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FINANCIALIZATION OF LIFE AND ECOLOGICAL TRANSITION AMID GROWING INEQUALITY AND RISK

(CAN BE QUOTED AS A DRAFT WITHOUT PERMISSION)

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Statement:

The compulsory **economic and ecological transformation** of our societies for a sustainable and more equitable world requires appropriate institutional environment and regulation according to the global goal of dealing with growing inequalities and risks.

Environment:

Over the last few decades, the free-market ideology has transformed **capitalism** into a **financialized speculative rent machine** and increased economic fragility and inequality.

To date, humanity faces growing environmental concerns and must fight against economic, social and political instabilities.

Issue:

However, research on alternative ways of transforming societies into more livable communities under the burden of climate financing suffers from **a lack of appropriate economic and social governance**.

Global concerns to handle at the global level ➔ adopting a holistic approach:

→ **Systemic financial crises** became recurrent and uncontrollable (GFC of 2007-2009, next expected GFCs,…)

→ **Poverty and inequalities became incontrollable**:

“Global poverty reduction has slowed to a near standstill, with 2020–30 set to be a lost decade. Today, 8.5 percent of the world lives in extreme poverty (those living on less than $2.15 per person per day) (figure 1, panel a). At a poverty standard more relevant for upper-middle- income countries ($6.85 per person per day), 44 percent of the world’s population lives in poverty. The number of people living under this higher standard has barely changed since 1990 due to population growth (figure 1, panel b). At the current pace of progress, it would take decades to eradicate extreme poverty and more than a century to lift people above $6.85 per day.” (WB *POVERTY, PROSPERITY, AND PLANET REPORT* 2024: xxiii).

→Increasing prosperity gap and inequality

“The Prosperity Gap captures how far a society is from $25 per person per day, which is close to the average per capita household income when countries reach high-income status” (Ibid. WB 2024: 110).

“During the past 30 years, the Global Prosperity Gap only increased (worsened) twice: during the Asian financial crisis (an increase of 0.7 percent from 1997 to 1998) and during the COVID-19 pandemic (an increase of 3.2 percent from 2019 to 2020).” (Ibid.: 113)

→The Prosperity Gap worsens when inequality is higher

“For a given level of average income, countries with greater inequality have a higher Prosperity ➔ higher inequality leads to an “inequality penalty.” ” (Ibid.: 117)

→Climate concerns are growing and affecting living conditions

“Climate change is likely to have already been a force for increasing income inequality between and within countries. Climate change is likewise driving inequality in other dimensions of human development. An analysis of the last 40 years further substantiates the general pattern: Temperature-related shocks hit poorer countries harder than richer countries. In fact, eventhough some richer countries may have enjoyed small benefits on average from temperature increases, the evidence suggests that all countries will eventually be negatively affected by climate change.” (UNDP, *Human Development Report*, 2019)

→ Climate catastrophes, mostly connected to our way of organizing and managing life on Earth, generate huge systemic risks for economies and people.

→ Achieving society-wide sustainable development goals calls for rethinking approaches to climate change and transition financing (that requires **financial stability**).

→ An alternative way of governing our **essential public good**, **life**, is to find out solutions to mitigate harms and adapt economies to this fundamental equation.

Our long-lasting issues, -environmental and resource depletion, poverty and inequality, socio-political instabilities, etc.- should be treated within the process of global change: the eco-transition.

→ **Eco-transition is the today's way to fight against societal regression and poverty that is the worst form of violence (Mahatma Gandhi).**

This article then points to necessary institutional reforms that call for innovative approaches to frame our collective goals and to finance the global process of change.

➔ Global financial governance and

➔ Eco-transition

should be framed to fostering transformation of markets and institutions to achieve worldwide sustainable development through the provision of two global public goods – financial stability and sustainability (FSS) and economic/ecological sustainability (EES) – both sine qua non for a viable, livable, fairer world (Ülgen, 2025).

1. Financialization and economic evolution

Financial liberalization ➔ speculative-rent-based regime of accumulation ➔ financialization (inconsistencies)➔ GFC

- Financialization as a complex phenomenon that leads to perverted dynamics.
- Such a transformation resulted in a "financier dominated finance" that generated several flaws such as recurrent systemic instabilities, short-sighted market strategies at the expense of long-term productive activities and increasing inequalities that undermined the achievement of social goals in the real economy (Epstein et al., 2009).
- Financial market liberalism provokes a general financialization of market activities, strategies and performance criteria, weakens the sustainability of the accumulation process, and shortens the viability domain of the whole economy because of the recurrent systemic crises it generates.
- The financialization process leads to a sort of commodification of the Polanyian fictitious commodity, money and related financial rules.
- Commodification in turn leaves the supervision of the market operations to institutions and mechanisms dependent on private interests, whereas the outcomes of such operations might have systemic consequences that are beyond the scope of micro-based mechanisms.
- Commodification then results in systemic crises that point to the failures of ill-framed markets. (Ülgen, 2022).

