Households at the Frontiers of Monetary Development

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Abstract:

The Global Financial Crisis and its aftermath has been an extraordinary period of innovation in monetary policy. There has been a dramatic expansion in the scale and scope of monetary intervention via quantitative and qualitative easing (QE and QQE). Moreover, this intervention has evolved so as to target finance itself through central banks coming to operate as 'liquidity providers of last resort' and producers of so-called 'safe assets' for investors. Policy innovation continues to run ahead of theory, and finance and monetary theorists are still absorbing and debating the implications of these policy innovations. Underlying the new debates about the impacts of particular policies there remains the more abstract question of how money and finance is anchored in the material world and how that anchoring supposedly connects to notions of 'stability'.
This paper suggests that, beyond the technical policy innovations like QE, one such anchor for monetary stability is being actively sought in an unlikely economic and financial unit – the working class household; specifically in the securitisation of regular household payments. At the core of securitisation is a process of risk shifting to households, and it is the capacity of households to absorb new financial risks that enables both these securities backed by household payments to circulate as 'safe' assets, and for this safety to give finance a material anchoring in social relations. The story of monetary development is then about finding and securing a new class dimension to the issue of financial stability.

Keywords: financialisation, safe assets, monetary policy, households, securitisation

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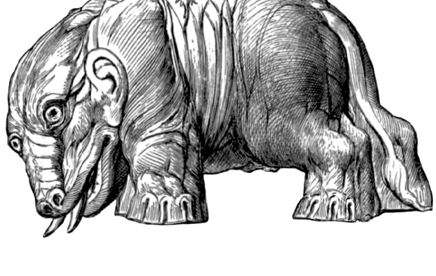

Introduction

In the Global Financial Crisis (GFC) and its aftermath, we have seen an extraordinary period of innovation in monetary policy. There has been a dramatic expansion in the scale and scope of monetary intervention, especially through quantitative easing (QE) such that central bank balance sheets have grown rapidly (Falwey/Neeley 2013). There have also been changes in the composition of central bank assets toward what were formerly thought of as riskier and even non-monetary assets such as mortgage backed securities, through a process called qualitative easing (QQE) (Kuroda 2015).

We have also seen monetary policy evolve so as to target financial markets themselves rather than just signal incentives for 'consumption' and 'investment'. This evolution involves not just a renewed focus on the macro-prudential regulation of credit supply (Bianchi/Mendoza 2011), but also the emergence of central banks as 'liquidity providers of last resort' (Mehrling 2010) and extends further to a renewed emphasis on the state as the producer of so-called 'safe assets' for benchmarking asset pricing (Bernanke et al. 2011; Gourinchas/Jeanne 2012; Caballero 2013; Cabellero/Farhi 2014). **[1]**

Finance and monetary theory are still absorbing the implications of these developments, and there are intense debates about ongoing policy innovation. In a recent conference on macroeconomics hosted by the IMF entitled 'Progress and Confusion', IMF head Olivier Blanchard concluded that economic theory was clearer about the problems posed by the GFC for monetary policy but "we still do not have a good sense of where they will ultimately lead" (2016, 290). Monetary policy continues to run ahead of theory, and finance and monetary theorists are still absorbing and debating the implications of these policy innovations. Underlying the new debates about the impacts of particular policies there remains the more abstract question of how money and finance is anchored in the material world and how that anchoring supposedly connects to notions of 'stability' and safety.

This anchoring role was once associated with gold, then under Bretton Woods gold backed by the US dollar and, post Bretton Woods, by the US dollar backed by US economic, political and ultimately military might (Panitch/Gindin 2012). But as the US dollar has become volatile, the anchoring role has fallen away. In conventional theory there is the view that there is no need for a formal anchor, for markets undertake their own stabilization. In this context Bryan and Rafferty (2006) have posited the hedging capacities of derivatives as the 'new gold'.

