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The financial simulacrum: The consequences of the symbolization and the computerization of the financial market

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Abstract

In a first step, we present the symbolic evolution of financial market that illustrates the growing “consumer-oriented” dimension of finance. We introduce then the technological evolution of finance, that derives from the growing computerization of finance. The third part of the paper shows that this double evolution in finance allows us to consider the financial market as a “hyper-market”. The financial market is then presented as a result of what Baudrillard calls a “hyper-reality”. In the last section, we show that this hyper-reality allows a plurality of theoretical interpretations of the financial reality.

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1. Introduction

The last three decades have been marked by a sharp and astonishing increase in the complexity of the financial reality. There seem to be two main causes to this evolution: the growing sophistication of financial products and the effects of the technological progress on the financial interaction.

In this paper, we propose to analyze the increase in immateriality of the financial reality due to the sophistication of the products and to the deep change in the organization of the financial marketplaces.

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In this paper, we will propose to conjoin social theory¹ and financial economics by studying the impact of the growing marketing dimension and the technology not only on the financial reality but also on the way of producing knowledge in financial economics. We would like to show that the contemporary finance can be considered as a double evolution. First, we will see that the new “consumer-oriented” dimension of the financial market tends to favor a “symbolic evolution” of the financial reality where financial markets are more and more presented as a game that we have to play if we want to be “in”. The second evolution is generated by the computerization of finance. This technological evolution increases the immateriality of the financial reality and contributes to the dominance of the “consumer-oriented” dimension. These symbolization and computerization of finance lead to a reflexive and a self-referent evolution of the financial reality. By considering the financial market as a simulacrum, this paper is in line not only with the analysis of reflexivity in the economic life proposed by Lash and Urry (1994) but also with the anthropological works that present an embedded financial market in a cultural matrix that determines its forms of transaction (see Callon, 1998 or Knorr-Cetina, 2006). Finally, we will emphasize the epistemological consequences of this double evolution in the last section of this paper by showing that the contemporary evolution of finance favors a theoretical diversification.

2. Structure of the paper

In the first section, we will see that the sophistication of financial products allows the development of a more and more “consumer-oriented” dimension of the financial market. We will also emphasize the fact that all this symbolic evolution has led to an increase of the speculative activities. The second section will be dedicated to an analysis of the computerization of the financial market. Some important applications of the new technologies in the financial market will be studied: the automatic trading and the e-finance. In the third section, we will use the term “hyper-market” to characterize the contemporary financial markets. We have chosen this term, on the one hand, to recall the “consumer-oriented” dimension of the contemporary financial places, and, on the other hand, to refer to the concept of hyper-reality developed by Baudrillard (1981). To conclude this paper, we will investigate the epistemological consequences of this double evolution of finance by studying the impact of what we call the new financial hyper-reality on the current evolution of financial economics.

3. Section 1: The symbolization of finance

For the last three decades, financial innovation has become a very important dimension of the financial reality. We will see in the next section that the development of more and more complex products has been made easier by the progress in computer science that has decreased the calculation time. We will show in this section that the financial innovation illustrates the new “consumer-oriented” dimension of our contemporary financial reality. This new dimension tends to develop a specific meaning (trading for trading’s sake) of the financial reality where quotations become symbols with less and less connections with the productive sphere.

¹ According to Giddens (1983), “Social Theory has the task of providing conceptions of the nature of human social activity”. According to Fincher (1987, p. 9), Social Theory proposes several “frameworks for explaining the reality we experience and we observe”. Fincher explains that these frameworks allows us “to develop explanations by linking people’s action in some way to the society of which those people are a part”.

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