There is hardly a concept in finance that is as often invoked and as little understood as is the concept of liquidity. Liquidity has been associated in the social sciences with transferability, standardization, uncertainty, information transparency, animal spirits and other behavioral phenomena; with money or cash, dealers as generators of liquidity in non-cash assets, and so forth. Some economists have professed that the concept has little meaning or that it is too slippery to be useful. A whole volume devoted to liquidity in the economics literature published after the Great Global Crisis (GCC) (Allen et al. 2011) fails to define the concept and a major review in the Journal of Economic Literature on more recent contributions chose to discuss “illiquidity and all its friends” (Tirole 2011), conceding at least implicitly that the concept continues to elude clear conceptualization.

And yet, we can hardly seek to understand capital markets and finance without coming to terms with liquidity, the causes of illiquidity, and its role in the collapse of financial intermediaries and even entire financial systems. Further, attempts are under way to regulate liquidity in the form of “liquidity buffers”, “cash reserves”, or “capital reserves”. Liquidity management also plays a critical role in the resolution of banks. If we wish to regulate it, we better understand what it is that we are regulating, where it comes from, why it is here one day and gone the next.

We are therefore organizing a brainstorming workshop on 5 June 2015 at Oxford to shed new light on the concept. The workshop is part of the annual meeting of the Global Law in Finance Network, of GLawFiN. GLawFiN is a network of senior researchers and doctoral students associated with Columbia Law School, Oxford and Frankfurt Universities. The lead researchers are Dan Awrey (Oxford), Brigitte Haar (Frankfurt), and Katharina Pistor (Columbia Law School). GLawFiN seeks to better understand how law relates to finance, to understand the operation and evolution of financial markets, and to use these insights to critique and contribute to regulatory reforms and ongoing discussions about the impact of our financial systems to social welfare, self-determination, and justice.

The Network is organized around the “Legal Theory of Finance”, the product of a multi-year, interdisciplinary research endeavor financed by the Institute for New Economic Thinking (INET), the results of which have recently been published in a special issue of the Journal of Comparative Economics in May 2013.

LTF holds that contemporary financial markets are

- legally constructed
- beset by the Law-Finance Paradox
- essentially hybrid; and
- hierarchically organized with law tending to be more elastic at its apex than on its periphery.

GLawFiN sponsors doctoral students who work on specific aspects of the theory as applied to different market segments, and organizes workshops to investigate LTF’s explanatory powers and to deepen it.

In its original incarnation LTF too sidestepped the issue of liquidity, taking it as a premise rather than as something that needs to be explained. Meanwhile researchers associated with GLawFiN have made some progress in clarifying the concept. A major strand of this ongoing research is that liquidity too should be understood as legally constructed. Different members of the group have taken different approaches and we will share and discuss them at the annual meeting.

However, we also wish to learn from others who are working on the concept from different perspectives, including (behavioral) economics, sociology, and political sciences. We are therefore inviting you to join us for this workshop and share your ongoing research with us.

If you have ongoing research on the issue of liquidity, we would also invite you to share this research with us in advance of the workshop and one of GLawFiN’s members will comment on it from the perspective of LTF. If you prefer to comment on our work using your own insight we would be happy to share with you one or more of our draft papers for your review and comments.

We would very much appreciate it if you could let us know at your earliest convenience, but no later than 15 February, whether you will be able to join us for this meeting. GLawFiN will cover your economy class travel expenses and 2 nights accommodation in Oxford.

We are looking forward to hearing from you!

Dan Awrey Brigitte Haar Katharina Pistor

References: