types of ratings to a company’s stock: neutral, buy, or sell. Using some simple tricks of semantic deception, Goldman decided they would not allow these terms to be used in huddles. According to Craig (2009), “words like ‘buy’ and ‘sell’ are to be avoided, while ‘run up,’ ‘give back’ and ‘oversold’ are encouraged.” This highlights an inconsistency in the policy of Global Compliance at Goldman Sachs. They are required through regulation to police themselves in order to avoid illegal activity. When Craig (2009) asked about the legality of these semantic practices within the ASI program, Goldman responded that “compliance officers sit in on almost all the meetings” (¶ 27). This statement reflects a decision by Goldman’s management to move it beyond the threshold of dishonesty and into the realm of the criminal.

What is abundantly clear is that Goldman Sachs deceived the public by using financial speak as a strategy to avoid public accountability. Spears (1999) stated, “This is why sociolinguists draw an important distinction between linguistic competence, knowledge of a language’s grammar, and communicative competence, knowledge of how to use the language” (p. 77). Goldman specifically used their knowledge of language to mask a criminal and unethical
trading practice. The SEC was clear in their investigation, stating: “Compliance did not attend hundreds of huddles. Goldman had no process in place to identify the hundreds of instances when an analyst discussed a stock at a huddle and then changed the rating within days of the huddle” (SEC, 2012, p. 10). This serves to highlight how prestige language functions within the context of financial speak. Breaking the rules inside the bank was one thing, but Goldman took their deceptive use of language to Wall Street in order to profit off the public.

It often took analysts days to publish the information they discussed during closed-door huddles. Prior to public dissemination of an analyst’s material research, they would share trade information privately with a “select group of priority clients” (SEC, 2012, p. 2). It would also be fair to call them prestigious clients. The ASI program was designed to cater to a select group of hedge funds. Status is a prime condition for the functioning of a prestige language. Spears (1999) also defined status found within prestige languages as “factors that are ultimately political and/or economic” (p. 66). The smaller firms who became ASI clients were then privy to Goldman’s nonpublic information. This group paid for access to Wall Street in order to gain an economic advantage.

Hedge funds are typically multimillion dollar funds with access unavailable to groups that do not share the same political and/or economic connections on Wall Street. A profitable move would be established by these insiders and then the report of a ratings change would eventually be made public. By that time, it was too late for the investing public to act on the large price move. Smith (2012b) observed an “obviously misleading and disingenuous” (p. 237) practice of his bank changing the rating of a stock 10 times over the course of a couple years. In the case of stocks manipulated by huddle trading, outside traders would see a spike in a certain stock’s price with no relevant news related to the move. Days later,
Goldman would report upgrading the stock. What is going on here between the SEC and Goldman Sachs has fundamental consequences. The fact that the bank was confirmed to be lying about its trading practices by its regulator, and not prosecuted for it, is a clear effect of a privileged status. This is prestige language functioning in the context of financial speak.

**Goldman’s Record Profits**

The effectiveness of the communication at the ASI meetings, their use of language, is reflected in massive profits the firm was making while under investigation. The article written by Craig (2009) should have caused a crisis for the bank. It certainly created additional high-profile media pressure on the firm. It was reported that, “In the wake of the S.E.C. suit, Goldman’s role as a market maker has come under scrutiny on Capitol Hill. It has staunchly defended its business practices and said it had done nothing wrong” (Dash, 2010, ¶ 13). However, they continued practicing trading huddles as if nothing wrong was happening. They did not stop until ordered to do so 2 years later.

Goldman was on the cusp of booking a perfect trading quarter for the first 3 months of 2010. According to the *The New York Times*, “Goldman made at least $100 million on 35 days during the quarter, and at least $25 million on the remaining trading days” (Dash, 2010, ¶ 12). They did not have a single losing trade during this period, and nearly duplicated the performance for the rest of the year. The majority of their revenue at this time, 69% of it, was from trading activities, not from traditional banking (Kopecki, 2010). It is important to understand that there is always someone on the other side of a trade. Therefore, if Goldman was making exorbitant record profits, the money was coming out of the accounts of other parties.
It is not as if Goldman was generating revenue by traditional means of production. It was primarily trading for itself and its priority clients. Since there is always someone on the other side of a trade, that means other agents were losing billions. The firm’s net revenue for 2009 was $45 billion. One year after the financial crisis of 2008, while the United States was in a recession, Goldman made more money than any other time in its hundred year history. They made $39 billion during 2010, the year in question in this section (“Goldman,” 2012, p. 41).

The analysts involved in the ASI program also were directly rewarded. According to the SEC (2012), “Many institutional investors use broker votes to rate research analysts and other personnel across the industry, and then allocate their trading— and resulting commissions—to the firms whose personnel they rate most highly” (p. 3).

There is no solid evidence linking the vast profits Goldman Sachs was making in 2010 to their huddle trading program, but I argue that they were effectively stealing from the market. Smith (2012b), the former Goldman executive, was clear about asymmetric information equating to perfect trading records. It was proven that employees were financially benefiting from the huddles. The outside ratings of analysts certainly functioned as industry-wide kickbacks. The higher the reputation for an analyst the more commission generating business that analyst would generate for the firm. The term used by employees at Goldman Sachs was “gross credits” (GCs) and was a measure the firm used in promotions (Smith, 2012b). It is also important to understand that the more money or GCs an analyst makes for the firm the more the firm puts into the analyst’s personal bonus.

An uninterrupted run of perfect trading months is a feat that is nearly statistically impossible. Additionally, the firm was operating in the crisis
environment of a recession and scathing media criticism, but the Wall Street profit ethos dictates that firms only deal with problems once they are uncontained. Goldman was making too much money at this point to stop a criminal practice. Moreover, a crisis technically counts as a trading opportunity, and making money off crisis has not been an ethical problem for them (see Lewis, 1989; Smith, 2012b; Taibbi, 2013). Smith (2012a) stated, “I attend derivatives sales meetings where not one single minute is spent asking questions about how we can help clients. It’s purely about how we can make the most possible money off of them” (Smith, 2012, ¶ 10). Once Goldman was called out on their questionable, yet highly profitable huddle trading practice, they responded with two documented lies. First, that their internal compliance officers were involved in nearly all huddles. Second, that the ASI program was compliant with regulations found in the Securities Exchange Act of 1934. Both claims were patently untrue.

**Summation of Prestige Language**

To accuse a multinational investment bank of lying to a United States regulatory agency is a very serious claim that needs further substantiation. The public relations spokesperson for Goldman Sachs at the time was Edward Canaday. Prior to the SEC investigation, *Wall Street Journal* reporter Susanne Craig caught him lying for his firm:

> Analysts are told that any comment at a meeting that could result in a change in a rating, earnings estimate or stock-price target “must be published and disseminated broadly to all clients.” He [Canaday] adds, however, that it is rare that tips arising from the meetings reach that threshold. He says ratings changes after the meetings also are rare. (Craig, 2009, ¶ 10)
This was Goldman Sachs’ public policy, which aligned with external regulations. However, this was not the practice the SEC, and the state regulator for Massachusetts, discovered in their investigations. During the 2-year period prior to Craig’s article, the SEC found that “there were hundreds of instances when a ratings change occurred within five business days after the stock was discussed at a huddle [or] referenced in a huddle script” (SEC, 2012, p. 7). Once again, this exemplifies the prestige language used at the firm, condoned by its regulator, and exemplified by a lack of prosecution. The ratings changes were broadly disseminated only after the ASI priority clients got tipped off and could profit from the inside information. This happened 740 times in a 30-month period, which equates to more than one ratings change per trading day.

