



# Financialization, Environment and Justice

**DOI:**

[10.1057/s41296-020-00440-2](https://doi.org/10.1057/s41296-020-00440-2)

[Link to publication record in Manchester Research Explorer](#)

**Citation for published version (APA):**

O'Neill, J. (2022). Financialization, Environment and Justice. *Contemporary Political Theory*, 477-485.  
<https://doi.org/10.1057/s41296-020-00440-2>

**Published in:**

Contemporary Political Theory

**Citing this paper**

Please note that where the full-text provided on Manchester Research Explorer is the Author Accepted Manuscript or Proof version this may differ from the final Published version. If citing, it is advised that you check and use the publisher's definitive version.

**General rights**

Copyright and moral rights for the publications made accessible in the Research Explorer are retained by the authors and/or other copyright owners and it is a condition of accessing publications that users recognise and abide by the legal requirements associated with these rights.

**Takedown policy**

If you believe that this document breaches copyright please refer to the University of Manchester's Takedown Procedures [<http://man.ac.uk/04Y6Bo>] or contact [uml.scholarlycommunications@manchester.ac.uk](mailto:uml.scholarlycommunications@manchester.ac.uk) providing relevant details, so we can investigate your claim.



## Financialization, environment and justice

Tim Hayward's book *Global Justice and Finance* is a welcome one. It opens up an important area of political philosophy that has been recently neglected. In doing so it offers a corrective to a number of assumptions that pervade political philosophy on global justice and ecology. It is particularly strong in its criticisms of approaches to global justice that simply take the transfer of money and finance to be adequate responses to the problems of global justice without examination of the background nature of the institutions of global finance. Hayward's book ranges widely across a number of topics raised by the institutions of global finance for questions of justice. My focus in this commentary will be on one thread of argument in the book, namely that concerning financialization, environment and justice.

While Hayward's book deals with a topic that has been neglected in recent political philosophy, the discussion of finance in political philosophy and political economy has a longer history. In this commentary I will situate the discussion in *Global Justice and Finance* in two older debates: the civic republican criticism of the rise of finance and financialization in the eighteenth century, and the socialist calculation debates of the twentieth century. My purpose in doing so is not simply historical. I do so to raise critical questions about Hayward's analysis, in particular with the nature of economic and political changes that are required to respond to the problems of financialization he identifies.

A central claim that Hayward makes is that the problems of financialization require a radical response in the political governance of finance: 'The attainment of rational political governance over the working of finance – such as is arguably an existential necessity for humankind – seems likely to require a radical transformation of the constitutive institutions of global finance' (p. 143). However, for reasons that I will outline, Hayward's own analysis of the sources of the problems finance and financialization suggest that these problems lie not in the institutions of global finance as such, but in the very nature of market capitalist societies. If that is the case, then the solutions his own analysis requires are more far reaching than changes internal to the governance of finance and financial institutions.

The nature and role of finance has not always been a marginal topic in political philosophy. In the eighteenth century it was central to political debate. The backdrop to that debate was the 'financial revolution' of the late seventeenth and early eighteenth centuries which saw the establishment of the Bank of England in 1694, the development of other financial institutions and the rapid rise in public debt. The conflict between financial and landed interests occasioned by the financial revolution stood at the center of the political debates in the eighteenth century (Kramnick, 1992, chs. 2–3; Forbes, 1975, ch. 5; Pocock, chs. 13 and 14). The contrast between the permanent property in land and the mobile property of finance, and the rise of public debt, were central to civic republican responses to commercial society. However, criticism of aspects of the new financial order was not confined to the critics of commercial society. Among the defenders of commercial society, such as Hume and Smith, the rise of public debt was an object of criticism (Hume 'Of Public Credit' in Hume, 1987; Smith, 1981, V.3.10; for a discussion, see Pocock, 1975, ch. 7, 1993; Hont, 1993). Many of the themes in the British conversations remained central to the American debates on the rise of finance and public credit, most notably between Hamilton, Jefferson and Madison (Stourzh, 1970; Banning, 1978, 1985; Pocock, 1985; Sloan, 1995).

