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INTERVIEW:

From the Political Economy of Financial Regulation and Economic Governance to Climate Change: An interview with Andrew P. Baker

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Andrew P. Baker is Professor of Political Economy, University of Sheffield, UK. While his name may not be familiar to those who look outwards from the economics discipline, his work on the politics of economics, in the form of knowledge with influence in the world, is well known in the social sciences – especially for those working in international/global political economy circles. The politics of knowledge is a subject many economists pay insufficient attention to, despite that the standard critiques of mainstream economics both highlight the general failure of the mainstream to adequately conceptualise power and institutions and point to the role of power *in* institutions and organizations as a key facet of the way mainstream economics reproduces itself (its sociology of knowledge).[1] Baker's work focuses in particular on the role of frameworks, theory and expertise in relation to financial processes, governance and regulation – issues such as the meaning, significance and limits placed on systemic risk and the rise of macroprudential approaches in the wake of the global financial crisis.[2] As such, disciplinary economics is just one of his concerns, which he places in broader context to explore various aspects of financialization. His work resonates with and should be of interest to post Keynesians, institutionalists and anyone with an interest in finance and policy and its many consequences – not least contemporary inequality.

Professor Baker is a former editor of *British Journal of Politics and International Relations* and current co-editor of the journal *New Political Economy*, which along with *Review of International Political Economy* has played a leading role in the renaissance of political economy in the social sciences in the UK in the twenty-first century, as has the Sheffield Political Economy Research Institute (SPERI).[3] SPERI, for example, published *The UK's Finance Curse? Costs and Processes* which Baker co-authored with Juan Montecino and Gerald Epstein from the Political Economy Research Institute at University of Massachusetts, Amherst, (Epstein is one of the

[1] For a range of papers on related subjects see: D'Ippoliti, C. (2021); Ylönen et al., (2021); Javdani and Chang (2019); Ioannidis, et al., (2017); Çalişkan and Callon (2009); Callon (2007).

[2] See, for example, Baker (2018, 2017, 2015, 2013a, 2013b, 2013c); Baker and Widmaier (2015, 2014).

[3] Visit: http://speri.dept.shef.ac.uk Notable work on financialization was also done at University of Leeds as part of the Financialization, Economy, Society and Sustainable Development (FESSUD) project and at the Centre for Research on Socio-Cultural Change (CRESC) at Manchester University. For example, Erturk et al. (2008). Visit: http://fessud.eu/the-project/ and https://www.cresc.ac.uk

most prominent scholars to work on financialization over the last twenty years).[4] The report quantifies the lost GDP attributable to financialization in the UK from 1995 to 2015 (approximately £5.2 trillion or about 3 years of GDP).[5] Baker has been visiting professor at Copenhagen Business School and visiting scholar at the Bank for International Settlements (BIS) (see Baker, 2020). Amongst other projects, he has worked with the well-known MMT proponent and expert activist critic of financialization and tax regimes, Richard Murphy, provided consultancy for the Tax Justice Network (TJN) and, along with Leonard Seabrooke and Eleni Tsingou (both at Copenhagen), has been funded by the Institute for New Economic Thinking (INET) to explore the influence of the Annual Jackson Hole Central Banking Symposium.[6]

Professor Baker graduated BSc Hons Politics and History from the University of Bradford, in 1993, received an MA. in Democratic Theory and Process, University of Leeds, in 1995, before moving on to the University of Ulster, where he was awarded a D.Phil in 2000 for the thesis "The Politics of G7 Co-operation in the 1990s: Global Finance, Macroeconomic Policy and Multi-Dimensional Diplomacy." This provided the platform for his book *The Group of Seven: Finance Ministries, Central Banks and Global Financial Governance* (Baker, 2006). He has since published more than forty articles in academic journals as well as written for and edited collected essays and contributed various shorter pieces to *The Conversation* and similar outlets.[7] Most recently he co-authored the e-book *Making Tax Work: A framework for enhancing tax transparency* (Murphy and Baker, 2021).

His work can be accessed at:
https://www.sheffield.ac.uk/politics/people/academic-staff/andrew-baker

He is interviewed by Jamie Morgan for *RWER*…

Jamie: Let's start by creating some context and setting out some themes or foci for discussion – while introducing some terminology which we can explain and elaborate as we proceed and as we explore how some of your work fits into these themes and foci. Historically, there have been quite different ways to frame, theorise and explain the activity of banking and finance and the differences make a difference to how regulation is formulated and what the role of a regulator is deemed to be. This is an incredibly important issue when we consider the significance of banking and finance for economies and the grave consequences that can result from their activities. The twentieth century witnessed a transition from a more structural-

[4] Visit: https://peri.umass.edu/economists/gerald-epstein See Epstein (2005).

[5] See Baker, Epstein and Montecino (2018) and note that while undertaken through SPERI the report was an initiative of several universities. See also Christensen et al. (2016); Baker and Underhill (2015).

[6] See, for example, Baker and Murphy (2021, 2020, 2019).

[7] For example, Baker (2020): Bank for International Settlements podcast "Tower of Contrarian Thinking." https://bispodcast.libsyn.com/andrew-baker-contrarian-thinking-at-the-bis and

Baker (2013), http://theconversation.com/powerful-and-plural-g20-is-worth-listening-to-17903 and Baker et al. (2005).

interventionist conceptualisation of regulation (epitomised by the host of legislative changes to banking and finance that occurred in the US from the 1930s onwards) to one with more of a focus on enabling market processes as sources of efficiency, which gained momentum in the 1970s (see Harnay and Scialom, 2016). Readers will likely be most familiar with the repeal of Glass-Steagall (repealed in the US by the Gramm-Leach-Bliley Act 1999) as one important event commonly identified as a contributing factor (for the range see Lo, 2012) on the road to the Global Financial Crisis (GFC). As readers are likely also aware, the GFC has led to various reform initiatives and discussion of issue-areas over the last ten years or so:

1. There has been more focus on systemic causes of financial problems, and this has resulted in "macroprudential" policy initiatives, albeit the concept predates the GFC.
2. There has been development of "resilience" mechanisms, notably improvements to bank capital levels and leverage ratio levels, drawing on or complying with changes to the "Basel Committee" rules (Basel III (IV)).
3. There has been development of "resolution" strategies i.e. what to do with a failing bank.
4. There has been particular attention paid to "too big to fail" banks (TBTF) and more generally to global "systemically important financial institutions" (G-SIFIs), and these are the subject of greater scrutiny and are held to different standards.
5. There has been growing attention paid to researching and understanding the more complex functions and interconnections of contemporary banking within the "universal bank" model (which combines retail and investment banking).
6. In conjunction with #5 there has been growing attention paid to the evolving nature of the finance system and its parts. For example, how "repos" are used, the functioning and efficacy of derivatives, the growing role of "shadow banking" entities etc.

Overall, there has been growing acknowledgement of the need for a more broad-based understanding of the finance system and its vulnerabilities, both globally and nationally. In this regard the Financial Stability Board (FSB) and many other organisations, such as the Bank for International Settlements (BIS) and Basel Committee, provide analysis and advice on international standards and these are also adopted and modified by different countries. Arguably, though, there has been more rhetoric than actual fundamental reform (even if there has been a lot of regulatory change of one kind or another), though this, of course, depends on what one expects from a regulatory system and this, in turn, depends on how one frames and theorises banking and finance. One strand of your work has been on systemic risk and perhaps we might begin by discussing how this term is used and how you have approached the subject.

Andrew: I would define systemic risk as the prospect of a systemic synchronised downward movement in asset prices, causing a contraction in financial activity and wealth, that in turn leads to a sustained recession and reduced activity in the wider economy, caused by excessively optimistic assessments becoming highly pessimistic sentiments in a system wide reappraisal. The key thing is that systemic risk refers to a collective systemic wide outcome, produced by collective interactions and connections in a market. This in turn leads to arguments that blame for systemic risk can never be attributed to any one single actor, or group of actors, but is a collective property and dynamic, that results from complex systems being more than simply the sum of their parts. So just because something might be true of any given unit in a system, it won't mean it is necessarily true of the system as whole, or that you can understand system dynamics or outcomes, simply by aggregating the actions and decisions of units within a system.

Jamie: And just to be clear systemic risk inheres in a system and its properties and these are not reducible to the individual entities who are members of a system but rather inhere in the organization of that system. So, one cannot look merely to the individual balance sheets of banks and other financial actors but rather the combination, their relations and collective tendencies and possible vulnerabilities on this basis. Perhaps you might illustrate…

Andrew: Yes. One way to think about this is that systemic risk is comprised of two related dimensions: a time dimension, where individual perceptions can change from one point in time to another, so prospects come to be assessed collectively in a much less rosy fashion, than they were at an earlier point in time, and of course collective behaviours can lead to manias and panics. A second dimension is a cross sectional one, which accounts for the interactions between units in a system. As these become more numerous and complex, systems can become more risky and there is more potential for destabilizing synchronised movements in the system as a whole. In this regard, it is under appreciated that systemic risk is a phenomenon that can take hold and impact beyond banks and the financial sector.

What is sometimes call financialization reaches beyond the conventional financial sector. In our recent work at Sheffield led by Adam Leaver, we think that a potential big systemic risk is currently posed by the large capital (non-financial) sector. That research found that around 20% of the world's leading companies have regularly been paying out over 100% of their annual income in the form of dividends and management share buybacks, over the last decade, – creating what we term "hollow firms" (Baker et al., 2020). This has been made possible by companies taking on increasing amounts of corporate debt, an increasing share of which is low grade, and by manipulating time through accounting techniques that push back costs and liabilities and pull forward optimistic revenue projections. That makes a significant chunk of the modern corporate world very vulnerable to economic shutdowns.

Jamie: And this process of hollowing out firms (arguably a kind of legalised looting through changing both the capital structure and relationship between current reporting and uncertain future outcomes) requires an accommodating regulatory environment, the cooperation of consultancy and accountancy firms, governance-influencing non-executive directors on corporate Boards etc. – and perhaps most notoriously recently, the case of Carillion in the UK, which used strategies like "negative accrual" and, over the years, various manipulations of its Private Finance Initiative contracts. And the form this vulnerability to economic shutdowns takes is?

