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An Analysis of the Changing Nature and Legitimacy of the Governance of Financial Risk in the Global Political Economy

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Introduction

This paper attempts to provide a critical analysis of the mainstream conceptualization of financial risk and the changing nature of its governance and asks whether and how legitimacy for both is reproduced. It is found that the conventional tendency is to think of global finance as being too complex and technical: similarly the notion of risk in the realm of finance has been socially constructed to be divorced from the concept of uncertainty and become a mathematically calculable enterprise to which high stakes of material rewards are attached. Such specific ideas about risk's calculability are considered to constitute an ideational context for financial practices and their governance.

However, it is argued that this form of mathematical abstraction limits the extent to which risk practices are actually politicized, bestowing them a seemingly 'apolitical' status, even though the adverse outcomes of such practices, epitomized most notably by the recurring financial crises, are unevenly distributed and ultimately favour the interests of the financial sector. Furthermore, it is argued that, at the level of governance, this ideational structure underpinning risk management practices, is meant to provide legitimacy for a specific type of financial risk governance, in which private sector and technocratic elites have gained substantial significance vis-à-vis publicly accountable ones. It is concluded that, although these actors have assumed *de facto* authority their operations feature a democratic

deficit and thus their authoritative status, much like the ideas underpinning risk practices, remains politically contestable.

The paper is divided into three main sections: the first of these briefly outlines the theoretical point of view on which the argument is to be based, namely constructivism. Then, the social construction of financial risk will be thoroughly examined, which will be followed by a critical analysis of the changing nature of financial risk governance. In this latter section, the transition from the Bretton Woods to the current financial risk governance regime will be discussed. Moreover, a couple of mini case studies based on two critical agencies at work within such a regime will be presented: the Basel Committee on Banking and Supervision and Credit Rating Agencies. This is done in order to illustrate the private-sector and technocratic laden aspect of contemporary financial risk governance. Finally, prior to the conclusive remarks, a brief analysis of the issue of legitimacy pertaining to the normative context underlying risk practices and their corresponding governance will be presented.

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Constructivism and Financial Ideas

Global finance is more often than not depicted as a black box: its underpinning practices and assumptions are off limits from general public debate, whilst open only to a privileged set of transnational knowledgeable experts. However, as stated by Mackenzie "not to examine the contents of black boxes is to miss a critical point of how societies are constructed" (2005, 557): in this particular instance, the main focus will be on exploring the construction of risk as a specific mechanism constitutive of the modern financial order (Green 2000, 77-78) and examining the corresponding prevalent mode of financial risk governance.

Problem solving theories, broadly speaking, do not attempt to question the role of underlying assumptions and ideas, nor the material consequences that these produce (Cox 1986, 208) and so, it is rather, on the basis of a critical/constructivist standpoint, that

this essay assesses how and why particular constitutive notions of risk and their associated governance practices have come about and are made to persist.

To expand, constructivism as a new theoretical addition, has proven to be quite useful for critically analyzing various aspects of the international political economy. Despite the fact that its central tenets remain debated even by those who define themselves as its core advocates, at the heart of this recent scholarship, lies an unequivocal "reformulation of the relationship between the material and the ideal, an emphasis on the rule-governed nature of the social world, a focus on the constitutive nature of rules and ideas, and a belief in the stabilizing value of norms and ideas" (Best 2005, 6).

Accordingly, constructivist ontology, which highlights the role of ideas in shaping political outcomes, once applied in the realm of finance, provides the basis for critically analyzing the role of core economic theories and general assumptions, including those pertaining to risk management practices, in determining specific outcomes. Moreover, from a general normative standpoint, the approach's insights into the stabilizing power of rules and ideas, sheds light on to the fact that "ideas not only *do* shape international interaction, but that they also *should* shape them in particular ways" (Best 2005, 12), though their simultaneous intersubjective and contingent aspect makes them susceptible to change.

