# Financial Services Policies (in the US and UK)

1/ Introduction and What is Money?

2/ Where are monetary and fiscal policy today?

3/ Banking, the financial system

4/ Shadow banking, private equity, cryptos and fintech (regulation)

5/ Regulation and financial crises

6/ History of British finance and the road to Brexit

7/ Brexit – current UK financial regulation

8/ Trump, the dollar and the global financial system

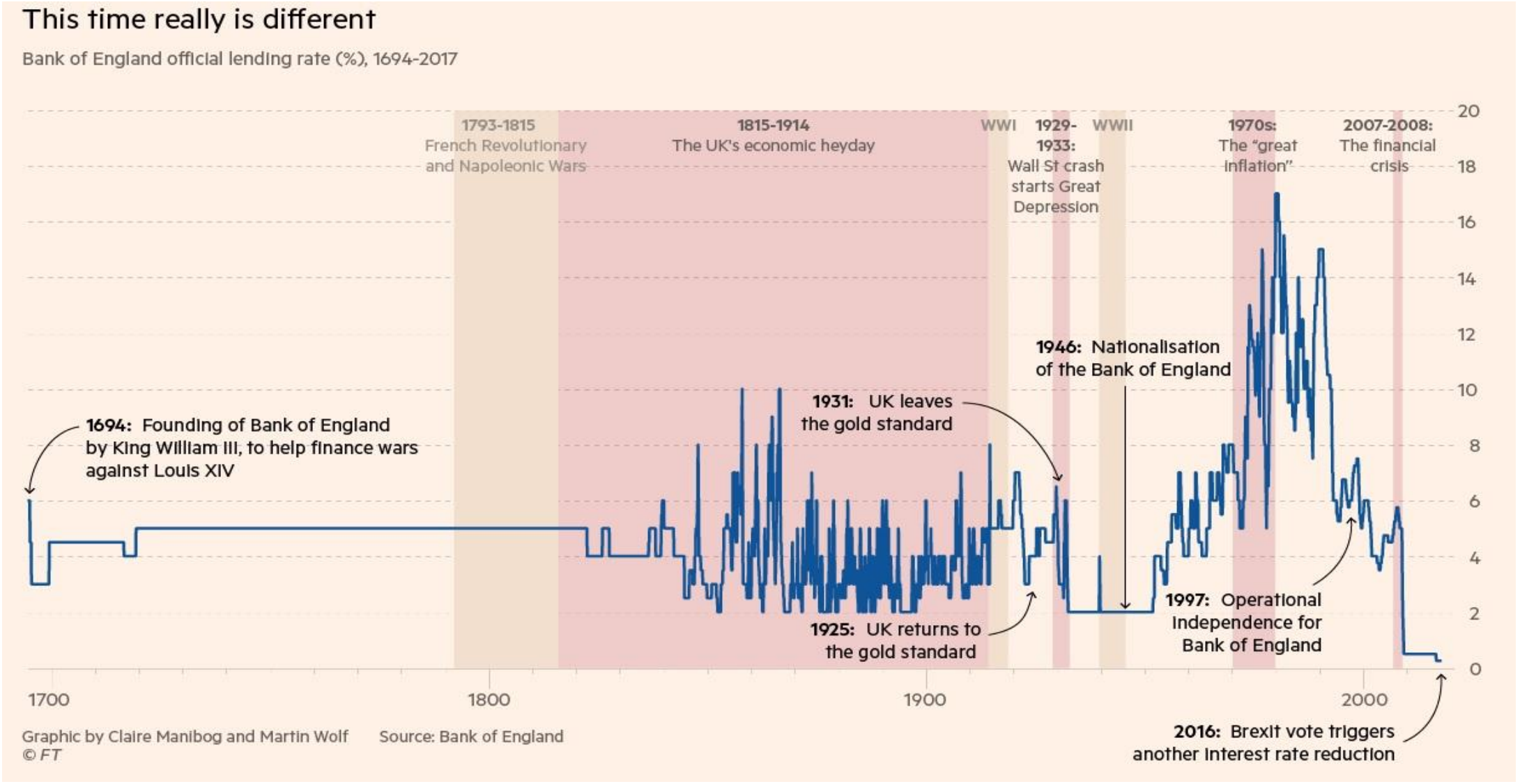
9/ ESG finance in the US and the UK

# Introduction

- 1/ Today's changing monetary policy regime – the implications for finance
- 2/ What is money?
- 3/ Money growth and credit are vital to economic growth

