Financialisation and the Moral Economy: Lessons for Non-Intermediated Credit Relationships

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This paper provides a cross-disciplinary contribution on the related topics of the moral economy and the process of financialisation. By financialisation we mean the notion that the financial sector becomes disembedded and disconnected from the real economy through both formalization (via reliance on formal enforcement or self-enforcement) at the expense of embedded relationships and the growing use of novel financial instruments. The financial sector is meant to ease the provision of credit in the economy through the facilitation of transactions and the innovation of mechanisms for ensuring cooperation and maintaining trust. However, precisely this intermediation role creates agency problems, whereby actors in the intermediation process pursue their own self-interest which is not necessarily congruent to that of the transacting parties in the credit relationship. As a result, the disconnection between the financial sector and the “economy” occurs through two channels – the growing reliance on more formal impersonal mechanisms of trust and the possibility for financial sector actors to pursue their own interests over those of the parties to a credit relationship. Technology (such as information technology) can contribute to the process of disembedding because it can facilitate innovative financial products, which exacerbate both channels described above.

To the extent that the results of the above processes are seen to be problematic, there are various responses both by private actors and by policy makers that are available. Much of the focus in the post-financial crisis discourse has been on strengthening financial sector regulation. Many of the measures introduced across different jurisdictions are principally aimed at controlling or reducing conflicts of interest, though some measures do also have a relational element (such as the imposition of know your customer or fiduciary duties on financial sector actors). We would characterize these as top-down measures with likely unintended consequences, particularly when they are not sensitive to local financial problems and practices.³

By contrast, we aim to provide a bottom-up perspective on the problem of financialisation through two case studies of non-intermediated credit relationships in a historical and a contemporary context. Our interest is on the

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familiar questions of what facilitates transactions and trust in non-intermediated credit relationships, as well as the role of novel technologies and innovation in the process of facilitation. But apart from these transaction facilitation problems, we are also interested in mechanisms of adjustment as between the parties to the credit relationship. As Katharina Pistor has recognised credit relationships are legal constructions. Generalising her analysis (which focuses on the apex of the modern financial system and the question of systemic risks), we would argue that when problems arise in credit relationships (such as the inability of a party to repay, for example), there is a choice between a rigid or elastic response also at the micro level in the context of what might otherwise be regarded as private dispute resolution. It is precisely this moment of adjustment and accommodation that provides the key link between non-intermediated credit relationships and the moral economy.

In other work, we have provided some evidence from early modern credit relationships of parties’ mutual adjustment is sensitive to the immediate ability to pay constraints of the borrower, without necessarily harming the interests of the lender. We are not claiming that all non-intermediated credit relationships disclose these features, but we are interested in identifying the conditions that make such features more likely. In particular, we are interested in asking whether size (small communities) and pre-existing relationships of trust or kinship are pre-conditions for the “moral economy”, as well as the role of technology and innovation in disembedding finance versus giving it a moral dimension.

To help in answering these questions, we conduct two case studies of non-intermediated credit relationships – one historical and one contemporary.

The historical case study draws on archival research from notarial records in early modern Europe. Our aim here is to reconstruct both transactional and dispute resolution practices in non-intermediated credit relationships where this is possible to do via archived notarial records. In that respect, this paper continues in the methodological approach of our prior joint work, but seeks to provide a systematic focus on the conditions that are propitious to the moral economy. Furthermore, we would argue that this work is not only of historical interest, given evidence that modern financial technologies have sometimes explicitly sought to mimic historical transactional and trust-building practices of trading communities.

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6 See, for example, the apparent attempt to mimic the practices of the Maghribi traders famously studied by Avner Greif by modern financial transfer technologies, such as Transferwise. Eg, Rachel Botsman, Who Can You Trust?: How Technology Brought Us Together and Why It Might Drive Us Apart (Penguin 2017); cf. Greif, A., 1993. Contract enforceability and economic institutions in
A second case study draws on a project financed by the Swedish Council in South Africa, and focuses on contemporary non-intermediated credit relationships in the in South Africa. The existing literature discloses the importance of informal and non-intermediated credit in the South African context and we specifically propose to study the institution of the stokvel in the area of KwaZulu Natal. Apart from the questions identified above, we are particularly interested in the role, if any, of new technologies for both enhancing the facilitative and adaptive institutions of the stokvel in order to both generalize them and to make them more propitious to moral economic order.

A final dimension of both case studies is to examine the relationship between non-intermediated credit and the financial sector or “outsider” investors, as well as the role of state regulation in either supporting or displacing these credit relationships specifically and the moral economic order more generally.