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REVIEW ARTICLE

# Macroprudential versus monetary blueprints for financial reform

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ABSTRACT

New books by Avinash Persaud and Morgan Ricks present very different blueprints for financial reform. Persaud builds upon the macroprudential programme to advocate a role for regulators in shepherding risk throughout the financial system. Ricks rejects the direction taken by post-financial crisis regulation, offering a blueprint that addresses the panic-prone nature of money creation in shadow banking. This review article provides a reading of their books which demonstrates how their evaluations of the global financial crisis shape their policy prescriptions. It also suggests that although their blueprints are valuable thought experiments they have a number of lacunae which economic sociologists and political economists can help fill. In particular, I argue that questions concerning regulatory epistemology, the politics of regulatory reform, and simplicity versus complexity in regulatory rule-making might orient a productive empirical and conceptual research agenda.

KEYWORDS

Financial regulation; financial reform; macroprudentialism; monetary theory; shadow banking

## Macroprudential versus monetary blueprints for financial reform

*Reinventing Financial Regulation: A Blueprint for Overcoming Systemic Risk*, by Avinash Persaud, Apress, 2015, £20.20 pbk. ISBN: 9781430245575, 276 pp.

*The Money Problem: Rethinking Financial Regulation*, by Morgan Ricks, Chicago: University of Chicago Press, 2016, $45.00 hbk. ISBN: 9780226330327, 336 pp.

Those frustrated by the failure of public anger at financial scandals to gain political traction should have been relieved by the issue of financial reform taking centre stage in the 2015-16 Democratic Presidential primaries. The platforms of the candidates could not have made for a starker contrast, with Bernie Sanders repeatedly referencing Hillary Clinton's speeches to Goldman Sachs to present her as compromised candidate unable to see through meaningful change. That the politics of financial reform should prove a lightning rod for Sanders's campaign is unsurprising; the bailout of the banks by the Federal Reserve in 2008 remains deeply unpopular. The unedifying spectacle of financial firms receiving billions of dollars in assistance while the housing market crashed and unemployment skyrocketed only entrenched suspicions that the regulatory apparatus is captured by Wall Street. Recently, memoirs by Timothy Geithner (2014) and Ben Bernanke (2015) have defended the bailouts as necessary to stem the tide of financial catastrophe. But the damage is done. Sanders thus won support by promising to see through a radical plan to break up the big banks, re-establish the division between commercial and investment banking, and introduce a tax on financial speculation.

However, the politics of regulatory reform can lend the impression that little has changed since the crisis, with business proceeding as usual after a few symbolic slaps across the wrists. Some scholars agree, seeing industry lobbying efforts as successful in watering down new regulation and leaving the financial system dangerously fragile (Admati and Hellwig 2013). Yet the reforms introduced since the crisis were never likely to satisfy the political left and academic critics – and as such these voices rarely give credit to the innovations ushered in by central bankers and regulators. Reflecting the elite nature of the policy shift,

promoted by thinkers at the Bank for International Settlements (the central bank for central banks), the new regulatory paradigm in the United States and Europe goes by the unwieldy moniker 'macroprudentialism' (Crockett 2000; Borio 2003; Bank of England 2009; Hanson et al. 2011; Barwell 2013; Baker 2013). A still evolving conceptual framework with roots stretching back to the 1970s (Clement 2010), the originality of the post-crisis macroprudential programme lies in its attempt to mitigate systemic risk in the financial system *as a whole*. Where the conventional *micro*prudential approach of banking regulation seeks to ensure the solvency of individual financial institutions, the *macro*prudential approach recognises that in a crisis situation banks simultaneously offloading assets can trigger fire sales, risk contagion, and a damaging credit crunch. A metaphor often employed to convey the gist of the idea is that of a line of dominos: due to increased interconnectedness in the financial system just one firm falling can set off a rapid chain reaction of bankruptcies and public bailouts. As Chief Economist at the Bank of England, Andrew Haldane (2009, 1), puts it, macroprudentialism is the 'new ideology and a big idea.'