# 1/ The changing monetary policy regime – the implications for finance

# Martin Wolf: “Nothing like this has happened in 323 years”, *The Financial Times*, August 16, 2017

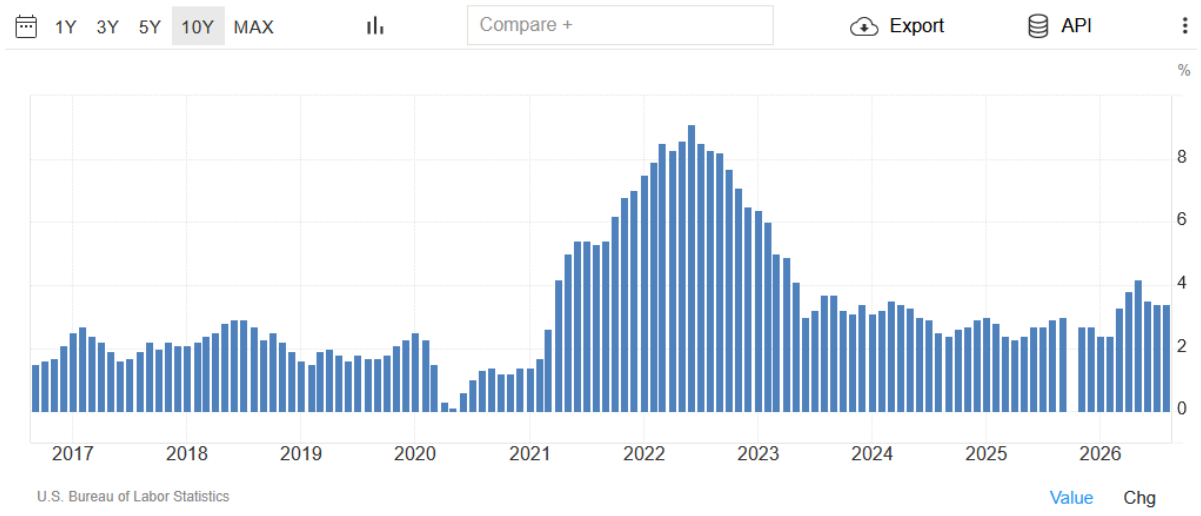


# The Federal Funds Effective Rate (Fred, 17 September 2026)

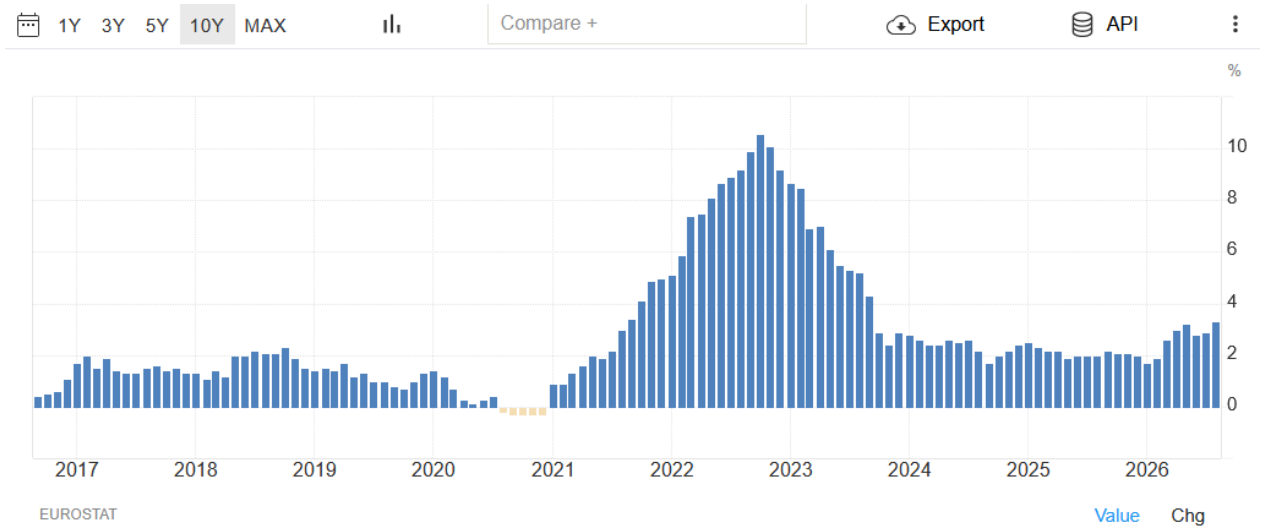


# Inflation: the Covid surge and after

United States




Euro area




Source: Trading Economics, retrieved 17 September 2026.