Andrew: The form this vulnerability potentially takes in the large cap sector, is something accountants call an "impairment shock", a dramatic reappraisal of valuations, when an optimistic projected future fails to materialise due to reduced economic activity. That can lead to all kinds of procyclical dynamics and downward asset price spirals, that are incredibly difficult to predict in advance and are highly contingent, so may not fully materialise. The broad point is you don't want to be in a position where such a large number of the world's major companies are vulnerable to those kinds of processes, in a world characterised by pandemics and climate emergencies, which will reduce economic activity temporarily, for periods of time.

In the research, we argued for regulation to stop the practice of paying out more than annual income (a "dividend cover limit"), in any given year and a raft of other measures to make leading companies more resilient. This is not directly related to financial regulation, but it does illustrate that systemic risk is a broader phenomenon than just developments in the formal financial sector.

Jamie: Still, a higher profile concern with “systemic risk” and at least some attempt to address it came to the fore in and after the Global Financial Crisis (GFC), and focuses primarily on the financial system generally and banks in particular. You have had a lot to say about this over the last decade or so. How did you become interested in this subject?

Andrew: I became interested in systemic risk because I am a political economist, concerned with how ideas and images of markets and finance in particular are used to construct processes of macroeconomic and financial governance by leading governments and through their interactions with major market players. As you suggest in your introduction, two years before the 2008 crisis I wrote a book on the G7 as an apex policy forum, that looked at what contribution the forum had been making to global financial governance over the prior decade.

A lot of the book detailed how the G7 had created and authored a very specific approach to understanding and dealing with financial crises. There were several beliefs present in the prevailing G7 approach/consensus. The main cause of financial crisis was believed to be a lack of transparency and information, primarily caused by governments concealing information about their intentions in macroeconomic policy and the true state of the economy.

So straight away this dominant approach said most financial crises are caused by governments, either intervening too much, or concealing data. There was a general acceptance that markets accurately priced risks and were broadly efficient most of the time. Distortionary interventions and forces outside of markets – exogenous factors and shocks – were seen to be the primary cause of crises. Endogenous causes of financial instability (those internal to markets) were barely considered at all. Looking back that is an incredible form of myopia, and I was essentially arguing that at the time. The emphasis was on enhanced transparency, public authorities making more data available, so markets could make better and more informed decisions, including where needed, disciplining and calling for adjustments in national Macro policies. This was a very constraining and limiting set of beliefs that left a lot off the table, but also immediately put the onus onto any government affected by a financial crisis to adjust and be more “transparent”. It meant there was relatively little attention on the functioning of markets themselves and the instability, market decisions and interactions could produce.

Jamie: Yes and for anyone working in or with an interest in economics this evokes a whole set of broader concerns regarding how economics conceives an economy and how it makes sense of the role of money, monetary policy, financial stability and a whole concatenation of related concepts and commitments regarding information, efficiency, rationality, self-interest etc. all of which feeds into policy via the education of economists – albeit there has always been a gap between the practice of policy and the contents of textbooks (see Dow, 2017). Perhaps we might come back to this when we discuss your take on Keynes, Minsky, Fisher and others (whose work takes us some distance from a standard mainstream textbook framework). In any case, a “money economy” in the heterodox sense is quite different than the quasi-barter economy of neutral money or money as a “veil”. How did your research proceed?

Andrew: Shortly after the financial crisis of 2008, I found myself being invited to a series of brainstorming/policy advice sessions in elite transatlantic circles: The Atlantic Council, Chatham House etc. These events were convened to discuss the issues of the moment and reform trajectories, and invitees included national policymakers from central banks and finance ministries, some international organization people, public intellectuals from a range of disciplines, some of the big investment houses, journalists from big national and global titles. What stood out was the actual paucity of ideas, but I have a powerful recollection of John Eatwell (Professor of Financial Policy, Judge Business School, Cambridge – now Emeritus) at one event forcefully arguing that the old regulatory consensus had been a complete failure and had rested on a failed trinity of increased transparency, better risk management and enhanced disclosure.

Jamie: And that trinity rested on – "government failure" notwithstanding – the idea that the primary problem in markets (and thus for policy approaches to markets) was information asymmetries, and that better information, combined with individual rational actor self-interest, would correct "market failure" and return banking and finance to some kind of "normal"; implying a background theoretical framework in which "normal" for financial agents is as disciplined intermediaries, providing capital in and for efficient processes, subject to those information asymmetries? A quite different perspective than one that orients on structure and institutions where financial agents are powerful actors and that begins from the premise that those actors are opportunistic financiers able to, and interested in, influencing their own institutional-organizational environment (which, of course, in turn operates as an emergent system).

Andrew: Yes, though I am deliberately making the contrast a little starker than it probably was to illustrate the point; but there was an ensconced mind-set that filtered out and rejected alternative ways of thinking. If you look at Bank of England speeches on financial stability in the early years shortly after they were granted operational independence in 1997, you will find the odd nod at the need to keep an eye on the overall systemic risk profile, as a collective concern that went beyond any single institution, but these were quite vague and, of course, most national authorities had little in the way of mandates, or instruments to take action. There was the odd exception like the system of dynamic provisioning in Spain. But the other strong pattern in the Bank's speeches in 97-98 was of politics being an irrational process that upset otherwise efficient rational markets. This is evident in how monetary union was talked about, as something driven by politics, that risked upsetting and destabilising market operations and in relation to the Asian financial crisis, where government relations with corporate entities cultivated for political reasons, were seen to cause the market instabilities in that region. Crises as something caused by exogenous irrationalities were a very clear strong image in how the Bank talked about financial crises that was not untypical of the time.

There were those who were broadly part of central banking as a field who were trying to challenge that and change thinking. A good example is that in 2003, two Bank for International Settlements (BIS) economists, William White and Claudio Borio, presented their thinking at the Jackson Hole conference organised by the Kansan City Fed.[8] They argued that the big future threat was less about inflation, but rather relative price stability *plus* financial liberalisation/globalisation, combining to produce longer run financial and credit cycles – making financial instability the policy challenge of the future. They suggested that markets had an inherent procyclicality, and underestimated risks in the upswing of a cycle and overestimated risks in the downswing. The reaction to the paper from the US delegates present was hostile (interestingly Japanese and European attendees were more positive). But crucially the

[8] Note from Jamie: see https://www.bis.org/author/claudio_borio.htm and

https://www.bis.org/about/biowrw.htm. Note from Jamie: see https://www.bis.org/publ/work147.pdf

American participants did not engage with the central concept in the paper – market procyclicality. Instead they talked about monetary policy. This pattern is really stark if you look at the full transcripts on the Kansas City Fed site. It is as if the BIS staff are speaking a different language to the US economists, who neither hear, nor comprehend the central message coming from the BIS.

Jamie: Though as the general hostility indicates that was because there was a pre-crisis consensus…

Andrew: That's right, as my book on the G7 had identified, the emphasis was on non-market sources of financial distress and greater transparency to aid market decision making; so I instantly recognised what John Eatwell was saying later about the failure of the regulatory consensus. And this was the first time I had heard someone publicly confront people from the Treasury and the Bank of England in this direct way. Eatwell stood out because he was publicly stepping outside the dominant approach and saying regulators must base their approach on the system as a whole, based on a macro risk assessment of the system as a whole.

As we noted earlier, this brings to the fore something mainly neglected in the previous years – a system has properties and these are not reducible to those of its individual participants, so that requires tools that are adjusted based on a system-wide reading of emerging risks, rather than those profiled by individual institutions. As I have written elsewhere:

> "Macroprudential policy involves pre-emptive interventions to minimise the threat of financial instability and moderate cyclical risk-taking across financial systems as a whole. It promised a greater role for public authorities in overseeing and framing private decision-making, after two decades of light-touch oversight based on faith in private risk management techniques." (Baker, 2018: 294)

This has involved development of "stress tests" and a "toolkit", for example (see also Baker, 2013: 117):[9]

- Leverage limits/ratios;
- Time-varying capital requirements (e.g. the countercyclical capital buffer in Basel III);
- Loan-to-value requirements (LTV) and
- Loan-to-income requirements (LTI) on mortgages;
- Margins and haircuts;
- Management of foreign exchange liabilities as well as the possible levying of "macroprudential" taxes.

Jamie: And you argue that there have been various constraints and tensions in the development of financial stability policy in general and macroprudential policy in particular, much of which is indicative of insufficient attention to "macroprudential ontology" and also to "social purpose", but we can come back to that. Your initial point was that there was growing

[9] Note from Jamie: for an introduction and explanation of the mechanics of stress testing see Dent and Westwood (2016). The approach is also modified year to year; for latest see: Bank of England (2021).

focus on the need for a macroprudential response to systemic risk and Eatwell was "stepping outside the dominant approach".

Andrew: Eatwell, was also calling for countercyclical provisioning by institutions, raising reserves in good times, so they could be used in bad times. These were different from conventional capital requirements which were effectively a charge to operate in the market, and which could not be used as a "buffer". They were to be set in relation to patterns in the economy as a whole. Regulation he said also had to target highly leveraged institutions. In this diagnosis the problem was excessive complexity, not a lack of transparency. This might not sound like very much, but in 2009 it was a very different mindset and a call for a much more activist approach to regulation that would have been summarily dismissed and rejected a few years earlier in settings such as Jackson Hole and completely ignored by the G7. At the time, I didn't think these kinds of ideas had much chance of getting onto the G20 agenda, but I remember the language of "macroprudential" and the need to counter the procyclicality of markets did feature in the "Horsham communique" issued by finance ministers and central bank governors, a few weeks before the London summit in 2009.[10] At the time, it felt like a significant sea change moment. In reality, I think it has been less significant than I thought it might be at the time.

Jamie: But this set in train an interest in why some ideas resonate and others do not?

Andrew: That's right, I got very interested in where these ideas and arguments came from. John Eatwell was doing a very good job of articulating them in that particular setting, but as I looked into it, I realised they had a richer and deeper heritage. I mentioned Borio and White earlier, but these ideas had been part of the Bank for International Settlements work programme for some time and had been in circulation from the end of the 1970s, but the BIS intensified its work post East Asian Financial Crisis (1997), and following two public speeches from its General Manager, Andrew Crockett. London School of Economics (LSE) financial markets group also had a go at promoting similar ideas and wrote an academic's response to "Basel II", saying it risked making market procyclicality worse.

