Abstract

More than a decade ago, the now Nobel laureate, Robert Shiller, observed that: “Far more important to the world’s economies than the stock markets are wage and salary incomes and other nonfinancial sources of livelihood such as the economic value of our houses and apartments. This is where the bulk of our wealth is found.” (2003: 9)

If finance means trading exposures to wealth, then the signal here is that finance increasingly involves trading exposures to household wealth. The financial vision is to imagine the multiple dimensions of household income, wealth and expenditure that could be made profitable: to create a spectrum of liquid financial market assets built on the performance of (illiquid) household assets.

Yet the Global Financial Crisis revealed that finance’s engagement with households can be fraught with new and dangerous risks that can crash the global financial system. The US Federal Reserve Bank of St Louis has referred to the financial crisis as a ‘household balance sheet recession’ (Boshara and Emmons 2012). It turns out that households have particular illiquidities and risk characteristics that mean that some of the core building blocks of corporate finance cannot be easily applied (Campbell 2006). In this process of stabilization and reformulation, therefore, there are two related critical issues: the appropriate design of financial assets that give exposure to households, and the credible measurement of the risks associated with that exposure.

This seminar will look at developments within finance and the state that are seeking to normalise and stabilize household financial management, including financial literacy projects, behavioural finance’s nudge, default and mandatory insurance, and financial participation programs, as well as bank and credit rating agency risk monitoring and surveillance.

Reading


2. Anchoring Money and Finance in a Financialized World

Abstract

In its 2005 Global Financial Stability Report, the International Monetary Fund (IMF 2005: 5) famously declared that “the household sector has increasingly and more directly become the ‘shock absorber of last resort’ in the financial system.” Andrew Leyshon and Nigel Thrift (2007: 98) similarly observed that households provide the “mundane sources of income [that] act as anchors to which the rest of the financial system is attached.”

Central to this process has been the securitization of household payments: a process of bundling up payments on loans (for housing, education, and vehicle, personal, and other credit), on insurance (for house, vehicle, and health), on rent, and on utilities (for energy, water, and telephone) and selling the income streams (the monthly payments) into global markets, but without selling the underlying asset. These are called asset-backed securities (ABS); those related specifically to mortgages are called mortgage-backed securities (MBSs). They involve selling the liquid dimension of households’ exposures: not the fixity (the house) but the mortgage payments, not the health care but the health insurance payments, and not the student learning experience but payments from post-student earnings.

Many thought that the Global Financial Crisis, which began with mass default of the US mortgage backed securities market exposed the folly of this notion of household risk absorption and asset backed securities production, and that the crisis would bring this development to an abrupt end. Yet the Federal Reserve Bank’s intervention through successive waves of QE revealed that securitization markets were now a direct and active target of and point of intervention for monetary policy.

US QE has involved the central bank in extensive purchases of mortgage-backed securities (MBS), bringing some form of commodity foundation inside US state money. US QE involving MBS purchases is not just an intervention in supporting financial liquidity and the US economy at large. It is also a decisive intervention in the ontology of money, to address the fear of broad money failure. In essence, we are identifying a commodity foundation to money as re-emerging in the form of the materiality of US housing stock. Accordingly, this paper argues that the
distinction between ‘financial assets’ and ‘money’ is blurring; the definition of ‘money’ is widening and the ontological distinction between commodity and fiat foundations of money is narrowing.

Reading


3. The Unaccountable Risks Of The London Inter-Bank Offer Rate (LIBOR)

Abstract

One of the on-going consequences of recent financial crises seems to be that the conventional ‘anchor’ measures of global finance (such as the US dollar, treasury bonds and AAA rated securities) are no longer playing the anchoring role once-believed of them. LIBOR now needs to be added to this list and not just because it has been tarnished by illegal practices, but because it is looking increasingly surpassed by financial market practices.

LIBOR was believed to provide a risk-free rate of interest. The British Bankers Association (BBA 2009), which owned LIBOR until 2013, has called the LIBOR ‘the world’s most important number’. The Economist (2012) only slightly less grandly, called it ‘the most important figure in finance’, while Warren Buffet (2012) described LIBOR as the ‘base rate for the world’.

But LIBOR has been revealed to be risk-laden. LIBOR is a measure of the costs of borrowing, but market concern is increasingly with measures of interest rate volatility.
This paper looks at why, in the context of crisis, financial market focus on interest rates is turning towards other benchmarks, notably the overnight indexed swap (OIS) market, and what this shift might be telling us about the anchoring requirements of global financial markets.

**Reading**


Dick Bryan and Michael Rafferty (2016) The unaccountable risks of LIBOR, British Journal of Sociology,


**4. Shadow Banking and the Changing Forms of Finance and Corporate Organisation**

**Abstract**

In the wake of the Global Financial Crisis, there has been an understandable focus on the financial fragility and contagion aspects of shadow banking. This paper argues that shadow banking is important for another set of reasons.

It has been well established that shadow banking permits the transformation of assets and financial claims. It has also been established that fiscal and regulatory arbitrage occurs through shadow banking, and associated offshore financial activities.

The paper develops the argument that together these are transforming the times
and spaces of modern finance, and directly challenging earlier spatio-temporal concepts of finance, and the regulatory/jurisdictional order built on them.

We conclude by opening up the possibility that the longer term significance of shadow banking may not just be its role in financial crisis, or even tax and regulatory arbitrage, but that it was here that innovative forms of capital were produced and generalized which transcended the spaces and times of earlier institutional, transactional and jurisdictional concepts of capital and wealth.

**Reading**


Claessens, S., Pozsar, Z., Ratnovski, L. and Singh, M. (2012) 'Shadow banking: economics and policy', IMF Staff Discussion Note SDN/12/12, Washington: International Monetary Fund


