<u>**PO133: Foundations of Political Economy**</u>

Week Five – Finance

Finance is a pervasive force in today's political economies. It dictates corporate strategy to all major global firms, which must stay attuned to the demand of shareholders and/or continuously moving market valuations; it intervenes with the political agenda of all governments, which must finance their debts, budgets, and deficits; further, it defines the ability of sub-state actors – city councils, universities, schools, hospitals, police and so on – to raise money for their respective intents. And it pervades the daily life of individuals, who use payment infrastructures (checks, cash, or cards); exchange international currencies; and save and borrow money through financial products, such as student loans and car loans, consumer debt and credit cards, mortgages and pension plans. Yet, whilst the ubiquity of finance is obvious, its politics are often less clear. How does finance work at its core? How do various parts of finance hang together? Why is finance so central to our economies? When do financial crisis occur? Who benefits most from finance, who loses out, and are there alternatives?

A number of films have portrayed finance addressing a popular fascination with finance but also developing a number of critiques. These are four of the best films.

Task 1: The 'golden age' and the long downturn. Marc Levinson writes about the 'End of a golden age'. From 1948 to 1973, economies grew, living standards improved and industrialisation sped ahead in most parts of the world. The industrialised West oversaw the most rapid rates of economic growth and a period of enduring economic stability. Likewise, the centrally planned economies of the Communist world did very well. The Soviet Union and Eastern Europe grew faster than Western Europe; China, grew faster than India. And meanwhile, the newly liberated colonies in Africa, Latin America, and the Middle East started to push for industrialisation, generating considerable growth by way of a set of protectionism and import-substitution.

1.1. According to Marc Levinson, why did the 'golden age' come to an end? And what does it mean for finance?

1.2. Watch the video below. How does David Harvey's explanation differ from Marc Levinson's? According to Harvey, why does the end of the 'golden age' coincide with the rise of finance?

1.3. Do you find finance has too much power in today's society? Has finance become more, or less powerful since the crisis?

Crisis of Capitalism https://www.youtube.com/watch?v=qOP2V_np2c0, [last accessed 16/11/2018].

1.4. Now read the following excerpt from Max Haiven's book 'Cultures of Financialisation', p.44:

> *"While its suburban picket fences, home appliances and nuclear families existed for a small portion of the white working class, the vast majority of humanity continued to encounter tremendous precarity. For the Third World, this was an age of anti-colonial struggle and neocolonial retrenchment that, if anything, only exacerbated the sacrifice of non-capitalist peoples and cultures to the market, throwing millions into increasingly urbanized precarity. The raw materials of the South, bought with the precarity of whole nations, furnished a small sub-section of Northern workers with material prosperity and the illusion of non-precarity. Even within the post-war global North, large racialized underclasses suffered a precarity exacerbated by racist laws and cultural norms, and their cheapened labour produced the commodified accoutrements, privileges and luxuries of the middle-class, non-precarious existence. But, even within the white Northern middle class, life was far from non-precarious. For queer folk, life, love and physical and mental health were extremely precarious, under threat at all times from a conservative culture that based its stability (non-precariousness) on repression and oppression. Likewise, women paid the price for post-war non-precariousness, compelled to provide free reproductive labour in the home, which was the sine qua non and ultimate cultural referent for stability, and denied access to most occupations and ways of being."*

Do you agree with Haiven, that growth in the 'golden age' was at the expense of neo-colonial, racist, and sexist exploitation? Or were these mere residues that were gradually retreating and disappearing from society?

Task 2: Creating money 'from thin air'. Within the context of finance's near-collapse in 2007, the massive bailouts and subsequent austerity, finance has come under increased public scrutiny. One of the major points of debate is the power of private banks to create money. In the UK, the 'Positive Money Campaign', for instance, has started to oppose the creation of money on the basis of debt. Watch the following campaign video from their website: 'Inequality: Why are the rich getting richer?', available from https://youtu.be/ZzCegQVljdY, [last accessed 16/11/2018].