Especially significant is the heightened governance role macroprudentialism affords regulators. In keeping with Hyman Minsky's (2016) account of the inherent instability of financial capitalism, macroprudentialism involves a retreat from regulatory deference to the market. Through central bank modelling of systemic risk and macro stress testing programmes (Langley 2013; Bank of England 2015), the idea is that regulators can know when a bubble is forming and tame the market through measures such as leverage caps and countercyclical haircut rules (Bank of England 2011; Constâncio 2016).[1] For all their novelty, however, these regulatory innovations have not been introduced *ex nihilo,* but have been threaded into the existing patchwork quilt of institutions and rules. What would financial regulation look like if it could be designed from scratch? New books by Avinash Persaud and Morgan Ricks provide very different answers. Persaud wishes to see a more consistent application of the macroprudential toolkit, whereas Ricks sees that toolkit as overly complex and missing the instability of money creation in the era of 'shadow banking'.

[1] 'Haircut', in this context, refers to the amount of borrowing a firm will grant a borrower who is using a security as collateral. Since the value of securities can be highly volatile, firms may set the amount available for borrowing considerably lower than the value of the collateral. In periods of financial distress, financial institutions tend to increase haircuts, thus exacerbating market liquidity problems. Regulatory countercyclical haircut policies tighten minimum haircuts requirements during a perceived bubble and loosen them in a period of distress.

The purpose of this essay is to give an accessible introduction to debates about the future of financial regulation as encapsulated in the opposing views of these authors. The first two parts provide a reading of Persaud's and Rick's books. The third section identifies the limits of their blueprints for financial reform, suggesting how economic sociologists and political economists might fill their lacunae through a new empirical and conceptual research agenda. For at stake are important debates about regulatory epistemology, the politics of financial reform, and complexity versus simplicity in rule-making.

**Taming risk by unleashing it**

Second only to denunciations of 'greedy bankers' and 'casino capitalism', deregulation soon emerged as a prime suspect for the 2007-9 global financial crisis. If only the financial system had been more regulated, so the sentiment goes, then the crisis would have been less severe and the effects more transient. Indeed, there is scholarly agreement that a series of U.S. deregulatory 'modernization' Acts at the turn of the century were at least partly responsible for the growth of destabilising credit derivatives in the run up to the crisis (Funk and Hirschman 2014). The British 'light touch' regulatory regime was also far from blameless (Dorn 2015). Persaud, however, has long been arguing not only that financial regulation has become ineffective but that it may also be exacerbating financial instability (Persaud 2000). His book contends that what is needed is not tinkering at the edges of the regulatory edifice but rather its 'substantial reinvention'. (p. 1) The foundations of his regulatory blueprint are threefold.

First, Persaud steps back from the causes of the recent crisis and argues that the roots of all financial crises are behavioural. Boom and bust cycles are a natural consequence of the human propensity for 'irrational exuberance' (Shiller 2000) during the upswing and short memories on the downswing. During the good times investors 'herd' towards profitable opportunities, and there is little room for dissenting views to be expressed, let alone heeded. With Minsky (2016), Persaud argues that the inflation of asset prices during the upswing sets in motion a vicious circle of increasing leverage and risk-taking. And agreeing with Reinhart and Rogoff (2009), Persaud sees financial crises as an invariant fixture of modern capitalism – one that cuts across varying social, political and legal regimes.

Second, in recognition of the ineluctable credit cycle, Persaud argues that regulators should aim to 'embrace risk rather than try to ban it.' (p. 52) The boom and bust cycle is not entirely detrimental, with the exaggerated sense of confidence engendered by the boom serving to channel funds towards ambitious projects. Another reason for embracing risk, Persaud argues, is that attempts to eliminate it only result in its reappearance elsewhere, usually in some harder to regulate corner of the financial system. No better are attempts to quantify risk – as with the value-at-risk models implicated in the global financial crisis – which simply amplify financial capitalism's cyclical dynamics. The reasoning being that when market actors deem certain assets 'safe' during the bull market they are vulnerable to becoming overvalued and vulnerable to mass exit when bearish sentiment takes hold. This insight calls for a regulatory approach less focused on 'statistical' measures of risk and more on 'structural' measures. (p. 37)

