HOW DO WE COUNTER FINANCIALISATION?

Paul Jorion

ABSTRACT

Financialisation being but the end product of a complex process, countering it is not a question of modifying individual behaviour but of changing the law. In sharecropping, the standard contract between landowner and labourer gets shared only based on what has actually been produced: risk is being shared along the terms of the contract guaranteeing to both parties a share of the produce, not a fixed quantity of it. Imbalance creeps in when rent is being paid without being a true share of wealth having been created, in what is nowadays called 'consumer credit': when interest is charged and paid from wealth that has not been generated through combining human labour with the resources lent as an investment but by the borrower mortgaging wages yet to come. Got historically added to the dysfunction of consumer lending*, speculation with the meaning traditionally assigned to it in finance of 'wagers on the rise or fall of the price of financial products'. Speculation doesn't add any economic value but shifts only amounts of money between bettors, generating a number of risks. Counterparty risk: the loser possibly defaulting, triggering then a damaging chain reaction of defaults. Moral hazard risk: bettors attempt to push the market in the direction favouring their bet. Systemic risk: bettors take advantage of the well-established fact that should they lose, the public sector will act as a saviour of last resort, bailing them out. This all can be redressed by law, and by law only.*

Keywords: Financialisation; sharecropping; counterparty risk; consumer credit; speculation; moral hazard; systemic risk

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The commonly adopted approach is to advocate changes in individual behaviour. What I am putting here forward instead is changing the law, i.e. improvements of a legal nature.

What future for a financialised world? Although we are not saying it in so many words, we are hinting though at the answer: a very limited one indeed.

It is a question, of course, of a necessary transition in the face of the true perils facing us. Having said so, I do not believe that financialisation is the very cause of the difficulties we are currently encountering; it seems to me that it is only one of the symptoms of a vast process of another nature, whereof it is but the end result, which does not mean, however, that no measures should be taken for ensuring precisely that financialisation has its extent first reduced, to be then disposed of altogether. Indeed, we imperatively need to restore finance to its old classic understanding as the bloodstream of the economy, and not just, as is currently the case, as the source of a permanent predation wreaking havoc on the economy.

To characterise the idiosyncrasy of my own approach, I need to underline that I am neither an economist (either heterodox or orthodox) nor even a *political economist*; my background is of a different strand having trained as an economic anthropologist – economic anthropology being a sub-discipline in its own right, born in the 1920s and 1930s, in Europe essentially. Economic anthropology is the brainchild of three prominent fathers concurrently: Marcel Mauss (1872–1950) in France, a sociologist, the nephew of Emile Durkheim, Bronisław Malinowski (1884–1942), Polish but whose fruitful career developed in England where he is regarded as the founder of modern social anthropology, and the Hungarian Karl Polanyi (1886–1964), more familiar to economists, especially with regard to a notion central to his works of the *embedding* of the economy. It is specific indeed to the anthropological look to consider that it is not possible to envisage the economy as autonomous and being understandable within a framework strictly delineated as separate from all other types of human behaviour.

You may be aware that Polanyi, in a 1957 article entitled ‘Aristotle Discovers the Economy’, is the person who revived an interest in Aristotle’s model of price formation. We were, thus, reminded of an alternative to the neoclassical models we are familiar with, of an entirely different nature than Antoine Augustin Cournot’s (1801–1877) *supply and demand* model. I mention in passing that I was unable to use the supply and demand model with my own field data from fishing communities of Brittany and West Africa, and it is only when I turned to Aristotle’s model that it became possible to account for the recorded observations.

What did Aristotle assert? Aristotle says in a manner of a footnote within a discussion of justice – a few pages in the *Nicomachean Ethics* – that the same model can be used to understand price formation and the mechanics of distributive justice. Let me get into some details here for those of you who may not be familiar with the ancient philosopher’s model of price formation (a full exposition can be found in Jorion, 1999). What Aristotle is basically saying is that price (and we would nowadays add interest rates to the package) gets constituted in such a way that the social order remains stable, that it reproduces itself identically. In other words, after the transaction, sale (or loan), the person who was rich will be rich in the exact same degree as before and the poor will have remained as poor as at start.

The model is consistent with the idea of a hierarchical but stable society. As far as I know, Pierre Bourdieu was not aware of the Aristotelian model; it is noticeable, however, that he reinvented something of the kind in his theoretical works.

Polanyi, however, made a mistake when he claimed in his 1957 article that Aristotle does not provide a descriptive but a normative model. Aristotle would have wanted that it so happened, Polanyi states. But, here lies a misunderstanding on his part; no, if Aristotle had seen his description as hypothetical, he would have said so as he never leaves any doubt in such matters. No, it is indeed a descriptive model.