- It is usually assumed in the literature that financial development leads to economic growth and then to economic development.
- Such a relationship between finance and growth is known as the finance-growth-development nexus.
- The development of financial intermediation that could allow larger parts of population to get access to financing possibilities would improve the realization of individual entrepreneurship (increased financial inclusion, new forms of financing like microfinance, financing of SME’s, increased flexibility and multiplication of mecha,isms and models of financing different risk activities, startups, etc. without regulatory burden)
- Beck et al (2004) show that Using a broad sample of 52 developing and developed countries, with data averaged over the period 1960 to 1999, this paper assesses whether there is a direct relationship between financial intermediary development and changes in income distribution. Countries with better developed financial intermediaries have seen larger reductions in poverty.
- However, Ben Naceur and RuiXin Zhang (2016), using a sample of 143 countries from 1961 to 2011, find out that four of the five dimensions of financial development (access, depth, efficiency, and stability) can significantly reduce income inequality and poverty, except financial liberalization, which tends to exacerbate them.

- **Institutional economy-wide results:**

➔**Government-led financial liberalization policies: more decentralized and self-regulation-based practices => micro-prudential/self-assessment mechanisms replaced macro-prudential public supervision ➔Light-touch financial regulation**

➔Stockhammer (2010) notes that according to data for the USA, from the late 1990s, stock market capitalization exceeds GDP with a spectacular turnover (383% in 2008), the share of financial profits and profits from abroad to total corporate profits has risen from just above 12% in 1948 to a peak at 53% in 2001.

➔In the same way, in the late 1970s, bank assets were about 100% of British GDP while at the end of the 2010's, they reached 500% of GDP and more than 2/3 of profits accrued to the financial sector (Bayer, 2009)

➔ **UNFORTUNATELY: Contrary to Schumpeterian entrepreneurial innovations, financial innovations mainly rely on short-sighted profitability and generate cumulated-debt-funded speculative excesses (finance is disconnected from the long-term needs of the real economy, Ülgen (2014)**

➔ **RECKLESS FINANCE (SCHUMPETER, 1939) PROVOKING DESTRUCTIVE EVOLUTION.**

A few pitfalls:

→ ***Cognitive bias / cognitive dissonance***

→ ***Inconsistency between micro-rationality and macro-stability***

→***Publicness of financial stability***

➔***Cognitive bias or cognitive dissonance*** : Despite rises, self-confirmation: a "confabulation" (honestly lying) state, irreceptive to any objective analysis of the situation➔crucial differences between consistent beliefs/efficient market assumption and structural uncertainty in a non-ergodic world (Keynes 1936; Tversky&Kahneman 1974; Akerlof&Dickens 1982; Minsky 1991; Barberis&Thaler 2003; Kessler 2010)

➔***Inconsistency/Discrepancy between micro-rationality and macro-stability:*** Markets evolve through individual heroic expectations about the future state of the world➔Fallacy of composition (free markets cannot result in social harmony without any public organization and supervision); Micro-rationality and macro-stability are two distinct issues that do not have direct relationship with each other but through collective/public action

➔***Publicness of financial stability:*** Monetary & financial system: a public infrastructure, a society-wide institution (payments system, allowing private units to undertake decentralized activities without any central plan)➔Sustainability of economic relations depends on financial stability that is a systemic issue➔a public good to be provided by public action (cf.Collective-action/Tragedy-of-Commons)

2. An institutionalist approach to financialization

➔Institutionalist perspective, following major institutionalist works (Clark, Commons, Hamilton, Mitchell, Veblen, Minsky, to quote but a few, see Ülgen, 2014): Evolution of capitalism is related to the evolution of the institutional environment (institutional framework) that allows actors to adopt some specific strategies.

➔The liberal regulatory environment (commodified financial regulation) opens a widespread breach between the quantitative/speculative micro-efficiency of the new finance and the qualitative/long-term efficiency of the monetary/financial system, required for societal viability.

➔Financial markets move toward two major changes:

1. Innovations leading to speculative activities
2. Self-regulation (cognitive bias-conflict of interest-micro vs macro)

➔This prevents finance from contributing to economic development (and public action from supervising private strategies without generating social dilemmas)

➔To deal with the "stark utopia" (Polanyi 1944) of market fundamentalism and its catastrophes, capitalist finance should be reframed **(emphasis on regulation)**

- ➔A specific institutional feature of capitalist finance might be designed following Minsky's analysis of endogenous instability of capitalist finance that focuses on the role public power should play in the stabilization process.
- ➔Minsky (1986) → markets cannot self-adjust and need public institutions to contain instabilities
- ➔A "big government" to sustain capital accumulation and employment in period of stress and a central bank to intervene as a lender-of-last-resort during financial turmoil to ensure the integrity of the banking system.
- ➔The primary goal of any regulation is to protect the integrity of the economy by ensuring the integrity of the financial system.
- ➔**The core issue is obviously related to the institutional coherence:** What institutional features are likely to be most important in safeguarding financial stability -regarded as a public good- (Haldane 2013).