Jamie: And just to be clear, the Basel rules refers to sets of recommended capital adequacy requirements and associated mechanisms and measures intended to maintain the "resilience" of bank balance sheets. These are developed in cycles by the Basel Committee on Banking Supervision (BCBS), which is hosted at the Bank for International Settlements (BIS) and the BIS has numerous functions, including, as essentially, the central bank to central banks. The rules in each cycle develop over time through consultation, but have no formal legal power, though they are widely adopted and adapted. Basel I was agreed 1988 and became active 1992, preparation for Basel II began in the late 1990s and was formalised 2004, but was still not fully implemented at the time of the GFC and Basel III was initiated 2010 but delays continue (with a current focus on 2023). So, both BIS economists and the LSE group raised concern during Basel II? Perhaps you might just briefly explain what procyclicality is and so why countercyclicality is important in a regulatory sense.

Andrew: That's broadly right – the BIS employs many research economists that act as a source of advice and those economists have more intellectual independence than most people appreciate – so there was internal concern at the BIS, and the LSE group were saying similar

[10] Note from Jamie: see point 6 bullet point 2 of the communique:

http://www.g20.utoronto.ca/2009/2009communique0314.pdf things at this time. The pro- and countercyclicality point they were making was that Basel II would require institutions to raise more capital at times of markets distress, that could in turn make market-induced credit contractions worse. The countercyclical argument was, get institutions to hold *more* capital when asset prices are rising, when risks appear to be low to most market participants, but are in fact increasing as balance sheets become extended in good times.

Jamie: Which if mandatory could slow or curb any transition to levels of risk that might threaten financial stability and if discretionary (in response to the regulator identifying specific sources of systemic risk) could also act as a signal to the relevant financial actors, while providing greater loss-absorbing capacity?

Andrew: If we refer to your original list of issue-areas that have come to the fore since 2008, these combine macroprudential and resilience measures with a view to highlighting the more complex interconnections of banks – albeit there is a lot more to say about that. But the point is there were voices making critical arguments and questioning the direction in which regulation under Basel II was headed.

The LSE group included Charles Goodhart, Hyun Shin, Markus Brunnermeier. (Readers of *RWER* are likely aware of who Charles Goodhart is – given "Goodhart's Law" is named after him and given he is a former member of the Bank of England Monetary Policy Committee (MPC), which sets the Bank Rate in the UK, intended to put a floor under commercial interest rates).[11] The LSE group later went on to write an important report in 2009 – "The Geneva Report" (see Brunnemeier et al., 2009). The Geneva Report laid out a macroprudential approach in more detail. Many people conflate the BCBS as the national regulators, with the BIS, but the politics were more complex than this. When the BCBS was preparing Basel II, the General Manager of the BIS at the time (who I have already mentioned), Andrew Crockett, wrote to the chair of the Committee, William McDonagh of the New York Fed in 1999, and said he feared the proposals were procyclical and risked making downturns and balance sheet distress worse. Crockett called for Basel II to build a new system of countercyclical provisioning to counter such systemic risks of system wide downward spirals in asset prices.

The Basel Committee wrote back rejecting the suggestion that their proposals were procyclical and claimed the proposed countercyclical approach would encourage "moral hazard" by providing a cushion in bad times.[12] I was fortunate enough to be invited into the BIS archives and shown these letters, and they really are an insight into the degree of intellectual dissent that was present at the time Basel II was being prepared. The BIS decided to do more analytical work to bolster the arguments in Crockett's letter, and Crockett effectively gave two public speeches on a macroprudential system focused approach, which were intended to give his staff cover, to enable them to continue to develop the work. The Basel Committee and its US chair

[11] Note from Jamie: a policy approach that draws a lot of criticism from structural and post Keynesian economists regarding its roots in a natural rate of interest and natural rate of unemployment, modelled using a new-classical-new-Keynesian synthesis and tending to use a price stability target that cuts off the possibility of (genuine) full employment, while making further use of dubious mechanisms, such as the Taylor Rule in its structural equations.

[12] Note from Jamie: as most people know, moral hazard argument was commonplace, and for example, later led to numerous delays in the run up to the GFC and just after under Mervyn King at the Bank of England.

were not happy at what the BIS were doing, and even some BIS staff were uneasy at taking a divergent stance to its main stakeholders.

Jamie: Though, as you say, they persisted, and you've already mentioned Claudio Borio and William White in this regard. Borio has been at BIS since 1987 and William White joined in 1994. Both have written extensively on financial instability and preventative policy and William White has written for *RWER* in the past.[13] The joint paper given at Jackson Hole in 2003 is another in a long line of works that highlight that there was in fact concern (if not simple prediction) prior to the events of September 2008 – Steve Keen, Nouriel Roubini and numerous others.[14]

Andrew: It was genuinely hard to make those type of arguments publicly in the early 2000s, because it meant challenging the consensus and moving against the status quo. The Jackson Hole example is a good one. The US critics of Borio and White rounded on their suggestion that monetary policy should become part of the armoury for stemming the financial cycle, even when there was little in the way of an inflationary outlook, which was only small part of their argument (but easy to hone in on). But crucially all these critical voices completely ignored the main conceptual point Borio and White were making, which was about an inherent financial instability caused by market procyclicality. Nobody responding to the paper even mentioned procyclicality. The concept got completely overlooked – the respondents didn't even acknowledge financial instability, they started talking about monetary policy! So while these arguments about the propensity of financial markets to produce widespread instability were not entirely absent in elite policy circles at the time, they went unheard, or were ignored, especially by most US based policy economists.

Actually, in that same year 2003, senior people at the Bank of England told me they began thinking more in terms of systemic risk and began to more actively research the properties of non-equilibrium scenarios. In large part this was because they had hired Hyun Shin from the LSE as a consultant and he and the LSE financial markets group, were doing this kind of work and speaking to Borio and White at the BIS, as well as raising their concerns about the procyclicality of Basel II. But at the Bank, they kept this work in-house in the financial stability division because they felt there was no audience for it in other parts of the Bank, in the political arena, and of course they knew that was little traction for this kind of thinking in the United States.

Jamie: So, what you are suggesting is that there was considerably more discussion than one might imagine, if one's only insight came from a standard economics textbook or one was of the opinion that ideas of efficiency and rational actors etc. reigned supreme (without *any* reservations)? The politics of financial regulation reveal a situation where there was opportunity to recognise underlying problems of the kind that would ultimately facilitate the global financial crisis, even if the scale and form of that crisis were not necessarily anticipated? The system could have been more resilient prior to the GFC had things lined up differently? As I understand it your work highlights several conceptual components that were already in discussion prior to the GFC.

[13] Note from Jamie: see http://www.paecon.net/PAEReview/issue63/White63.pdf

[14] Note from Jamie: for frequency of financial and banking crises see Laeven and Valencia (2012). For some context and discussion of financial stability issues see Keen (2017, 2016).

Andrew: That's right, the argument and thinking were in circulation, so when the crisis struck that body of work was ready to go, but the wider institutional, intellectual and political environment had not been particularly receptive, prior to the crisis. The dominant position was that if markets are rising and inflation is low, credit is helping the economy, and crises are something that mainly take place in the developing world and emerging markets.

Jamie: And if they do occur in core financial centres, such as the crisis induced by the collapse of the hedge fund Long-Term Capital Management in 1998 (due to failure, in the wake of the East Asian and Russian crises, of its heavily leveraged strategy for arbitrage trading of fixed income securities) then the Fed can call on market participants to organise a bail-out allowing markets to return to their putative role of efficient and disciplined allocators of capital ("credit-rationers") without any need for a broader macroprudential perspective of the kind BIS and the Geneva Group were starting to suggest was advisable.[15] But your point is that this work has some fundamental conceptual planks at odds with the consensus of the time.

Andrew: Yes, I think the dominant view was when these things occurred in core financial centres, it was the result of bad individual risk decisions, rather than being due to the inherent instability of market processes, or collective behaviours and incentives, and even things like the Asian contagion owed more to the politics of corporate structures and the role of government in that part of the world. For as long as you are viewing market activity, behaviours and dynamics in largely benign terms, which assumes rationality and efficiency, and with instability primarily caused by exogenous factors outside of the market, why do you need to think in terms of systemic malfunction and systemic risk? Even when that prospect was raised, as by Borio and White, it got ignored and people started talking about something else – monetary policy. Now whatever we think post crisis regulation has gone on to achieve, that earlier mode of thinking was challenged following the crisis. My characterisation is that the work on macroprudentialism from BIS and the Geneva Group rested on four main conceptual planks:

1. A recognition of "fallacies of composition" that arise from thinking solely in terms of individual actors, rather than systems as whole. Even if something is true for each individual unit, it does not mean it will be true for the system as a whole. In other words, the system, and with it systemic risk, are more than the sum of their parts. What is good for each individual actor, and make sense for that actor's behaviour, can create a dynamic that is bad for the system and for society as whole. That insight, both the BIS and the Geneva group claimed, was something regulators had lost sight of.
2. The inherent "procyclicality" of market risk taking, which could go to extremes in both parts of the cycle – the optimism, pessimism cycle, which can change quite suddenly as time progresses – a time dimension of risk. As I have already suggested, this can result in herding and other amplification mechanisms, making both upward and downward spirals in prices much worse, not least because price sensitive risk management systems can push upward and downward cycles to extremes.
3. A more "endogenous" understanding of financial instability that views it as a market balance sheet problem, as much as something caused by exogenous shocks and looks closely at the asset side of the balance sheet in upswings, as well as the liability side, because it is the expansion in the asset side that sows risks in good times (bearing mind a bank's assets are mainly the loans it extends). The BIS refer to the "paradox of financial

[15] Note from Jamie: see Lowenstein (2002); Edwards (1999).

instability", namely that risks are actually highest from a systemic perspective, when they appear lowest to many participants, as this is when the expansions in debt, credit and investment take place, and when systemic risks are being sewn.

4. An acknowledgement that complex financial products and debt instruments create novel amplification mechanisms and interconnectivity of the financial structure, that can induce and exacerbate financial instability further – the cross-sectional dimension.

I think all four of these run through the work of the BIS and the Geneva Group and they were talking to one another throughout the 2000s in developing their ideas.

