Overcoming financialisation and its crisis: ideas from and suggestions for accounting, economics, and law

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K (Law and the Social Sciences)

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Convened by: Yuri Biondi
Tenured Researcher (Research Fellow) at the Cnrs (www.cnrs.fr)
Affiliated Professor at the Cnam (www.cnam.fr)

http://yuri.biondi.free.fr/

Short presentation

Behind the ongoing financial crisis worldwide lies the whole system of management, governance and regulation driven by financialisation that has long dominated. This system and its featuring elements are nowadays under strict scrutiny: marked-to-market accounting, shareholder value governance and primacy over business strategies and development of firms, unbounded legal-financial engineering and securitisation, value-at-risk and market-based financial intermediation, just to name some. They raise evergreen issues of stability, accountability and sustainability.
The current impasse concerns then the role of finance in economy and society, and questions finance-driven architectures and regulatory frameworks, public policies and business strategies, as well as related instruments and practices of governance and management. The special session aims to contribute to the joint understanding of these matters by convening scholars from different perspectives and disciplines to address issues of accounting, economics and law raised by financialisation and its crisis.

Long presentation

The ongoing financial crisis worldwide relates to finance-driven modes of management, governance and regulation that have dominated during the last decades. Behind intricacies of each peculiar event and contingent solutions addressing this or that aspect of the crisis, it is increasingly clear that the whole system driven by financialisation is at issue nowadays.

This system has assigned a peculiar position to finance (and financial markets) in economies and societies through dissemination of marked-to-market accounting, stock market-driven measures of performance and remuneration schemes, shareholder value governance and primacy over business strategies and development of firms, unbounded legal-financial engineering and securitisation, value-at-risk and market-based financial intermediation, just to name some.

Moreover, financialisation has required quite a great move far from “the euthanasia of the rentier, of the functionless investor” advocated by J.M. Keynes in 1936 and the so-called “managerial capitalism” of the decades following WWII. This move has involved changes in monetary and financial architectures related to public policy-making and regulation, changes in banking and financial activities, changes in financial relationships between regions and sectors, and changes in shareholding and management of business firms as well. The general trend has been further shaped by transnational imitation between and adaptation to different socio-economic environments, and has involved geo-political strategies and transformations.

As a consequence, finance-driven practices and techniques, organisations and institutions, legal architectures and standards are now under strict scrutiny, all concerned with accounting, economics and law of financial and socio-economic systems. The art of policy-making should then be allied with a different understanding of what can be done to bring our interconnected world over the current impasse.

This special session aims to contribute to the ongoing debate on financial crises and remedies by shifting towards greater recognition of the fundamental implications of the current impasse for financial institutions, organisations and technologies (including accounting and control). Scholars adopting different perspectives on these matters (and coming from different disciplines) are invited to share their views in order to generate ideas and suggestions for addressing the current impasse and rethinking the role of finance in economy and society.

The mini-conference comprises seven sequential panels:

1. Understanding the ongoing crisis and its macroeconomic implications
2. Accounting regulation and information for resilient financial markets
3. Rediscovering governance and regulation of the business enterprise
4. Finance, irrational exuberance and the speculation issue
5. The financial nexus in economy and society: institutional perspectives
6. The trans-historical roots of financial transformations and crises
7. Round Table: Beyond financialisation: discussing alternatives for the financial system.

Panel 1- Understanding the ongoing crisis and its macroeconomic implications
Moderator: Yuri Biondi (Cnrs – Preg CRG, Ecole Polytechnique)

Boyer Robert, Cepremap
robert.boyer@ens.fr
The subprime crisis in institutional and historical analysis