Goldman Sachs stated that they were not committing fraud or participating in any illegal activities. The question of ethics was never specifically mentioned in the SEC document. Despite the bank’s stance on the legality of their actions, they covered the effect of the huddles by retreating to the technical sphere using sanitized jargon, thus masking the ethical and legal questions surrounding these activities and the firm’s accountability to the public. An analyst telling the huddle that there might be “give back” prior to a sell rating being placed on a stock, 5 days after the insiders made money on it, was considered legal. Yet, this was something a compliance officer would not allow if she or he were physically present in the room. Additionally, Goldman claimed that ratings changes after huddles were rare occurrences. The SEC found all of the above to be an elaborate deception: “Goldman’s huddle program created a serious and substantial risk that analysts would share material, nonpublic information concerning their published research with ASI clients and firm traders” (SEC, 2012, p. 2). This is the strongest condemnation published in their administrative order. However, the public has no
way of knowing what that serious and substantial risk is. What does this really mean and what are the consequences? This aspect of financial speak will be explored in the next several pages.

This section will conclude with a brief note on the man responsible for expanding Goldman Sachs’ huddle trading program. Understanding his background will help segue the analysis back to nukespeak and the larger social issues at work here. Steven H. Strongin is a partner at the firm, on the bank’s Management Committee, head of the Global Investment Research Division, and belongs to the Advisory Board for the RAND Center for Corporate Ethics and Governance (“Steven,” 2012). Craig (2009) reported that, “The huddles began in earnest around the time Goldman's research department got a new boss, Mr. Strongin.” Before he worked for Goldman, Steve Strongin was an economist at the Federal Reserve Bank of Chicago. His prior job was working at PanHeuristics developing strategy for the Department of Defense and energy policy for the Department of Energy (“Steven,” 2012). This elite and well-connected man developed policy using language and relationships to create what Spears (1999) called “an effect of structured inequality” (p. 62). When the prestige language of financial speak moves beyond the insular and technical sphere of trading desks at banks, it enters the public realm. Record profits are being made and hidden using clever rhetorical strategies. In the case of the ASI program at Goldman Sachs, financial speak was used to justify criminal activity, generating very large profits at the expense of agents lacking the privilege of insiders.

**Ethical Fallout from Sanitized Jargon**

Why is it significant that a man like Steven H. Strongin, a partner at Goldman Sachs, oversaw the ASI huddle trading program? Is it possible that
Strongin learned a set of values while working with the Department of Energy (DOE) that he brought with him to the financial world? The general assumption is: Policy dealing with nuclear weapons must exist within a semiotic landscape of deception and secrecy. There is a parallel I want to draw between nukespeak and financial speak that is found in the policies of government regulators. In a wonderful article on nukespeak, Taylor (2010) addresses this relationship: “Sociologists and historians have commonly depicted the DOE (and its predecessor agencies) as an authoritarian bureaucracy engaged in tragic (and arguably criminal) practices of secrecy, deception, and the containment of public understanding” (p. 5). The concept of containment encapsulates this rhetorical strategy. There are many very close parallels between nukespeak and financial speak. Both of these technical spheres are driven by rhetorical strategies to manage crisis and contain risk. Totten’s (1984) definition of nukespeak is that it is a language system designed “to cloud the true nature of nuclear weapon systems, nuclear fighting concepts, and nuclear war itself” (p. 43). Replace the term nuclear with financial and there is a close analogue here between the regulatory practices at the DOE, dealing with nuclear policy, and the SEC’s enforcement of financial regulation.

Both the DOE and the SEC tend to place priority on containing the public’s understanding of risky operators. Taibbi (2011) explains that “a veritable mountain of evidence indicates that when it comes to Wall Street, the justice system not only sucks at punishing financial criminals, it has actually evolved into a highly effective mechanism for protecting financial criminals” (¶ 18). There has not been a single prosecution of anyone responsible for the market crash of 2008 (Smith, Hirsh, & Gold, 2013). And there certainly was no hint of prosecution
emerging out of Goldman’s ASI huddle program. They were levied a fine, end of story.

In regard to nukespeak, Schiappa (1989) stated that “nukespeak actively structures the consciousness of speakers in ways that separate the technical possibilities from related moral and ethical concerns” (p. 260). Regarding the SEC vs. Goldman case, the government was primarily concerned with a lack of internal controls on the ASI program. They stated repeatedly that “Goldman lacked adequate controls to ensure that analysts were not using huddles or ASI as a forum to preview rating changes to firm traders and ASI clients” (SEC, 2012, p. 7). This was followed up with: “Goldman did not have adequate controls and procedures in place to even identify, much less review, any of these incidents” (SEC, 2012, p. 8). There was no statement of concern about the ethics of the ASI program. The problem, according to the SEC, was that Goldman was not properly regulating itself. The Massachusetts regulator was more direct and acknowledged that Goldman Sachs “engaged in dishonorable or dishonest conduct” (Main, 2011). My concern is that the difficult lessons learned since the dawn of the nuclear age are being forgotten in the face of financial weapons of mass destruction. These are lessons that are immensely valuable in regulating and containing extremely hazardous activities.

**How Wall Street Harms Main Street**

One of the outcomes of using financial speak is that the sanitizing jargon convinces those who use it that what they are doing is ethical. These people can then become lost in the system, not fully understanding the consequences of the financial products they are trading. This is one of the effects of bureaucratization, which brings us back to the concepts of nukespeak. Schiappa (1989)
acknowledges this symptom when he says: “The likely consequence of nukespeak is that its users will tend to understand nuclear weapons, strategy, and war as benign or beneficial rather than repulsive and horrifying” (p. 258). PBS Frontline recently ran a documentary series called, “Money, Power & Wall Street.” They published over a dozen interviews with very prominent individuals whose professional lives were affected by the 2008 market crash. The story from Cathy O’Neil demonstrates how financial speak affects the ethics of Wall Street insiders, and insulates them from the consequences of their actions. There are very close parallels between the methods she used as an employee at D.E. Shaw & Company and those of Goldman’s ASI program.

Cathy O’Neil was a quantitative analyst (“quant”) at D.E. Shaw & Co. while Goldman Sachs was actively pursuing their ASI program. She is a brilliant mathematician, having done post-doctoral work at MIT. Her boss at the time was Larry Summers, former Treasury Secretary and later member of Obama’s Economic Council (Smith & O’Neil, 2012). O’Neil epitomized the highest level of talent on Wall Street. Quants design algorithmic trading programs to game the system, and this software resides in server farms that are moving 70% of the volume in the stock market (Kaufman & Levin, 2011). These traders do not stand on the floor of the New York Stock Exchange (NYSE) conducting business. Taylor (2010) mentions that this level of technology can “stimulate the development of rhetoric that directs human agency to the continual refinement of means, but not to moral reflection about ends” (Taylor, 2010, p. 2). These refinements of technology on Wall Street are motivated by the quest for more. What this means is faster servers, more trades that can be packed into a microsecond, more financial products to sell, and more ways to exploit price differentials. The quest for more can be very short-sighted. And it is done with a
tenacious focus on creating faster and larger short-term profits. After the financial crisis of 2008, O’Neil left Wall Street and began working with Occupy Wall Street’s Alternative Banking Group to help develop policy to reform the banking system. She has spoken extensively about her position as a quant and how her firm was using her as a means to an end.