Third, Persaud makes the case that regulators' role should be to direct risk to its most appropriate place. To do so requires recognition of three discrete types of risk: credit, liquidity, and market risks. *Credit* risk concerns the risk of debtors defaulting on loans; *liquidity* risk is the risk that securities may not be easily converted into cash; *market* risk relates to how the value of an asset may fall due to market movements. Persaud insists that these risks are not commensurable. For example, while a money market fund[2] faces liquidity risks due to its reliance on short-term funding and deposits, a pension fund with long-term liabilities can easily absorb these risks. In Persaud's view, regulators should therefore be seeking to channel different types of risk to their most appropriate place. Such shepherding should not be performed on a discretionary basis though. 'Committees of the great and the good cannot easily act as guardian angels against financial crises.' (Persaud 2015, 209) Humans are fallible and politics is capricious; fixed rules are needed in order to steer risk in the right direction (he notes that this has led him to be accused of 'Stalinism' by his critics).

Keeping with these principles, the latter sections of Persaud's book deliberate on a range of issues from bankers' pay to accounting standards. He is particularly critical of the new European insurance regulation, Solvency II. Seeing it as a throwback to the discredited Basel II banking regulations, Persaud judges the requirement that insurance companies model risk

[2] Money market funds provide investors with a safe place to invest in cash-equivalent assets. The funds maintain portfolios of short-term and liquid securities and monetary instruments (such as US Treasury bills and asset backed commercial paper).

on market prices as dangerously procyclical. On the question of whether to break up large banks, Persaud contradicts popular wisdom by arguing that smaller firms are more likely to herd by adopting homogenous modelling techniques. (The book arrives repeatedly at such counter-intuitive positions.) Elsewhere, Persaud reaches conclusions contrary to macroprudential norms. For instance, he sees central bank stress testing of the financial system being of limited use since the tests have to stop short of revealing failures which could 'set off a bank run.' (Persaud 2015, 68) On the controversial topic of financial transaction taxes, he concludes that arguments against them are 'factually incorrect and disingenuous.' (p. 175)

So, how effective is Persaud's book in setting out the case for regulatory reform? While I commend its ambition and avoidance of excessive jargon (for the most part), I also caution potential readers that this is a technical text in both substance and style. Scholars used to arguments elaborated in dialogue with the proper names of the canon might find frustrating such a no-frills account of financial governance. Indeed, Persaud's conviction that 'regulation of the financial sector cannot be done through a single instrument' (p. 3) may be a perfectly defensible position, but the results jar with an academic sensibility in search of a unifying argument and single take-home point. Like the macroprudential programme to which it contributes, Persaud's blueprint for overcoming systemic risk is a complex machine of interlocking rules. It has multiple working parts and while underpinned by coherent principles is not reducible to them. As Barwell (2013, xi) also writes on the challenges facing macroprudential regulators: 'There is no Grand Unified Theory that can synthesize these insight into a framework fit for policy analysis – nor is one likely to arrive in the near future.' With that limitation in mind, Persaud's book is what you might expect from a learned policy expert – an important voice worth hearing for those already signed up to the macroprudential programme, but one unlikely to inspire those who see in the above paragraphs only the alien discourse of regulatory technocracy.

**Monetary simplicity**

Former US Treasury advisor, Morgan Ricks, has a very different take on financial reform. His book, *The Money Problem*, contends that understanding what to do about financial

regulation entails re-evaluating the 2007-9 global financial crisis. In contrast to those who focus on the crisis's root causes – whether declines in profitability, global imbalances, or the mortgage debt bubble – Ricks argues that the panic in the money markets was the single most damaging event. In so doing he echoes the views of 19th century British essayist, Walter Bagehot, who argued that central bankers should focus on staving off a panic. What matters from this 'money view' (Mehrling 2011) perspective are not the causes precipitating the crisis but rather achieving the right regulatory response to ensure the soundness of the monetary plumbing. Today, Ricks claims, this insight requires directing attention to the problems with 'shadow banking'.[3]