Aristotle is a friend of Eudoxus of Cnidus – Eudoxus, one assumes, was the master of Euclid, whose name is more familiar to us. Eudoxus had worked out a theory of proportion which Aristotle put to good use in three distinct fields, in a masterly manner in each of them. Aristotle uses that theory of proportion to show that the syllogism is a continuous proportion, and that we can use Eudoxus' theory to explain how rationality, i.e. systematic reasoning, operates. He also resorts to it to explain the workings of justice, in two different ways: for corrective justice, which applies when litigators are of the same social status, and for distributive justice, between litigators of different statuses: 'Justice is therefore a sort of proportion; for proportion is not a property of numerical quantity only, but of quantity in general' (*Nicomachean Ethics* V. iii. 8). Summarising the mechanics of distributive justice in a single sentence, as Aristotle does himself: 'If an officer strikes a man, it is wrong for the man to strike him back; and if a man strikes an officer, it is not enough for the officer to strike him, but he ought to be punished as well' (*Nicomachean Ethics* V. v. 4), so that the social order gets restored to its initial state.

What did happen to Aristotle's price theory which prevented if from surviving as the beautiful and satisfactory model that it was? Aristotle already had a suspicion of what could turn sour with finance when he launched, in his *Politics* this time, a violent onslaught on the collection of interest, saying: '… the payment of interest is most reasonably hated, because its gain comes from money itself and not from that for the sake of which money was invented. For money was brought into existence for the purpose of exchange […] interest is money born of money; consequently this form of the business of getting wealth is of all forms the most contrary to nature' (*Politics* I. iii. 23). Aristotle knows that here is the worm in the fruit, that interest has the power to blow up the stability of Greek society: a scathing condemnation of capitalism before it was even properly born, in the mouth of the most prominent philosopher of all times.

What is it that is at work causing the fabric of society to collapse? The payment of interest and speculation. Of speculation there is no mention in Aristotle, he doesn't talk about it, but on the overall subject of money being born out of money he has been warning us 'Beware! Let's not allow practices of the kind'. In contemporary terms, we would say that Aristotle hints in those passages at what we could call an occupational disease of merchants, that is, a morbid interest in money as such: 'All men engaged in wealth-getting try to increase their money to an unlimited amount' (*Politics* I. iii. 18). Aristotle drew attention to all behaviour that could bring down a society otherwise stable.

What do I mean by 'rent on preexisting wealth'? Proudhon talks in that respect of *bargains* ('aubaines'), what Georges Bataille in the next century would call 'the boiling of the world' (*l'ébullition du monde*). We live in a world of naturally generated bargains: oil and ore are present in the ground, the farmer growing a crop does not grow the individual plants from beginning to end; a large part of being a skillful peasant is making sure that everything is fine with stuff growing essentially by itself. There needs to be fields, there needs to be water, we sure need to take care of that, we need to get rid of weeds, of pests (keeping in mind at the same time the dangers associated with herbicides and pesticides, we would add nowadays). There's a natural process whereof we are foremost, as Hegel excellently expressed it, the catalyst: 'the blind doing of nature is changed into a finalized doing [...] Herein labour is letting nature wear off, it quietly watches and only guides the whole with minimal effort: there is a trick (the wide edge of brute force is hit with the tip of a trick)' (Hegel, 1805/1982, pp. 33–34).

Another element that Proudhon drew attention to is the fact that as soon as a work process is collective, i.e. involves more than one person, its collective nature brings with it a reward. The example that Proudhon gave – you may be aware of it as it is well-known: '200 grenadiers erected in a couple of hours [on place de la Concorde in Paris] the Luxor obelisk on its base; should we imagine that a man on his own would have managed over 200 days? Though on the capitalist's payroll, wages paid would have been the same' (in Gide & Rist, 1909, p. 337). There is something here deriving simply from the collective nature of the process, generating added value automatically, in the same as sun rays allowing seed to grow by itself, sparing us having to 'make' it grow.

If the capitalist system got generalised, developing beyond the world of merchants to become that prevailing in the country as well as in the city, it is essentially through the mode of production called 'sharecropping', characterised by an overall principle of sharing both the generation of wealth and the risk that the production process entails.

Sharecropping is to be found all over the world; I came across it as well among African fishermen as among fishermen or crofters in Brittany. In the sharecropping contract, one party puts his or her labour force at the disposal of a landlord in exchange for a share of the wealth that will hence be created. A typical arrangement is the 50/50 contract: half of the harvest going to the sharecropper, half to the landlord. The terms of the deal may be other than 50/50, being more or less favourable to either party, reflecting the competitive environment: many owners and few potential workers, or many workers and few owners. As opposed to paying rent on land where the rent may accidently one year be higher than the returns, in sharecropping is only to be shared what has actually been produced: when there is no crop at all both the landowner and the sharecropper don't get anything. Risk is being shared along the terms of the contract which guarantees to both parties a share of the produce, not a fixed quantity of it.

Where does the imbalance come in? When there is an income without there being any wealth created. The word we use for that is 'consumer lending'. In the Middle Ages, there was another term about which there is much confusion nowadays: we assume *usury* being only lending at an excessive interest rate, which is the current usage of the word. Why was *consumer lending* regarded as unfair? Because it occurs outside a sharecropping framework where the interest paid is a share of the newly created wealth that the loan has rendered possible, while in consumer lending, interest is charged and paid from wealth that has not been generated by the combination of human labour with the sum lent as an investment; the instalments are being paid by the borrower through mortgaging wages yet to come.