In practice in monetary policy and in financial markets, the anchoring role has conventionally been framed through treasury bonds, and a formulaic process in which national treasuries issue bonds and central banks purchase them, releasing spending capacity to treasuries. But in an era of 'austerity' and 'neoliberalism', to invoke the popular depiction of the current era, this formula for producing government debt, and issuing treasury bonds as safe, state-backed assets, is out of favour. Indeed, since the GFC, the treasury bonds of many advanced capitalist countries, including the USA, have been downgraded by ratings agencies (Amstad/Packer 2015), and with low interest

[1] According to a recent account "One of the main structural features of the global economy in recent years is the apparent shortage of safe assets. This deficit provided one of the key macroeconomic forces for the financial engineering behind the subprime crisis."(Caballero/Farhi 2014, 2) rates and yields on many treasury bonds currently negative, it cannot be presumed that Treasury bonds will be seen as an anchor going forward. They are too tied up with (uncertain) developments in national monetary policy.

This paper suggests that beyond the important technical policy innovations of QE and QQE, one such anchor for monetary stability is being actively sought in a most unlikely economic and financial unit – the working class household. Our focus here is not the household as a source of savings or of demand for output, although changes here have been significant. Growing levels of household debt have expanded demand: a process depicted as 'privatised Keynesianism' (Bellofiorre/Halevi 2009; Crouch 2009). Our focus is different: it is how that household debt, but other 'mundane' household payments too (Leyshon/Thrift 2007) are being securitised and the increasing role of these securities in the function of 'safe' assets.

In developing the argument, the paper explores the financialisation of the household through the shifting of risks from employers to workers and from the state to households, and the associated requirement for households to turn to financial markets to manage those risks. In this process, constituting a new sphere of financialised accumulation for capital, the regular, especially contractual, payments of households are being turned into liquid financial assets. This is not to say that all securities backed by household payments have become risk free, though many have AAA rating. The point is twofold: first that via big data the default risks of particular households can be precisely estimated and second when households absorb risks, the assets built on household payments will carry lower risks than the households themselves carry. This makes these assets generally higher yielding than treasury bonds and generally more stable in value.

This risk absorption is what (potentially) makes securities backed by household payments relatively safe (lower risk). Indeed their relative safety is we believe, seeing these assets emerge in an anchoring role in monetary policy; linking financial stability to the material conditions of household financial viability.

But there is an obvious contradictory dimension to the growing integration of households into asset markets and the expectation of assets based on household payments becoming an anchor for the monetary system. And it is a contradiction that lies at the heart of the new class politics of financialised capitalism.

The contradiction lies in the fact that securitisation of household payments appears as a new direction of financialised accumulation, yet risk shifting to households is a key feature of the current era (Hacker 2004; Warren/Tyagi 2006). As the GFC revealed, should a critical mass of households default, there would likely be a crash in national and even the global financial markets. It requires the state and concerted state policy to mediate this contradiction, to manage the potential threats of risk shifting so as to make financially-fragile households less fragile – indeed financially stable. This is the condition of household payment streams emerging increasingly an anchor for the monetary system.

It cannot be said that any nation state has explicitly or formally named this project: for the state to do so would clearly appear to undermine the conventional wisdom. Our proposition is simply that policies formed in the last decade or so point very much in this direction, and for this reason we use the term 'state project'.

In relation to households directly, the state project to achieve this goal includes policies aimed at inculcating a culture of household financial responsibility (literacy), policies and practices greatly expanding state and private monitoring of household riskiness, to determine who exactly is at risk of default, and paternalistic state interventions in mandatory risk management (compulsory savings and insurance schemes) (Fligstein/Goldstein 2012). Successfully achieved, households then become suppliers of inputs into safe assets (their collective contractual payments), both to feed into QE asset purchases, and to provide assets to institutional investors looking for high yielding but safe assets within their investment portfolios **[2]**.

With this focus, the issue of monetary stability could be reframed more starkly as not a shortage *of* safe assets (as if some assets are 'born' safe, especially bonds issued by the state), but a shortage of safety *in* assets. The former invokes treasury bonds deemed implicitly safe; the latter invokes state strategies to make non-state assets perform like state-issued assets, and with potentially higher yields.

This latter framing suggests two possibilities. One is that markets create forms of 'synthetic' or do-it-yourself safety by hedging 'un-safety' in extant private assets with stable income streams. One can, for example, trade a volatility index and something that is a proxy for systemic risk to simulate some key attributes of a treasury bond. The other possibility is that markets can identify assets that, via state regulation and careful market management, can be *made* safe.

If we think about how securitised household payments can be made into safe assets, one possibility might be to increase wages and reduce household fixed costs to improve household balance sheets and thus make households less financially risky. Yet income increases alone cannot manage the potential for households to correspondingly increase expenditure, gravitating always to the edge of financial viability. The other possibility, therefore, is to oversee household balance sheets, in a process that is now referred to by the US Federal Reserve as household 'balance sheet repair' (Boshara 2011). Balance sheet repair becomes the strategy to secure safety in household-derived assets.

In building toward this argument the next section explores risk shifting onto households and the related emergence of household financial risk management at the frontier of financial innovation. The analysis then identifies the contradictory process of widespread payment default that triggered the GFC and how, in the wake of the GFC, monetary policy and other state and non-state policies have emerged which serve to transform household financial payment streams from a source of crisis to a source of stability. The final section reflects on the theoretical and historical importance of monetary policy and theory after the GFC.

[2] A safe asset can be defined simply as "a secure store of value which contains no uncertainty about future payments" (Steffen 2014, 1).

Household risk shifting and the (re)discovery of household finance

In modern economics the household has always been a central institution: variously as supplier of workers, consumers, savers, borrowers and creator of home-produced goods and services. Its role as the subject of innovation in liquid financial assets is new. In 2004, the now Nobel Laureate, Robert Shiller, noted that households in the U.S. – their assets as well as their income and payment streams – were well on their way to becoming more important to modern finance than stock markets. **[3]** If finance is about trading exposures to income and wealth, then the signal here is that finance increasingly involves trading exposures to household incomes and wealth. Giving this a social significance Shiller contended that financial innovation was 'democratising' finance, by bringing the 'benefits of Wall Street to the customers of Walmart' (2004). Even after the GFC, Shiller doubled down and suggested, echoing J. S. Mill, that household finance was the key to the 'good life', because it helped to link the present to an otherwise unstable future (Shiller 2012). **[4]**

The financial vision, of which Shiller has been a key innovator, is to imagine the multiple ways in which household income, wealth and expenditure can be made into profitable liquid financial assets. The material realisation of this agenda is the growth of securitisation of household payments: re-framing household contractual payment obligations as assets to be sold.

Shiller was not alone in this early 21st century focus on the new importance of households to global finance. In its 2005 *Global Financial Stability Report*, the International Monetary Fund famously declared that, "the household sector has increasingly and more directly become the 'shock absorber of last resort' in the financial system" (IMF 2005: 5). The IMF report then suggested (less than 2 years before the GFC) that the shock absorber role had made the global financial system more resilient, because risk had been dispersed. The policy requirement, the IMF noted, would necessarily involve a significant project of financial literacy so that households would manage those risks 'rationally' (Beggs et al. 2014).

Awareness of an emerging centrality of households in financial markets has not been limited to economics. Contemporaneous with the IMF's observations, geographers Leyshon and Thrift (2007, 98) similarly observed that households were now providing the "mundane sources of income [that] act as anchors to which the rest of the financial system is attached."

Before Robert Shiller and the IMF, cultural theorist Randy Martin (2002) astutely observed that daily life inside and outside the household was becoming 'financialised', as a range of household transactions and practices were 'making global movements of finance intimate with daily life and animating the rules that order human affairs' (2002, 191).

The insights such as those of Martin and Leyshon and Thrift started as conceptual, almost intuitive insights. It took events leading up to the GFC and the subsequent period to animate these insights. Central here has been the emergence of increasing rates of securitisation of household payments of interest rates on loans or other contracts of service provision, especially,

[3] Mandel (1998) was clearly important in the development of Shiller's views, or at least anticipated some of them.

[4] Shiller himself has not just made predictions about the future of household finance, but has also been patenting that future. He has developed and patented such financial innovations as the Case-Shiller suburb house price index, so you can now short (insure against a price drop in) your suburb if you think it's overpriced.

though in the U.S. and increasingly in Europe (SIFMA 2016a,b). It isn't that securitisation was new, but in the 21st century it opened up a whole new framing conceived in seeing households as suppliers of liquid, risk-managed assets.

Securitisation: from inequality to risk shifting

Much has been written about the growth of income and wealth inequality in the industrial countries. After decades of neglect, the issue of inequality is now being talked about in economic analysis, associated most conspicuously with the work of Thomas Picketty (2014). Politically, rising inequality is being associated with a range of contemporary shifts – from 'Brexit' to the popularity in the US of Donald Trump.