Recall that Goldman Sachs was making record profits while trading ahead of the public using their ASI huddle program. Firms like D.E. Shaw had sophisticated mathematicians doing the same thing. Here is how O’Neil exploited a fundamental concept in the financial markets. She stated:

One of the sort of underlying assumptions was that there’s smart money, and then there’s dumb money. . . . And most large funds that have rules about how you can invest them are being managed by people who don’t have a lot of imagination. They’re not the quants. They’re not very clever at trading. They’re lazy. So the idea was: You know, this is called dumb money. Let’s just—let’s take their dumb money. Let’s anticipate their lazy attitude toward trading, and let’s just, like, front-run them. Let’s get ahead of them on the trades so we can take some of the skim off some of the pension, some of that mutual fund or whatever it is—the large fund. Let’s take some of that money. (Smith & O’Neil, 2012, ¶ 25)

This is a simplified explanation of very sophisticated technology. One of the methods they would use to front-run large mutual funds is completely automated. To clarify the term, placing a trade ahead of a large institutional order is called front-running. It is another form of insider trading. Hedge funds like D.E. Shaw paid the NYSE to stick their trading servers as close as possible to the NYSE server farm. Therefore, their execution time was down to the microsecond and gave the firm an immense technical advantage. The practice of front-running is
illegal when it is a conspiracy between two human agents. However, since it is a computer running millions of operations a second, the SEC has not taken any enforcement action on firms for doing this (Lauer, Gottlieb, & Astiz, 2013). And the SEC’s enforcement action against Goldman Sachs, for running a trading program that had an identical goal, did not deter this activity.

Imagine that a state-run retirement fund like CalPERS wants to invest in Apple stock. They have the largest order of the day to go through the NYSE to buy that stock. A quantitative trader, like O’Neil at D.E. Shaw, can sniff out this order and get ahead of it. One of the methods quants use are high-frequency trading (HFT) algorithms that supply the market with fake orders. Their speed allows them to flood the exchanges with fictitious orders. Another term for this behavior, that business professionals understand, is bid rigging. An order is sent to the exchange and then immediately canceled before a transaction is made. HFT computers use this method to detect resistance levels in a stock’s price (Baron, Brogaard, & Kirilenko, 2012). In other words, these programs can sniff out the positions of other traders using gaming and anti-gaming technology.

Large institutional investors like CalPERS can be preyed upon, or gamed, by HFT programs that control more than half of all the trades that occur on the NYSE (Lauer et al., 2013). Less sophisticated pension funds often purchase stock in small chunks over the course of a few days. Each one of those purchases requires a commission fee. The quants jump in ahead of those purchases and artificially drive up the price. This functions as bid rigging, which is essentially what Goldman’s ASI program was doing to at least one company per day. In many cases hedge funds are being paid by the NYSE to provide liquidity to keep stock prices moving. Not only are they making commission on what was an illegal trading practice, prior to this technology, but they are adding a hidden
transaction tax to the public. The dumb money ends up paying a premium for their investment, and the same thing happens when they want to sell. The HFT firms, through front-running, will drive the price against an investor like CalPERS. A $10 stock becomes a $10.04 stock by the time the transaction is finished. This is a hidden tax on the retirement funds for teachers, civil service employees, and all retail investors.

During the financial crisis, the California State Teachers' Retirement System loss 28% of their stock portfolio value in one year (Lifsher, 2009, ¶ 19). There are no technology measures in place to stop a computer from gaming their retirement funds. There are regulatory measures in place to discourage two humans from doing this face-to-face, such as a Goldman Sachs analyst sharing nonmaterial information with his or her priority clients. However, we have seen how those measures can be circumvented through rhetorical strategies used in financial speak. O’Neil started to think about the ethical implications of gaming pension funds and where all the money was going. She stated:

The way I look at it now is like, you know, how does this pension system work? We all put money into our 401(k)s. We work our lives. We’re putting this money in once a month. It goes to Wall Street. . . . Wall Street takes it and skims off. With the help of hedge funds, but also with just the help of poor trading and bad decisions, it just skims off a certain percentage every quarter, so larger percentages every year. At the very end of somebody’s career, they retire and they get some of that back. I mean, it just seems like such a wasteful system in the sense that this is this person’s money, and it’s just basically going to Wall Street. To pay bonuses. This doesn’t seem right. (Smith & O’Neil, 2012)
The time period she is talking about here was right after the 2008 market crash. Most Americans had lost between 25% and 50% of the value of their investments. When she says people get *some* of their money back she is also referring to the risk inherent in these trading practices. For example, in a study examining the effects of special interest (like D.E. Shaw with White House ties) on financial crises, it was found that: “In the past twenty years, more than forty countries have experienced banking crises, triggering losses sometimes exceeding 50 percent of national income” (Keefer, 2007, p. 616). There is always someone on the other side of a trade. That money has to come from somewhere. One might wonder, how could major investment banks distribute record pay and bonus money right after a market crash?

During the ASI investigation, the SEC was also investigating Goldman for fraud in their dealings with one of their largest clients. Three months after the ASI settlement, the SEC fined Goldman $550 million for manipulating mortgage backed securities. *Bloomberg Businessweek* reported:

> The SEC’s Apr. 16 lawsuit accused Goldman Sachs of fraud for not disclosing that Paulson & Co. picked the underlying securities in a collateralized debt obligation that the hedge fund planned to bet against. Goldman Sachs received about $15 million in fees while investors in the CDO lost more than $1 billion, the agency said. Goldman Sachs has denied any wrongdoing in the deal. (Scheer & Westbrook, 2010, ¶ 3)

Firms like Goldman operate in an environment with an entrenched ideology that sells several ideas. The most alluring idea they sell is that investment banking pays. Trading schemes like Goldman’s ASI program were “fueling the record $3.44 billion in net income at Goldman in the second quarter. A large portion of Goldman's profit came from trades done for mutual funds, pension funds,
endowments, hedge funds and other big institutional investors” (Craig, 2009, ¶ 16). The point here is not to demonize Goldman Sachs, but to establish a base for a critique of the ideology that allows Wall Street to skim off retirement funds. This concept will be expanded in chapter 4 with a deeper analysis of neoliberal capitalism.

The easy money environment on Wall Street has been constrained after the 2008 market crash. However, when compared with the rest of America, the income to be made in finance far exceeds the status quo. According to the U.S. Census Bureau (2010), “The real median household income in the United States in 2010 was $49,445, a 2.3 percent decline from the 2009 median” (¶ 2). In contrast, it is possible for a single twenty-something (from bonus alone) to earn more than twice what the average family makes in an entire year. For instance, “Last year, flagging profits at many financial firms reduced some bankers’ compensation from stratospheric to merely generous. At Morgan Stanley, cash bonuses were capped at $125,000” (Roose, 2012, ¶ 12). Firms like Goldman Sachs and D.E. Shaw are insulated from public scrutiny through a technical sphere that concealed the ethical consequences of their business activities. One of the most concerning aspects of financial speak is how it masks a criminal transfer of wealth from an unsuspecting public to a privileged group of Wall Street elites. Increased public awareness of the mechanics of finance can be used to engage Wall Street in order to promote a more ethical and transparent banking system.

Learning from Financial Speak

As a scholar of financial rhetoric, I am concerned with the way language is used to oppress citizens of the world economically. One of the things Wall Street works very hard to maintain is a mask of stability. We have examined ways to
peel the mask back that opens up the possibility of regulating corruption. There is a bright side to the language of financial speak. It is a two-way street. The language of the oppressor is also the language of the redeemer. Part of what Spears (1999) was concerned with are the linguistic methods used to oppress: “Members of subordinated groups struggling against societally imposed handicaps have a special need for understanding those aspects of society that contribute to the maintenance of their condition” (p. 63). In the case of financial fraud, the special need is to wise up and get smart to corruption.