The final handicap of capitalism is, of course, speculation. What I have in mind is speculation in the purely technical sense the notion had in nineteenth-century finance, that is to say the terms of, e.g., art. 421 of the French Criminal Code: 'Wagers that would have been made on the rise or fall of "effets publics" (financial products) will incur penalties listed in art. 419'.

On the Civil Code side that article was complemented by art. 1965 which essentially stated that disputes over wagers did not qualify for court arbitration. That was deemed 'Exception de jeu', the *gambling exception* and had its source way back in an edict of François 1er in the sixteenth century: 'The law allows no action for a gambling debt or for the settlement of a wager'. You want to bet? Please do so, but be aware that you are then on your own; any complaint on your part should there be an issue will be unwelcome before the court. Unless that is, states article 1965, talent is involved. Only bets on processes where pure chance is at play are barred from judiciary redress, meaning by that exemptions for sporting events, horse racing and so on. In 1885, Jules Ferry, then French prime minister, repealed art. 421 on the prohibition of financial speculation and introduced an additional clause within art. 1965: betting is prohibited 'unless it can be regarded as a financial transaction'. An extraordinary semantic trick indeed, whereof we still suffer the unfortunate consequences at present.

What are the perils of speculation? Counterparty risk of course: whoever bets, whatever the type of bet does not always hold the necessary monies. Thinking back of 2008 we know of a large number of examples, such as American International Group (AIG), the main protagonist in insuring *credit-default* swaps, the derivative financial instrument that not only allowed to insure against genuine failure in refunding a bond but also purely speculative moves, so-called *naked positions* on them. AIG, I recall, was extremely proud of the $6 billion in reserves that it had set aside. Predictably however, on 18 September 2008, it was a much larger sum: $73 billion, that needed to be paid out, an amount that rose again in the following days.

Here is the full list of perils deriving from speculation:

Counterparty risk: The loser may default and the winner not obtain the prize, triggering possibly the chain of claims that Keynes had drawn the attention upon of unintended snowballing, of a chain reaction of defaults.

Moral hazard risk: Quite logically the bettors will try to push the market in the direction favourable to their bet, lawfully, but at times also unlawfully.

Systemic risk: As rendered apparent in 2007–08, systemic gamblers take advantage of the well-established fact that should they lose, is present in the background as a saviour of last resort, not the private sector but the public sector which will bail them out, the bloodstream of the economy having to be kept in working condition for the common good, at whatever cost.

How is the fact that the system is permanently plagued by an excessive concentration of wealth being managed? Through taxation, but in a very ineffective way! Such is the main lesson of Thomas Piketty's book on *Capital in the Twenty-First Century*: for all practical purposes, it is unmanaged. Stability gets temporarily reinstated only by the occurrence of major financial crises or wars which, through the destruction of wealth accompanying them, take away some of the wealth of those holding too much of it, allowing the system to be reset and start all over.

We have been toying, of course, with the idea that a rational approach to issues will allow us to solve problems of such a nature, that is to say, by sitting around a table, pondering about the current troubles and making the appropriate decisions. Unless we are, of course, of the ultra-liberal type in the likeness of von Mises or von Hayek, who considered – however implausible that line of reasoning is – that only human institutions that came about unintentionally were valid and that on the contrary, institutions set up by us as the outcome of sitting down at the table to quietly plan will be plagued in no time by their unintended consequences.

As a matter of conclusion, let me end with stating explicitly the two proposals that it should be clear to you are the entailments of what I've just said.

Getting back first to banning speculation on the financial markets. When people say to me, 'Sure enough, but when I hope my child will succeed at school, that is speculation too!'. In no way! Speculation is what is mentioned in the repealed art. 421 of the French Civil Code: 'Betting on the rise or fall of financial products' prices'. Let us reinstate that excellent measure. I am being told that if we do so, it should be by all of us together as otherwise it would be of no use. Indeed it would be better that way. At the same time, it is a measure that would pump so much money back into the economy that the unbelievers of now would soon be convinced and would rush to emulate us! So let's be the first to doing so and reap the early rewards!

Secondly, let's turn consumer lending into a public sector initiative, that is to say, let's make zero rate loans the norm for them, in order to avoid the effect I mentioned, being that part of wealth remuneration – under the form of interest, coupons, dividends, etc. – needs to be generated out of wealth still to be created. The implication of that being on the one side mortgaging wages yet to come and on the other side destroying nature around us, since negative externalities are the byproducts of those sums promised as a repayment, i.e. an artificially induced need for creating ever more wealth in a context where, as we know, 87% of added growth nowadays ends up in the pockets of the top 1%.

That all brought together makes it impossible, in my view, to remedy the current disastrous imbalance in the operation of finance by any other means than through drastic changes in the law.

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