It remains controversial whether the global financial crisis should be identified with the liquidity crunch in the shadow money markets or with deeper problems of leverage and debt in the banking sector. The Financial Crisis Inquiry Commission, for instance, which was appointed by the US government to investigate the causes of the crisis, acknowledged the importance of liquidity problems in the money markets but concluded that that they were ultimately epiphenomenal (FCIC 2011). Other authors similarly object that 'liquidity narrative' explanations for the crisis are depoliticising and lean on suspiciously thin plumbing metaphors (Admati and Hellwig 2013, 211–12). Ricks, however, sides firmly with the liquidity narrative and argues that the panic in the money markets at the height of the crisis was responsible for most of the long-term economic damage. In Ricks's view, post-crisis regulatory reforms have thus been labouring under a false diagnosis of the problem and headed in the wrong direction. As he puts it: 'Panics are a centuries-old problem. They are not about cutting-edge developments in contemporary finance.' (p. 26) He further argues that post-crisis regulation has become 'mind-numbingly complex' due to hinging on

[3] 'Shadow banking' has been a central component of the money supply since the 1970s. Asset-backed commercial paper (ABCP – short-term debt issued by commercial institutions), repurchase agreements ('repo' – where brokers sell government securities to investors and buy them back the following day), and Eurodollar markets (where lending in dollars is provided by foreign banks) provide cheap, short-term funding to investment funds and banks. What makes it a 'shadow' banking practice is that it is not covered by federal deposit insurance guarantees. In the recent crisis the lack of guarantees against default became a problem once confidence collapsed in the mortgage-backed securities used as collateral for these instruments and fear gripped investors who declined to roll over these instruments. The Federal Reserve's response was to step in as a lender of last resort, and, ultimately, as a 'dealer of last resort', making two-way markets in these shadow money instruments by taking unprecedented types and volumes of securities onto their balance sheet (Mehrling 2011, chap. 6). For more on the role of shadow money instruments in the financial crisis see Gorton and Metrick (2012).

the concept of systemic risk, which has ‘yet to be defined, let alone operationalized, in anything approaching a satisfactory way’ (p. xii). For that reason, Ricks rejects ‘the idea that skilled technocrats can somehow manage systemic risks to an acceptable level, as if turning dials on a complex machine’ (p. 252).

Ricks's alternative blueprint for financial reform rests on tying a liquidity-panic explanation for the crisis to a theoretical intervention on the nature of money and how regulation might ‘panic proof’ the money markets. Ricks begins the first part of his book by defending his understanding money as a short term IOU, finding support for his definition in the work of economists such as John Maynard Keynes. Advocating a twelve month maturity cut off point for understanding liquid debt as ‘money’, Ricks notes that this is somewhat arbitrary but aligns with the conventional demarcation between money and capital markets. Following this, he then seeks to demonstrate why shadow banking money markets involve a ‘*coordination game* that is characterized by self-fulfilling bank runs’ (p. 53). From a game theoretic perspective he shows that while a bank-run is a non-optimal equilibrium, it is not irrational for depositors/lenders to withdraw their money if they expect others to do so. Next, Ricks examines banking theory, surveying existing functionalist theories and finding them lacking. He reaches the conclusion that what is distinctive about banks is that they are issuers of cash and cash-equivalents. In the final chapter of part one, Ricks defends the claim that panic-proofing should be the most urgent task of financial regulation. His evidence concerns the way that after 2007 the credit default swap (CDS)[4] rate on issuer’s bonds diverged from the spreads on issuer’s bonds. He then maps the CDS-bond basis on to macroeconomic employment data to show a close correlation between panic-induced trends in the money markets and economic consequences in the ‘real’ economy.

The book’s second part moves forward to ‘institutional engineering’ (Ricks 2016, 145). In Ricks’s blueprint, banks would be granted a license by the state to issue monies with maturities of less than twelve months (what he calls ‘r-currency’). All money would then be sovereign and non-defaultable, in return for which member banks would pay a seigniorage

[4] A credit default swap (CDS) is a credit derivative that transfers the risk associated with a fixed-income instrument between two parties. Unlike a conventional insurance contract, a CDS can be written on the default risk of an instrument held by a third-party. The American International Group (AIG) became a central player in the global financial crisis by poorly evaluating the risk of mortgage-back securities when issuing CDSs and hence had to receive a $180 billion bail-out by government.