Therefore, the need to first discuss the specific set of ideas that fortify the mainstream conceptualization of risk is related to the equally important need to uncover how such a conceptualization informs and legitimates particular forms of risk practices as well as financial risk governance procedures, the latter of which, are in fact "made up of institutional facts.....that cannot be understood without reference to their social and discursive context" (Best 2004, 385). Accordingly, the next section will critically analyze the social construction of financial risk, as opposed to the widespread view which presents it as a natural and neutral concept.

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The Social Construction of Financial Risk

First of all, it is worth pointing out that, at the rudimentary level of conventional understanding, financial risk is simply portrayed as the flip side of credit: in financial economics jargon there is the so called, ‘risk-return trade off’, which highlights how an investors’ choice for highly risky undertakings will yield him/her high returns. It is useful however, to dig beneath this common perception of risk, because after all, financial risks whilst being engaged in, by mainly speculative investors for their potentially lucrative yields, pose adverse consequences even onto those who do not choose to be involved, as demonstrated by the recurrent debt, financial and corporate crises of recent times (Porter 2005, 174).

It is also commonplace that, similar to the case of global finance in general, “the philosophical and political assumptions underpinning the commercialization of uncertain futures in the financial industry remain both hidden from view to many within and outside the financial industry and largely unquestioned in the political arena” (Goede 2004, 197). Nevertheless, it is in contrast to this that, a number of scholars have presented a case for the historical construction of risk, according to which a decidedly naturalistic view of risk has been adopted, which has permitted the latter to be interpreted purely as a technical matter (Dannreuther and Lekhi 2000; Deuchars 2004; Goede 2004; Green 2000; Porter 2005).

It should be emphasized however that historically, the unavailability of a conceptual framework which permitted a marked distinction between the notion of uncertainty on the one hand, and that of risk on the other, had proved to be a major impediment to the legitimacy of financial risk practices: in fact, in the eighteenth century, speculation in financial markets was not viewed to be any different from gambling, which made it thus a decidedly immoral act. (Goede 2004, 200).

It was only with the eventual construction of such a conceptual distinction, that risk practices have been rationalized and widely incorporated into the finance industry: as opposed to the concept of uncertainty, which, according to the finance community, features

an element of incalculability, risk was extrapolated and identified as natural part of business on the one hand, but humanly calculable on the other (Goede 2004, 200- 202). Simultaneously, the emphasis on pure statistical knowledge and mathematical modelling is indicative of the perceived need to create and institutionalize a sense of regularity and predictability in the face of the constantly unexpected and contingent nature of future outcomes (Dannreuther and Lekhi 2000, 575; Deuchars 2004, 55; Porter 2005, 174).

Although this crucial conceptual transition came about only during the nineteenth century, it is nonetheless reasonable to link it to the well established lineage of rational and modernist mode of thought, which stretches back to Machiavellian times (Dannreuther and Lekhi 2000, 577; Deuchars 2004, 30; Goede 2000, 66; 2004, 204). The tendency to rationalise and commoditise uncertainty in the form of modern risk practices implies an interplay of the logic of capitalism on the one hand and that of modernity on the other (Green 2000, 82). More specifically, the inherent relationship between credit and risk aforementioned, can be considered to have resulted in the application of the distinctive "Machiavellian virtues of foresight, knowledge and strength….as a means through which credit can be mastered" (Goede 2000, 66), with the ultimate aim of creating and reproducing wealth for a particular segment of society, namely the risk-taking and capital owning financial community (Goede 2004, 212; Green 2000, 87). Thus as reiterated by Goede, the re-articulation of uncertain

future as a calculable risk had a dual function: "it accorded moral responsibility to financial speculation, because it cares for and hedges against uncertain future…. (and) provided the financial speculator with a legitimate professional practice" (2004, 204).

