



Call for Papers

Critical macro-finance and international financial hierarchies in the Basel III world

Special Session at the [32nd Annual Conference](#) of the European Association for Evolutionary Political Economy (EAEPE) in Bilbao, 2-4 September 2020

Keynote speakers

- Daniela Gabor (University of the West of England)
- Zoltan Pozsar (Credit Suisse, New York)

Organisers

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Special Session outline

The introduction of the Basel III regulations has changed the institutional setup and dynamics of the monetary and financial system from scratch (Pozsar 2017). While this is true in the United States, it has spill-over effects to the rest of the world, in particular to Europe. The purpose of this special session is to bring together academics and practitioners with different disciplinary backgrounds to empirically explore the ongoing institutional changes that constitute the “new normal” of the currently emerging Basel III regime and analyze the potential implications of these changes for financial stability and macroeconomic performance.

Basel III has drastically reduced the elasticity of banks' balance sheets. Until 2007, banks could use their balance sheets in order to make markets between different instruments. Under Basel III, leverage and liquidity restrictions constrain balance sheet expansion, with important consequences for how market participants fund themselves and what kinds of trades can be made profitably. Basel III also coincides with attempts of the Fed to decrease the size of its balance sheet after the expansion through emergency crisis interventions and QE.

Today, the Fed no longer has only one single discount window. Instead, it has developed instruments and facilities which are highly innovative but still only poorly understood in academic research, for example the Reverse Repo Facility (RRP) and a massively expanded Treasury General Account (TGA), but also facilities that explicitly target non-US institutions such as the C6 swap lines and the highly opaque Foreign Reverse Repo Facility (F-RRP). As a result, the old wisdom of conducting monetary policy via the management of a single target interest rate seems to be becoming increasingly obsolete.



Basel III has also affected financial activity outside the traditional banking system. Amidst dramatic changes to the financial landscape in the post-crisis years, established truths need to be reassessed: today, covered interest parity no longer appears to hold, onshore-offshore dollar parity is no longer a given, and the USD exchange rate has important implications for market conditions internationally. Offshore US-Dollar deposits created on the Eurodollar market now have the same regulatory treatment as onshore US-Dollar deposits. In the meantime, foreign exchange swaps have received an upgrade in their relative importance because they are largely left out of the regulations, and the swap and repo markets are increasingly interlinked through changes in arbitrage opportunities and liquidity conditions.

This special session aims at bringing together contributions that analyze the “new normal” of the Basel III world, an issue that is largely under-researched. In line with the spirit of EAEPE, our aim is for the special session to be relevant to different theoretical and methodological strands of research. Contributions may address various aspects of institutional change, both in the US and elsewhere, paying at the same attention to the implications for financial stability and economic growth. We will particularly encourage contributions from scholars who work on the emerging paradigm of critical macro-finance (Tooze 2018; Gabor and Vestergaard 2018), the Money View (Mehrling 2011; Pozsar 2014), post-Keynesian economics (Dafermos, Gabor and Michell 2020), International Political Economy (Murau, Rini, and Haas 2020), or the policy and governance literature (Young 2013), and wish to conceptualize the international monetary and financial system through a hierarchical web of interlocking balance sheets.

Please submit your paper proposal (300-750 word abstract) **until 1 April 2020** using this link: https://eaepe.org/?page=events&side=annual_conference&sub=abstract_submission

References

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