Spears was adamant about the need to educate ourselves. We are all students within this semiotic landscape. When language fails to warn us of an impending financial crisis, it falls to each of us to educate ourselves. The mechanisms that allow banks like Goldman Sachs to siphon billions of dollars from the citizenry are complex and require study. The essential information needed to understand these political and economic systems is often obscured by prestige language. The system tends to protect itself, until a crisis unmasks the mechanics of oppression. When these mechanisms come to light, they must be understood and remembered. Spears (1999) described a default bias found in prestige language:

[Students] know language and therefore have access to primary data constituting a complete system, but they do not know a political or economic system in the same sense as they do language, nor do they have the same kind of access to such data. (p. 64)

What Spears is demonstrating here is the inherent difficulty the technical sphere places upon language. The average American has a lexicon designed for social interaction and personal accountability, but they do not have the same tools for understanding systems in which they are not directly involved. Partnoy (2009)
also clearly explained this dilemma: “Financial knowledge often requires a real-life experience or connection, and is not necessarily motivated by historical lessons” (Conclusion, ¶ 1). Financial speak avoids language that is transparent and easy to understand. As Goodnight (1982/2012) demonstrated, this places a demand upon the public to unmask jargon. A burden is unjustly placed upon the public sphere to resolve the problems created by the technical sphere’s use of elaborate symbolic events.

Chapter 3 consisted of an exploration of financial speak at the micro level. The next chapter will explore macro issues involving neoliberal capitalism and the shadow banking industry. An understanding of the political, ideological, and economic systems supporting Wall Street is essential in order for the public to effectively engage with those systems.
CHAPTER 4: NEOLIBERAL CAPITALISM AND SHADOW BANKING

“Anyone who believes in indefinite growth in anything physical, on a physically finite planet, is either mad or an economist.”

—Kenneth E. Boulding

It is 7:00 a.m. on a fine September morning in 2008 in the office of Matthew J. Eichner, an economist at the Securities and Exchange Commission (SEC). He is typing an email to a supervisor at the New York Federal Reserve Bank that states: “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 purchase United States government debt using Treasury bonds. What is a reasonably educated person to make of this email?

The letter to the New York Fed by Eichner begins to address a pivotal concept. When Eichner said “not pretty,” he was sanitizing the fact that a crisis originating from within the shadow banking industry was unfolding. He was observing a run on the banks, but he did not see it as a threat to capitalism. If he did, he probably would have replaced “not pretty” with “God help us!” That morning, the entire global financial system was facing an unprecedented run on key investment banks. 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 $8B 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.

The SEC economist’s letter is a demonstration of 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 chapter is that financial speak is an attempt to sustain the unsustainable practices of neoliberal capitalism. This chapter widens the lens to examine the scope of this discursive practice in a globalized world. Three primary structures of financial speak are examined: 1) the ideology 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.

People born in the West view the discourse of neoliberal capitalism as a natural part of our language. My concern with financial speak is that we do not readily understand the larger significance of what is being masked by this discourse. Questions about the sustainability of capital growth are not obvious. 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 Wall Street had 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 a rational basis for bank stocks to lose a quarter of their value in a day. Not only was the entire market crashing, but 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. Mack was essentially saying that the crash was not the fault of capitalism but a band of rogue traders. Morgan Stanley had just 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 a transition away from the neoliberal model of capitalism are all around us, but do we have the language skills to recognize them? Problems found in failing banks, failing airlines, and failing governments reveal a system that is incapable of perpetually sustaining its debt load. And debt 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.

Unmasking the Source

Financial speak masks the relationship that shadow banking has to neoliberal capitalism and the inherent risks therein. Neoliberal capitalism is an economic system that depends on the perpetual growth of debt that is owned by private banks such as the Federal Reserve, Goldman Sachs, Morgan Stanley, and collapsed firms like Lehman Brothers. Debt is sometimes described as the pump that runs economies. Graeber (2011a) 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 pumped back up through the Federal Reserve Bank’s creation of credit—which is the same as debt. An exponential growth of debt can clearly be seen by the massive expansion in the Fed’s balance sheet from $800B in 2007 to $3T just 4 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 to issue bonds on municipal debt, to write contracts servicing sovereign debt, and to extend lines of credit to shipping companies. This entire debt structure was based on mortgages that no one could pay. On that September morning in 2008, when Eichner warned the Fed, the pump that was running the economy broke. He had a front row seat to what could have been the end game for neoliberal capitalism.

Each of Kotz’s (2009) three outcomes of neoliberal capitalism were demonstrated by the 2008 market crash and recession. The following are outcomes of an unsustainable capitalistic system: a) the average American 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.

It is important to understand that capitalism is not an ideology fixed in time and space. It shifts and adjusts to reflect the world view of the people practicing it. 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). Neoliberal capitalism does not operate in the economic world our grandparents understood. The ideology that set the stage for the global financial crisis was a systematic deregulation of investment banking. In the interest of profit making, the lessons and regulatory structures learned from the 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 current ideology and structure of globalized capitalism.

There is one last point to be made about neoliberal capitalism and the way it drives the profit making mechanism of Wall Street. The economy depends upon credit being pumped through the system to keep capitalism functioning. And credit acts as oil for the engine of Wall Street. That oil, or debt, has to
continuously circulate through the machine. McNally stated, “Capitalism rests on the circulation rather than the production of goods” (p. 56). When the circulation of credit slows, the Federal Reserve prints more money. It is important to understand that when the Fed prints money it is not creating new capital. It is essentially issuing funds based on the projected labor of future generations. This 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 debt creation.

In essence, neoliberal capitalism is a system of perpetual debt slavery. At the core, this is what financial speak is masking. Chapter 3 explained how investment banks had record setting profits in the wake of the financial crisis. At its most basic level, banks make a living by extracting fees for servicing debts. Larger debts equal larger fees, and there are no larger debts than those held by sovereign nations.

Europe has 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. For example, 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). The nation of Greece, due to its massive sovereign debts, exemplifies the dangerous outcomes of neoliberal capitalism. The state of the Greek economy serves as a warning to all other Western nations that are linked to each other. Christine Lagarde, managing director of the International Monetary Fund, stated:

If you look at the financial sector, there is also there [sic] a very strong relationship with U.S. banks engaged on European markets and European banks having subsidiaries and activities in the United States. So [there are] strong links between the economies, and if something goes wrong somewhere, it is going to have consequences—we call them spillover effects—in the rest of the world. (Smith & Lagarde, 2012, European crisis section, ¶ 75)

Daniel Hannan, Member of the European Parliament, explained what one of those spillover effects looks like: “Every British child is born owing around 20,000 pounds. Servicing the interest on that debt is going to cost more than educating the child” (Hannan, 2009). Within the neoliberal capitalistic system, we are born into bondage from the debts amassed by the system. All those debts are eventually used as collateral, which is then loaned to pay off new debts, increasing inflation perpetually. Specifically, this is the oil that keeps the engine of shadow banking in operation.
Casinos and Shadow Banks

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.

The term “shadow” is apt because it is an industry with little to no transparency. 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).

In the traditional banking model, one bank will make a loan to another bank (a counterparty) while maintaining 10% of its deposits in reserve (“Reserve,” 2013). Traditional banks are forbidden from mixing client money held in individual savings accounts with their own institutional money. There is an explicit trust, or pledge, the bank makes with the public to manage their accounts in good faith. The 10% figure is based on past history where the bank will remain solvent if no more than a tenth of its customers demand their money back all at once. Crises often cause an immediate demand on banks to return deposits to the customer. This is called a run on the bank (see Luttrell et al., 2012).

However, the shadow banking system was designed to put all monies to work while masking the risk of having virtually no collateral to support the activity. A savings account with Chase bank can theoretically be used to fund JPMorgan’s (the parent company) in-house proprietary trading accounts. Luttrell
et al. (2012) stated, “Shadow banking activities involve a vast network of debt instruments that may be held at some point by traditional deposit institutions within the public safety net” (p. 6). The vehicle investment banks use to do this is a derivatives contract. The FCIC (2011) defines derivatives products as “leveraged loans” (p. 174). Part of the formula behind these financial products is to produce large profits out of relatively small movements in the markets. The FCIC (2011) determined that the financial crisis was not limited to any one product or nation; instead “the shadow banking system was a cause of the financial crisis” (427). Their report is a 600-page document on the global financial crisis of 2008 using very technical explanations that are riddled with financial jargon. However, buried within the document are some basic lessons that are crucial to the unmasking of financial speak.