It is evident that the current global financial order is characterized by "the development and commercialization of risk management systems" (Porter 2005, 174); yet by historicizing the concept of risk and by uncovering how it has been socially constructed over time, one is able to question the "financial logics of transcendental rationality" (Goede 2000, 60), which seemingly underpins modern understanding of risk, which in turn has been informing its application in a range of financial instruments, including derivatives and other

speculative contracts.

This is very important in that, not underscoring the contingency, as opposed to the widely accepted naturalistic and objectified articulation of risk, which legitimizes the possibility of transforming uncertainty into a profitable enterprise, has allowed many such speculative products to become *normalized* sources of financial practices, in spite of their asymmetric distributional consequences (Goede 2004, 212). In fact, it is as a result of the ostensibly 'universal-cum-rational' language of risk that "derivatives have gone from being arcane and little known instruments to becoming ubiquitous features of business life" (Tickell 2000, 88): that is to say, they have been normalized into daily financial conduct.

These financial products, which act as tradable contracts with their values being derived from the underlying values of other assets (Mauer 2002, 15; Valdez and Wood 2003, 379) enable market actors not only to hedge against risk of fluctuation in prices, but to also undertake speculative activities for even greater returns (Mauer 2002, 16): and it is the fundamental mathematical model known as the 'Black-Scholes-Merton option pricing theory', that has helped controversial derivative products such as options, futures and swaps, in breaking away from their historical connection with disreputability (Mackenzie 2005, 562; Mauer 2002, 21).

The controversy associated with the ideational framework justifying mathematical abstraction of such kind, supported by this rationalistic approach to risk, is that it ultimately limits the extent to which real risk practices, inherent in derivatives trading for instance, are actually politicized, bestowing them a seemingly 'apolitical' status, even though the adverse outcomes of such practices, epitomized by recurring financial crises, are unevenly distributed. In fact, as argued by Porter, highly technical and economistic versions of risk management tend to neglect the existing "dialectic tension between more intense and sophisticated systems of control, on the one hand, and more unmanageable and frightening disruptions on the other" (2005, 180).

This is a characteristic also known as risk's indeterminacy (Porter 2005, 184) and it forms one of the basic points for critiquing complex risk management techniques, since it emphasizes the idea that, contrary to mainstream modes of thought, such techniques create room for more risk, instead of eliminating the incalculability of future outcomes they are supposed to eradicate in the first place (Green 2000, 84). This view is also shared by Gill, who argues that, not only are we confronted with the increasing pervasiveness of 'manufactured risks' as opposed to natural ones, but we are also witnessing a privatization of risk, whereby, the latter is being shifted down to the personal level (1997, 61).

Derivatives' trading is again illustrative of this point in that, their innate tendency to rationalize and socialize risk beyond their immediate domain (Mauer 2002, 17) has been accompanied with a simultaneous aggregate impact of possible system- level risks, with negative repercussions for unrelated participants within the financial system as a whole. In the case of the infamous Enron scandal for example, the unprecedented proliferation of complex risk models incorporated within derivative products has encouraged financial actors into assuming more and more risk: they had done so guided by the implicit normative assumption that any amount of risk once calculable can be hedged against and while their objective was to accrue financial gain for themselves, their actions inevitably placed in jeopardy the homes, incomes and savings of ordinary people (Tickell 2000, 89), which highlights the concept of privatization of risk raised by Gill (1997, 61).

Therefore, interlinked with risk's indeterminacy, is another political aspect of its practices disguised by its construction as highly mathematical enterprise, which consists of its material or real impact on social inequality, in the manner in which people from different social and professional backgrounds actually bear the adverse consequences of such risk practices. In fact, the poorer segments of society generally risk more, whilst those with specialist knowledge and resources are able to not only offset the damage caused, but to also reap the material gains from the various risk practices (Porter 2005, 184; Tickell 2000, 89). Similarly, bailouts undertaken by public authorities acting as lenders of last resort during financial and corporate crises, " collateralize the exposure of private investors" while

perpetuating the reality that "risk premium is effectively socialized by domestic taxpayers' future ability to pay" (Blyth 2003, 253).

So far, the foregoing discussion has highlighted how the social construction of risk as being different from uncertainty, due to the perceived calculability and rationality which characterize solely the former as opposed to the latter, has enabled the legitimization of the application of various highly risky financial instruments in everyday business life. The exceedingly mathematical nature of risk management has also obscured and de-politicized it, while perpetuating the adverse impact associated with its practices, such as the fact that various financial instruments, though intended to offset risks actually tend to generate even more complex sets of risk, while also exacerbating the overall asymmetric risk-reward distribution in favour of financial sectors.

Thus, as a result of this particular ideational and normative context underpinning the notion and management of risk, "financial politics is reduced to a technical rationality which makes possible a particular mode of governance, which precludes real challenges to financial authority" (Goede 2000, 72). Since the space for political contestation is reduced by the de-politicizing effect of the opaque and mathematical nature of risk modelling, probing the validity of derivative and other financial instruments is thus rendered limited, though not impossible, due to the contingency of the process of constructing risk's ostensible rationality and calculability. However, concurrent to this prevailing conceptualization of risky and in terms of financial risk governance, a particularly knowledge intensive governance scheme has been presented as being most viable, with its key characteristic of promoting self-regulation by private authority whilst emphasising the enhancement of transparency through further application of convenient numerical and specialist technical models. It is to these crucial developments that the paper will now turn.

… … … …

The changing nature of financial risk governance

The following parts of the essay assess the role of private and public actors in sustaining particular forms of global financial risk governance and examine whether and how legitimacy for it is produced. In order to fully capture the extent of the changing nature of the governance of global finance and that of its associated risk practices, the previous governance regime at work during the Bretton Woods financial order will be briefly analyzed.

From the Bretton Woods System to the New Financial Order

The Bretton Woods system was "specifically designed to allow states to attain domestic policy autonomy through capital controls without having to keep an eye on the exchange rate" (Blyth 2003, 240) and it institutionalized public control of the financial and monetary order, by empowering the state to use its legitimate powers to impose basic regulatory requirements, in correspondence with comprehensive domestic needs (Dannreuther and Lekhi 2000, 587; Helleiner, 1994; Underhill 2001, 282).

However, many changes have taken place since the Bretton Woods agreement of 1949: the rise of the Eurocurrency markets, coupled with a deepening of financial innovation and the ensuing proliferation of complex derivative trading, have undermined the basis of the international financial regulatory environment, whilst also enabling private financial interests to engage in arbitraging and speculative activities. All of these developments aided by conscious state decisions, such as the repeal of capital controls, contributed to the collapse of the fixed exchange rate system characteristic of this era (Blyth 2003, 240; Helleiner, 1994). Moreover, these material changes were accompanied by an ideological shift which favoured free capital mobility and a continued privatization of risk (Gill 1997, 61) and led to the emergence and consolidation of a transnational financial structure, as well as a transformation in the nature of governance of global financial risk (Tsingou, 2005) .

In general terms, as argued by Scholte, one important direct consequence of globalization, which he considers to primarily entail " a reconfiguration of geography" has

been the transition from a statist mode of governance to a ‘post-statist’ or ‘post-sovereign’ one, which, features a dispersion of authority on all levels: upwards/supra-state level; downwards/sub-state level and laterally/from public to private quarters (2002, 14). This implies that in fact “governance is not simply the expression of sovereignty….(but rather) extends well beyond the state and the formal model of state sovereignty” (Deuchars 2004, 57).