Jamie: "Developing their ideas" is an interesting phrase here, since it does not necessarily imply original thinking, but rather also receptivity to thinking that has fallen out of favour or has never been in favour. For me, your work and various others raise extremely important issues that decompose into two parts:

- The nature of regulation depends on how the finance system and banking within that system are conceptualized or theorised – since we regulate based on how we understand the system, its goals and weaknesses (subject, of course, to the real-world influence of the powerful).
- The efficacy of regulation depends on how adequate or successful we are in theorising the system. Key questions are, have we understood the system's mechanisms and weaknesses, and have we regulated to address them?

Put another way, what there is to regulate depends on how we view the finance system, and this evolves in complex ways as time passes and little of this reduces to simply "the decisive evidence" or "the best theory".

Andrew: Yes, that's exactly right. Regulation will depend on the images you have of the system and your understanding of its constituent processes. What's more, dominant thinking will begin to shape what financial systems look like and how they function (to some degree).

Jamie: More specifically though, you highlight the antecedents and inspirations of the "new" macroprudentialism and also its limits, but let's start with the former – since most readers are likely to immediately recognise that these four conceptual planks are not new.[16]

Andrew: What struck me as remarkable is the extent to which two such notionally conservative, "establishment" groups were clearly influenced in their thinking by Hyman Minsky. I don't mean actively citing him, though they did do that a bit, but that their arguments were essentially a Minskyan view of the world, at least in terms of a diagnosis of financial instability. Right at the beginning of our discussion you laid out the main areas in which financial reform has occurred and suggested the reality of reform has been less than the rhetoric. The problem and the relatively conservative trajectory that you refer to, I think is because although the diagnosis from the BIS is similar and in its own way quite radical, given the dominant mindsets at the time, the prescriptions and way of thinking arising from that, have been rather timid.

[16] Note from Jamie: for a range of works on macroprudential policy and systemic risk that illustrate the foci and its limits see Kranke and Yarrow (2019); Saporta (2018); Lombardi and Moschella (2017); Casey (2015) Tarullo (2013); G30 (2010); Morgan (2022).

Jamie: You do more than suggest it is timid though and this bring us to limits and to matters of framing. In your 2018 paper you argue that the four conceptual planks have roots in not just Minsky, but also Fisher, Keynes and Kindleberger and these are suggestive of a "macroprudential ontology" and I made reference to this earlier. This seems an appropriate point for you to elaborate on what you mean by that term.

Andrew: Well, in BIS accounts the roots are especially in Minsky I think – BIS accounts of balance sheet cyclical extension posing systemic threats and being the primary source of financial instability are by my reading strikingly similar to the arguments Minsky was making two or three decades earlier. Note that Minsky went largely unheard too, rather like the BIS economists. The key difference, however, is that virtually nobody reads or takes seriously the second half of Minsky's book *Stabilizing an Unstable Economy* (Minsky, 1986; and 2008, new edition). This is where his prescriptions are (notably Part Five on policy), and I think this part of his work is not read enough. That's a pity because they contain some important arguments about financial governance.

Jamie: Ontology typically refers to "theory of being" or (using the Kantian question form) "what must be the case" for given observable phenomena to be as they are, though the claim should not be confused with the assertion that reality is either definitively encapsulated by a given "ontology" or that any such ontology is of a fixed world – scientific method entails an ontology even though it is built around fallible inquiry as the basis of progress, and social construction is still an "ontology". But your point seems to be that there are tensions between the inherent features of the underlying ontology of macroprudential policy (what its concepts imply about financial systems) and the subsequent development of that policy…

Andrew: So by ontology I was referring to the account of the properties and processes that characterise modern financial systems and markets – procyclicality and leverage cycles, with systemically destabilizing consequences. The BIS view which has travelled around the central banking world to some extent, acknowledges the above as inherent features of financial markets, as things shaped by collective social interactions and expectations, meaning it is the collective systemic outcomes that matter most. Since the crisis we now effectively have a new field of financial systemic risk governance, but it has largely been handed off to technocrats and central banks. That is understandable because it is hugely complex, it requires some very technical calculations and a lot of technical knowledge. But this process I would suggest comes with a conspicuous downside. It has resulted in, fed into and been accompanied by a form of political abdication on how we should be seeking to manage systemic risk, given the costs it imposes on society as a whole, particularly low-income groups, who's contribution to the build-up of systemic risk is often minimal. In short, technocrats were effectively left to pick their own objectives for systemic risk management, and that was at least in part due to a lack of political leadership, insight, or understanding, as well as a search for neat convenient solutions and delegations.

Jamie: And what has that meant in practical terms?

Andrew: For any central banker, their first instinct is to protect the status of the institution and its vaunted independence. We've just written a paper on how the Bank of England has been performing its financial stability role post-crisis, and it is a very clear pattern. We analysed 900 financial stability speeches over twenty years. I can't cite it directly here, because it is about to enter peer review. Since the crisis, Bank staff repeatedly emphasise, when speaking on financial stability, that the most important consideration is to maintain and observe the Bank's independence, and respect the constraints associated with that. One of the consequences of that is that central banks confine themselves to analyses of market risk and their role in enhancing market resilience or facilitating smooth market adjustments. System wide resilience has become the *de facto* objective of systemic risk governance, but the question of the form the system can take, or the role of regulators in changing the system, can never be broached.

Jamie: And this too has context? In response to the GFC, the Financial Services Act 2012 and various other pieces of legislation were enacted in the UK to establish a new division of labour for financial services and create an organizational focus and set of institutions and mechanism to identify and manage financial instability and prevent crises – a macroprudential focus. The Financial Policy Committee (FPC) was created at the Bank of England. However, its powers are circumscribed and its use of those powers questionable. The FPC can issue "communiques" warning financial entities of areas of rising risk and it can issue "directives" which are implemented via the Prudential Regulation Authority, which has micro-prudential responsibility. So far the FPC's activity has been low key and it seems extremely reluctant to use directives. Moreover, its existence does not seem to address a basic tension in contemporary political economy – in making decisions the FPC is required to take into account government policy for economic growth and a (non-voting) Treasury representative sits on the FPC; but in a financialized debt-dependent economy, this seems to create a conflict of interest between allowing financial innovations and looser credit conditions and curbing financialized growth (with the inevitable pushback this entails if no crisis occurs – given that the point is to prevent crisis and absence can be either a signal of success or an indication of undue intervention). Independence is not necessarily neutral, in this sense, and, in any case, the personnel of the FPC are drawn from banking and financial economics.[17] They have a perspective (for a related problem of "revolving doors" see Seabrooke and Tsingou, 2021)…

Andrew: A really good example of what I mean comes in Mark Carney's famous 2015 speech on climate change (Carney, 2015). Carney was pretty much the first central banker to speak on climate change and he was roundly criticised by the *Daily Telegraph* and the *Times*, for even daring to mention it as a central banker. But the speech was not making a case for activist central banks. It actually explains that an independent central bank cannot do much about climate change and it is not the job of the central bank to green the economy. Its job is to encourage and prompt forward looking rational agents in markets to adjust their investment strategies, in a measured incremental fashion, that avoids big destabilising disinvestments by making better information available on risks. Carney goes on to say you can't use capital requirements to shape the economy, or incentivise activity and that sort of thing, should not be done, or attempted. I was actually struck by reading that speech of the similarity of the kinds of argument being made and the thinking on display, in Gary Becker's arguments on market rationality, where the only barrier to rational optimum efficient allocations is information, – so

[17] Note from Jamie: see also Hartwell (2019); Howells (2013); Downward and Mearman (2008). For a useful set of learning/teaching aids, hosted at Manchester Metropolitan University, setting out aspects of the Bank and other institutions see:

https://www.mmu.ac.uk/research/research-centres/future-economies/projects/teaching-economic-policy-institutions.

See also:

https://www.mmu.ac.uk/sites/default/files/2021-11/Understanding%20the%20Bank%20of%20England.pdf that everything can be solved by markets, if you just give the participants access to the right information. It's a remarkably optimistic reading of how markets are going to solve the biggest existential crisis facing the human race and it seems to me to draw directly on the kind of thinking that Becker would advocate. Whether that is the product of training that produces a kind of reflex, or instinctive thinking I don't know, but the central banker daring to speak about climate change offers this incredibly optimistic, conservative and dare I say it complacent reading, that is more concerned with protecting and preserving central bank independence than it is in setting out a systematic policy response to the threat of climate change.

In any case, it is perhaps not surprising that central banks have defaulted towards a narrow, technical objective for macroprudential policy, of enhancing financial system resilience, by adjusting instruments that reduce the prospect of an institution being hurt by a system wide downturn. None of that tells us much about the system as a whole, or how it could be designed, or for what purpose. Central banks understandably don't want to move on to that territory at all, but the result is the questions never even get asked, essentially because institutional arrangements do not allow them to.

Jamie: Given the context… But this aspect of our discussion does raise a broader issue of limits imposed by the lack of attention to, as you put it in your work, "social purpose".

Andrew: Social purpose in my reading is a question of systemic vision. In this case what do you want the financial system to do and how are you going to design it and seek to govern it, based on that? My point has been that accounts of financial systems, such as that sketched by the BIS and the Geneva Group, do provide accounts about the inherently destabilising nature of much financial activity and that should provide a foundation for sketching a systemic vision. The issue is that if you are essentially engaged in those kinds of technical analyses, you don't want to make the leap to that next stage and translate that into a systemic vision. Professionally, there are disincentives to doing that kind of thing if you are a "serious economist". By comparison Keynes and later Minsky were much more willing to make that move. As a political economist I find that interesting, and I attribute it mainly to modern professional norms and identities that have evolved and been created over many years. I would argue it's become an inhibiting force that is detrimental to society as a whole, as is the other side of this equation, which is politicians' reluctance to pick up technical arguments relating to finance and run with them to articulate a systemic vision. They have abdicated on these questions. Leave it to the experts.

The problem with all of this is once you start thinking in terms of systemic risk you are moving into deeply normative territory around questions of justice, because those who have not contributed to risk, often suffer some of the most severe consequences of the materialisation of systemic risk, including threats to life chances, that can become chronic. Then there is the question not just of how much systemic risk a society is prepared to tolerate and how it should be distributed, but also what the system as whole should look like and what its purpose is (social purpose). If we have moved to governance of the financial system as a whole since the financial crisis, we have left these deeply normative questions largely unspoken. There is now an attempt to govern systemic risk, but most of the world has abstained on what kind of system you are trying to produce through this new systemic governance. How can you govern systemic risk, if you are not prepared to state what kind of system you are trying to produce and what the purpose of the financial system is? This is a huge vacuum and its sources as I indicate above are complex mix of politics and professional cultures and incentives.