These older debates clearly take place in a very different context from that which informs current discussion of finance. However, certain claims from earlier criticisms of finance continue to find their echoes in the more recent debates. Consider for example, the concerns about the spatial and temporal mobility of finance. These worries were central to earlier debates. They are expressed in the memorable phrase of one of the defenders of the new financial order, Defoe, where he notes the complaint made of the new world of finance and public credit: 'it has no Whereness, or Whennes, Scite, or Habit' (Defoe, 1710). The worry about the mobility of financial capital is one that remains a central theme in recent debates on the nature and regulation of finance (Tobin, 1978). It is one that is articulated by Hayward in concerns about the ways financial capital can escape tax in a way that labor and land cannot (pp. 24–25), and in the ways in which financial enterprises are 'removed from the realities of human relationships and even from the impacts of their own activities' (p. 37).

However, while the older debates on finance find echoes in more recent critical responses to the role of finance in social life, current discussions of financialization also raise new and distinct concerns. The concept of financialization is central to *Global Justice and Finance*. In discussions of financialization, both in academic debates and in wider conversations in civil society, the term is used in wider and narrower senses. In its wide sense, it is used to describe the process of monetizing, commodifying or marketizing previously non-marketed goods, for example environmental goods. The term financialization in its narrower sense needs to be distinguished from both monetization – the assignment of monetary values to goods and services for the purposes of public and private choices between them, for example, for the purpose of cost-benefit analysis – and marketization – the use of markets in goods and service to achieve social and environmental ends, for example, through emissions trading or biodiversity offset markets. In the narrow sense, financialization refers to the increasing predominance of finance in economic transactions. Two forms of that predominance need to be distinguished (O'Neill, 2017). The first form of predominance is the increasing treatment of goods and services as financial assets, that is, as financial income streams. Different goods, services and productive activities – from housing rents and mortgage repayments to hospital car parking charges – are treated simply as financial assets valued for the income streams they provide (Sayer, 2015). The second, stronger form of financialization refers to the increasing use of financial instruments, like derivatives, in the governance of goods and services, in particular the governance of risks associated with the income stream. Consider, for example, the fact that in 2009 73% of the transactions in the European Union Emissions Trading Scheme were in futures markets (Kosoy and Ambrosi, 2010, p. 2). The increasing predominance of such investments in financial instruments is a mark of the degree to which emissions trading at that point is financialized.

The two senses in which finance can be said to be predominant in the economy are captured in two distinctions drawn by Hayward as ways of marking financialized investments from other productive investments in capitalism: the first is the distinction between 'investing in an economic activity undertaken for specific substantive purposes and an investment made, indifferently, in anticipation purely of a pecuniary return' (p. 36). The second is the distinction between 'investments made in productive economic activities, even if with the aforementioned indifference, and investments placed in purely derivative

financial instruments where the expectation of a return is based on market movements per se, rather than substantive productive outcomes' (p. 36).

*Global Justice and Finance* develops three central criticisms of financialization: First, financialization undermines distributive justice by facilitating the increasing concentration of assets to global elites. Second, financialization hampers economic productivity. Here Hayward follows the analysis of Sweezy and Magdoff in rejecting the view that financialization is the cause of economic stagnation: 'Financialization is a means to overcome stagnation but it can temporarily achieve this only by further exacerbating the underlying problem that real productive activity is stagnant' (p. 45). On this view stagnation is an underlying problem of monopoly capitalism to which financialization is a response. Large surpluses generated by monopoly capital cannot be absorbed in the productive economy. The growth in financial investments is a response to this stagnation of investment opportunities in production. Finance offers an outlet for investment that remains profitable as long as underlying asset prices improve. The result is the growth of debt and a series of financial bubbles. However, these financial bubbles are the consequence, not the cause of stagnation. As Foster and Magdoff put it in summarizing their position: '[T]he essence of capitalism's dilemma in its monopoly stage was captured by the "symbiotic embrace" that emerged between stagnation and financialization. The economy could not live without financialization ... and it could not live with it' (Foster and Magdoff, 2009, p. 19). Third, financialization is ecologically harmful. It is harmful in virtue of exacerbating the imperatives to growth within capitalism. Debt based finance and money requires continuous growth: 'In order that debts be repaid, and with interest, borrowers have to earn more money. Reiterated throughout the economy this process generates a systemic imperative for the total value of transactions in the economy to perpetually increase' (Hayward, 2019, p. 60). Both ecological and social concerns, Hayward suggests, offer different perspectives on the underlying problems raised by stagnation from that in standard economic approaches. Hayward draws a distinction between stagnation as a problem for capitalism and stagnation as a problem per se. Stagnation is an internal problem for capitalism since the system requires growth: 'If stagnation is a problem, then, this is because growth is a functional necessity for the dynamic system that is the capitalist mode of production is' (p. 49). From the social perspective of 'a concern to achieve an overarching social goal such as ensuring that nobody lacks sufficient access to goods and services for at least a minimally decent life' (p. 50) stagnation need not be a bad: 'From the social perspective ...growth is good to the extent that it serves to meet the social imperative; growth is harmful if its pursuit militates against that service' (p. 50). This social perspective is aligned with the ecological perspective on financialization – the imperative to growth is inconsistent with ecological constraints and limits.