- ➔In the wake of the GFC, numerous works in favor of macroprudential policies to prevent and mitigate both the excessive risk taking and the possible effects at the systemic level (The de Larosière Report 2009; Galati and Moessner 2013; Boar et al. 2017; ESRB 2018; Bengtsson 2020).
- ➔IMF (2013): strong institutional and governance frameworks are essential for the effective conduct of macroprudential policy (central bank needs to play an important role).
- ➔The two sides of the same issue come then into the picture: establishing restrictions to put the speculation out of reach of the credit system and providing incentives & capabilities for long-term productive commitments.
- ➔Financial markets should be organized as a public good provision process.
- ➔This requires preventing individuals from endangering the entire economy through their possible failures.
- ➔Beyond the recovery measures to save the financial world, **the regulatory alternative must be a preventive/prudential framework to protect the financial world from itself (reckless finance, Schumpeter).**

3. The eco-transition dilemma: A radical change issue (Ülgen & Klapkiv, 2023)

➔Climate change issues call for a (radical) societal transition (transformation & change) process (at economic level: it is about radical changes of production/consumption processes)

➔ Thus, the change is about the accumulation dynamics since the latter is the core determinant in major decision processes.

➔Holistic approach:

- Climate issues: gobal societal issues (you cannot clean the air with your own air purifier; you cannot stop pollution and environmental degradation by only changing your own business and life model) that require global « collective action ».
- Financial issues: global societal issues (you cannot protect yourself against systemic catastrophes by withdrawing your invesments from markets; you cannot invest « responsibly » when the markets as a whole are gripped by speculative fever) that require global « collective action ».

➔ *Institutional changes in financial regulation and in the organization of climate transition (eco-transition) are necessary to address climate change and stable long-term financing.*

Is a Green Capitalism possible?

Three obstacles:

- **The ultimate goal of capitalist dynamics is the accumulation of private wealth**

(Private wealth accumulation as the best incentive to push individuals to undertake socially optimal actions (Public Good “naturally” confused with Private Interest)

- **Any economic activity requires financial support through the banking and financial system**

(The conditions under which activities are financed radically determine the possibility of wealth accumulation over a given period. Capitalism: A Monetary Economy (cf. Endogenous credit-money financing of private debts))

- **Accumulation rather meets the requirements of individual efficiency than the goals of long-run societal viability**

(Effficiency of any action/activity is assessed in terms of the returns that such an action/activity is able to generate→ Arbitrage between Revenues – Costs (= benefits➔ accumulation)

➔ So, such an arbitraging relies on the relationship between Private advantages and Private costs and does not (cannot) take into account the other sides of the equation:

- **Public advantages and Public costs**
- **Private advantages and Public costs**

Possible solutions?

Common rules:

→ Putting collective interests ahead of individual interests

→ Markets do not work in a socially efficient way

→ Public intervention/regulation/oversight of markets to correct, reframe, sanction actors' behavior

→ Incentives resting on collective goals that should give the interval of acceptable individual behavior.

- *Coordination relies on institutions* (including the organization of markets and extra market institutions) that provide people with appropriate (or inappropriate) environment

➔ Shaping individual strategies according to « the common good ».

- Ex: *Institutionalist approaches*, some Keynesian models, Marxian and the like approaches.

Rational for public regulation: General rules

- Why do soccer matches (or other sports disciplines) require external refereeing when the players are supposed to aim at achieving quality matches on a technical, sporting and collective level for the common good (e.g. for the pleasure of the spectators but also for their own pleasure to perform)?

- While the purpose does not a priori call for any external arbitration with regard to the objectives of the activity in question, the execution of this activity, particularly when it is linked to distinct and not necessarily convergent private interests, objectively requires external arbitration above players, teams and interests.

→ Even though eco-transition process and financial supports are partly related to non-public institutions and activities and are intended to achieve the private good, they must be regulated according to the common good, i.e. stability of markets for long-run viability of society.

→ Therefore, a possible composite micro-macro regulation could rest, on the one side, on micro-regulation of each individual player with regard to his/her characteristics and aims.

→ The so-called self-regulation tools such as the Internal Ratings Based models or Rating Agencies' marked-to-market-value related ratings are already available and experimented by the market players.

→ However, their relevance and horizon are limited to subjective considerations and goals at a given moment under a given situation.

→ On the other side, composite regulation has to rely on macro-regulation of the financial system as a whole with regard to systemic risks and fragilities that must be addressed under public supervision.

Concluding statements

→ Although monetary and financial relations are mainly driven by private-interests and decentralized decisions without any collective planning of economic activities, the societal criticalness of the financial system and eco-transition makes that their organization is an unprivatizable spine of the economy that relies on supra-individual rules.

→ Financial stability does not (cannot) rest on an invisible and “natural gravitational” equilibrium force and cannot be ensured by market mechanisms. It calls for public action.

→ Polanyi (1944) wisely states that market society exists thanks to the deliberate public (government) action with regard to monetary and financial organisation of society, international trade, organisation of labor and work conditions, private property rules, etc.

→ Liberalism is a publicly framed organisation of the economy, it is planned.

→In the same way, a “managed market society” needs to be organized through deliberate public action in order to give the fictitious commodities their coherent place back in economic structure and tame *individually rational but socially catastrophic* speculative financial operations.” (Ülgen, 2022)