"The process of financialisation is defined by the hierarchical position of the financial system with respect to the other institutional forms, especially the wage labor nexus, inherited from the demise and crisis of fordism. Actually, financial liberalization, both at the domestic and international level, has triggered a cumulative flow of financial innovations, so powerful that they seemed to construct an unprecedented accumulation regime, finance led and directed towards households credit. Clearly financial innovations display quite distinctive features: they are the outcome of private profit strategies and they diffuse quite quickly since they are largely immaterial. Therefore financial innovations can have major consequences upon macroeconomic stability, due to the externalities in direction of the banking and monetary system. This has been occurring in the United States and United Kingdom that are the two main countries to explore the systemic crisis of a finance led accumulation regime. This crisis is then diffusing to the rest of the world due to the pervasiveness and overlapping of the new financial products, especially mortgage credit derivatives.
This framework explains why so many experts should not have been caught by surprise when the subprime crisis burst out. They had argued that financial sophisticated products could overcome any obstacle to growth whatsoever: financing education, insuring against exchange rate crises, overcoming underdevelopment, fighting poverty at home and abroad. This dream of an omnipotent finance has been applied to the financing of real estate for the poorest fraction of the American population… in the context of a speculative bubble. The securitization of these mortgage loans has transferred the default risk to the entire financial system since the remuneration of financiers created strong incentives to overextend the volume of low grade credit, i.e. the subprimes. Consequently their crisis was the logical outcome this speculation and many previous episodes (the October 1987 stock market crash, the LTCM collapse, the Enron scandal, the internet bubble..) had made explicit all the ingredients of the collapse of the entire American financial system on September 2008.
Consequently, this is an unprecedented mix a three crises. First a typical over accumulation in the real estate sector, that calls for a readjustment of price of houses. Second, the securitization has destroyed the very possibility of a correct valuation of risk and consequently of pricing highly complex derivatives: this is the novelty of the 2008 financial systemic crisis. Thirdly, the related freeze of the credit is putting an end to the very engine of American growth since the mid 80s, i.e. the permanent extension of credit to households as an alternative to income increases. Thus it is a major structural crisis, the unfolding of which remains quite uncertain: everything is up to the political strategies that will shape the interventions of public authorities."

Ken Zimmerman, Oregon Public Utility Commission
ken.zimmerman@state.or.us
Just What Was and Is the Role of Financialization in Our Current Economic Crisis?

It is supposedly common knowledge that financialization as market now dominates economics and economies around the world. Financialization is also often listed as one of, or perhaps the major cause of the current economic crisis in the world. This paper has three focuses. First, it attempts to briefly describe the sociotechnical agencement called financialization. Second, after the description, the paper presents an overview of the work involved to construct this agencement and its world, including alternatives that opposed and attacked financialization. Finally, the paper attempts to briefly describe the various views and assessments presented by selected supporters and opponents of the agencement of the links between financialization and the world's current economic crisis, including fixes for that crisis. Financialization is a particular arrangement of several agencies, mostly by and through US economists and political supporters (and US educated economists and supporters) of neoliberalism economic theory and globalization of trade. Financialization was difficult to construct. It required a specific set of agencies and a very aggressive assertion of control. These were both provided by political agents in positions of control in the US and UK along with brutal and narrowly focused supporters of the economic doctrine called "neoliberalism" in the US and UK. Finally, financialization greatly modified two features of standard economic capitalism, search for the greatest returns and "boom and bust" cycles to lay the foundation for the current economic crisis, and amplified the degree of that crisis by pushing so much more supposed wealth and related debt into economies such that the money assessment of any failure would be much greater than what would be the case otherwise.

Beat Weber, OeNB; Stefan W. Schmitz, OeNB
beat.weber@oenb.at,
stefan.schmitz@oenb.at
Varieties of banking aid measures

European states have reacted to the recent financial turmoil by preparing rescue packages for the banking sector. While there is a degree of harmonisation in terms of minimum requirements (instruments and durations allowed, pricing etc.), there is also a considerable amount of differences between countries concerning size and features of the packages. EU governments publicly frame the packages as necessary not only to stabilise banks but also to stabilise the broader economy and the labour market. We argue that they (can) entail considerable redistributional effects. These crucially depend on the technical details of the packages, such as pricing of capital injections and guarantees as well as conditions attached to the various measures. In our paper, we first distil the differences in these details and analyse their distributional impact. Second, we study the politico-economic determinants of these differences by looking at possible links between rescue packages and indicators derived from the "Varieties of Capitalism" literature and comparative welfare state analysis. We utilise a comprehensive data set of the details of rescue packages of 25 countries in the EU plus the USA.

Panel 2 – Accounting regulation and information for resilient financial markets
Moderator: Arnaldo Canziani (Brescia University)

Shyam Sunder, Yale School of Management
shyam.sunder@yale.edu
Accounting, common knowledge, and the dynamics of the stock market

"The concept of common knowledge concerning higher orders of knowledge has seen exciting new developments in the fields of philosophy, game theory, statistics, economics, and cognitive science in the recent decades. Even though information lies at the heart of accounting and capital markets research, these new developments have remained at the periphery of these fields. Common knowledge thinking may significantly advance our understanding of financial reporting, analysis, securities valuation, managerial control, auditing, and information systems. Such accounting and business applications will also make important contributions in the form of concrete, real-life examples and applications to the basic fields where the idea of common knowledge originated. This paper draws upon the concept of common knowledge and its actual and potential applications to accounting and capital markets research."