Jamie: This is a fascinating subject and is despite first appearances not of merely academic interest. Responses to the GFC have resulted in a slew of legislation, regulatory and oversight change and I set out some of the main areas right at the beginning. The international Financial Stability Board (FSB), chaired by Mark Carney 2011-2018, and most of the major organizations responsible for financial stability suggest that the system is "safer".[18] It is clearly "different" in some respects but is it really "safer"? "Different" invites the question, according to what criteria, while "safer" invites the response, for who and under what terms, doesn't it?

Andrew: We recently ran a UK Economic and Social Research Council (ESRC) funded project, where we tried to come up with some key normative principles to inform debate – what we would call a normative theory of systemic risk. It's a complex argument but we came to view the main ethical issue with systemic risk as its potential to have dominating effects on economically vulnerable individuals and groups. We looked at this using neo-republican political theory (not to be confused with the US political party).

In neo-republican political theory "domination" is the one condition to be avoided if you are to have a free and minimally just society. Domination arises when individuals have their life chances arbitrarily reduced or interfered with, through no fault of their own, as a result of decisions which they did not take, but through situations and conditions which are imposed on them. Obviously systemic financial forces and prolonged system wide recession can have that effect, as individuals engaged in only minimal and mainly subsistence risk taking, have the rug pulled from under their feet, by systemic contraction, leading to a downward spiral in their life chances. Even when risks don't materialise largely due to good luck, you still have a situation of risk imposition on sections of the population by society as whole, of which they largely have no awareness. The answer for neo-republicans is to make the principle of non-domination, avoiding domination, central to governing institutions. That led us to a discussion of how you make a "precautionary principle" operational in financial regulation (Baker, Schuppert and Cullen 2020).

There is no easy answer to how you implement a precautionary principle, but given the tendency for some rather gung-ho behaviours in finance, this is the kind of thinking you require and it can inform how you use and design loan to income ratios (LTIs) and loan to value ratios (LTVs), for example, which are designed to constrain the mortgage market. If a crisis effectively makes things substantially worse for low-income groups, and then you use LTIs and LTVs to largely target them, to make the system as a whole more resilient, that may benefit society as whole, but it can shut these groups out of credit and mortgage markets for a prolonged period. That is effectively a form of double punishment, as these actors experience the greatest relative losses in life chances, or dominating effects caused by the immediate impact of crisis, then find steps to build system resilience disproportionately penalise them. It raises serious issues of compounding injustices, while simultaneously raising questions about a society being even minimally just, according to the neo-republican position.

Jamie: It strikes me there are multiple strands here, and your comment highlights just how important it is to ask what finance is for, and this too requires deliberation of a kind that, as you say, is largely absent. But just as central bank independence is not neutral, this absence is not without significance. Metaphorically one might say it operates in much the same manner as

[18] Note from Jamie: the FSB was created by the G20 in 2009 as a follow on from the previous Financial Stability Forum: https://www.fsb.org

water taking the shape of whatever vessel it is poured into – in this case omission serves to reinforce existing perspectives or underlying claims. For example, the banking and finance sector makes much of its putative "intermediate" role – pooling savings of households and corporations and lending these out – and through this activity banks claim to occupy a key role (which we briefly alluded to previously) as efficient allocators of capital: facilitating transformations from the short-term to the long-term, smoothing out a lifecycle of credit needs for households and providing disciplined – via profit motive self-interest – investment, all of which is core to the vitality of a growing and developing capitalist economy. The ideological emphasis is on the role of banking as a social utility (as vital as and equivalent to water or power) servicing the "real economy".

It is the hold this image has on how banking and finance are presented to society that confounds the need for a more basic debate regarding what finance is for – that debate requires a more realistic assessment of what banking and finance really do, so readers should be aware the normative issues you mention are also practical and evidential. The problem though is that there are few who take an interest in this – general antipathy to "banksters" and "masters of the universe" and periodic movements like Occupy Wall Street notwithstanding – it is alien to academic economics, though it is a major source of interest to post Keynesians (via a "money economy") and political economists such as yourself who have produced fascinating work on the issues.

In any case, there are obvious tensions today within mainstream economic theory and banking practice – many central banks and notably the Bank of England acknowledge that banks individually create money when they extend a loan, they are not mere intermediates, and while creation has its limits these are not those set out in standard undergraduate textbooks (the money-multiplier). Lending is not limited by existent reserves (since reserves follow lending) and investment is not a product of savings (savings are mainly deposits resulting from payments induced by investment), much of bank money creation activity is for the production and trading of financial assets with only a peripheral relationship to productive investment. Banks are (stating the obvious which mainstream theory has tended to occlude) tremendously powerful agents *not* passive recipients of savings who conform to timeless axiomatic economic principles of efficiency that are necessarily beneficial to society, merely through the activity of market processes.

Andrew: I think a lot of this goes back to technocracy. I am not anti-technocracy. We need it. But as societies we have put so much faith in technocracy it is arguably becoming a barrier to efforts to create better sustainable societies, that are able to produce the scale of transformation required and avoid the societal collapse that will ensue if we don't get the material transformation in economies that we need. So quantitative easing (QE) is a good example. It was targeted at relatively narrow range of financial assets, after the financial crisis, in an effort to repair not just the financial system, but also patch up a model of private credit sustained demand. From my perspective that was a choice made by central banks because it was the easiest route technically and the least political stance they could take, with the added bonus it might get them back on mandate of targeting inflation. In other words, once again their primary consideration was how do you do QE and preserve "independence". I do think that central banks by and large underestimated the extent to which QE would amplify inequality and they were simply doing their best to execute technical operations largely in good faith. This also raises the spectre of Green QE, – how you could use money creation to lever the kind of material transformation required. If you listen to the main criticism of proposals like Green QE it is that you can't do it because it would politicise the central bank and undermine independence. That rather underplays the acute situation facing the human race as a whole as an existential crisis for the entire species, where the potential avenues open are being restricted because the priority is to protect central bank independence.

The same position is adopted on financial regulation – you shouldn't use it to try to shape economic activity, or the shape of the economy more generally. Carney in the climate change speech essentially asserted that kind of thing doesn't work, but moreover it wasn't the kind of thing a central bank should attempt. So technocracy has been elevated to a level where it starts to become an obstacle to, rather than enabling, human progress. I don't want to get into a big debate on the rights and wrongs of Modern Monetary Theory (MMT), which I know divides post Keynesians, but we do live in a world of state backed money creation albeit with a major role for commercial/retail banks, but we are not allowed to talk about the purpose we put that money creation to, because we shouldn't be doing that sort of thing.[19] Given the situation confronting the entire human race that seems an absurdity.

Jamie: A subject that many contributors to *RWER* over the years have highlighted and increasingly so as we have entered a period of acknowledged "climate emergency" (see special issue *RWER* 87). Still, there seems great scope here to rethink the finance system and its role. It is also worth considering how the main central banks define financial stability since this also relates to how they continue to treat banks and other organizations as financial actors. The US Federal Reserve, for example, publishes a periodic guide titled "The Federal Reserve System: Purposes and Functions," and this is currently in its 10th edition (Federal Reserve, 2016). This provides a whole chapter on financial stability (Federal Reserve, 2016: 54-71). However, while there is a strong emphasis on a combination of macroprudential and microprudential issues, the approach to these essentially defines financial stability as the capacity of banking and finance to maintain the payments system and continue to offer lending services under situations of stress, which when one thinks about it is a low bar for a viable financial system. It presupposes a system prone to crisis, acknowledges that it will at times experience collapses of one kind or another, and does so without ever having to legitimate its existence or the way it distributes the fallout of crisis – existence is a given, distribution is simply a residual of the technical exercise (resilience and resolution).

Moreover, the Fed still uses a language of monitoring, transparency and more and better information as the bedrock of banking organizations and of effective regulation. Clearly, these are not irrelevant, but they are not sufficient and what they are suggestive of is closely associated with how banks and other financial actors are framed and treated by regulatory bodies – here the background still seems to be that they are potentially efficient providers of capital and fulfil a vital role in supporting the "real" economy. I by no means want to suggest the functions are unimportant but what is more significant is the reality which tends to be occluded by the language and the actuality that is misrepresented by the assumptions built into theory (which condition attitudes to the value we should place on what banks are actually doing rather than what they could be doing). This harks back to a point we just made – it matters that we understand how money is created and what it is created for (i.e. what the scale of lending and the priorities of banks are). These are not merely arid issues of relative leverage levels and resilience to "shocks", but rather a matter of *responsibility* within endogenous processes.

[19] Note from Jamie: Andrew is not implying here that MMT is QE.

Equally it matters that we live in societies where debt is a necessity for many (creating a greater role for banking) because of longstanding trends in welfare spending, wage levels and income inequality. In the UK for example, according to the Institute for Fiscal Studies July 2021, for 2019-20, 22% of households in the UK (more than one fifth) lived in relative poverty (60% or less of median income) and only 33% of that 22% were "workless" and this excludes pensioners, 31% of children in the UK lived in families in relative poverty. General trends in home ownership and house prices also matter for renting and mortgage purposes. In 1966 total household debt in the UK was 57% of disposable income, by 1997 it was 95% and it peaked at 160% in 2008, but over recent years has started to climb back towards and around that peak (see also Bezemer et al., 2021).

In any case, it also strikes me that many of the changes made in the last decade are about protecting the state and its finances from the collapse of banks and finance rather than preventing credit cycle behaviour liable to lead to losses or to lending practices that are detrimental to the public, as well as societies, built around debt dependency and (finance induced) asset inflation – a point that speaks to your previous comments, but what is your take on the general direction of travel of policy?

Andrew: I think that last point on the state is exactly right. I would say the main thing here is there is a lot of opposition to attaching any broader public policy objectives to financial regulation. So I have used the example of Carney in his climate change speech. He says you can't do it and you shouldn't do it, but offers scant evidence for either claim. Carney is also explicit. Central Banks cannot produce the adjustment needed and they cannot guide the financial system or promote "Green finance".