Similarly, as far as governance of global finance is concerned, a distinction between government on the one hand and governance on the other, signifies the dispersion of authority among various actors, including non-state ones (Rosenau 1992 quoted in Tsingou 2005). In other words, the realm of current financial risk governance, features state and inter-governmental institutions (including the IMF, G7, OECD for instance) alongside increasingly prominent hybrid governing systems mainly consisting of market authority, in turn intent on promoting self-regulatory practices, in the interest of private sector actors (Cerny 2002, 194). This point has to be emphasized because it means that, in the current volatile financial order, private sector rules and norms have emerged as being substantially influential.

Whilst the Bretton Woods system, aimed at promoting financial stability by putting private financial markets at the service of national economic development (Underhill 2001, 284), the post-Bretton Woods financial system is now permeated with the practice of derivative and similar complex financial trading instruments and simultaneously supports the “socialization of costs of meeting financial crises and the privatization of the benefits of unfettered capital mobility” (Germain 2002, 25). Hence, the language of financial ideas such as the calculability of risk through the use of abstract mathematical formulae, and the rationality of markets, combined with the continued prescription of transparency as a cure all medicine, have been overriding other public policy priorities like procuring social justice and a more equitable risk-reward distribution; and it is through this same language of financial ideas that legitimacy is currently being secured for the set form of governance, elevating technocrats and *embedded knowledge networks*, such as credit rating agencies, above other

publicly accountable authoritative entities (Blyth 2003, 242; Sinclair 2001a; 2001b; 2005).

To expand, the contemporary ‘buzzword’ within regulation of financial risk is transparency: recurrent financial crises are, according to the mainstream view, attributed to informational discrepancies, (Blyth 2003, 239) or to low quality of information upon which investment decisions are made (Baily et al 2000, 108) or to dysfunctions and market distortions resulting essentially from home grown policy errors (Soederberg 2002, 614). While this ideological predisposition is indicative of the undisputed status accorded to the theory of the efficiency and rationality of markets, it also suggests that correspondingly, regulation is best accomplished “ by those who carry the risk, namely financial interests themselves” (Blyth 2003, 254), since they are (at least in theory) assumed to have more information of their risk exposure and of other necessary financial detail.

It is no coincidence that this scheme of self-regulation in risk management fits well within the broader framework “ of a particular ideology, namely the neoliberal doctrine of self-responsibility, self-control and rational calculation” (Deuchars 2004, 81). Hence, further application of mathematical technique is made justifiable, much like the inclusion of private sector risk profiling agencies, as key performers of economic governance (Dannreuther and Lekhi 2000, 87; Green 2000, 86; Sinclair 2001a; 2001b; 2005). The interconnection of the trends just outlined is nowhere better illustrated than through a close examination of the politics behind (a) the acceptance on behalf of the Basel Committee on Banking and Supervision, of the so called, VaR internal risk assessment model, as part of the Basel Capital Adequacy Accord II and (b) the role of credit rating agencies in the debate regarding the post-Asian financial crisis reform of the international financial architecture.

The Basel Committee on Banking and Supervision, the VaR and the Basel Capital Adequacy Accord

The Basel Committee, which was formed in 1975, has been the pivotal international entity in charge of formulating standards for international banking regulation (Porter 2005,

57). It has members comprising of representatives of central banks from the G-10, with the addition of Luxembourg (Underhill 1997, 23). Most importantly it features, not only a closed nature of conducting transnational banking supervision and regulation, but such operations are also subjected to a " growing dependence of regulators and supervisors on private market interests (whereby)…. regulatory standards are increasingly aligned to the preferences of the largest global market players" (Underhill 1997, 43).

For instance, the Committee as part of its commitment to the new Capital Adequacy Accord, has fully embraced the idea of enhancing transparency via self-regulation, as the most effective and thus appropriate, or *best- practice* solution for attaining greater financial stability (Goede 2004, 211; Tsingou, 2005); this is indicative of the pursuit of a decidedly, pro-market type of regulation, which "marginalizes radical reforms where public authority is more assertive" (Tickell 2000, 92). Moreover, it is in accordance with this trend, that the so called, VaR, or Value at Risk internal risk assessment model, has been accommodated as the standard requirement for large financial institutions' control of their own risk exposure. By producing a single figure that assesses the risk exposure arising out of each transaction performed and through a final summation of all individual VaR amounts, a firm can estimate its total risk exposure at any given time (Blyth 2003, 249).