Hayward offers a powerful criticism of financialization. Given the problem, what is the solution? In the chapter 10 of *Global Justice and Finance* Hayward suggests the problems of financialization require a radical solution that addresses the constitutional and political governance of global money and finance. However, there is an internal tension in the book. However radical the proposals for governance in finance might be, they look to be in tension with the endorsement of Sweezy's and Magdoff's analysis of the problems of financialization. The solution it seeks concerns the nature and governance of the financial institutions. However, the analysis offered by Sweezy and Magdoff, if it is right, entails that

the problems that underpin financialization should not be sought simply in the financial institutions. The pressures for financialization lie not in finance, but in the stagnation of investment opportunities in the productive economy under monopoly capitalism. Hence the problems lie in the nature of a monopolistic capitalist economy, not simply in the nature and governance of the financial system.

In places Hayward appears to endorse that more radical view. Thus he quotes with approval Sweezy's own response to the problem that calls for the replacement of market capitalism with an economy that aims directly at the satisfaction of human needs: 'rather than wait around for a miracle (or an irretrievable disaster), it is high time to dedicate our thoughts and energies to replacing the present economic system with one which operates to satisfy human needs and not as a mere by-product of the presence or absence of investment opportunities attractive to a relative handful of socially irresponsible capitalists' (Sweezy, 1982, in Magdoff and Sweezy, 1987, pp. 36–37). *Global Justice and Finance* moves uneasily between solutions to problems that are internal to the governance of finance and more radical responses that take the problem to be grounded in the underlying nature of capitalism as such.

What is the prospect for a more radical alternative? Discussion of the feasibility of any such radical alternative to a capitalist economy has its own history in the socialist calculation debates that themselves were important in the development of ecological economics (O'Neill and Uebel, 2018). These debates raise important questions for Hayward's arguments. A useful starting point for considering these is a claim about the limits of markets and monetary valuation for environmental goods by one of the founders of modern ecological economics, K. William Kapp:

The formulation of environmental policies, the evaluation of environmental goals and the establishment of priorities require a substantive economic calculus in terms of social use values (politically evaluated) for which the formal calculus in monetary exchange values fails to provide a real measure—not only in socialist societies but also in capitalist economies. Hence the 'revolutionary' aspect of the environmental issue both as a theoretical and a practical problem. In short, we suggest that environmental values are social use values for which markets provide neither a direct measure nor an adequate indirect indicator (Kapp, 1974, p. 38).

The limits of monetary valuations of environmental goods and the need for alternative measures are traced back to claims within Marxian political economy.

By stating that 'useful effects' or free 'disposable time' are the measure of real wealth and thus of the quality of life, Engels and Marx must have been convinced to have specified at least in general terms the alternative criteria for the planning and decision-making process in a socialist planned society. Few marxist writers have taken up these hints while many have simply followed the general trend toward a subjective theory of value and price. The great exceptions were Otto Neurath and Max Weber, today Charles Bettelheim and Paul Sweezy ... (Kapp, 1974, p. 38).

The references to Neurath and Weber are references to forgotten chapters in the socialist calculation debates. Neurath's socialization plans formed the occasion for Mises's well-known paper (Mises, 1920/1935) that is often taken to be the starting point. For Neurath, a socialist economy that considered only the use value of goods would be a non-market economy, an *in natura* 'economy in kind' lacking monetary units to compare the different

uses of productive goods. Indeed, a socialized economy would have no need for a single unit of comparison: 'There are no units that can be used as the basis of a decision, neither units of money nor hours of work. One must directly judge the desirability of the two possibilities' (Neurath, 1919/1973, p. 145). Mises accepted the premise that the socialist economy would lack monetary values to compare different plans, but argued that, for that reason, in a socialist society no rational economic choices could be made in the use of higher order productive goods.

Weber's contribution to the debates, to which Kapp makes reference, is more nuanced than that of Mises. Where Mises simply claims that socialism cannot be a rational economy, Weber draws a distinction between different senses in which an economic activity can be rational, that is between formal and substantive rationality.

