

Exploring technology and regulation in finance

New book urges us to think creatively about how to design optimal rulings so that fintech leads to a safer economy and more balanced opportunities for all



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IN *A History of Financial Technology and Regulation: From American Incorporation to Cryptocurrency and Crowdfunding*, author Seth Oranburg highlights recent changes to the world of finance by exploring the role of technology within it, including unit trust funds, cryptocurrencies and the stock market.

The chapters begin with historical analogy and basic principles, and goes on to describing complex digital investment strategies and instruments. Readers will gain an understanding of key concepts in financial regulation, including how laws and regulations prevented some financial crises while facilitating others.

The author concludes with ideas about where finance is trending and how the law should respond.

The book should appeal to both specialists and generalists who are interested in learning more about regulation, finance, economics, business and law.

Oranburg, a legal scholar and

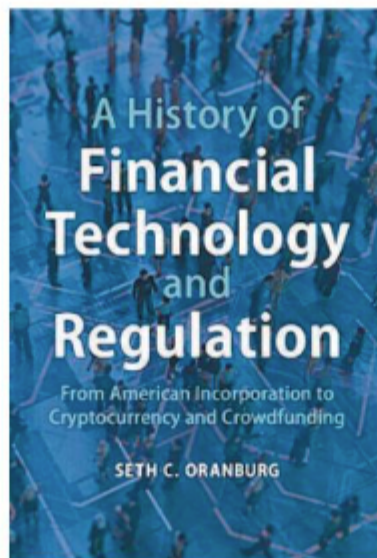
professor at the University of New Hampshire Franklin Pierce School of Law in the US, provides a broad overview of policy initiatives and financial markets to address the problems inherent in markets as a result of regulation.

The author develops his view of how financial markets have developed, and how investors and regulators have shaped these developments. A constant theme throughout the book is the division of US corporate finance history into three distinct eras.

The first era began with the ratification of the constitution in the 1790s and ended with the Great Depression in the 1930s. The second era began with the Securities Act of 1933 and ended with the Great Recession of 2007–2009. Finally, the third era began with the emergence of bitcoin in 2008 and continues to this day.

The author's fundamental perspective is that throughout history, technical developments furthering financial opportunities have been channelled by "major players" – that is, wealthy investors and regulators – to benefit the few over the many.

He describes recent developments such as the push towards investments in cryptocurrency as a consequence of smaller investors desperately searching for higher returns. This idea, however, ig-



nores the wide range of investments already available to the public and does not elaborate on investors' excessive risk taking in financial markets.

The book describes the limited regulation of "bucket shops" in the latter half of the 19th century, when smaller investors driven by the innovation of ticker news gambled in the stock market.

A bucket shop, typically located in an office building, was designed to look like a high-end brokerage firm. These institutions – often run by fraudulent owners – put pressure on brokers' fees and participation restrictions, contributing to a vast increase in stock ownership in



Seth Oranburg's book (left) provides a broad overview of policy initiatives and financial markets, to address problems inherent in markets as a result of regulation. PHOTOS: CAMBRIDGE UNIVERSITY PRESS, PIXABAY

the 1920s.

Widening participation in stock speculation helped fuel the financial excesses of the 1920s. With the crash and the harsh economic downturn that followed in the 1930s, regulation turned towards limiting the sources of such excesses and instability.

The New Deal era regulations are presented as initiatives to dis-enfranchise investors, particularly small investors.

This dynamic set the stage for

recent decades, in which markets are dominated by privileged investors, such as angel investors and startups.

In summary, the author urges us to not always seek to create a new federal agency in response to a crisis, but instead think about alternatives that can protect investors without driving them away.

In the current era, when smaller investors can easily choose to invest in unregulated assets, too much regulation can be dangerous

– just as too little regulation can be.

We should think creatively about alternative ways to design optimal regulations so that the future of financial technology leads to a safer economy with more balanced financial opportunities for all.

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