fee to the state. Regulatory requirements such as portfolio constraints and capital requirements could be dispensed with. More radically, there may not even be the need for a central bank. The following chapters go on to address the implications of the scheme: How can the money supply can be adjusted under an ‘r-currency’ system? What role might there might be for portfolio constraints and capital requirements? Would there need to be a lender of last resort? How can the seigniorage fees paid to the state be calibrated so that they neither inhibit the money supply nor provide a free-lunch to the banks entrusted with money creation? While Ricks sees his proposed system as removing the need for fine-grained regulatory controls, one of his most striking suggestions is that monetary authorities should set the interest rate paid on deposits, reinstating the mechanism at the heart of Regulation Q which was phased out in the 1980s.[5] The book’s final part then closes with more detailed examination of the ‘r-currency’ monetary blueprint, reflections on the ambiguities of regulatory rules, suggestions for steps toward bringing about the reforms, and further criticisms of the complexity of post-crisis financial regulation.

Ricks’s book is thematically rich, theoretically bold, and conceptually elaborate. If a problem with literature on macroprudential regulation is that it is firmly embedded in technocratic discourse – making its insights relatively inaccessible outside of a small circle of policy experts – Ricks’s work shines in putting its insights into dialogue with sophisticated debates in the economics literature. There has been an outpouring of books on financial regulation since the crisis, but Ricks’s is the first to interrogate the subject from a fundamental monetary perspective. That said, the text’s synthesis of disparate literatures poses barriers to entry for the casual reader. What’s more, despite its elegant exposition, the book’s assumptions are contentious and its conclusions debateable. The final part of this review explores the limits of Persaud’s and Rick’s blueprints and shows how they point to compelling research questions which economic sociologists and political economists might wish to take up.

## Contesting reform: a research agenda

[5] Regulation Q, part of the U.S. Banking Act of 1933, prohibited the payment of interest on demand deposits and imposed a ceiling on the interest that could be paid on savings and time deposits (the latter rule was repealed in 1986). For the historical sociology of the demise of Regulation Q’s interest rate ceiling see Krippner (2011).

Persaud and Ricks provide very different blueprints for financial reform. Most important are their conflicting views on the global financial crises. Persaud is close to the post-crisis consensus in regulatory circles which identifies the crisis as the latest episode in a recurrent financial cycle of debt and over-leverage. Ricks, in contrast, aligns with the late-modern tradition of central banking practices, seeing panics in the money markets as the true source of the problem. These conflicting accounts of the crisis are highly consequential. For if crises are the inevitable result of financial instability under capitalism then perpetual and fine-grained regulatory oversight of the financial system is justified. If, on the other hand, the negative effects of crisis are associated principally with the growth of shadow banking since the 1970s then a more limited programme of institutional monetary design might suffice to resolve the problem.

What then are the politics of these books' policy prescriptions? As noted earlier, Persaud's macroprudentialism does not involve granting regulators discretionary powers to micromanage the financial system. He instead seeks to qualify regulators' powers by limiting them to stringent rule setting. But in so doing Persaud misses a bigger, albeit connected, problem. In either scenario, the macroprudential paradigm assumes that regulators can know when a bubble is forming and mitigate its excesses – a remarkable U-turn from the epistemological pessimism of Alan Greenspan, which held sway in regulatory circles prior to the crisis. Yet, a defence of this newfound confidence in regulatory knowledge is notably absent in Persaud's book. Why should we believe that regulators are now capable of knowing the financial system and shepherding risk to the right places? As Barwell (2013, xiii), an author sympathetic to the macroprudential project, points out, 'very little is known about how the financial system behaves in practice, how to measure let alone monitor systemic risk in real-time or how macroprudential interventions will influence system dynamics.'

If Persaud glosses over these epistemic challenges, Ricks just rejects out of hand the notion that regulators can fine-tune risk in the financial system. Ricks casts doubt on the very notion of systemic risk as well as regulators' capacity to know and control the build-up of such risk. In one sense, Ricks has the facts on his side. It is true that central categories of macroprudential regulation such as 'systemic risk' remain loosely defined and that the theory and practice of macroprudential policy is in its infancy. But there are still reasons for

optimism over a medium to long-term time horizon. For instance, Constâncio (2016) observes that even if individual quantitative methods for calculating systemic risk have not proven particularly useful in a predictive sense, aggregate indices have been shown to be more robust. And with ongoing research and model development in central banks, it is not *a priori* implausible that current knowledge gaps might be at least partially plugged in the future.

Here I want to suggest that sociological research could make an important contribution to the debate. Since the early 2000s, a branch of economic sociology known as the social studies of finance (SSF) has shown how market knowledge is constructed through the use of technological devices and models (e.g. MacKenzie and Millo 2003; Callon *et al*., 2007). Although the field is best known for the notion of 'performativity' – how financial models do not represent financial reality but rather bring it into being – the wider focus is on epistemic practices in financial markets and their sociotechnical modalities. Curiously, though, SSF has mostly ignored regulatory knowledge practices (Coombs 2016). In particular, the raft of technologies supporting post-crisis macroprudential regulation – central bank stress tests, maps of the shadow banking sector, quantitative methodologies for measuring systemic risk – have yet to be interrogated by the field. To inform debate about regulatory epistemology, future work by economic sociologists might therefore wish to explore these emerging regulatory knowledge practices by putting their institutional, cultural, and technological dimensions under the microscope. With respect to stress testing and attempts to quantify systemic risk, this could build upon a stream of research in science and technology studies on economic modelling and forecasting (Evans 1997; Reichmann 2013). On regulatory attempts to map the shadow banking system, inspiration may be found in the field of theoretical cartography and questions raised by 'post-representational' accounts of mapping (Kitchin 2014).

Another notable absence from both books is the question of political agency. Scholarship has demonstrated the limited ability of civil society actors to exert a democratic counterweight to financial sector lobbying (Pagliari and Young 2015). The voices of citizen groups tend to be marginalised by both their limited resources and knowledge deficit (what Williams (2013, chap. 7) calls the 'politics of knowledgeability'). Thus, more ambitious programmes for regulatory reform are at a marked disadvantage. Not that one would know

this from Persaud's book. In keeping with the elite nature of the macroprudential project (Baker 2013), politics is conspicuously missing from Persaud's blueprint except as a hypothetical threat that might undermine the plans of well-intentioned regulators. Yet this suspicion of politics fails to recognise just how vulnerable the macroprudential project is. The global financial crisis created a window for ideational entrepreneurship at the elite regulatory level, but as memories of the crisis fade macroprudentalism is likely, if not already, facing political pressures to be rolled back. It seems unlikely that a regulatory project which threatens the profitability of major financial institutions can be sustained without some level of democratic support. In neglecting the politics of regulatory reform, Persaud's book, like the broader macroprudential programme, is only affirming its fragility.

Political agency does not play a large part in Rick's blueprint either. Despite the seeming radicality of his sovereign money scheme, Ricks attempts to obviate its politics by stressing that it is 'far from revolutionary' and 'essentially conservative' (p. 242). He employs an analogy to support his argument that the proposed 'r-currency' scheme would not be a refoundation of financial regulation but rather a logical completion of federal deposit insurance guarantees. '[A]n otherwise sound computer program may be rendered crash-prone by a few lines of corrupt code.' (p. 243) As such, his scheme 'might win support from large sections of the financial industry if it were accompanied by a major scaling back of financial stability regulation' (p. 263). My suspicion here is that Ricks underestimates the scale of his proposed reforms. For example, Ricks suggests returning to something like Regulation Q, where interest rates are set by the monetary authority. Since this would bring interest rates back into the realm political contestation – a problem that the phasing out of Regulation Q in the 1980s sought to escape from (Krippner 2011) – it would surely provoke resistance. Moreover, Ricks's envisaged bargain with the financial sector, involving acquiescence to monetary reform in return for scaling back financial stability regulation, appears to give force to Admati and Hellwig's claim that the 'liquidly narrative' props up vested financial interests. There is increasing interest in monetary explanations for the crisis among political economists; in light of Ricks's book, I would suggest that scholars investigate whose interests are aligned with different narratives of the crisis and their implications for the politics of regulatory reform.