Larry Bensimhon, Cnam; Yuri Biondi, Cnrs & Cnam
larry.bensimhon@cnam.fr,
yuri.biondi@free.fr
Accounting information and the stock market process: an experimental analysis

Accounting information and its quality is expected to contribute to the financial investor's decision-making. This leads us to identify a neglected theoretical relationship between alternative accounting structures (based upon either fair value or historical cost) and the stock market dynamics composed by investors' bidding and financial decisions. Our approach explores this relationship by designing experimental stock markets under alternative sets of accounting information, namely fair value and historical cost. The first experiment replicates that of Hirota and Sunder (2007) under the new framework of analysis. The second experiment introduces a double informational set jointly composed by market-driven information and alternative accounting sets. The third experiment assesses the relative impact on herd behavior of alternative accounting sets.

Andreas Nölke, Goethe University Frankfurt
a.noelke@soz.uni-frankfurt.de
Transnational Private Governance and Regulatory Responses to the Financial Crisis: the Case of Accounting Standards

Fair Value Accounting (FVA) as prescribed by the IASB is a core ingredient of financialisation and has played a very problematic role during the recent financial crisis. It has led companies to devalue their assets in quite radical ways, thereby forcing them to sell assets to already depressed markets. Accounting scholars had warned about these potential FVA consequences for quite some time. Still, FVA has been adapted in quite comprehensive ways during the last decade. Moreover, the IASB appears to be unwilling to substantially revise its stance on FVA. From an International Political Economy perspective, the paper looks at the

reasons for both the introduction of FVA by the IASB and its stubborn resistance to recent calls for reform. The paper highlights the choice for transnational private governance as a core explanatory factor for both developments. Correspondingly, a reform of global accounting standard setting should include more thorough public supervision of the IASB.

Panel 3 - Rediscovering governance and regulation of the business
Moderator: Olivier Weinstein (University Paris 13 Nord)

Dalia Tsuk Mitchell, The George Washington University Law School
dtsuk@law.gwu.edu
The End of Corporate Law

"This article argues that during the twentieth century the legal community has used corporate law, specifically the rules applicable to the allocation of power between directors, executives, and shareholders, first, to legitimate corporate power and, then, to exempt those exercising it from liability. In so doing, jurists made corporate law ineffective as a means of regulating corporate power and impeded federal regulation outside corporate law.

I begin with the Progressives' response to the growth of the publicly held corporation. Seeking to legitimate the large public corporation and its power while eliminating potential market manipulation by the control group, the legal community turned to the board's fiduciary duties. It put concerns about corporate power to rest by vesting corporate directors with public power and public trust.

After the New Deal programs were in place, concerns about corporate power dissipated. Corporate law scholars focused on corporate internal hierarchies. By guaranteeing individual shareholders limited rights such as the right to submit proposals for inclusion in the corporation's proxy statement, they helped legitimate management's absolute discretion.

In the 1960s the market became the focal point for analysis. Scholars described directors as the shareholders' agents and emphasized the shareholders' ability to elect them (albeit in a corporate world dominated by institutional investors). This description worked in tandem with a particular model of the board—the monitoring board, composed of a majority of independent or outside directors. Independent directors were seen the shareholders' agents, while the insiders were left to act almost with no constraints or liabilities."

Yuri Biondi, Cnrs & Cnam; Pierpaolo Giannoccolo, Alma Mater Studiorum - University of Bologna; Antoine Reberioux, University Paris X - EconomiX
yuri.biondi@free.fr,
pierpaolo.giannoccolo@unibo.it,
antoine.reberioux@u-paris10.fr
Financial disclosure and corporate governance: The limits of independent directors

Over the last decade, the multiplication of high profile corporate scandals and bankruptcies has put the control of public companies' upper management at the forefront of the agenda. From this point of view, information disclosure is universally regarded at the cornerstone of a proficient institutional design. Yet, reliable information disclosure crucially depends on corporate governance: who is accountable for the production and certification of financial and non-financial reporting? Invariably, the analysis point to the responsibility of the board of directors. The "Conventional wisdom" considers 'independent' board members as the essential attribute to improve the quality of public disclosure. In a sense, this approach neglects expertise as a crucial quality for board members, or at least subordinates it to independence.