In the traditional banking model, one bank will make a loan to another bank. The counterparty, or agent who needs the loan, pledges to pay all fees. Financial transactions depend on the solvency of each party. However, solvency is put into question when cash deposits are moved into derivatives products in order to place larger and riskier bets on very small initial sources of capital. These arrangements are typically done off the books. *Frontline* highlighted 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). Italy was essentially doing with JPMorgan the same thing Greece did with Goldman Sachs. The contracts represented private loans using public money, and the exact details are known only to the administrators involved in the transactions. Partnoy stated that the effect of using derivatives to solve a national debt crisis is to create a “complicated financial structure that achieves some objective that you couldn’t
achieve otherwise in a legal way” (as cited in Gaviria et al., 2012, ¶ 163). The danger to the public is when their money is mixed up in the practices of firms engaged in the shadow banking industry.

These examples demonstrate that governments are now engaging the shadow banking industry to manage debts that could not be managed through traditional banking. When national debts are moved out of the regulated markets and into shadow banking, counterparty risk becomes a huge unknown factor. In the case of Greece and Italy, the counterparties are the nation’s citizens and their stored wealth.

One of the many problems with this financial practice is that the debts are so large that the system fails to control the risk. This restructuring was the source of the 2008 crash. The U.S. housing market was 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. Gordon 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.

**Rehypothecation and Rome**

If financial speak can be demonstrated by a single technical banking term, it is rehypothecation. It is a term typically found buried in financial statements, but we can see it happening everyday on the global stage. For example, “Thomson Reuters estimates that the financial sector stocks in the S&P 500 earned $167.7 billion in profits this year, up 21% from 2011” (Isidore, 2012, ¶ 12). In contrast, the story on Main Street is 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 banks rehypothecate secured funds. Basically, they take all the money that is supposed to be protected, under minimum reserve requirements, and bet against it 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 AIG blowing up. Gordon 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 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 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 argue that this new credit bubble can be found in the servicing of sovereign debts, as the examples from Greece and Italy demonstrated.

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, they stretched the denarius. When the United States needs more money, it stretches the dollar. The way they do this is to take a loan from the Federal Reserve. 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, Italy, and the United States, credit gets sent to a multinational bank like JPMorgan, which then rehypothecates it 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 that initial dollar went.

Outcomes of Neoliberal Capitalism

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 International Monetary Fund to keep the government operating. Barnett (2009) described the attack on Icelandic banks as “tantamount to financial terrorism” (¶ 10). Greece has been dysfunctional for this entire period, and many Eastern European countries had severe economic problems. The youth unemployment rate for the majority of Europe is 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 cash infusions do not seem to be enough to plug the holes in the financial system.

An unethical distribution of resources is the problem with financial speak and the way it masks sustainability issues endemic to neoliberal capitalism. 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, but no one is sure what will happen if the Fed balance sheet becomes an asset bubble. The 2011 bankruptcy of MF Global highlighted
the ever present systemic risk that exists in global finance (see Elias, 2011; FCIC, 2011; Tewary et al., 2012). Three years after 2008, and a bull market rally that created record bonuses on Wall Street, the public is realizing that life is not getting any better. This feeling is precisely articulated by Jonathan Schell (2011) in the *Nation*:

> As everyone who cares to look knows by now, its members are crying out “Enough!” to a corrupt political, economic and media establishment that is hijacking the world’s wealth for itself, immiserating ordinary people, sabotaging the rule of law, waging interminable savage and futile wars, plundering the world’s finite resources, lying about all this to the public and threatening Earth’s life forms into the bargain. (p. 4)

What really gets people in the street is when they have nowhere else to go. The public is waking up to a system that sold them student loans, sub-prime mortgages, and 13% APR credit cards with no intention of them ever being free of debt. The U.S. unemployment rate has not shown any significant signs of improvement since the 2008 stock market crash (Ivry et al., 2011).

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. to grow out of a recession. However, Paul Volcker, the 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 not able to grow itself out of 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 national debts.

The U.S. national debt has undergone an exponential increase in the last 3 years as the Federal Reserve made loans pushing the total public debt outstanding past 100% of U.S. GDP. A simple way to look at current money problems is to understand that there is not enough physical cash in the entire world to cover just half of U.S. savings deposit accounts. These are tiny accounts in comparison to the holdings of a major investment bank like JPMorgan. The total savings deposits for all institutions in the U.S. are $6.5T (“Total,” 2012). The global derivatives exposure of JPMorgan alone is in excess of $70T. These are the types of accounts that MF Global claimed were secure when in fact they were not (Elias, 2011).

This brings us to my final critique of neoliberal capitalism and shadow banking. A system that depends upon financial speak to mask the risks which threaten the status quo can lead to collapse. In Tainter’s (2000) review of Rome, he points out one of their critical mistakes:

The strategy of the later Roman Empire was to respond to a near-fatal challenge in the third century by increasing the size, complexity, power, and costliness of the primary problem-solving system—the government and its army. Limited by bounded rationality, Roman officials could not foresee the consequences of this strategy. The higher costs were undertaken not to expand the empire or to acquire new wealth, but to sustain the status quo. . .
In the end the Western Roman Empire could no longer afford the problem of its own existence. (p. 23)

Let us pretend for a moment that the U.S. is not interconnected to a global banking system being dragged down by European bank failures. Say we could go back to being true isolationists. Life as Americans know it today is on the margin of fiscal sustainability. The U.S. federal government can no longer afford the problem of its own existence. It depends on the exponential expansion of loans from the Federal Reserve in order to fund basic civil services. The money to fund many government programs, at levels that existed just a decade ago, is not available. This is where a problem can become a predicament. A problem is when a city can no longer afford to police basic crimes like extortion and racketeering. In 2010, the police in Oakland stopped investigating 44 specific crimes due to funding shortfalls (Preuitt & Sanchez, 2010, ¶ 2). A predicament is when a nation is so captured by capitalism that it can no longer appropriate money for basic services, like the courts. Today, the U.S. is approaching such a predicament with 5% across-the-board cuts for a slew of federal agencies including the judiciary (Schoenberg & Zajac, 2013, ¶ 4). Without a systemic adjustment to the financial system, the U.S. will be forced into decline like Rome in the fifth century. This does not mean collapse, but it means doing less with less.

**Problems vs. Predicaments**

My fundamental argument is that neoliberal capitalism is facing a period where the supply of cheap credit can no longer sustain capital growth. The discursive problem is that the public has no way of conceptualizing a non-linear decline. An exponential collapse could occur through a sudden loss of capital in a violent and rapid manner. Some scholars are concerned that the 2008 market
crash was a warning about the limits of neoliberal capitalism. At the time, many advocates of the system did not see it in this frame. Morgan Stanley’s current CEO, James Gorman, gave a speech in New York that illustrated the issues that financial speak raises regarding neoliberal capitalism and its relationship to shadow banking. He stated, “Nobody could withstand a run on liquidity, except, of course, the government. Hopefully we’re in a much safer place as a result of it” (as cited in Keoun, 2011, ¶ 52). This is a marvelous demonstration of how a corrupt and objectionable practice can be used to put a friendly voice on a message of contrition. What Gorman is actually saying is that Morgan Stanley is in a position to never fail again, because if it did fail it would take the entire U.S. economy down with it. Imagine if he said, “We have lost so much money, and our firm is on such shaky ground, that if any of our large clients pull their funds it will create another cascading collapse in the financial system. Thankfully, we do not fully understand the risk because the system is too complex and operates in shadow. But your money is safe!”