The final major conceptual difference between Persaud's and Rick's visions concerns complexity versus simplicity in regulatory rule-making. As noted previously, Persaud stresses that there is no single solution sufficient for realising macroprudential regulatory reform. If regulators are not to curtail financial innovation then a certain complexity in rule-making is inevitable. Oppositely, Ricks stakes much of the appeal of his blueprint on its simplicity and how it will relieve regulators of the herculean challenge of governing systemic risk. But why should regulatory simplicity be a normative ideal? Ricks seems to endorse an aesthetic criterion and references the difficulty of teaching the ever-expanding volumes of financial regulation to students. And he is not alone in his concern with increasing regulatory complexity (Dorn 2015). Generally lacking throughout the literature, however, are well-developed conceptual foundations for the preference for simplicity. One exception is Haldane (2012), who, on the basis of his reading of complexity theory, argues that fine-tuned regulation is tied to the risk paradigm of neoclassical economics, whereas acknowledging uncertainty in economic life instead calls for simple rules. Haldane's insights remain provisional though.[6] Here again, then, it may be beneficial for economic sociologists to explore the practices in central banks and regulatory bodies in order to make an empirically-grounded contribution to the debate.

Perhaps the most confounding problem of debates about regulatory complexity is that the word 'complexity' tends to be employed liberally without it often being very clear what it is referring to. For instance, does 'complexity' refer solely to the number of lines of legal code? Is the voluminous nature of the Dodd-Frank Act a register of its complexity? Or, alternatively, does 'complexity' describe the structural nature of policies and the sophisticated conceptual and technological tools employed by regulators in their attempts to know the financial system? For example, is the conditional value at risk (CoVaR) methodology developed to calculate systemic risk a sign of complexity? The above are clearly quite different regulatory complexities, but they tend to be rolled into one another in existing debates. Datz (2013) has written on the role of 'complexity' in narratives of the financial crisis. I would suggest that it would be fruitful for political economists to interrogate the role of 'complexity' in normative discourses of regulatory reform. This might

[6] Barwell (2013, 182), for instance, objects that such 'big picture' thinking obscures the reality that most sources of systemic risk are not discernible from macro-aggregates, and hence require microscopic investigation for their detection and mitigation.

involve discourse analysis, analytic clarification of the concept, or genealogical reconstruction of the discourse of simplicity versus complexity in regulatory debates. Persaud's and Ricks's books are distinguished crucially on the question of complexity/simplicity in regulatory rule-making, but more in depth research on the topic is needed to clarify the stakes of the debate.

**Conclusion**

Avinash Persaud's and Morgan Ricks's books clarify the major differences between macroprudential and monetary blueprints for financial reform. Persaud builds upon the macroprudential programme to advocate a role for regulators in shepherding risk throughout the financial system, whereas Ricks offers an alternative blueprint that addresses the panic-prone nature of money creation in shadow banking. As a contrasting pair of thought-experiments, their texts therefore bring to the surface important conceptual and empirical questions concerning the causes of the global financial crisis and what governments and regulators can do to prevent, or mitigate, its repetition. For that reason, I can fully recommend both books to scholars interested in this policy area. Debates about regulatory reform tend to be elite in nature and only rarely analysed by scholars outside the economics profession. These books may help makes those debate somewhat more accessible to a broader range of social scientists.

The final part of this review addressed the limits of the books' blueprints and asked how economic sociologists and political economist might make a contribution to surpassing them. In particular, I suggested that regulatory epistemology, the politics of financial reform, and simplicity versus complexity in regulatory rule-making are areas of contention that could orient a productive conceptual and empirical research agenda. These themes were brought out by the books under review, but they also speak to wider debates unfolding in the regulatory sphere that hitherto have not attracted enough attention. Social scientists are often happier to analyse regulatory developments than contribute to shaping the policy debate – and I do not mean to suggest that sociologists and political economists take the lead in policy advocacy. At the very least, however, they are well-placed to make an

important contribution towards informing and shaping the debate. The research agenda ideas outlined by this review essay are intended to promote that ambition.

Finally, it should be acknowledged that no matter how controversial the ideas discussed by this review article may be, they are ultimately directed towards shoring up the status quo. Since both Persaud's and Rick's texts are concerned exclusively with financial stability, bigger questions concerning how finance might be brought to democratic account, or how the distributional consequences of financialized capitalism can be remedied, are not part of the agenda. That might frustrate those inspired by the more radical proposals for financial reform proposed during Sanders's Democratic primary campaign. But if there are to be regulatory initiatives directed towards realising new articulations or finance and society they will have to start somewhere. Existing blueprints for reform are a good place to begin.

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