The term 'formal rationality of economic action' is used to designate the extent of quantitative calculation or accounting which is technically possible and which is actually applied. The 'substantive rationality', on the other hand, is the degree to which the provisioning of a given group of persons (no matter how delimited) with goods is shaped by economically orientated social action under some criterion ... of ultimate values, regardless of the nature of these ends' (Weber, 1921–22/1978, p. 85).

The formal rationality of an economy is a matter of the 'the degree in which the provision for needs, which is essential to every rational economy, is capable of being expressed in numerical, calculable terms, and is so expressed' (Weber, 1921–22/1978, p. 85). Weber's argument has some parallel with that of Mises in taking monetary calculation to be a requirement of the formal rationality of a complex changing economy:

From a purely technical point of view, money is the most 'perfect' means of economic calculation. That is, it is formally the most rational means of orienting economic activity. Calculation in terms of money, and not its actual use, is thus the specific means of instrumentally rational economic provision (Weber, 1921–22/1978, p. 86).

For this reason Weber argued that, in terms of formal rationality, Neurath's economy in kind would be less rational than a capitalist economy. However, in contrast to Mises, Weber allows that this still opens up market economies for criticisms in terms of their substantive rationality, according to some ends in which the "'purely formal" rationality of calculation in monetary terms is of quite secondary importance or even is fundamentally inimical to their respective ultimate ends...' (Weber, 1921–22/1978, p. 86). Unlike Mises, Weber does not assume that formal rationality is identified as rationality as such. The reason that Weber, along with Neurath, matters for Kapp as a basis for ecological economics is that he recognizes the importance of substantive rationality.

Hayward's analysis of the problems of financialization belongs to the tradition of criticism of capitalism from the perspective of substantive rationality. The social and ecological perspectives he outlines are examples of substantive rationality in Weber's sense. Financial and monetary valuations fail as a basis for rational choices for the perspective of substantive rationality – from the social and ecological perspective. The Weberian challenge to Hayward – and to those like myself sympathetic to Neurath's position – is to answer the question of the place formal rational economic has in an economy ordered by a social and ecological perspective. How is it to be realized in an economy no longer guided simply by monetary

valuations? It is partly to this question that Sweezy addressed himself in his debates with Bettelheim to which Kapp makes reference. It is one to which Hayward starts to make some contribution in his other work, looking at ecological space as a metric for environmental justice. It reopens lines of debate that have been lost in more recent political philosophy.

One of the virtues of Hayward's book is that it does reopen those debates. *Global Justice and Finance* challenges the dominance in political philosophy of a particular form of liberalism. Conversation about social possibilities has narrowed in post-Rawlsian political philosophy. One of the prevalent founding myths of recent political philosophy is that Rawls reawakened the political philosophy that the influence of the logical empiricism of the Vienna Circle had closed down. However, not only was an engaged political and social thought central to the left-Vienna circle, it was marked by an economic radicalism that is absent in much current political philosophy, and also by an awareness of the environmental dimensions of economic and political choices that has only recently been rediscovered (O'Neill and Uebel, 2018). Many of the themes central to ecological economics have roots in the left-Vienna circle. Magdoff and Sweezy were similarly engaged in these older debates on whether the global market order is consistent with pursuit of social goals.

However, the changes in the terms of debate are not just the result of a predominance of a particular form of political liberalism. Current debates take place in the context of the failure of state-planned economies – whether described as state socialist or state capitalist – to deliver goods from both the social and ecological perspectives. As I have noted elsewhere:

It is clearly the case that the economies of Eastern Europe and Asia that went under the title of 'really existing socialism' were failures, not just in gross accumulation of goods, but on more or less all other indicators of a good economic order: the well-being of citizens, ecological sustainability, political and social freedoms, democratic accountability, and the distribution of wealth and power. In no instance did they offer a particularly happy alternative to liberal market orders (O'Neill, 1998, p. 2).

The same point could be made about the countries that Hayward offers as examples of resistance to the dominant financial order, such as Iran, Venezuela, Syria and North Korea. None of these provide good starting points for thinking about alternatives to the current financialized order. The claim that these countries come close to providing a model of an alternative is implausible. They are by any benchmark ecologically unsustainable economies. Indeed a number of them have substantive parts of their economies based on oil rents. Socially, their populations do not fare well on the measures of different dimensions of well-being. To make these points is not, however, to reject the need for real alternatives to the current global market capitalist order. The problem with much of liberal egalitarian thought on the one hand, and the cultural shift of the left on the other, is that there has been a failure to address questions of the political economy of capitalism and the alternatives to it. The questions that Hayward's book raises are central to thinking about what an alternative requires. The virtue of *Global Justice and Finance* is that it reopens debates which are in urgent need of renewed attention.