Morgan Stanley was relying upon taxpayer supported programs like TARP and PDCF to fund the bank during the crisis. It was facing a credit squeeze that was caused when the bank demanded collateral from counterparties who could not produce those funds. Large loans had been extended to hedge fund clients. Those agents had used the Morgan Stanley loans as collateral which they rehypothecated. Those funds then got used as loans with other agents and basically disappeared into the shadow banking system. A third group of clients then demanded their money back from Morgan Stanley, and the bank realized they had insufficient funds. The solution was to draw from the PDCF. This was a very insidious practice disguised in an acronym of financial speak. According to the Federal Reserve Bank of New York, the Primary Dealer Credit Facility (PDCF) was
created to solve funding problems like Morgan Stanley’s during “uncertain market conditions by providing a backstop facility that made overnight loans available against a fairly wide range of collateral” (Adrian, Burke, & McAndrews, 2009, p. 4). Unmasking this “facility” revealed that it was a program with undisclosed practices that has the effect of loaning money to what would otherwise be an insolvent bank, by using collateral from that very same bank.

This arrangement was rehypothecation reconstructed at the level of a central bank and funded by U.S. taxpayers. Once again, this is the practice of using collateral intended to secure one investment to make risky bets, often against that very same investment (Keoun, 2011). In the case of Morgan Stanley, the Fed printed money based on future earnings of the American taxpayer to make loans that will never conceivably be paid in full. If a financial system depends on loans backstopped by money that does not exist, how safe is it?

Societies across the globe are beginning to experience the sudden collapses of their governments. Niall Ferguson (2011), a well-known historian, penned an article in Newsweek called “America’s ‘oh sh*t!’ moment.” He stated, “The Roman Empire didn’t decline and fall sedately, as historians used to claim. It collapsed within a few decades in the early fifth century” (p. 36). He supported his claim with several modern examples:

A more recent and familiar example of precipitous decline is, of course, the collapse of the Soviet Union. And, if you still doubt that collapse comes suddenly, just think of how the postcolonial dictatorships of North Africa and the Middle East imploded this year. Twelve months ago, Messrs. Ben Ali, Mubarak, and Gaddafi seemed secure in their gaudy palaces. Here yesterday, gone today. (Ferguson, 2011, p. 36)
These are examples of cognitive dissonance that the West often interprets as being a problem of the Third World. It is possible that neoliberal capitalism will bring us to the moment when a Western European government fails suddenly. It is important for us to understand the forces behind financial speak so we can better avoid the predicament of collapse.

CalPERS

There is a significant time lag when it comes to understanding the outcomes of neoliberal capitalism. Information from investment banks, the SEC, and other government agencies was not public knowledge for several years. The money trail was eventually discovered by astute journalists using information released through the Freedom of Information Act, related court orders, and an act of Congress (Keoun, 2011). This situation is a reminder that financial speak is a rhetorical strategy to obfuscate the unsustainability of neoliberal capitalism, and a reflection of a shadow banking system that has extremely poor transparency.

The problem so far seems to be that of big banks, but what does shadow banking have to do with the average American? One example is the California Public Employees’ Retirement System (CalPERS) and the hundred billion dollar loss the pension took during the crash of 2008. Banks like Goldman Sachs and Morgan Stanley are used by pension managers to broker their investments. In stable times, CalPERS has to make 7.75% per year to meet investment benchmarks. After the 2008 housing collapse, the teacher’s pension lost 43% of its real estate portfolio and now has to spread that loss over the next 30 years. One year after the crisis, CalPERS stated that its long-term investment goals are “reachable” and that “returns are positive” despite the global economic crisis (as
cited in Lifsher, 2009). Note that this is financial speak being used to mask risks inherent to the perpetual growth paradigm.

In 2011, CalPERS posted a 1% total return on investments (Nash, 2012, ¶ 13). This is far short of the 7.75% baseline they need to stay solvent, does not exceed current inflation, and therefore cannot be considered growth. It is doubtful that the fund will be able to grow its way into solvency after having lost 25% of its total value in 2008. If Wall Street cannot come up with the money, then taxpayers have to cover those losses. This places Americans into a double bind. When the system (neoliberal capitalism fueled by shadow banking) fails, it harms the public and robs them of their ability to build a future for their children. If the web of the shadow banking system can reach all the way to schoolteachers, it can reach every American.

Financial speak is used to obscure signs of instability in order to support the myth of the perpetual growth paradigm of neoliberal capitalism. Financial speak operates as a rhetorical strategy to defend this economic myth. The CalPERS example demonstrates how this system subverts the public good in order to sustain the perpetual growth paradigm. The goal of unmasking the discourse of financial speak is to keep economic problems from becoming predicaments of survival. The next chapter will examine a few methods the public sphere can use to engage the technical sphere of neoliberal capitalism. Areas of future scholarship in the development of financial speak will also be explored.
“Bureaucracy defends the status quo long past the time when the quo has lost its status.”

–Lawrence J. Peters

In the wake of the financial crisis of 2008, business as usual on Wall Street still continues to rely upon the relationship shadow banking has to neoliberal capitalism. To harken back to an earlier metaphor, the United States has gone “all in” at the Wall Street debt packaging casino with the creation of too-big-to-fail banks. Greg Smith (2012b) saw this risk-taking mentality during his twelve year career at Goldman Sachs. He stated, “On Wall Street, the gambling can be moved to a darkened room where nothing is recorded, observed, or tracked” (p. 248).

Neoliberal capitalism sells the idea that a hands-off approach to banking regulation allows an unrestricted economic system to perpetuate capital growth indefinitely. The result has not been a creation of capital, but an expansion of debt at an unprecedented scale. A common sense rationale has to question the practice of attempting to solve unsustainable debt loads through the creation of more debt. Through this lens, Wall Street and the Federal Reserve are incentivizing short-term profit making at the expense of long-term economic sustainability.

The reality is that the traditional banking system is struggling to function under the pressures of sovereign debts. Shadow banking has emerged as a solution to dealing with the dilemma of unsustainable debts. In response to the financial crisis and crushing debts, the Federal Reserve enacted a zero percent interest rate policy (ZIRP). This policy allowed massive amounts of credit to be passed back and forth across international banks and kept the financial system from seizing again. However, in order to facilitate the flow of credit between institutional banks, ZIRP punishes anyone with a savings account or a desire for
fixed-income investing. Currently, the 10-year Treasury note has a return of less than 2%. One has to invest in a thirty year Treasury bond to get a return that is 1% above inflation. The Fed’s policy has the intent of keeping the global financial house in order, but it has the effect of sustaining an economic system that punishes the average American. *Time* magazine’s story on the Federal Reserve chairman, as the 2009 Person of the Year, summarized this concept. While referring to the 2008 crisis response, Chairman Bernanke stated:

Certainly, all the interventions created moral hazard, sending a perverse message that “too big to fail” financial firms will be rescued no matter how badly they screw up, encouraging Wall Street traders to start gorging on risk again. (as cited in Grunwald, 2009, p. 44)

The crisis thus wove too-big-to-fail banks into the fabric of Western economies. What used to be a private banking crisis is now public safety issue.

One of the government’s intervention methods was a $700B bailout that used the very same people responsible for the crash to solve the crisis. Allowing the banks to borrow money from the Federal Reserve at 0% interest, virtually for free, is a crime against every taxpayer. This is what Smith (2012b) called “getting paid by the government just to stay in business” (p. 137). The shadow banking industry took those interest free loans and gorged itself through the practice of rehypothecation. A reasonable person should consider the threat shadow banking poses to the freedom of Western societies.