Arguably, for certain business models, effective certification requires firm-specific expertise. It will be the case, in particular, whenever intangible resources are an important value-driver for the firm. However, we argue that this form of expertise is negatively related to independence as it is commonly measured and evaluated. As a consequence, focus on independence may have (had) adverse consequence, by reducing the ability of the board to collectively certify financial and non-financial accounting information. By contrast, "grey" or "affiliate" directors may enhance the overall quality of financial and non-financial statements. This category includes worker representatives, as they are provided for public companies by virtue of law in more than 10 EU member States

Shelley Diana Marshall, Monash University
shelley.marshall@buseco.monash.edu.au
Lessons from the last financial crisis: A case study of Malaysia's corporate governance response to pressures to adopt Anglo-American institutions.

"After the Asian Financial Crisis in 1997-1998, Malaysia, like other countries in the region, was accused of accumulated microeconomic 'dysfunctionality under crony capitalism, relationship banking and other kindred practices'. It subsequently came under considerable pressure to reform corporate governance by a range of external and internal parties. The reform process has been monitored jointly by the World Bank and IMF, measured against the OECD Principles of Corporate Governance. Malaysia has received measured praise from these multilateral governance bodies for the 'on paper' reforms thus far undertaken.

Little attention has been given to the likely 'system changing' impact of the reforms. In any given economy, corporate governance is only one aspect of a larger business system, which includes methods of accessing and distributing finance and industrial relations. Despite having inherited 'common law' and 'liberal market' institutions from the British colonial state, Malaysia's strong state-led development policies have diverged from the Anglo-American developmental path. This paper is part of a broader study which aims to add to the existing literature by exploring the relationship between corporate governance reforms and changes in the area of industrial relations with the aim of assessing: (a) the extent of reform, enforcement and compliance, (b) causes, hindrances and resistances to reform, (c) the complementarities and divergences in reform directions, (d) the impact upon the developmental path. The paper will present the schema for the study and outline some of the corporate governance related factors, unique to Malaysia's variety of capitalism, which have provided Malaysia with remarkable resilience through financial crises."

Géry Deffontaines, LATTS - Ecole Nationale des Ponts et Chaussées – Université Paris Est
gery.deffontaines@enpc.fr
Conventions, tools, and methods of financial analysis applied to PPPs : the discrepancy between financial rationality and its macroeconomic consequences ?

This aim of this paper is to discuss one of the major flaws of finance-led capitalism that came alight and proved its potentially huge consequences with the current economic and financial collapse: the discrepancy between the requirements and rationality of financial actors working to optimize financial structuring at a micro or project level on the one-hand, and the macroeconomic effects such mindset and actual practices will contribute to produce, on the other hand.

Fitting into the social studies of finance and economic sociology, our paper will be based on the description of legitimisation speeches, concrete work practices, tools and methods, and organisational frameworks, which are at the core of financial analysis and rationality.

We would like to discuss our topic on a particular level: how the manner financial analysis is conducted by project finance institutions structuring PPP/PFI public procurement projects intrinsically ignores considerable dimensions of risk, and, through risk management procedures as they are treated by the financial system, participates to the creation of additional macroeconomic risk. How the intrinsic procedures of focusing on problem solving at a project-level are fundamentally flawed in what they ignore their macroeconomic consequences?

The rationale of project financing and the virtue of incentives lead to the deployment of standards and methods such as a comprehensive examination of costs and risks. We will discuss the unexpected fallouts of this type of financial rationality, which is bounded not only by its intrinsic project level but also by the fundamentally procedural nature of comparative analysis – skipping over macroeconomic considerations, creation of new forms of securitisation, ignorance of the question of socio-economic utility. We will thereby try to discuss how the apparent microeconomic superiority of an analytical system can lead to the creation of the very systemic risks that prepare financial crises of the future.

Panel 4 - Finance, irrational exuberance and the speculation issue
Moderator: Lawrence Mitchell (George Washington University)

Lynn Stout, UCLA School of Law
stout@law.ucla.edu
Irrational Expectations and the Problem of Speculation

"A primary cause of today's economic crisis is the large losses incurred by financial institutions that speculated in the over-the-counter market for credit default swaps (CDS), a type of financial derivative. Economists typically defend speculation as a socially valuable activity that reduces risk for "hedging" traders by allowing their speculating counterparties to earn profits from "information arbitrage" that improves the accuracy of market prices. The supposed hedging and pricing benefits of derivatives trading played a central role in the passage of the Commodity Futures Modernization Act of 2001, which set the stage for today's CDS crisis by deregulating the over-the-counter derivatives market.

This paper argues that the conventional economic understanding of speculation as beneficial is mistaken. In particular, much of the trading in CDS market seems to have been neither hedging nor true information arbitrage, but instead driven by subjective disagreement. Disagreement-based trading is a socially destructive activity that erodes returns while adding risk to markets— exactly what happened in the CDS market.