Growing inequality of income and wealth are perhaps the most talked about forms of rising inequality, but we should also note a less measured, but perhaps more important form of growing inequality: increasing inequality of risk-bearing. Lower income and working class households are now carrying an increasing share of economic and social risks (Hacker 2004; Warren/ Tyagi, 2006).

Risk shifting is a process that manifests differently in different countries, but its broad directions can be summarized as twofold. First, it is clear that in most industrial countries the institutions of organised labour are in decline or have been defeated. Employers have been restructuring work in ways that have increased both their power in the workplace, and their share of income. But, additionally, as jobs have become less secure, the incomes of workers have also become more precarious (and importantly here more risky and volatile). **[5]**

Second, with broader social change often called 'neoliberalism' aspects of daily life once provided or underwritten by the state – things like education, health and retirement income – are now becoming the direct responsibility of individuals who must either take out more loans and more insurance policies (opening up new markets for finance), or carry increasing risk of poverty, ill-health or contractual default.

Put simply, we are in the middle of a structural shift – more advanced in the US, UK, Australia and Canada – whereby risks that were once shared between employers and workers, and between citizens and the state are being shifted directly onto labour and their households. Importantly, and this is where risk takes us beyond just the topic of inequality, this is not just a distributional issue. In managing those risks labour's households are being conceived economically beyond their conventional roles of suppliers of reliable flows of labour power, and being reliable consumers (what Keynes called a source of effective demand); they are also being expected to provide reliable streams of payments on their loans and other contractual policies. It is on these payment streams that a new generation of financial products is being built.

Central to this process of risk shifting and risk absorption has been the contractualisation of a range of financial and other household services and the securitisation of the regular household payments on those contracts. This is a process of bundling up payments on loans (for housing, education,

[5] For evidence see for instance Sandoval et al. (2009).

and vehicle, personal, and other credit), on insurance (for house, vehicle, and health), on rent, and on utilities (for energy, water, and telephone) and selling those bundled income streams (the weekly or monthly payments) into global markets, but without selling the underlying asset (Bryan/Rafferty 2005, Bryan et al. 2015). These are variously called asset-backed securities (ABS); and those related specifically to mortgages are called mortgage-backed securities (MBS). This process is not new, but its enormous scale in the early 21st century requires that it be given new attention and new meaning.

Importantly for the development of money and monetary policy, securitisation involves selling the liquid dimension of households' exposures: not the fixity (in the case of mortgage backed securities, for example, not the fixity of the house itself) but the liquid dimension (the mortgage payments), and similarly not the health care but the health insurance payments, and not the student learning experience or the human capital value, but payments from post-student earnings.

Many thought that the Global Financial Crisis, which began with mass defaults in the US mortgage backed securities market and quickly led to global financial turmoil exposed the folly of the notion that household risk absorption and household asset backed securities production could expand unchecked. The crisis appeared to have exposed how this process had expropriated households of their wealth in unsustainable and even unethical practices and that the GFC would bring this development to an abrupt end.

It would seem, therefore, a strange argument that links the process of securitisation to future monetary stability. But our argument is that the project of post-crisis policy has been not to regulate securitisation of household payments into obscurity, but to rebuild the social foundations of securitisation so it can change from a source of volatility to a source of stability.

Anchoring money by securing labour

But our proposition is more than just that the state is seeking to remediate past household practices, and make households benignly compatible with a neo-liberal era. **[6]** It is that there is a potential source of financial stability that lies within securitised household payments if the state can set the policy pieces in place.

The critical issue here is how to ensure households absorb more risk but without increasing their probability of defaulting on their contractual payments. The key lies in the financial distinctiveness of households: features that make them financialised but not merely financial. If we think financially about households, two features are critical.

First, whilst households are increasingly 'players' in financial markets, their core subsistence 'assets' are illiquid – a place to live; a set of skills (education) and health. Yet in financial markets, the objective is to stay liquid – retaining the capacity to move in and out of investment classes as asset prices and risks change. This can't apply to subsistence items: indeed it is definitional to subsistence that these asset classes *must* be purchased, even if people have discretion about which particular assets to purchase within those classes. **[7]**

[6] Soederberg's (2015) emphasis on financial inclusion and the incorporation of the poor into debt relations is an important issue, but it is different from that posed in this paper. Soederberg places an emphasis on exploitation via debt; ours is on the importance to capital of commodified (securitised) debt repayment (and other securitised payments too).