There are many threats vying for the attention of Americans. I have argued that Wall Street is one of the greatest threats to Western freedoms through what I hope is a clear critique of the relationships among language, power, and corruption on Wall Street. Žižek (2010) stated, "The true utopia is the belief that the existing global system can reproduce itself indefinitely” (p. 363). Financial speak is the
rhetorical strategy that facilitates the ideology of capitalism, and the necessity for this economic system to reproduce itself indefinitely. The phenomenon is what I have described as the myth of the perpetual growth paradigm of neoliberal capitalism.

What I have attempted to do is what McKerrow (1989) advocated as an interrogation of “the discourse of power which creates and sustains the social practices which control the dominated” (p. 92). The words of “experts” need to be questioned, especially when technical language is used to mask criminal practices that are incentivized by the shadow banking system. It has been 5 years since the 2008 financial crisis, and the complex crimes that occurred prior to and since the crisis are still being uncovered. Critical information from investment banks, the SEC, and other government agencies was not public knowledge for several years. Criminal practices were eventually discovered by astute journalists using information released through the Freedom of Information Act, related court orders, and an act of Congress (Keoun, 2011). The delay highlights how effective financial speak is at masking practices on Wall Street and insulating the banking industry from scrutiny and accountability.

My call to action is for greater transparency on Wall Street, and time is transparency’s greatest enemy. The West is playing catch up when it comes to understanding the outcomes of neoliberal capitalism. For example, the public was told that it would take $700B to stabilize Wall Street banks. In reality, the U.S. taxpayer was on the hook for 10 times that amount (Kuntz & Ivry, 2011). Taibbi (2013) reported:

When the Supreme Court rejected the Fed's demands for secrecy,

*Bloomberg* was handed over the data. The news agency learned that Wall Street companies like Goldman, Citigroup and even Wachovia/Wells Fargo
had collectively borrowed upwards of $7 trillion from the Fed through a variety of programs that were never intended to be disclosed to the public. (¶ 31)

The bailout was the result of not understanding how Wall Street was packaging home mortgages into financial products designed to circumvent regulation. A massive credit bubble was created, and when it could no longer sustain itself it caused a global financial crisis. Is the financial system not doing the same thing all over again? The crisis placed countries like Greece, Italy, and the United States into unprecedented levels of debt. The solution has been to use the same shadow banking system to create financial products that are barely understood and designed to circumvent regulation.

What is also particularly disturbing is the total lack of criminal prosecution against the banks found to be directly responsible for the global financial crisis (Ryan, 2012). The lack of stricter regulation, transparency, and substantial criminal punishment has allowed the banks to profit from the suffering of an unsuspecting public. For example, according to the chairman the Financial Crisis Inquiry Commission, Phil Angelides, financial practices at Goldman Sachs were the equivalent of "selling a used car with faulty brakes and then buying an insurance policy on those cars" (as cited in Lanchester, 2010, ¶ 2).

When civil fines replace criminal penalties, a logical deduction is that collusion exists between investment banks and government agencies. This was partially demonstrated with the case study on Goldman Sachs and the 740 incidents of insider trading that the SEC did not prosecute. Who can we look to if the government cannot be relied upon to examine and prosecute large scale financial crimes competently?
Call for Transparency and Regulation

Matt Taibbi is currently one of the most experienced and prolific writers about corruption on Wall Street. The irony is that he is an editor at *Rolling Stone* magazine. The level of insight he has regarding criminal banking practices is rarely found within the financial media. This is partly due to major media outlets having to answer to an entrenched bureaucracy. Taibbi (2011) has a clever way of stating why most people have trouble understanding the outcome of large-scale financial crimes:

The mental stumbling block, for most Americans, is that financial crimes don't feel real; you don't see the culprits waving guns in liquor stores or dragging coeds into bushes. But these frauds are worse than common robberies. They're crimes of intellectual choice, made by people who are already rich and who have every conceivable social advantage, acting on a simple, cynical calculation: Let’s steal whatever we can, then dare the victims to find the juice to reclaim their money through a captive bureaucracy. (¶ 79)

Taibbi’s explanation encapsulates what I have termed financial speak. His example demonstrates how the linguistic and cultural norms of Wall Street serve as barriers to public inquiry. Criminal banking activity also creates and maintains elaborate public deceptions. More specifically, this strategy was realized through the effects of bureaucratization and sanitized jargon like “trading ahead,” which helped to disguise a highly unethical institutionalized insider trading program at one of the world’s most influential investment banks.

Financial speak is Wall Street’s rhetorical method of remaining in shadow and it functions within a regulatory system that provides little to no transparency. This phenomenon was also demonstrated through the SEC case against Goldman
Sachs, the FERC case against Barclays for rigging Libor and West Coast electricity markets, and the CFTC case against Parnon Energy for rigging oil markets. The good news is that these formerly hidden mechanisms are now coming to the surface in several Western European nations, particularly Greece and Cyprus. The unfortunate reality is that it takes a financial crisis for the public to get a glimpse of the dangerous practices found within shadow banking. In his analysis of the U.S. financial system since 1945, Rezende (2011) stated:

The removal of regulatory constraints would not produce a more efficient and competitive system but instead a financial system that was designed to fail. . . . The result was the creation and growth of the shadow banking system, which is one of the primary causes of the U.S. financial crisis. (p. 38)

The average person has a lexicon designed for social interaction and personal accountability. Financial systems do not use a language system that is common, transparent, or easy to understand. However, the more we learn and understand that linguistic system, the more power we have to effect positive change and bring transparency to the world of finance. People who recognize and understand the language of financial speak can be empowered to better protect their interests and the well-being of those around them.

Western nations need to restructure their economies, and banking regulation, in ways that incentivize transparent and sustainable practices. Gorton and Metrick (2010) stated, “We do not see any pure private sector solutions to ensure the safety of the banking system, and so the role of regulators will remain essential” (p. 289). At the most recent World Economic Forum in Davos, Switzerland, Min Zhu, deputy managing director of the International Monetary Fund stated: “We’ve seen a lot of activity move away from the banks, to the
capital markets. Both the banks and the shadow banks should have a proper regulatory framework to govern them” (Stewart, 2013, ¶ 10). Inadequate internal controls and regulation has been shown to be the leading cause of insolvency in the banking systems (see Blanque, 2012).

This thesis has examined a few ways to peel back the mask to open up the possibility of regulating corruption. As a scholar of financial rhetoric, I am concerned with the ways in which language is used to oppress citizens of the world economically. Regulators must educate themselves to the nuances of financial speak. Then it might be possible to incentivize transparency on Wall Street in order to return financial regulation to a more equitable system. Most importantly, everyone who deals with money needs a stronger understanding of the function of debt. For Americans, it is the great irony of our education system that virtually no one leaves it understanding the mechanics of our banking system. The average American might think that the dollar is backed by gold, but they would be wrong. And how many people know where their money goes when they deposit it in a bank?

**Interventions and Public Liberty**

To maintain and nurture civic freedoms, the public must engage Wall Street and other centers of financial power. Society will have to incorporate ways for people marginalized by the shadow banking industry to defend their freedoms. I offer a few suggestions such as naming the strategy, supporting social movements, consciousness raising, and transferring money out of multinational banks. The act of naming the rhetorical strategy behind the ideology of neoliberal capitalism is important for fostering dialogue about our banking system. This was seen during the Occupy Wall Street (OWS) movement and the use of the phrase: “We are the
99%.” Mark Bray, a member of the Occupy Wall Street press team, stated that the movement is “about valuing the material conditions of working people” (as cited in Berman, 2011, ¶ 26). The working conditions of the average American have not improved significantly during the last 30 years. People are waking up to the fact that they have been marginalized by multinational banks. However, more work needs to be done to build a consensus of awareness around the shadow banking industry. It seems no one on Main Street has even heard of it.