The paper explores why the economic literature neglects the role disagreement plays in inspiring trading in financial markets. It traces this oversight to a body of work in game theory that holds that disagreement-based trading is inconsistent with ""rational expectations."" The paper explains why the rational expectations approach is deeply flawed when applied to the problem of speculative behavior. The collapse of the CDS market offers a costly lesson in the dangers of allowing theorists' infatuation with mathematically elegant models to intrude upon the attempt to understand actual human behavior."

Ismail Erturk, Manchester Business School; Julie Froud, University of Manchester; Sukhdev Johal, Royal Holloway, University of London; Adam Leaver, Manchester Business School; Karel Williams, University of Manchester
ismail.erturk@mbs.ac.uk,
julie.froud@mbs.ac.uk,
s.johal@rhul.ac.uk,
adam.leaver@mbs.ac.uk,
karel.williams@mbs.ac.uk
Hedge funds and the war machine

Upwards of 50 percent of all hedge funds may collapse in the current financial crisis, immediately problematising pre-crunch claims that active and flexible trading strategies would produce positive returns irrespective of market conditions, and help stabilise financial markets. Whilst such developments empower the hand of critics who argue that hedge funds are simply gamblers spreading instability, beneath this surface opposition lies certain continuities. In both accounts hedge funds are perceived to be distinct from other financial actors. Similarly their trade is conceived of narrowly as the active buying and selling of different assets. This paper develops an alternative conjunctural approach, drawing on the militaristic metaphors of raiders, war and weapons employed by other authors. Specifically it aims to downplay the idea of difference and instead highlight the interconnectedness of hedge funds and other economic actors, who not only facilitate hedge funds' various market skirmishes, but often engage in combat with them directly using identical strategies. It also considers hedge fund strategy which involves using the techniques of shorting and leveraging as weapons not tools. Hedge funds are not just active traders, but active manipulators of those trades because they take positions and then try to 'make them work'. Finally it aims to explore the way in which the changing terrain of the battle limits manoeuvrability and exposes over-extension in the industry, as the conjuncture shifts from excess liquidity to credit crunch. To explore these and other themes we draw on the work of Deleuze and Guattari (1988)."

Tadjeddine Yamina, University of Paris Ouest La Défense Nanterre; Marsat Sylvain, University of Auvergne-Clermont Economics and Management Departure
yamina.tadjeddine@u-paris10.fr,
sylvain.marsat@u-clermont1.fr
Individual or institutional herding? The case of French fund management Company

Herding observed on financial market is often explained as an individual choice. This explanation does not consider social influences of norms, organization and institutions. We propose to analyze the social roots of financial herding by considering decision done by funds managers. Our analysis set on interviews and used New Institutional Theory.

Panel 5 – The financial nexus in economy and society: institutional perspectives
Moderator: Lynn Stout (UCLA)

Lawrence E. Mitchell, The George Washington University
lmitch@law.gwu.edu
Who Needs the Stock Market? Part 1: The Empirical Evidence

"Data on historical and current corporate finance trends drawn from a variety of sources present a paradox. External equity has never played a significant role in financing industrial enterprises in the United States. The only American industry that has relied heavily upon external financing is the finance industry itself. Yet it is commonly accepted among legal scholars and economists that the stock market plays a valuable role in American economic life, and a recent, large body of macroeconomic work on economic development links the growth of financial institutions (including, in the U.S, the stock market) to growth in real economic output. How can this be the case if external equity as represented by the stock market plays an insignificant role in financing productivity? This paradox has been largely ignored in the legal and economic literature.

This paper surveys the history of American corporate finance, presents original and secondary data demonstrating the paradox, and raises questions regarding the structure of American capital markets, the appropriate rights of stockholders, the desirable regulatory structure (whether the stock market should be regulated by the Securities and Exchange Commission or the Commodities Futures Trading Commission, for example), and the overall relationship between finance and growth.

The answers to these questions are particularly pressing in light of a dramatic increase in stock market volatility since the turn of the century creating distorted incentives for long-term corporate management, especially trenchant in light of the recent global financial collapse.

A second paper in this series will examine the theoretical justifications for the importance of the stock market as perhaps the central financial institution in the United States."