[7] This characteristic of labour's illiquidity and un-hedgeable nature had been standard fare in economics and finance. It is why labour and their households were assumed to be rationally risk-averse (Fama/Schwert 1977; Gamber1988; Campbell 2006).

Second, increasingly, payments for these subsistence items are being locked in by contracts: mortgage or rent contracts, consumer credit, education loans and health insurance, and utilities bills, to name the most conspicuous payments. Indeed, it is on the basis of contracts (locked-in future payments) that securities based on these payments can be issued. Households want to keep paying these bills just as long as they can, for they are the means of accessing subsistence items. If they default on payments, households lose their means of subsistence.

Third, what is now called 'big data' sees elaborate evidence being held about individual household income and expenditure patterns, as well as household personal profiles. Whilst much of the debate about the assembly of these data has been about civil liberties, the less obvious consequence is a dramatically increased capacity of financial institutions to predict default risk in individual households based on their specific financial and personal profiles (and is leading to an increasing 'tranching' of households and household financial risks). The goal is reliable default risk assessments on securities backed by household payments.

Combined, these three features hold the potential for securitised household payments to exist potentially as safe assets for three basic reasons. First, demand for the underlying subsistence asset does not vary closely with the economic cycle (subsistence, by its nature, cannot be eliminated in a downturn and will not increase significantly in an upturn). Hence the payments going into securities are relatively non-cyclical. Second, there is a disposition in households to maintain payment streams on subsistence contracts. Unlike corporations, households will often keep paying while formally insolvent. Third, contract default risk, which is embedded in securities, is now being carefully monitored and actively managed.

So in the financialisation of the household we can identify some potential building blocks of safe, stable assets. The difficulty, revealed so conspicuously in US mortgage defaults leading up to the GFC, was that this disposition of households was being sabotaged rather than nurtured through techniques such as sub-prime lending.

The key lesson of the GFC is that neither financial markets, nor households, can be left to 'market forces' in the belief that they will ensure financial stability. The more households come to emulate corporations, investment banks or hedge funds in their 'way of thinking' and 'way of acting', the less they will represent a distinctive asset class for capital and importantly for monetary policy, the less they will operate as systemic risk absorbers of last resort. The household which defaulted on its sub-prime loan acted rationally, by all the standard criteria of corporate finance (Miller 1988), and the same can be said of households that secure health benefits without insurance, subsistence without working, retire without their own savings, and so on.

So what is actually 'required' of households is not 'rationality' in the corporate finance sense but 'reliability': to be consciously or compulsortily illiquid in a world of liquid markets. Some, such as Langley (2015), frame such 'responsibilisation' as an instance of Foucauldian governmentality. Similarly, Lazzarato (2012, 2015) focuses on debt, both public and private, as a form of social discipline. Consistent with this framing we have seen systematic, if belated, policy interventions to build the conditions for stability.

In the mid 2000s, especially in the United States, monetary policy along with a new suite of state policies, all emerged roughly in concert (Thaler/ Sunstein 2008). Households are increasingly being 'managed' by the state, creating a culture of 'responsibilisation' (libertarian paternalism/'nudge'/ phishing for fools) by means of:

- Bankruptcy laws
- Consumer protection located inside financial regulators (not a voice against them)
- Financial literacy (moral austerity)
- Lending tied to repayment insurance (risk management)
- Monitoring of household balance sheets by the Federal Reserve and private financial agencies undertaking personal risk assessment.

But in our framing, these are not simply issues of debt-based discipline, for the disciplinary agenda relates to all forms of household contract; not simply debt. These measures sum to an attempt by the state to ensure that households absorb risk and stay 'on payment' in their subsistence contracts, so that the values of securities backed by household payments can be more secure. It is significant in this light that the US Federal Reserve now calls the GFC a 'household balance sheet' recession (Federal Reserve 2012).

The requirements of financial citizenship then reach deeper than just honoring payments on a purchase: they reach to the valuation of highly liquid, globally traded assets. This agenda of financial stability rests on households playing a particular financial role which would itself be undermined by the realisation of a corporate or capital-like like 'rationality'.

The Fed's monetary policy has also explicitly had the project of restoring household balance sheets. QE has seen billions of dollars of MBS brought onto the Feds balance sheet. Indeed the size of MBS assets on the Feds balance sheet is larger than its entire balance sheet before the crisis. Intervention in the MBS market has attempted to both add liquidity to those securitisation markets, but also by doing so to put upward pressure on house prices in an attempt to reflate the balance sheets of US households. The Fed has also made clear that a pre-condition for 'normalising' monetary policy will be more recovery in house prices (Yellen 2014).

Some may contend that the Fed targeted MBS for purchase in its QE program because this was the sector of the market most assaulted in the crash: it was an act of supporting this part of the market; not a general position on MBS as safe, long-term assets. Yet as each round of QE evolved, it became clear that the Fed's agenda was different and longer term: that purchased MBS would not ever be sold, even as the housing market recovered, and that with the end of QE3, MBS that ran off the books (contractually expired) would be replaced by new purchases, so as to sustain the value of the Fed's asset holding of MBS. **[8]**

But monetary policy now goes further than simply privileging support for MBS as priority assets.

[8] See Bryan and Rafferty (2017f.) for details.

In 2013, the US Federal Reserve established a dedicated centre to monitor household finance – the Centre for Household Financial Stability, based in the St. Louis Fed. Its brief is to monitor "key (household) balance-sheet issues and organizing research, policy and community forums locally and nationwide to better understand and respond to the balance-sheet issues affecting struggling families and communities" (US Federal Reserve n.d.).

Conclusion: New Policy Foundations for Future Theory

Negri (1968) reminds us that Keynes saw a crucial role for monetary policy in removing the fear of the future from current economic activity. But, this role required or at least entailed a wide range of regulatory controls (over capital flows, bank lending and so on). It is in a period absent of these controls, and in the wake of a major global financial crisis, that the search for safe assets to anchor money's temporality has arisen as an urgent policy issue.

The Federal Reserve Bank's post GFC interventions, through successive waves of QE (and QQE), were initially presented as a strategy simply to restore financial market liquidity and prevent the collapse of core financial institutions, after a period of risky lending to households. But as they evolved it turned out that the crisis was not the end of a failed experiment in the securitisation of household payment streams. Whilst the GFC may have been triggered by US mortgage defaults crashing the value of mortgage-backed securities, it is critical to our analysis that in the US the post-crisis process of QE and QQE, by which a US economic recovery has largely been engineered, focused critically on the state's purchase of MBS. Monetary policy, through QE was specifically targeted at restoring liquidity in these markets and in so doing it saw billions of dollars of MBS brought onto the balance sheet of the US Federal Reserve, blurring earlier distinctions between monetary and financial concepts of liquidity (Bryan/Rafferty 2017).

US QE involving MBS purchases has not been just an intervention in supporting financial liquidity and the US economy at large. It is also a decisive intervention in the ontology of money, to address the fear of broad money failure. In essence, we are identifying a material, if not a commodity foundation to money as re-emerging in the form of the materiality of US housing stock and the financial performance of US households more broadly.

The post GFC central bank experience in the United States seems to have achieved, although not in the name of stabilising effective demand or even national savings, but in the name of effective household risk management (effective contractual payment) a new monetary stability. Whether such an agenda will prove successful, and especially whether it could be so in the absence of complementary fiscal policy to reflate household incomes and aggregate demand, remains a moot point. Our objective is not to evaluate the merit of these policies; it is simply to propose a hither-to neglected momentum in policy.

This evidence, while here presented as largely US specific, challenges the continuing conventional connection of 'safe' assets to the state – presumably a combination of a vestige of Keynesianism and the current capacity of 'finance' to have us believe that the state must underwrite financial assets in the national interest.

But whilst the evidence may be US specific, the underlying insight is that the distinction between 'financial assets' and 'money' is blurring; the definition of 'money' is widening and the ontological distinction between commodity and fiat foundations of money is narrowing. This suggests that the policies being implemented pragmatically in the US are revealing the new theoretical dilemmas for the future. The task for monetary theory is to embrace and make sense of this category blurring. The fear is that the pragmatics of risk-shifting to households, already becoming normalised in monetary policy, will also become incorporated as a new social foundation for money, which theory may well consolidate.

For those wishing to understand those momentums in order to confront them, the theoretical challenge is therefore even more urgent.

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