# What does the rise in rates mean?

- Borrowing becomes more expensive. This affects:
  - Investment (by firms and households)
  - Company growth, real estate, consumer durables

- Saving may become more profitable in real terms
  - Cryptos may become less interesting ???

- What is the effect on banking and finance?
  - Traditional banking may become more profitable
  - But bond and stock prices are likely to fall

Risks of financial instability

# What are the functions of interest rates? (GPT-4 “prompt” 13 September 2023)

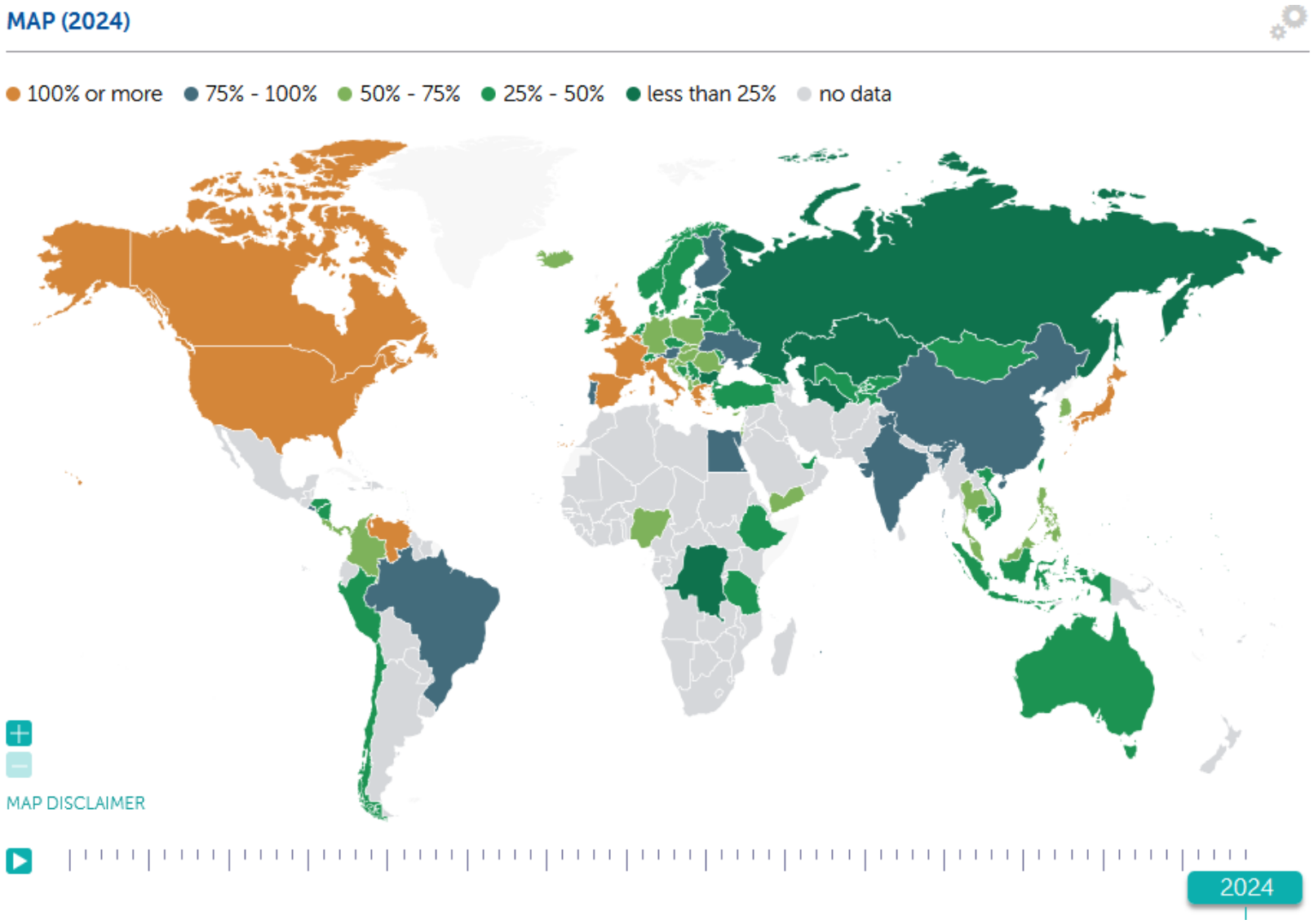
- Interest rates serve several important functions in the economy:

1. **Signal for Savers and Investors:** Interest rates act as a signal for savers and investors. High interest rates encourage saving and discourage borrowing, while low interest rates do the opposite.
2. **Monetary Policy Tool:** Central banks use interest rates as a tool to control monetary policy. By raising or lowering interest rates, they can influence spending and investment in the economy, and ultimately, inflation and employment.
3. **Compensation for Risk and Inflation:** Interest rates compensate lenders for the risk of lending money and for the erosion of purchasing power due to inflation.
4. **Allocation of Resources:** Interest rates help to allocate resources in the economy by directing funds from savers to borrowers.
5. **Indicator of Economic Health:** Interest rates are also seen as an indicator of the economic health of a country. High interest rates can indicate that a country is at risk of inflation, while low interest rates can indicate that a country is at risk of deflation or economic stagnation.

Interest rates connect the present to the future.

They are an integral part of “maturity transformation”.

# General Government Debt (% of GDP)




IMF DATAMAPPER: https://www.imf.org/external/datamapper/GG_DEBT_GDP@GDD/CAN/FRA/DEU/ITA/JPN/GBR/USA




*The Financial Times*, 14 September 2026

# 2/ What is money?

# What is Money?

"In recent years, many economists have been reluctant to use the word 'money'. If one is very clever, it is indeed possible to talk about monetary policy without using the word 'money'."

"… It is a striking fact that as economics has become more and more sophisticated, it has had less and less to say about money"

Mervyn King, *The End of Alchemy: Money, Banking and the Future of the Global Economy*, London, Little Brown, 2016, p 78.