Ewald Engelen, University of Amsterdam; Martijn Konings, University of Amsterdam; Manuel Aalbers, University of Amsterdam
e.r.engelen@uva.nl,
m.konings@uva.nl,
m.b.aalbers@gmail.com
A Comparative Political Economy of Securitization; Tracing Local 'Genes' in a Global Technique

Arguably, securitization, i.e. the technique of transforming illiquid and opaque future streams of income into transparent, liquid, fungible and hence tradable, has been at the root of the current financial crisis. Starting in the US, where securitization triggered an unsustainable housing and debt bubble, the fall of Lehman bank, through its international trading network, subsequently dispersed a freefall of securitized assets throughout the interconnected networks of financial intermediaries. While ostensibly a deterritorializing technique, which projects an image of seemingly universal applicability, in this paper we argue that there are subtle geographies to the permutations that securitization has undergone in its transfer to different legal jurisdictions. The paper compares the 'product chains' of securitization in four political economies — the US, the UK, Denmark and the Netherlands — and argues that the subtle differences in modes of securitization fit perfectly in the national models known from the 'Varieties of Capitalism' and 'Worlds of Welfare Capitalism'-literatures. By bringing together insights from 'financialization studies' and Comparative Political Economy, the paper raises intriguing questions about the interaction between national institutions and transnational financial techniques. In a final switch, the paper also builds towards suggestions for a safer mode of securitization in a post-crisis world.

Massimo Amato, University Bocconi of Milan; Luca Fantacci, University Bocconi of Milan
massimo.amato@unibocconi.it,
luca.fantacci@unibocconi.it
Back to which Bretton Woods? Liquidity and clearing as alternative principles for reforming international finance

"In the face of the current crisis, there is growing demand for regulation, often invoked in terms of a ""return to Bretton Woods"".
The Bretton Woods conference of 1944 was indeed the last explicit attempt to define a rule for international settlements. In fact, post-World War II currency negotiations gave place to a confrontation between two alternative visions of the international financial system. The two plans presented at Bretton Woods embody two alternative principles that have continuously confronted each other throughout Western financial history since the early modern era: the first aims at producing international liquidity on the basis of a reserve asset (White's Plan for an International Stabilization Fund), the second aims at providing a pure means and measure for the multilateral clearing of current accounts (Keynes's plan for an International Clearing Union).
The former has undoubtedly prevailed. However, it is questionable whether it is the most appropriate way to allow finance to perform its ancillary function in providing support to the so-called real economy.
Indeed, the principle eventually embodied in the Bretton Woods system, and persisting even after its demise, tends to identify money with a commodity, making possible, and even necessary, the deregulation of international capital markets, despite original intentions to restrict them. On the contrary, the principle which inspired the alternative plan was intended to deprive money of the character of a commodity, thus making it the rule for international exchanges, rather than an object of regulation among others.
This paper will try to outline the two principles both in historical perspective and in the perspective of future reforms."

Panel 6 – The trans-historical roots of financial transformations and crises
Moderator: J. Nicholas Ziegler (Political Science Department, UC Berkeley)

Montagne Sabine, CNRS
sabine.montagne@dauphine.fr
The prudent man rule: from substantive to procedural and "communicational" prudence of investment

"The ongoing financial crisis is largely explained by the fact that organizational rules and governance of finance would have continuously reduced perception of risks since the 1980s because of successive financial innovations and correlative financial bubbles. This paper analyses this argument in the case of the prudent man rule, the legal standard used by fiduciary institutions to regulate their investment policies.
Analysis of case law shows that the notion of « prudent investment » as defined by courts resisted financial innovations because such investments were taken as too speculative by the legal tradition of trusts. But, thanks to legislative and judicial changes, it fitted the conception of prudence imported from the new financial theory in the 1970s and allowed institutional investors to invest in riskier asset classes since the 1980s. Finally, it contributed to the drift of finance in the late 1990s and in the 2000s since it failed to prevent and punish too risky behaviours.
Part I describes changes of this standard and identifies three historical steps. From the 19th century to the 1970s, the prudence was substantially defined. From the 1970s to the 1990s, the pension law ERISA focused on the conformity to a procedural model of investment decision making process. From the late 1990s, prudence has consisted in disclosure procedures by trustees and become public relation matters.
Part II examines structural features of this legal tradition of trusts that are responsible for that dramatic shift and the inability of this law to be a gate keeper of finance and to support a more Keynesian understanding of finance."