Yet, the decision by the Committee to legitimate such a highly abstract yet convenient model is controversial, especially when one takes into consideration that

conventional risk technologies such as VaR, do not take into factor neither the possibility of unprecedented events occurring (Goede 2004, 210), or in other words, the notion of risk's indeterminacy aforementioned, and nor do they take into account the social character of the market (Green 2000, 87). In fact, as shown during the Asian crisis and the collapse of the Long Term Capital Management hedge fund, the application of VaR has allowed "financial institutions to maintain smaller capital reserves and engage in riskier trading" (Goede 2004, 211) while simultaneously making "trading much more dangerous by tying unrelated markets together in the search of liquidity" (Blyth 2003, 251). Moreover, it is important to note that

the choice for sanctioning the use of VaR analysis by the Committee is an ideological one, which, in line with the core argument of the paper, underscores the weight of the constitutive role of the underpinning ideas and normative assumptions pertaining to risk's presumed calculability, perceived market efficiency and transparency improvement as the main vehicle for attaining financial stability, all of which ultimately continue to shape how risk is actually managed and socially distributed (Blyth 2003, 251).

The Committee's unquestioned acceptance of the financial industry's mathematical risk modelling and self-politicking through additional numerical internal risk assessment techniques, in the end legitimizes the contestability of such a technical oriented and de-politicized regulatory system (Soederberg 2002, 614) and affords security only to those who construct, sell and operate the core risk instruments, though their function underpins day to day financial practices and hence affects ordinary lives as well, who lack the expertise or resources to hedge against unforeseen risks (Goede 2004, 213).

Embedded Knowledge Networks-Rating Agencies and the privatization of the international financial architecture

The financial sphere has had a strong tradition of self-regulation, for instance in the case Gold Standard period, and consequently, once conditions became more permissive, unlike during the Bretton Woods era, it was not at all unforeseen for a self-regulatory governance scheme to be fashionable again (Tsingou, 2005). In fact, as mentioned earlier, this is exactly what is actually taking place as far as financial risk governance is concerned, especially as the current global era is saturated by "the commonsense notion that the state is in any case less an authoritative actor and more a facilitator and enforcer" (Cerny 2002, 209).

More specifically, the role of what Sinclair calls *embedded knowledge networks* is relevant here, which happen to be "private institutions that possess a specific form of social authority and help to privatize policy making, narrowing the sphere of government intervention"

(2001a, 441). Credit rating agencies, of which the most prominent ones are Standard and Poor's and Moody's, fall under such a category, because they are private, they derive their authority from their expert status in financial markets and their involvement in financial risk governance propagates the privatization of the international financial architecture, while ostracizing state-led public policy interventions.

The rhetoric that global finance and in particular its inherent risk practices are too complex, has led the public sector itself to accept "more and more highly technical approaches, which seem attractive because they appear to offer pragmatic effective solutions" (Porter 2005, 196): simplistic credit ratings conform to these types of solutions. On a more general level, the aforementioned ideas relating to the objective calculability of risk has permitted rating agencies to maintain and build upon their expert status (Green 2000, 86), notwithstanding the fact that their ratings possess an inherent subjective quality (Sinclair 2005). Furthermore, the process of financial disintermediation combined with the fact that promotion of transparency happens to be the number one priority within the debate of the reformation of the international financial architecture, has escalated the importance of their functionality as market disciplining entities (Randall 2002, 20; King and Sinclair 2003, 346 ; Sinclair 2001a; 2001b; 2005; Soederberg 2002, 615).