Read the second half of *Stabilizing an Unstable Economy,* and you will see Minsky is making exactly the opposite argument to Carney. He essentially argues that financial capitalism necessitates central banks guiding the system towards what he calls stability inducing activities. We've talked about money creation above. I would also highlight the design of the tax system too. There are big macro levers available. The Green New Deal proposals in the United States acknowledge these, but the biggest obstacle this kind of thinking faces is that if you try a big macro co-ordinated strategy like that, it will be the end of central bank independence as we know it, so don't go there.

It seems to me we are now in a pressing situation where we do need that kind of Green New Deal thinking, but its primary criticism is the problems it would pose for central bank independence. Of course, there is also an argument that it wouldn't work, but that tends to get asserted, rather than demonstrated. As you noted in your introduction I and some colleagues argue the UK has been suffering from a "finance curse", a financial version of the resource curse, where a dominant financial sector crowds out and erodes other sectors, by extracting and attracting resources from them, both financial and human. My view is that lifting and avoiding the finance curse, should become an objective of financial regulation, but we are of course miles away from that kind of thinking, as Carney's speech illustrated.

Jamie: Odd then that Carney is often represented as a progressive figure in the media and as his recent book, *Values* (Carney, 2021) indicates he clearly wants to be seen that way. Carney has been replaced as Governor of the Bank of England by Andrew Bailey, who originally joined the Bank in 1985 and is considered a conservative or "safe" pair of hands in the tradition of Governors – selected, perhaps, over the more innovative choice of Andrew Haldane who as chief economist was critical of the current state of the finance system (Haldane has since departed).[20] As your work with Duncan Wigan illustrates (Baker and Wigan, 2017) banking and finance spend a great deal of time and expend a great deal of money in persuading politicians and the public that they are indispensable "as is", and this invites scepticism regarding the general set of claims and this contrasts with the issues raised by work on financialization. Perhaps the simplest way to shed light on this is with a "naïve" question along the lines of John Rawls' "veil of ignorance" (though I expect any political philosopher would find the analogy as a thought experiment awkward). The UK and US are two of the main financial centres in the world, given this, if one knew nothing about the realities of banking and finance, but did pay attention to the way both are presented, what would one expect the infrastructure and non-financial business environment to be like in these countries?

While both offer financial services to the world and so one would not expect financing to reduce to domestic initiatives only, one would surely expect that each country would exhibit low-cost, long-term, widespread and continuous investment in state-of-the-art infrastructure as well as a continual flow of investment to fund research, development, innovation and growth in non-financial businesses of all sizes and maturities. This is what one *would* expect if finance primarily focused on supporting the "real" economy and if major financial centres operated according to local knowledge and advantages, spillover effects and economies of scale. Insofar as this is *not* the case, the onus is placed on banking and finance to justify and thus legitimise itself based on the fundamental question we stated earlier, "what is finance for?" And this surely provides grounds for democratic deliberation regarding the norms that inform the design and regulation of the finance system. There are, of course, many statistics regarding the poor state of infrastructure in the UK and US as well as the general paucity of long-term investment compared to other OECD countries – to say nothing of the long-term debt peonage many suffer in contemporary society and the fallout from any financial crisis, and this speaks to the work you did with Juan Montecino and Gerald Epstein.[21]

Andrew: Yes, this is the finance curse work, I just alluded to. But first a word on the work with Duncan you also mentioned. If we go back to 2009-10 and the response to the crisis, I was mainly focused on looking at what was happening on the macroprudential front as we have covered, but looking back I think the most significant and remarkable thing that happened in the UK on the regulatory front, was the way HM Treasury responded to a financial and banking crisis, that raised serious questions about the City of London, its role in the world economy and its impact on the British economy. The Treasury worked to improve the City's lobbying capacity. I missed it at the time, but still find it remarkable. I shouldn't be surprised, but the audaciousness of it still makes me shake my head in wonderment. The Treasury proposed creating a new umbrella institution CityUK to strengthen the City's capacity to articulate its needs and interests to the British government and to international bodies. Given that many people were saying the crisis was in part a function of the City and finance having too much power, both in policy terms and wider structural terms, it seems surprising the UK state responded by seeking to deepen and further consolidate that. The Treasury gave the CityUK a seat on its own high-level board

[20] Fellow travelers of Baker at the Centre for Research on Socio-Cultural Change (CRESC) have produced a great deal of related work on aspects of financialization (e.g., Erturk et al., 2008). About a decade ago they published "Haldane's Gambit", (Erturk et al., 2011) which explores the form and limits of Haldane's strategic critique of finance at the Bank and as a response to the activity of a distributed coalition around finance (DCAF), which just after the GFC engaged in public image and "knowledge repair" on behalf of the banking industry.

[21] Note from Jamie: see also Montgomerie (2019); Pettifor (2018); Lavery (2018); Hudson (2015); Soederberg (2014).

and made sure Treasury views were represented at the heart of the CityUK research machinery and decision making, by putting senior Treasury officials on key committees. So after the crisis, the British state and financial interests effectively became more structurally entwined than ever before and all of this was orchestrated and led by the Treasury at a time when we might have expected the opposite to happen.

Jamie: And the work on the finance curse?[22]

Andrew: The work with Jerry and Juan tried to put a price on the costs for the UK of having an oversized financial sector and contrasted that with a similar figure for the United States. The headline figure of £4500 Billion from 1995-2015, was comprised of the costs of the financial crisis and a category drawn from econometric literature on "Too Much Finance" (Arcand et al, 2013, Cecchetti and Kharroubi, 2012, 2015). Misallocation – this is a bit of a black box – involves the crowding out dynamics referred to earlier, it includes a brain drain effect, rent extraction, a kind of structural gravitational pull effect of having a large financial sector in close proximity, with lots of intermediaries and advisors, arranging for capital to be invested in financial assets, and a form of Dutch disease, when countries with a big financial sector often have an overvalued exchange rate due to capital inflows (though this is now less of an issue in the UK post-Brexit).

For the US we also looked at over inflated salaries and profits. We left this out of the UK figure, on the basis of a rather generous assumption that this was the UK extracting from the rest of the world, rather than the domestic economy. The main point about that work is less the headline number, and more that over sixty per cent of the UK figure comes from the misallocation category. For the US it was only 20% of the figure. This suggests the UK has a major problem with misallocation and financial crowding out (for a general reader's account of the finance curse see Nick Shaxson's excellent book, 2018).

Jamie: Yes, and relatedly it has been noted before that while both the US and UK house the world's major financial centres they constitute different proportions of the overall economies, though smaller relative size in terms of domestic economy in the US case does not necessarily reduce power, influence and consequences domestically or globally (one need only look at both the US and UK's dominance of derivatives markets or financing for private equity leveraged buyout activity).[23] Your interest though is in how to address this curse effect and relative size does matter for issues of regulation…

Andrew: If we want to do something about it, then we need a much better understanding of how the figure breaks down and what the constituent processes are. That could then feed into a more focused reform and regulatory agenda, aimed at lifting, or mitigating finance curse effects. But the difference does strongly suggest that the UK suffers from a major financial crowding out effect. It also means the so-called "levelling up" agenda in the UK needs to be aware of and respond to that major structural dynamic. Needless to say I am very sceptical there will be any consideration of that, but it is a major factor in producing UK regional disparities and societal wide inequality. As we saw with the earlier example, the process also spills over into politics and the very architecture and purpose of the UK state.

[22] Note from Jamie: see also Christensen et al., (2016).

[23] Note from Jamie: see, for example, Batt and Morgan (2020); Morgan and Nasir (2021).

Jamie: This reference to the contemporary situation tends to imply banking and finance remain extremely powerful and this invites a final comment-question here before we turn to other areas of your recent research. As your work and that of others indicates (keeping in mind, again, the list of issue-areas we set out at the beginning), there has been no major rethink of the finance system and the role of banking – no major or consequential deliberation regarding its purpose or norms – instead there has been greater recognition of systemic risk, some new organizations, institutions and focus on macroprudential policy and then a series of data and technical developments (stress tests, measurement and toolkit issues etc.). This has mainly been wrapped up in enhanced "resilience measures" under Basel III, which requires relevant banks to hold higher percentage levels of loss-absorbing capital against their balance sheet.[24] This capital is an additional last resort store of liquid assets, since banks, in any case, build a default rate into their lending practises and business model and can draw on reserves held at the central bank. Basel III also introduces a (non-risk-weighted to limit gaming) leverage level measure and a liquidity measure and "net-stable funding" measure whose purpose is to ensure the bank is not over-leveraged and that it can survive an extended period of collapse in interbank markets (which would make it difficult for a bank to meet its regulatory and conventional funding requirements that signal its solvency). To the layperson the detail here can seem tedious, but from a critical point of view it is worth highlighting what this direction in regulation presupposes and what it is not.

As various post Keynesians have noted, such as Gary Dymski, reform and regulation have not entailed a prohibition on scale and concentration in the finance system – so, Too Big to Fail or Globally Systemically-Important Financial Institutions still exist and, if anything, consolidation in the banking system has reduced the number of universal banks and contributed to growing concentration.[25] Moreover, the regulatory focus does nothing to alter the basic ethos of the finance system – which is that banks continually seek to innovate financial instruments and expand and extend markets – which tacitly assumes "financial deepening" is a social good rather than a potential adverse form of debt-dependent financialization… In this sense, the system remains normatively permissive and regulation is mainly reactive despite its technical focus on macroprudential policy. Also, while there has been some tightening up of "off-balance sheet" strategies used by banks to reduce their apparent risk (rather than real risk based on actual connections), "securitisation" and "originate and distribute" approaches to lending still enable assets to be created out of debt and then flow from originating banks out and around the system, acting as both connective assets and sources of collateral. And though there has been some reform of the derivatives markets, there has been no major regulatory reform of shadow banking, which remains a major and relatively opaque component of the finance system and one which regulators regularly express concern about. Overall the system remains complex, highly interconnected and little understood in its entirety according to any theory and with no overarching body of organizational monitoring, control or intervention – regulation and

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[24] Note from Jamie: under Pillar I of Basel III capital requirements (with some modification by country) has three components: 1) an increase of minimum Tier 1 risk weighted capital from 4% to 6% against the balance sheet (decomposed into 4.5% common equity and 1.5% additional liquid assets) 2) An additional capital conservation buffer of 2.5% and 3) a discretionary countercyclical buffer set by the regulator at between 0% and 2.5%. So, Basel III greatly increased the level of loss-absorbing capital and tightens up the "quality" criteria for the kind of assets held, in addition to retained earnings under common equity, which a bank can buy and hold to fulfil the loss-absorption function; and, of course, banks are free to hold more than these minimum levels.

[25] Note from Jamie: for example, for recent work on TBTF and G-SIFIs as continual problems see Ioannou et al., (2019).

oversight remains fragmented and piecemeal even if organizations like the Financial Stability Board assert progress has been made to make it less so.

Your work, though, nicely summarises the implicit conceptual planks of macroprudential policy, which requires that the whole be both adequately theorised and monitored, but, of course, your work also highlights the limited nature of developments from these planks and the tensions involved. Resilience via loss-absorption in this context is like applying a break without knowing you (or someone else somewhere else) have taken your foot of an accelerator (while financial deepening as a direction of travel allows for that acceleration, though countercyclical mechanisms *might* place a drag on this). As the split between the worlds of Fama and Schiller (and behavioural finance) illustrates, financial economics has still not come to terms with what asset prices indicate – do they express objectively true states of the economy at large or are they more snapshot psychological indexes (few it seems read Keynes on this)?

There seems then, still to be scope for Minsky's question, "Can it Happen again?", since a complex system with endogenous processes can shift into adverse positive feedback loops because of sudden changes to aspects (some of which might result from "innovations" that regulators do not yet understand even if they are aware of them) that might otherwise seem to be only small proportions of the whole system and of limited interest from the point of view of individual balance sheets. Interestingly, this is something regulators are concerned by, despite their otherwise limited approach to regulation and reform over the last decade. For example, in a recent speech, Jon Cunliffe (deputy governor of the Bank of England responsible for financial stability and member of the FPC) noted the rapid growth in cryptocurrency markets in recent years and that regulation was urgently needed, since in their guise as speculative assets they were becoming a part of standard investment portfolios and were increasingly being traded by hedge funds. As Cunliffe notes, while their total value in October 2021 may have only been $2.3 trillion and that was a small proportion of the total of $250 trillion of outstanding financial assets in 2021, sub-prime was only $1.2 trillion in 2008 – a similarly small proportion. It is what can be triggered in a complex system that matters… The question I am posing here in a rather elaborate way is, what vulnerabilities do you see emerging?

Andrew: Well, as I noted right at the beginning of our discussion, we (colleagues and I) think there is an under-appreciated systemic vulnerability in the large cap sector produced by excessive distributions and dividend payments, mainly funded by debt and creative accounting. To coin a phrase – the danger is "good will" evaporates. There has been some interesting work done at the BIS by Hyun Shin. This concerns whether there are enough revenue profits to meet long term debt obligations of certain investment funds. Pension funds seek long term returns but also have large daily bond redemptions. The worry is some funds might need to sell assets to meet their redemptions and the danger is that a procyclical downward price spiral takes hold, creating a sharp increase in bond funding. Asset managers often engage in cash hoarding to protect themselves against these bond redemption claims, but that in turn can amplify procyclical dynamics and create fire sales. I haven't thought too much about cryptocurrencies, so will refrain from commenting.

One of the biggest challenges that post crisis regulation has faced relates to the difficulties of extending the regulatory perimeter so that it goes beyond conventional banking and allows certain macroprudential techniques to be used in regulating shadow banking activities. The issue here is that proposals for things like margin setting in central counterparties would have to be taken forward by securities regulators. Legal and accounting backgrounds feature more prominently there, so the potential for the kinds of systemic discontinuities, that are identified by macroeconomic analysis, have had less traction and are much less of a concern in that regulatory setting. Securities regulators tend to adopt a “buyer beware” attitude and see their role solely in terms of providing the necessary transparency in information standards to inform individual transactions. The Financial Stability Board (FSB) has written several reports on extending macroprudential policies to asset management, but runs into this very institutional obstacle, where the securities regulators shrug and say that is not our concern and it is not how we see the issue. So even when the political and analytical will is there to do more on the regulatory front at the FSB, there are institutional obstacles, relating to turf, which can be very constraining and mean parts of the financial system are effectively not subject to macroprudential policies intended to limit the build-up of systemic risks.

Jamie: And of course, “turf” invokes the further point that the world does not reduce to the major recognized financial centres. One might, for example, point to “financialization with Chinese characteristics” – China’s response to the GFC through a massive turn to domestic infrastructure investment, combined with a domestic economy consumption and housing boom, and with both connected through state banks, provincial and local government control of land and manipulation of special purpose vehicles, which has created a huge problem of leverage and non-performing loans; and while it is debatable how far this allows for financial contagion outside of China (opinions differ), it does make one of the production powerhouses of the world vulnerable.

As for the previous issues, again, opinions differ among influential commentators, Daniel Tarullo (former member of the Fed Board of Governors) argues that unless oversight and regulation extend from banking further into the finance system, covering shadow banking etc., then it is not realistic to suggest systemic risk can be anticipated or controlled:

> “Macroprudential policy refers to financial regulation formulated with a view to the health of the financial system as a whole, rather than to the health of individual firms, no matter how large. By definition, macroprudential measures should cover both bank and nonbank actors; thus, the limits of shadow banking regulation handicap development of macroprudential policies… For a number of reasons, macroprudential measures are relatively underdeveloped. While the broad conceptual case for macroprudential measures is strong, substantive analytic work is needed to translate intuitions on system-wide feedback and second-order effects into well-considered and manageable regulatory practice.” (Tarullo, 2019: 73-74).

Darrel Duffie, meanwhile argues that while there are still problems with derivatives markets, bank balance sheets are in the main safer.[26] For example, major banks (due to Fed intervention) in the US are deterred from offering “intra-day” financing for large depositors (a practice where in between repos – a Tri-Party banking function - the risk of continual flows of large deposits from money market funds etc. were carried by the bank within a short-term funding cycle) and this was a major vulnerability (Duffie,2019).[27]

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[26] Note from Jamie, visit: https://www.darrellduffie.com

[27] Note from Jamie: to be clear repos are a standard aspect of balance sheet management and financial practice but do carry inherent problems (see, for example, Gabor, 2016) and have at times been a source of egregious conduct – facilitating the kind of intertemporal accounting sleights of hand Baker alludes to early in the interview. The classic example is Lehman’s use of “Repo 105”, exploiting an accounting loophole in the categorization of Repos to reduce the level of debt on the balance sheet at key reporting

Still, as your colleague Adam Leaver points out (among others) debt instruments along the lines of those at the heart of the GFC have not gone away and in some respects have made a return, even though their use and thus nodal role in contagions may be different (Leaver and Tischer, 2019). Collateralised Loan Obligations (CLOs), built and tranched according to similar mathematical-statistical techniques as CDOs and including increasing bundles of "covenant-lite" loans equivalent to sub-prime, have increased in recent years – by 2018 CLO volumes were equivalent to CDO volumes in 2006 – and various organizations (such as the Bank of England) continue to flag this as a source of systemic risk (see Chan et al., 2019). In any case, avoiding worst case outcomes is *not* automatically the same as promoting a useful productive banking sector…

Finally then, let's turn to your recent work, which as I understand it focuses on the various connections between finance systems and taxation and some of which involves collaboration with Richard Murphy.

Andrew: That's right. One of the conceptual underpinnings of that tax work is that Modern Monetary Theory (MMT), or more exactly a world in which government creation of money is a prominent reality, either directly through the central bank, or by private banks operating under license from the government, has implications for how we think about the role of tax (e.g. Murphy, 2019). This is less about making an original contribution to monetary theory. We are not in that business. We are in the business of encouraging a rethink and reframing of the role of tax in society. We argue it is more useful to think in terms of a spend-tax cycle, rather than the more common image of a tax-spend cycle. Under this reading, tax is recovering or reclaiming money already created, on behalf of the government and performing a withdrawal function (for related work see Baker and Murphy, 2019, 2020, 2021). We have called this Modern Taxation Theory.

Jamie: And most of our readers are aware that MMT theorists hold that money is spent into the economy so tax is not the source of government spending, but rather within a version of Abba Lerner's "functional finance", a way of draining it out of the economy and of addressing issues of distribution, social coherence, inequality etc. So, revenue has a different meaning frame in MMT. And proponents like Randall Wray have taken an interest in Richard's work (see Fullbrook and Morgan, 2020).[28]

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points in the year (Vitan, 2010): "In a standard repo transaction, a firm like Lehman sells assets to another firm, agreeing to buy them back at a slightly higher price after a short period, sometimes just overnight. Essentially, this is a short-term loan using the assets as collateral. Because the term is so brief, there is little risk the collateral will lose value. The lender – the firm purchasing the assets – therefore demands a very low interest rate. With a sequence of repo transactions, a firm can borrow more cheaply than it could with one long-term agreement that would put the lender at greater risk. Under standard accounting rules, ordinary repo transactions are considered loans, and the assets remain on the firm's books… But Lehman found a way around the negotiations so it could count the transaction as a sale that removed the assets from its books, often just before the end of the quarterly financial reporting period… The move temporarily made the firm's debt levels appear lower than they really were. About $39 billion was removed from the balance sheet at the end of the fourth quarter of 2007, $49 billion at the end of the first quarter of 2008 and $50 billion at the end of the next quarter."

[28] Note from Jamie: see comments at https://neweconomicperspectives.org/2019/10/mmt-report-from-the-front-part2.html

Andrew: Obviously revenue flows remain important, but so too is the repricing, redistributive, and reshaping function of tax under this reading. We see taxation as the most extraordinary legal, administrative system societies possess to impact their economies and societies – to reiterate, repricing, redistributing and reshaping economic activity. This conceptual underpinning in our academic work has spilled over into policy related work, we have been doing for the Global Initiative for Fiscal Transparency (GIFT) based in Washington DC and funded by the World Bank and IMF. GIFT commissioned us to write a primer, framework document on the concept of tax transparency and a series of practical tools for achieving greater tax transparency in national systems. We essentially argue that the starting point for greater national tax transparency, is for governments to be explicit and clear about the public policy objectives they wish to attach to their tax systems. We then call for tax systems to be evaluated in their entirety in relation to the extent to which these objectives are being met.

