

Glossary entry: financial engineering

Published: January 12, 2026, 10:42 pm

When [writing a post](#) on comment in the Guardian this afternoon, I realised that my glossary entry on financial capital was insufficient to encompass the madness of financial capitalism, financialisation and financial engineering.

I have corrected this by writing glossary entries on each of the last three issues. This is the entry on financial engineering:

Financial engineering refers to the design and use of complex financial structures, instruments, and accounting techniques to reallocate risk, income, and ownership claims, often without creating any new productive capacity.

It is the technical toolkit through which financialisation operates.

Financial engineering commonly involves:

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Complex structuring

The creation of layered instruments, such as derivatives, securitisations, special-purpose vehicles, and off-balance-sheet entities, that obscure risk and redistribute returns to financial intermediaries.

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Arbitrage exploitation

Exploiting gaps between tax systems, accounting rules, regulatory regimes, or jurisdictions to extract profit without corresponding economic contribution. Tax havens or secrecy jurisdictions are frequently used to facilitate this goal.

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Balance-sheet manipulation

Techniques are designed to enhance reported earnings, asset values, or leverage ratios without improving underlying performance or resilience.

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Risk displacement, not reduction

Financial engineering often claims to “manage” risk, but in practice tends to shift it onto less informed parties, whether they be workers, pensioners, taxpayers, or future generations.

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Short-term optimisation

Structures are designed to maximise immediate financial return, even when they increase long-term fragility or undermine capital maintenance.

Financial engineering is not inherently neutral. In a financialised economy, it becomes a primary means of rent extraction, allowing wealth to be generated through legal and accounting design rather than through productive or socially useful activity.

Within the Funding the Future approach, financial engineering is viewed as a central contributor to economic opacity, democratic disempowerment, and repeated financial crises. Its prevalence signals an economy organised around claims and control, not care and creation.

Related entries:

- * Capital
- * Capital maintenance concepts
- * Financial capitalism
- * Financialisation
- * Financial engineering
- * Physical capital
- * Human capital
- * Social capital

- * Environmental capital
- * Sustainable cost accounting
- * Income

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