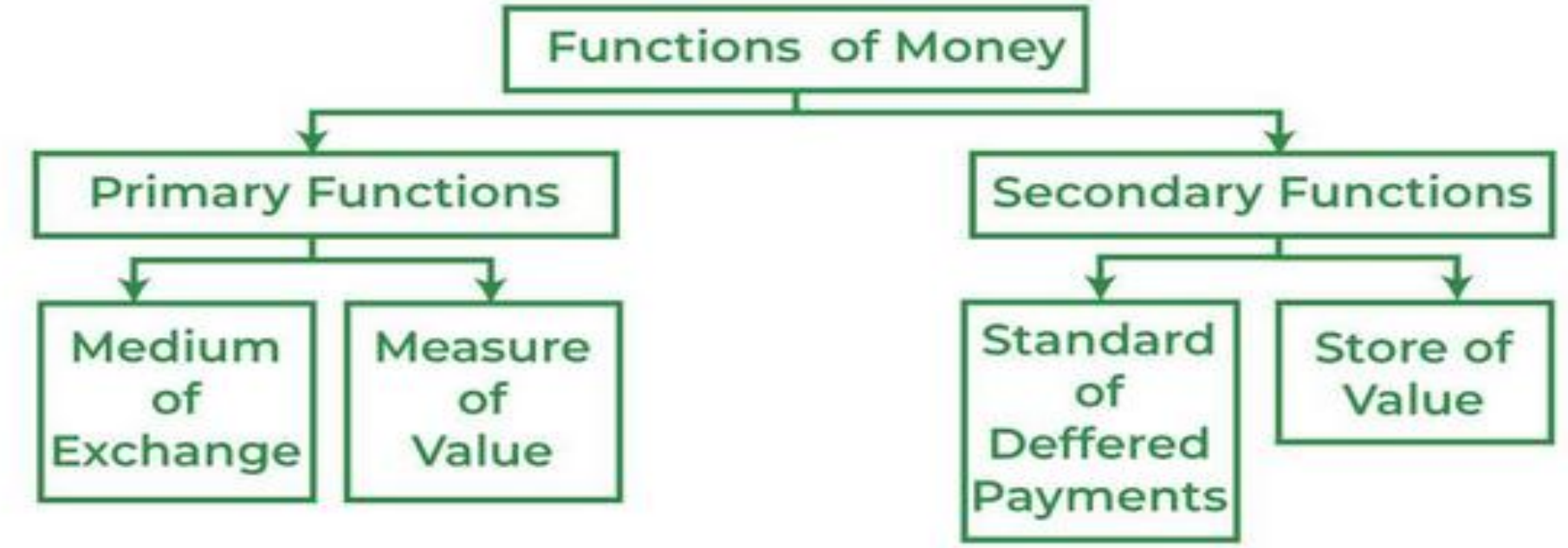
# Earthlings and Martians*





English role play suggested by Kate Rowe

# The 3 (or 4) functions




Source: Geeks for Geeks, retrieved 12 September 2024.

# What is money? Narrow and Broad Money

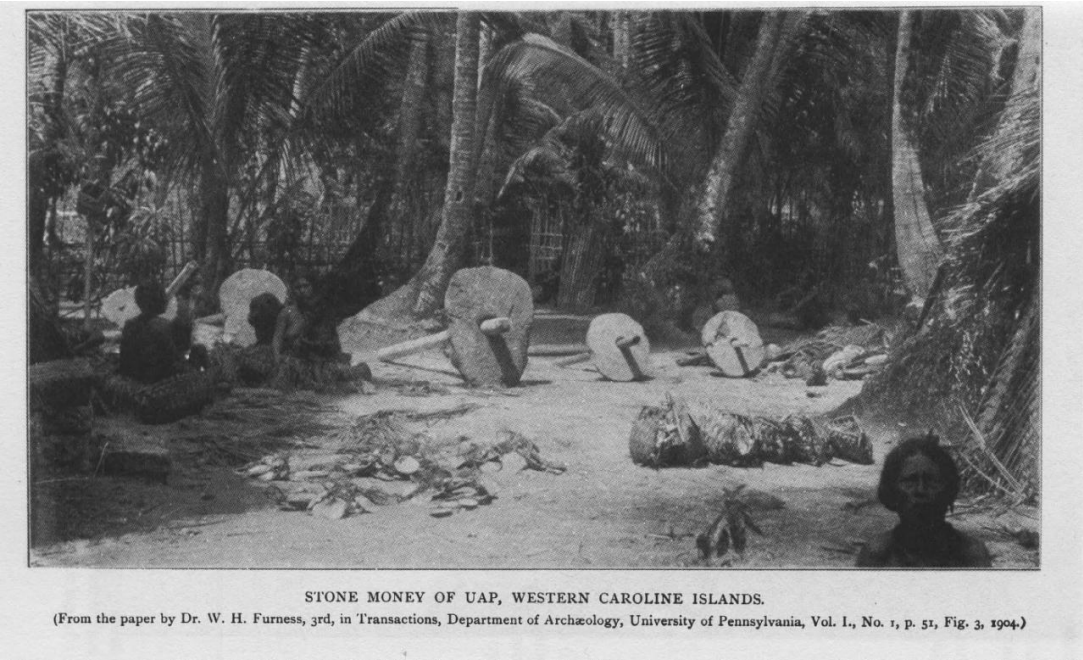



- MO – cash (& reserves at central bank)

- M1 = MO plus cheque accounts (sight accounts)
- M2 = M1 plus savings accounts
- M3 = M2 plus larger deposits, institutional money market funds, other larger liquid assets

# The Barter Society?

**Yap currency stone**



STONE MONEY OF UAP, WESTERN CAROLINE ISLANDS.
(From the paper by Dr. W. H. Furness, 3rd, in Transactions, Department of Archæology, University of Pennsylvania, Vol. I., No. 1, p. 51, Fig. 3, 1904.)

Felix Martin: short video about Yap stones.



**D.H. Robertson**, "Anything which is widely accepted in payment for goods or in discharge of other kinds of business obligation, is called money."