Jamie: This seems quite different than the current dysfunctional state of domestic tax systems regarding the right to tax (and its progressive structure) and of international tax opportunity – especially corporation tax and matters of avoidance etc. Much of which suffers from analogous problems of framing to banking – issues of legitimation etc. as various of your colleagues have also argued – Len Seabrooke and so on.[29]

Andrew: Richard and I argue that the problem is that many tax systems around the world have seen their redistributive integrity systematically undermined over the last thirty years or so. That is they are structured in ways that often increase and amplify, rather than reduce inequality in those places. If you want to repair and restore the redistributive integrity of tax systems, you need much better readings of what they are doing now and how they are performing, including the impacts of extensive systems of often hidden reliefs and allowances, on which there is generally very little data worldwide. There are £400 billion reliefs provided each year in the UK, which is twice the annual budget of the NHS. We estimate that around 25-30% of that goes to incentivising certain financial products and assets, in others words a subsidy to existing wealth. We argue there is an assessment imperative connected to this and we have designed a series of tools for assessing tax system performance: tax gap analysis and tax spillover assessment, are two such tools. In July GIFT published the finished version of our report for them *Making Tax Work*, that was peer reviewed by GIFT staff, IMF and World Bank Staff, national officials from South Africa, and Mexico and a variety of civil society voices (see Murphy and Baker, 2021).

That work led us to identify ten high level principles of tax transparency, which GIFT have now translated into 13 principles. Those principles are now part of a wider public consultation process. The World Bank is interested in using these in future conditionality, the IMF is interested in their data generating potential and the OECD wants to work more actively on national level tax transparency in the future. We see tax transparency – as a public good that creates information to enrich national level multi-stakeholder policy dialogue and to better enable the identification and targeting of tax reform agendas – which is how we define it. This is beginning to emerge as a new policy subfield for the international organizations. This is something we think has a lot of potential and is a major part of the potential policy toolkit for aligning national tax systems, with a sustainable, inclusive growth agenda. Hopefully, we have made a contribution here and set down the basis for a useful policy trajectory through that work.

[29] Note from Jamie: see reference lists in Morgan (2021, 2016).

Jamie: Allowing, of course, that transparency implies more than just better information leading to efficiency in the economics sense. But this is one of the things I like about your work and many of your colleagues, it brings together critique of the power dynamics of a status quo, substantive theory and also practical suggestions and interventions. This it seems to me has become a hallmark of academic political economy in recent years – Johnna Montgomery, Daniela Gabor, Adam Leaver, Jan Fichtner, Dean Baker, Eileen Appelbaum, Rose Batt, Özlem Onaran and so on. So, by way of conclusion perhaps you might comment on how you see the role of contemporary political economy and academic expertise – some of your editorial colleagues I note, have called for more attention to "blind spots" (Best et al., 2021; LeBaron et al., 2021).

Andrew: I would call for a more forward-looking political economy. 95% of the political economy scholarship I have seen in ten years as a journal editor has been backward looking – basically explaining and theorising things that have already happened. A lot of it is good robust high-quality work, but we also need to do more to talk about the future. But doing that and retaining academic rigour, or credibility is very hard to do. In the work with Richard on tax, what we've tried to do, is go back to the distinction drawn by Andrew Gamble back in 1995, between scientific political economy (though I prefer the term "diagnostic political economy") – an account of what is actually happening in the economy, normative political economy and practical political economy (policy oriented). We have tried to combine all three of those elements in one package in the work on tax.

The practical aspect has involved us trying to invent actual policy tools and frameworks that could be used by other actors. Richard wrote one of the first versions of what became Country by Country Reporting, which has now been developed by the OECD, so he has a track record in that regard. But if you do that you also need a good understanding of the political appeal of certain tools and how they can build coalitions of support, and that is where the political economy analysis comes in. We also started by picking a normative objective for our tax work (though that was informed by our diagnostic analytical work on reliefs and spillovers), that was to reduce the harm done to the integrity of tax systems by tax competition (harm by states to their own tax system, but also to other countries' tax systems) and to try to repair the redistributive integrity of tax systems, bit by bit on a systematic basis. The policy tools we created were informed by that normative objective. I hope we have shown how it is possible for academics to do forward looking political economy in that work on tax, and that others are able to learn from our experience.

Jamie: A lot of this I guess, these days has yet another limiting framework – one we briefly alluded to earlier and that is climate emergency and your own work on tax and MMT as well as finance seems to have applications here – though degrowth, postgrowth and social ecological economics adherents are sceptical regarding what can be achieved from new financing if Green New Deals are not coordinated within realistic approaches to scale and intensity of economy; and as the CORPNET project illustrates one cannot neglect the role here of massive behind-the-scenes owners of corporate assets (such as the Big 3 passive investment funds).[30] The integral role of consumption in an unstable endogenous debt-dependent system of finance is perhaps another matter worth highlighting. As an editor of *New Political Economy* I expect you are starting to see a body of work coalescing around climate emergency? It is certainly

[30] Visit: https://theconversation.com/three-financial-firms-could-change-the-direction-of-the-climate-crisis-and-few-people-have-any-idea-131869

something Edward Fullbrook has been keen to encourage at *RWER* (Fullbrook and Morgan, 2019).

Andrew: On climate change some, but probably not nearly enough. The key is political economy has as its stock in trade analysis of crises and dynamics of transformation, so as a field it is well placed, as Matt Paterson notes (Paterson, 2021), to steer us away from a collapse dynamic towards a transformation dynamic, but we need to see much more scholarship investigating that, and which also has an appreciation of the urgency of the situation and the scale of the transformation required.

Jamie: I guess your own sense of how a responsible academic might respond has evolved too.

Andrew: Well I am not sure I had a clear plan to become an academic. I did become interested in global governance when I was doing my PhD and its potential to do good, which was clearly not being realised, but had been achieved to some degree in the past. When I started in academia, most forms of global economic and financial governance were pushing in directions, often quite aggressively, which seemed to have potentially harmful long-term consequences for social cohesion and humanity as a whole. So I guess if I had to pick one thing that has motivated me, it has been how do you build coalitions, ideas, narratives and institutional mechanisms and devices to change that, as well as what the obstacles to that are and how you overcome them. So if we take climate change, I have heard scientists at Sheffield connected to the Grantham Institute say we have the technologies and science to abate climate change, but it is a combination of the politics and the economics that stops that. That is telling us we need political economy analysis more than ever.

Jamie: And a more assertive critique of the tensions in "technofixes". But drawing this discussion together and to a close, where do you see the world going over the next "pivotal" decade or so? In observing the slow car crash of current events, such as COP26, it seems hard to avoid a "dialectics of despair". Civilisation is unlikely to end in one big event, there will be many small endings over the next decade, equally it cannot be saved by one big gesture, there will be many small acts of salvation over the next decade… How this will turn out though… (for possible constraints imposed by a "Wall Street Consensus" see Dafermos et al., 2021).

Andrew: I am afraid I don't have clear answers to the messy post-crisis politics that we have seen, or a clear sense of how that will play out. Under the pandemic I would point to two trends, a gradual undermining and softening of mechanisms of democratic accountability, in a range of ways and in numerous domains through a variety of mechanisms in the UK. That is multi-faceted, but it covers parliamentary process, electoral law, the role of the electoral commission, the Information Commission Office, media and Supreme Court reform. At the same time, outsourcing has continued apace and new contracts, without competitive tender, have built the centralised data capacity of the state, often involving relationships with some quite dubious partners. An open question, to which I don't have the answer, but which needs to be posed, is whether the combination of these two things is producing a qualitatively different form of state in the UK?

Jamie: A question (the nature and future of the state – the central question, for example, of Bob Jessop's work) being asked in many places – not least the US.

Andrew: Broadly speaking I would make the point that we have been in an era of stealth politics from the right. That's that curious mix of libertarian and authoritarian nationalist thinking, that has been playing out through Trump and Brexit, – but also in other forms of so-called populism around the world. My interpretation of this is that nationalist discourses have in part been about politically concealing libertarian intent in relation to all sorts of regulatory matters, healthcare and even taxation. Nationalistic messaging has been used as a kind of shield in that context, - sometimes called the age of post-truth politics, to conceal or obscure the intent around a lot of economic agendas. There is a lot of potential around the Green New Deal, but the hard reality is the growth elements of that will occasionally need to be curbed. I will leave the final word on this to my Sheffield SPERI colleagues Matt Bishop and Tony Payne (Bishop and Payne, 2021, Baker and Murphy, 2021).

Bishop and Payne call for a form of re-globalisation. A reforging and repurposing of global governance mechanisms for what they call a post-neoliberal era, and indeed the creation of new forms and mechanisms to tackle and reverse enduring inequality.

Jamie: Heikki Patomäki and Barry Gills are others arguing along these global lines and a previous *RWER* has discussed post-neoliberalism (Fullbrook and Morgan, 2021).

Andrew: It is very clear that whatever we do, especially on climate change and inclusive green agendas, it must involve a vastly different looking economy. Net-zero means decarbonizing electricity, electrifying ground transport, radical improvements in energy efficiency, eliminating ruminant agriculture (dairy as well as beef or lamb), creating radical breakthroughs for production of cement, steel and plastics, possibly eliminating flying entirely and radically new "negative emissions technologies" (Paterson, 2021). This needs to have a strong global co-operative element, combined with more localist agendas around new municipalism and community wealth building.[31] That's a transformed political economy and one that requires transformational thinking and probably a very different role for the state and the public authority in the economy. There are some interesting grassroots things stirring all around the UK on the latter. Beacon in Liverpool, my home city is a very interesting development and agenda.[32] On the former, I hope that the work Richard and I have been doing plays a small practical role in the kinds of re-globalisation Bishop and Payne envisage. Progress on the scale of transformation required, will also demand a financial system imbued with a much clearer sense of social purpose, which means that financial regulation has to be seen as more than just a technocratic enterprise, but something in need of political and normative leadership. That is what my scholarship has been trying to illuminate by creating a better sense of the political economy obstacles that exist to that process, and how to overcome them.

[31] Note from Jamie: as well as some practical and ideational resistance to the continual use of claims about future technologies as reasons to do less now… which is a problem that has undermined claims regarding net-zero and negative emission technologies such as Bioenergy and Carbon Capture and Storage (BECCS) since at least the 5th synthesis assessment report of the IPCC.

[32] Note from Andrew: https://beaconliverpool.co.uk/

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