Occupy Wall Street saw the emergence of a new awareness when it comes to financial rhetoric. One of the founders is a well-known anthropologist named David Graeber, and author of Debt: The First 5,000 Years. He summarized the movement’s ethos as follows:

We are watching the beginnings of the defiant self-assertion of a new generation of Americans, a generation who are looking forward to finishing their education with no jobs, no future, but still saddled with enormous and unforgivable debt. Is it really surprising they would like to have a word with the financial magnates who stole their future? (Graeber, 2011b, ¶ 2)

It is in the American character to rebel against oppression and taxation that robs future generations of their liberty. The shadow banking system’s use of rehypothecation has the long-term effect of money debasement—this is a tax on our future. The dollar is supporting a debt ceiling that Congress raises every 6 months in the United States. This increasing debt load is serviced by the American taxpayer. Every year, money that could otherwise be used to build a sustainable future is transferred to cover the interest payments on increasing debts. Kotz (2010) stated that all of the productivity of the average American worker since 1979 has gone to capital (p. 368). The long-term effect of neoliberal
capitalism has been to diminish the value of labor. Some might view it as a system that robbed them of a secure and sustainable future.

We are living in a desperate economy. Some economists believe that the United States might be approaching a final stage of neoliberal capitalism. Kotz (2009) stated:

The evidence suggests that we are seeing more than just a severe financial crisis and a severe recession. We are witnessing a crisis of the neoliberal form of capitalism. The ability of that form of capitalism to promote expansion of output and profits appears to have reached its end. Another expansion, within the existing neoliberal model, would require a new asset bubble even more massive than the housing bubble, and it is difficult to imagine how this could arise. (p. 315)

If it is true that neoliberal capitalism has reached its final asset bubble, what kind of future are we facing and will it be sustainable?

There are two main power structures in the United States: the formal power resting in Washington, D.C., and the financial power resting in New York City. The primary role of Congress is to appropriate funds. Like Rome in the fifth century, what will governments do if there are not enough funds to appropriate? The United States government has recently instituted a policy of sequestration with 5% across-the-board cuts in spending. There have also been threats of system-wide shut downs during debt ceiling negotiations. It appears that policies based on neoliberal capitalism’s perpetual growth model are beginning to break down.
Use Credit Unions

It is still possible for fundamental problems to be resolved within the formal power structure. The solution requires public discourse that is transparent and open to debate. Kotz (2008) stated, “Capitalism is going to be restructured, in the United States and globally, during the coming years. The outcome of this restructuring process, however, is not pre-determined” (¶ 10). Therefore, crisis is an opportunity to reform capitalism. The Occupy Wall Street movement was one method that the public used. They worked to turn the 2008 crisis into an opportunity to create sustainable change in our financial practices. One of the subgroups of OWS is called the Alternative Banking Group. They encourage families to move their money out of multinational banks and into credit unions that are non-profit organizations.

The power of shadow banking can be marginalized by transferring funds out of large firms like Chase, Citi, and Bank of America. For example, November 5th is Bank Transfer Day. The Huffington Post stated, “One way for consumers to take back control of their money is to move it to credit unions, which are often tied to specific locations and function as non-profit cooperatives” (Berman, 2011, ¶ 12). Credit Unions are traditional banks that typically have no ties to the shadow banking industry. The simplest method to curtail criminal banking activity is to take money out of that system. The Credit Union National Association runs a website (www.asmarterchoice.org) to help people find a local non-profit bank. In 2011, 2.2 million Americans moved their money out of large multinational banks and into local credit unions (Cheyney, 2012, ¶ 3). As a result of the OWS campaign promoting sustainable banking, more new accounts were transferred into credit unions in 2011 than during the prior 10 years combined. The public can
directly engage with the financial centers of the world by intentionally controlling where their money goes.

Credit unions do not comingle the funds held in personal accounts or transfer them overseas. This is not the case with large banks like Chase that can theoretically use the money held in individual accounts to support the trading activities of its parent company. JPMorgan Chase is the largest commercial bank on the planet with a derivatives portfolio in excess of $70 trillion (Denning, 2013, ¶ 9). To put that number in perspective, this one bank has financial contracts that are larger than all of the world’s economies combined. Bloomberg reported that a single derivatives trader at JPMorgan was nick-named Voldemort, or the London Whale, due to his power to single-handedly move global credit markets (Schatkzer, Harper, & Childs, 2012, ¶ 9). Unlike large banks, credit unions do not have offices on Wall Street and trading floors that hold thousands of traders looking to skim off “dumb money” so they can increase their bonuses for the year.

Future Scholarship

Wall Street and opaque practices within shadow banking must be further explored. The lack of academic research on this industry is a disservice to society. Since this thesis lays the groundwork for studying financial speak, I took a rather broad approach. There are some very specific areas that should be explored through future scholarship. Chapter 3 modeled one case study among dozens of recent large-scale crimes. There is virtually no academic work on Libor manipulation and the social consequences of that crime. A handful of financial journalists have stated that Libor manipulation is the single greatest crime of the 21st century. It requires more in-depth study.
Rhetoricians and linguistic scholars can further expand the study of financial speak through a detailed examination of Wall Street’s use of apologia. There are a few examples in this thesis where bank executives gave public excuses, but there is virtually no scholarship on this phenomenon as it pertains to finance. The direct study of apologia would further ground financial speak as a rhetorical strategy of criminal masking. The situational crisis communication theory (SCCT) might provide a useful framework (see Coombs & Holladay, 1996). Another method to examine criminal masking would be a comparison of a particular statement across different types of texts such as press statements, a technical financial supplement, and an investor report.

The study of neoliberal capitalism could also benefit from general systems theory to explain market behavior, particularly from the field of biology. The epigraph in chapter 5 is from Kenneth E. Boulding, the cofounder of general systems theory. A study on whether neoliberal capitalism operates as a closed or open system would be fascinating. Most schools of economics would view quantitative easing as a policy that embraces an open system. For instance, barring a total collapse of all central banks, there is no limit to debt creation. However, if finance is indeed a closed system, the limits to debt creation could be better understood.

Financial speak could also benefit from the work of legal scholars, particularly in examination of the SEC, FERC, and CTFC cases highlighted in this thesis. A reasonable person must question why civil fines are levied in lieu of criminal prosecution for financial crimes of egregious scale. Without prosecution, these practices are given the stamp of legality. Financial crimes of increasing scale incentivize bonus driven traders to commit even larger crimes in the future.
Additionally, there have been a few articles in the *The New York Times* equating the actions of Wall Street traders and executives with psychopathic behavior. Financial speak might be additionally informed by psychological research on whether or not the shadow banking industry attracts professionals with a clinical lack of empathy. A long-standing complaint of Wall Street is that it produces nothing of value for society. There are plenty of narratives on the tone that managing directors set for a trading floor, but there are no direct studies on what determines their value set. Recent investigations into Libor manipulation demonstrate how the decisions of a few individuals who sit at trading desks can have an impact on the lives of billions of people. It is important that these professionals have enough empathy to do their job in an ethical manner.

Lastly, I feel that financial speak needs to be problematized in a more impactful manner. One method to address this dilemma is to directly link shadow banking to domestic terrorism. Over the last decade, FBI personnel have been moved out of financial crimes divisions and placed with anti-terrorism task forces. The ability to fight large-scale financial crime in America has been severely diminished (see Smith & Gold, 2013). A recent ProQuest database search on the word “terrorism” had over 2.3 million hits for professional articles on the subject. In contrast, scholarship on the rhetorical strategies discussed in this thesis is virtually unknown. There might be some wisdom in framing the practices of Wall Street in a more violent light.

We need to fight to continue building a legacy for future generations. An informed citizenry, empowered with a new understanding of language, has the ability to create sustainable reforms in our financial system. It is my hope that our collective consciousness will find a path of wisdom where all economies can grow freely and sustainably—beyond the shadows.
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