# Felix Martin - money needs:

- A notion of value
- A system of accounting
- A legal framework

# Money Matters – Or Does it?

Mercantilists

Wealth



Smith – wealth comes from goods and services – all commodities can be money

Keynesian/heterodox economists

Money has real consequences – short to medium term

Monetarists (Lucas)

Money is neutral

## Aglietta & Orléan: primary social institution

# *La Monnaie entre VIOLENCE et CONFIANCE* (2002)

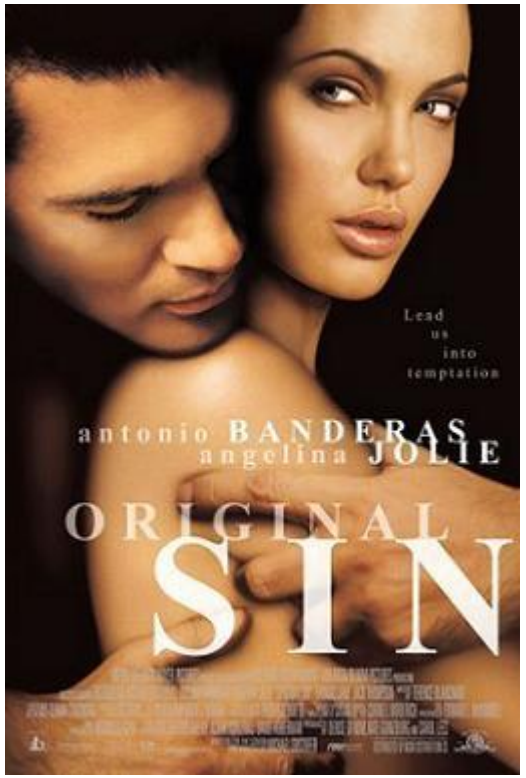
Money mediates class struggle

But it is essential for exchange to occur

A key social bond (*lien social*)

# Are you an original sinner?









Not all money is good money! Gresham's law "legally overvalued currency will tend to drive out undervalued currency" OR good money drives out bad money"

$ € £ ¥ SFR

What about?



**Felix Martin**

- Money vital to social stability
- Freedom
- Can allow social mobility



"the best way to destroy the capitalist system [is] to debauch the currency."

# Characteristics of “good money”

- Stability
- Ease of use
- Help growth

- What are the objectives of the Federal Reserve?

# Trust: How is the value of money guaranteed?

- Legal tender – how is it established and guaranteed
- Government use (taxes and payments)
- No counterfeiting ☹
- Bank regulation – regulation of deposit-taking institutions

  Most money in our society is created by back lending

# But… everyone wants easy money

- Debasing gold – since the Romans ☺



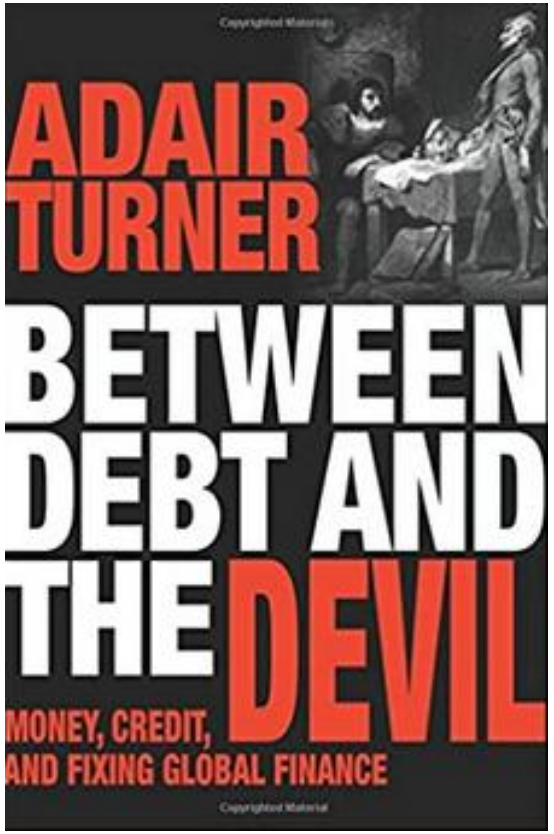

Financial speculation



# Money growth and credit are vital to economic growth

Housing and consumer credit are new – but have been essential to present-day society.

# Adair Turner, *Between Debt and the Devil*, 2015




"There are no perfect markets, and there can be no perfect planner…

"… irrational equity markets can still produce socially useful by-products: the NASDAQ boom and bust left us with the companies of the Internet."

Policy should seek to limit divergence of markets from social optimality

# *Margin Call*: “Bits of paper” & “Fat cats and starving dogs”




https://www.youtube.com/watch?v=LtFyP0qy9XU

# Yuval Harari: Money is the best story ever told




Money is the best story ever told | Yuval Noah Harari and Lex Fridman

https://www.youtube.com/watch?v=y9v7d6_lg2c