## Bibliography

- Banning, L. 1978 *The Jeffersonian Persuasion*, Ithaca: Cornell University Press
- Banning L. 1985 *Jefferson and Madison: Three Conversations from the Founding* Madison: Madison House
- Defoe D. 1710 *An Essay upon Publick Credit* Available at:  
<http://quod.lib.umich.edu/e/ecco/004843879.0001.000/1:3?rgn=div1;view=fulltext>
- Foster, J.B. and Magdoff, F. 2009, *The Great Financial Crisis: Causes and Consequences* New York; Monthly Review Press
- Forbes, D. *Hume's Philosophical Politics* Cambridge: Cambridge University Press, 1975
- Hont, I, 1993 'The Rhapsody of Public Debt: David Hume and Voluntary State Bankruptcy' pp.302-320 in N. Phillipson and Q. Skinner eds. *Political Discourse in Early Modern Britain* Cambridge: Cambridge University Press
- Hume D. (1987) *Essays: Moral, Political and Literary* Indianapolis: Liberty Press
- Kapp. K.W. 1974 *Environmental Policies and Development Planning in Contemporary China and Other Essays*. Paris: Mouton
- Kossoy A. and Ambrosi P., 2010 *State and Trends of the Carbon Market 2010* World Bank: Washington.
- Kramnick, I. *Bolingbroke and His Circle* Cambridge Mass.: Harvard University Press, 1992
- Mises, L. 1920/1935 'Die Wirtschaftsrechnung im sozialistischen Gemeinwesen', *Archiv für Sozialwissenschaft* 47 (1920), trans. 'Economic Calculation in the Socialist Commonwealth' in F.A. Hayek (ed.), *Collectivist Economic Planning*, London: Routledge and Sons, 1935
- Neurath, O. 1919/1973. 'Character and Course of Socialization'' In Neurath. 1973. *Empiricism and Sociology* (ed. by M. Neurath, R.S. Cohen). Dordrecht: Reidel.
- O'Neill, J, 1998 *The Market: Ethics, Knowledge and Politics* London, Routledge
- O'Neill, J. 2017 *Life Beyond Capital* Centre for the Understanding of Sustainable Prosperity, <https://www.cusp.ac.uk/wp-content/uploads/Life-beyond-capital-online.pdf>
- O'Neill J. and Uebel, T. 2018 'Between Frankfurt and Vienna: Two Traditions of Political Ecology' K. Forrester and S. Smith eds. *Nature, Action and the Future*. Cambridge: Cambridge University Press
- Pocock J.G.A. 1975 *The Machiavellian Moment*, Princeton: Princeton University Press
- Pocock J.G.A. 1985 'Hume and the American Revolution: The Dying Thoughts of a North Briton' *Virtue, Commerce, and History* Cambridge: Cambridge University Press
- Pocock J.G.A 1993 'A Discourse of Sovereignty: Observation on the Work in Progress' pp.377-428 in N. Phillipson and Q. Skinner eds. *Political Discourse in Early Modern Britain* Cambridge: Cambridge University Press
- Sayer A. 2015 *Why We Can't Afford the Rich* Bristol: Policy Press
- Sloan, H. *Principle and Interest: Thomas Jefferson and the Problem of Debt* Oxford: Oxford University Press, 1995
- Smith, A. 1981 *An Inquiry into the Nature and Causes of the Wealth of Nations* Indianapolis, Liberty Press
- G. Stourzh *Alexander Hamilton and the Idea of Republican Government* Stanford: Stanford University Press, 1970
- Sweezy P. and Bettelheim, C. 1971, *On the Transition to Socialism* New York: Monthly Review Press
- Sweezy, P. 1972 'On studying the transition process', *Monthly review*, 23, pp. 1-13.



Tobin, J. 1978 'A Proposal for International Monetary Reform' *Eastern Economic Journal*, 4:153-159.

Weber, M. 1921-22/1972. *Wirtschaft und Gesellschaft*. Tübingen: Mohr.

Weber, M. 1921-22/1978. *Economy and Society*. Berkeley: University of California Press.