2.1. What would it mean to organise money creation 'democratically'? Can banks be trusted? Can states be trusted? Should we organise currencies locally? What do you know about digital currencies?

2.2. Based on the video, how are student loans part of the creation of money?

Task 3: Securitisation: "Securitization" names the process of breaking up and re-bundling assets into new securities, so as to realise future payment flows in the present and pass on the risk of default to a third party. For example, in December 2017, the Department for Education completed its first sale of securitised student loans to private investors:

Figure 12

Overview of the securitisation process

The issuer buys the loans of the Department for Education and converts the cash flows into securities for a sale to investors

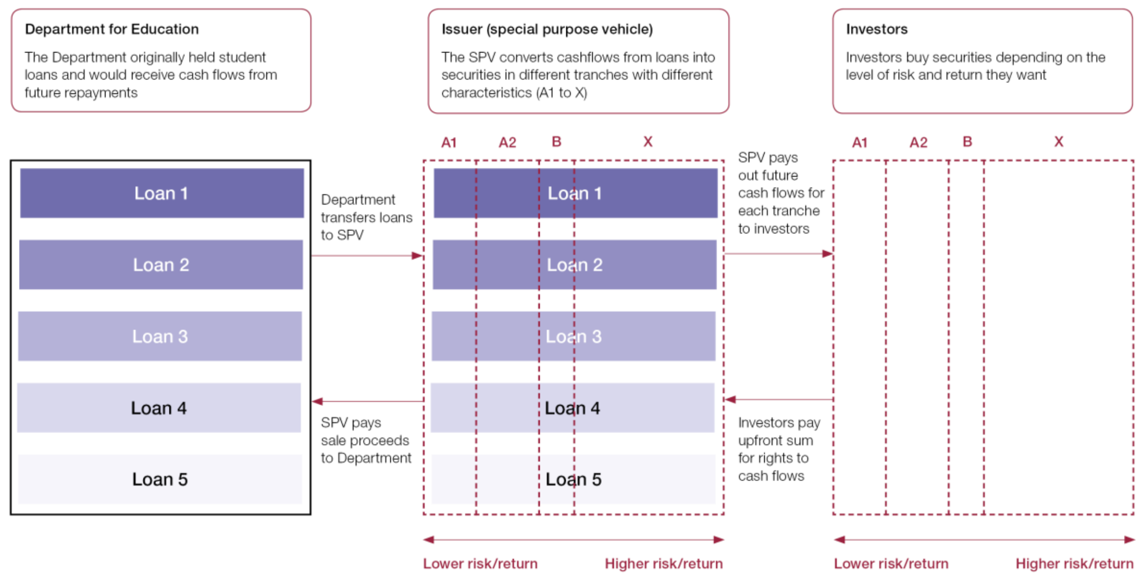

Figure available from: https://www.nao.org.uk/report/the-sale-of-student-loans/

The department had three objectives: (a) to reduce public sector net debt (b) to ensure there was no detrimental impact on borrowers and (c) to achieve value for money. In its press release the department states: *"The government has, in effect, sold an uncertain stream of future repayments in exchange for a lump sum upfront. The loans, which had a face value of £3.5 billion, were sold for £1.7 billion, meaning that government received 48p for every £1 of loans sold. When issuing loans, government does not expect to receive all the money back from borrowers, estimating in its latest accounts that for loans issued before 2012 only 65-70% by value will be repaid. The sold loans are expected to have even lower repayment rates because they are older loans and nearly half had been repaid in full by the time of the sale."*[1]

- **Who is benefitting from the student loans. The students, the government, or the investor?**

- **The government expects that 65-70% of loans will be repaid and 30-35% will default. Does the difference between *expected* and *actual* default rate have an impact on your answer to the question above?**

- **What expectations would likely lead to a student loan asset-backed security bubble?**

[1]Available from https://www.nao.org.uk/press-release/the-sale-of-student-loans/,