However, from a democratic point of view, the current move towards a privatized and self-regulatory international financial architecture in which such agencies are most likely to play a pivotal role (King and Sinclair 2003), is very problematic since it will most likely lead to the exclusion of other legitimate stakeholders in global finance (Sinclair 2001, 449): as mentioned earlier, the latter include ordinary citizens, who as showed by recent financial and corporate crises continue to be burdened with the most disruptive forms of risk, although they are not directly implicated in the latter's introduction. Thus it is more than reasonable to question the legitimacy of such a governance scheme and its underlying normative assumptions.

The issue of legitimacy in financial risk governance

Pauly, rightly argues that "language, not money or force provides legitimacy" (1995, 369): accordingly, this paper has explored the stabilizing and legitimizing power of the language of financial ideas and has showed how the orthodoxy of financial risk governance currently upheld as legitimate, is underpinned by assumptions of (a) risk's calculability, aided by highly technical and specialist knowledge- based models, and (b) efficiency and rationality of markets, more generally. In particular, these normative assumptions have legitimated the development of a governing transnational policy community, which is increasingly private sector oriented, self-regulatory, technocratic and free from democratic accountability (Gill 1997, 71; Porter 2005, 193; Tickell 2000, 95; Tsingou 2005; Underhill 2001, 282). In fact, this same language of financial ideas has also obscured and de-politicized global financial risk practice and management: other than excluding those actors without the required expertise or resources, it has also the crucial impact as far as the agenda setting process is concerned, since only a narrow range of issues, favourable to the preferences of the financial sector are being and will be considered

This particular arrangement however, is highly morally challenging: this is because governance of financial risk, affects us all, and as such it should be permitted to fit in exactly, within the purview of the public domain (Underhill 2001, 285). The current financial order consists of an asymmetric risk-reward distribution in favour of the financial sector and correspondingly, the current regime of risk governance is increasingly being dominated by the preferences of the very same financial sector interests who profit from it most, and who are the most risk tolerant (Tickell 2000, 96; Underhill 2001, 288).

Where as the safety and stability of the financial system should be a matter of public policy, "private sector governance causes concern in so far as the state appears to increasingly identify with private interest" (Tsingou, 2005) and thus a democratic deficit is formed as those interests that do not coincide with transnational capital, though legitimate on their own right, will be under-represented (Tsingou, 2005).Since representation "is

thought to be important for reasons of fairness, effectiveness and legitimacy" (Porter and Wood 2002, 236), the fact that there is lack of it in the governance of financial risk, creates a problem for the continued legitimacy of the *de facto* authority that technocratic elites and private sector entities, such as rating agencies have been able to acquire (Green 2000, 86).

… … … …

Conclusion

The paper has endeavoured to provide a critical analysis of the changing nature and legitimacy of global financial risk governance. Careful attention has been afforded to the social construction of risk as a contingent and historical concept, which contradicts the mainstream view presenting risk and global finance in general as a natural and coherent system. Instead the argument has been that risk has been constructed as a calculable enterprise, which can be hedged against via the application of ever increasingly complex mathematical models. This peculiar language has, since the collapse of the Bretton Woods financial system legitimized a self-regulatory and technocratic governance framework, which aims at including private interests while excluding those of the public more generally. However, not acknowledging the social aspect of markets, whilst upholding the calculability of risk and the corresponding viability of highly complex risk management systems has only increased various societies' material vulnerability to financial crises, which in turn perpetuates the existing asymmetric risk-reward distribution in the system, creating potential sites of opposition to the continued legitimation of the current financial risk governance system, both at the ideational and material structural levels. In fact, pressing questions about asymmetric risk-reward distribution supersede technical matters such as provision of transparency or innovative risk management models and they can be addressed and solved only through a re-politicization and democratic political contestation of both the constitutive normative assumptions pertinent to the conceptualization of risk, its practice and its current form of governance in which a *de facto* authority is enjoyed by private-sector and technocratic

transnational financial elite.

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