Paul Lagneau-Ymonet, IRISES, Paris Dauphine; Angelo Riva, European Business School
lagneaup@wanadoo.fr,
angeloriva@ebs-paris.com
The Ambiguities of Short-Selling: Liquidity or Speculation? Lessons from the Nineteenth Century Paris Stock Exchange

"Tensions between providing liquidity to the markets and unleashing speculation have been a crucial feature of financial activities and short selling has always stood for the very crux of this matter.
The ongoing financial crisis has, at least temporarily, modified the common perception and the regulatory framework concerning this type of operations: from complete legitimacy and full legality to challenged legitimacy and constrained legality. Under pressure, regulators have considered short selling as fuelling the collapse of securities prices and they have banned it. These measures weaken hitherto triumphant theoretical wisdom, according which liquidity provides market stability.
Paradoxically enough, in the aftermath of the 1882 krach, the French government legalised short selling, in order to stabilise the Paris Bourse, of which unique character at that time - primarily a forward market - contrasted its rivals in London and New York. This early legal recognition ended long-lasting debates on the legitimacy of this sort of financial operation and

the Paris Bourse actually stabilised. The mainstream interpretation would be that legalisation of short-selling improves market stability. In fact, this improvement was not only the result of legalisation, but also the product of converging trends tightening formal as informal rules on the Paris financial markets and their operators.
Comparing and contrasting this experience with the current situation, the paper raises doubts on the stabilizing effect of the sole short selling ban."

Ewald Engelen, University of Amsterdam; Julie Froud, University of Manchester; Karel Williams, University of Manchester
e.r.engelen@uva.nl,
julie.froud@mbs.ac.uk,
karel.williams@mbs.ac.uk
Reconceptualizing Financial innovation; Frame, Conjuncture and Bricolage

This paper argues for a reconceptualization of the main culprit and victim of the current credit crisis, i.e. financial innovation. Lionized and damnified by its main supporters and substractors, the dominant perspectives on the sources, aims and consequences of financial innovation — mainstream finance and social studies of finance respectively — on second sight can be seen to share a number of premises that hinder an empirically adequate grasp of what is going on financial markets and reproduce some of the underlying moral claims made by its supporters. In particular, they share a functionalist view, which sees the rise of finance as a project of perfecting markets and hence plays with an overly rationalistic view of human agents. Demonstrating that improvisation and contingency are much more important properties of the financial world that the dominant perspectives on financial innovation can accommodate, the paper then challenges these preconceptions by developing a new concept of financial innovation whose three main elements, frame, conjuncture and bricolage, are indicated by the title of this paper. The importance of this problem shift is that it highlights the inherent fragility of this type of intermediary-led financial innovation where things will often miscarry.

Round Table: Beyond financialisation: discussing alternatives for the financial system
Moderator: Massimo Amato (Bocconi University of Milan)

Brendan McSweeney, Royal Holloway University of London
brendanmcsweeney@googlemail.com
Is Denial Of The Possibility Of Financial Asset Market Failure Responsible For An Economic Holocaust?

"Extensive financial asset market failure precipitated and continues to perpetuate widescale economic and social problems. This paper seeks sought to contribute to our understanding of the causes of the failure by examining three key failure enabling properties of financial asset markets (hereafter: financial markets).

For decades financial market failure denial has become the root of inter-governmental policies and actions and many national governments. Financial markets were increasingly and extensively liberalised almost everywhere. Yet again, as a description of the capabilities and effects of financial markets it has proven to be wildly wrong and constitutive of a reality it claimed would not happen.

Intellectual errors of monumental proportions have been made as a result of denial of the possibility of financial market failure. The academic literature is peppered with many examples of warnings about the dangers of financial market failure denial. But this was ignored. On the other hand there is an extensive academic literature which encouraged excessive and inappropriate de-regulation and was insufficiently alert to the speculative characteristics of financial markets. Inappropriate regulations can have detrimental consequences, but acknowledgement of regulatory failure does not require denial of market failure. And yet this denial shaped many actions towards, and within, financial markets. To paraphrase Keynes, governments believing themselves to be quite exempt from academic influence were usually the slaves of mistaken academics. Much of that literature is technically sophisticated but illustrative that even remorseless logic if it is premised with a mistake can end up promoting grave policy errors."

Shann Turnbull, International Institute for Self-governance
sturnbull@mba1963.hbs.edu
Options for Rebuilding the Economy and the Financial System

Four non-exclusive options are identified for remaking the economy with a more efficient and resilient financial system. A common feature of three options is the introduction of cost-bearing money as supported by Fisher and Keynes to help stabilise prices. Cost bearing or "Free-Money" removes the need for Central Banks to protect the value of money and in electronic form would facilitate Free Banking. Free-Money can remove or reverse the bias to invest in financial rather than real assets, stimulate spending and reduce real interest rates to make productive asset investment more attractive. It also reduces the costs of financialization and inequalities in incomes and wealth. Free-Money increases the efficiency of allocating resources and can result in the generation of electricity from renewable resources becoming cheaper than burning coal. One option for issuing Free-Money is for governments to adopt a Bill like that presented to the US Congress in 1933. A second option is the private issue of "stamped scrip" that circulated in the US during the Great Depression. A third option is the issue of Free-Money redeemable into a commodity as used in Europe 1928-33. A fourth option is to reform the existing financial architecture to reduce the: (i) cost of seignorage, (ii) interest on government debt; (iii) size of organisations considered too big to fail; (iv) different types of risks accepted by financial institutions and (v) ability of banks and "shadow" banks to create credit to finance derivatives many times greater than the GDP of the global economy.

Marc Jacquinet, Universidade Aberta & CERIO
mjacquinet@univ-ab.pt
From bubbles, financial and credit crises to regulation: The issue of innovation and the legal nexus

"The recent financial crisis, the stock market downturn, the bursting of the housing bubble and the credit crunch are part of the most recent economic recession with worrying signs of a depression mounting month after month.
The current crisis and the Great Depression of the 1930s have several parallels (and differences) that several economists have pointed out. Here what interest me are two common and systemic aspects between the two crises: the emergence of technological, financial and legal innovations both during the upswing and the downturn and the creation of new regulatory institutions, changing the rules of the game, just after the outset of the recessions.
These two aspects: innovation, on the one hand, and regulation, on the other, is at the center of the problems of the crisis and the proposed institutional solutions.
In the present paper, I will analyze the different contexts of the two crises, namely the regulatory setting before and after the onset of the through. I will give special attention to the diverging paths of the legal structure and the financial and technological innovations during the expansion and the breakdown of the system due to the cumulative changes brought by the emergence these innovations and practices, neglecting the institutional setting, The obsolescence of the institutions, regarding the new economic structures, is parallel to the constitution of bubbles, for both cases.
I will develop the differences and the systemic aspects of both financial crises before considering the solutions already proposed or others that merit attention. A central conclusion is the importance of the institutions and the regulatory structure of the sector and their ability to adapt to economic change."

Jakob Vestergaard, Danish Institute of International Studies
jve@diis.dk
The uncomfortable truth about the global financial crisis

There has of been a huge outpouring of analysis and commentary on the global financial crisis. Yet there has been very little attention specifically to the regulatory crisis that lies behind it. Apart from a change in the scope of financial regulation, proposed adjustments are marginal. Indeed, increased 'oversight' and a revision of capital adequacy requirements is becoming the 'catch-all' regulatory response, along with a renewed emphasis on 'enhancing transparency' (FSF 2008: 5). Such responses grossly underestimate the regulation crisis underlying the current global predicament. The crisis occurred despite efforts over the past decade to 'strengthen the international financial architecture' (SIFA). The SIFA approach to international financial regulation emphasised measures to enhance 'transparency' and promoted the global adoption of standards of 'best practice' in areas such as banking supervision, corporate governance and financial accounting. The unifying principle of these standards was that of 'market-sensitivity'. In accounting, so-called mark-to-market accounting was made the global norm to be strived for, in risk management discretionary practices were increasingly replaced by standardized quantitative models operating on market price data, and so forth. This homogenization and unrelenting promotion of 'market-sensitive' modes of economic governance has undermined rather than increased the stability and resilience of the international financial system. It is argued that a more effective regulation of international finance must emphasize diversity and segmentation of risk instead of homogenization, and replace current pro-cyclical regulatory measures with a range of counter-cyclical ones.

Thomas Clarke, University of Technology, Sydney
thomas.clarke@uts.edu.au
The Causes Of The Global Financial Crisis? The Impact of the Recurring Crises In Anglo-American Corporate Governance

The prolonged systemic crisis in international financial markets commencing in 2007 was also a crisis in corporate governance and regulation. The apparent ascendancy of Anglo-American markets and governance institutions was profoundly questioned by the scale and contagion of the global financial crisis. Instead of risk being hedged, it had become inter-connected and international, and unknown. The market capitalisation of the stock markets of the world had peaked at $62 trillion at the end of 2007, but was by October 2008 in free fall, having lost $33 trillion dollars, over half of their value in12 months of unrelenting financial and corporate failures. A debate has continued for some time about the costs and benefits of the financialisation of advanced industrial economies. The long progression of financial crises around the world served as a reminder that the system is neither self-regulating nor robust. The explanation of why investment banks and other financial institutions took such spectacular risks with extremely leveraged positions on many securities and derivatives, and the risk management, governance and ethical environment that allowed such conduct to take place is demands detailed analysis.