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(COVID) Crisis in a Financialized Economy and Alternative Regulation

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Abstract

Drawing upon the 2007-2008 global crisis and the current Covid pandemic, this article aims to show that since the 1980s, the organization of the economy in a liberal way transformed public financial regulation into market-relying self-regulation that led to persistent crises. The article maintains that the financialized accumulation regime generates endogenous inconsistencies and proves to be unable to ensure systemic stability and long-term viability of society. An alternative financial regulation resting on preventive collective action seems to be a relevant way to provide society with a sustainable and progressive financial system.

The ill-management of the Covid crisis is related to the socio-economic framework that rules societies and economies around the world since the 1980s. The evolution of capitalism rests on speculation-led accumulation process that deepens inequalities and puts collective projects and goals on the back burner. This evolution, also known as financialization, is based first and foremost on the primacy of short-term profitability. Relying on individual (micro) rationality, it is unable to conduct market activities from a macroeconomic perspective to ensure the development of society. Although individual market strategies can be regarded as rational actions, the systemic financial stability cannot be achieved by market mechanisms. In a capitalist economy, financial stability is to the viability of society what public health is to the lives of citizens. Both require the oversight of a visible public hand. Drawing upon institutional economics this article then shows that systemic dysfunction of capitalist finance does reflect the dysfunctional organization of society in which collective action has been abandoned in favor of the doctrine of efficient, self-regulating markets. Recurrent crises, caused by the imbalances generated by laissez-faire economics, are the main threats to the sustainability of an open, innovative and progressive society. From this perspective, the regulation of financial systems is of paramount importance and calls for alternative models of collective action that should determine the conditions of exercise of private financial institutions according to the goals of a sustainable economy respectful of both people and the environment beyond the conservative individualistic doctrines.

Keywords: Financial crisis, financial stability, institutional economics, regulation

I. Introduction

The recurrent societal crises (financial crises, Covid pandemic, climate change, etc.) of the last decades are partly related to the liberal regulatory framework that rules most market-based capitalist economies around the world since the 1980s. This framework determines how society is organized and managed, not only at the economic level but also at the social and political level. It also defines the current regime of accumulation in force in capitalist economies that is primarily based on speculation-led activities that deepen inequalities and put collective projects and goals on the back burner. This evolution, also known as the financialization process, is based first and foremost on the primacy of short-term profitability and the self-adjustment process of market mechanisms. Rational from an individual (micro) point of view, such a perspective may generate macroeconomically bad outcomes and

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seems to be unable to direct market activities toward sustainable development projects. Indeed, speculation-based dynamics often lead economies to systemic crises. Although individual market strategies can be regarded as rational actions, the systemic financial stability cannot be achieved by market mechanisms.

A capitalist economy is basically a monetary economy. In such an economy the stability and smooth functioning of the financial system is to the viability of society what public health is to the lives of citizens. Both require the oversight of a visible public hand over the functioning of markets in order to ensure a coherent organization and management of society, beyond the so-called market incentives and free market efficiency.

To support these assertions, this article draws upon institutional and evolutionary economics and maintains that the ill-functioning of the financial system reflects the ill-organization of a society in which collective action has been abandoned in favor of the doctrine of efficient, self-regulating markets. Recurrent crises, caused by the imbalances generated by laissez-faire economics, are the main threats to the sustainability of an open, innovative and progressive society. From this perspective, the regulation of financial systems is of paramount importance and calls for alternative models of collective action that should regard monetary and financial system as a public infrastructure and financial stability as a public good to be provided by public action. Such a framework can be built up on specific mechanisms of macroprudential and precautionary supervision of financial markets. These mechanisms should determine the conditions of exercise of private financial institutions according to the goals of a sustainable economy respectful of both people and the environment beyond the conservative individualistic doctrines. This article is not a discursive contestation of the liberal institutional order but an analysis on its weaknesses to keep the financial system safe and viable through time and to lead it to serve economic and social development purposes.

In this aim, the first section briefly puts forward the core characteristics of the evolution of capitalist economies over the last decades that led to a generalized financialization of society. The second section focuses on the specific monetary features of capitalism that point to the basic weaknesses of free market dynamics. These dynamics and the outcomes they may generate call for tight public-hand guided systemic regulation. The third section presents financial regulation as a collective action framework. The fourth section then suggests some regulatory policy avenues for a viable financial system. The last section concludes.

II. Evolution of market-based capitalism through financialization

The recent evolution of markets since the late 1970s onwards was initiated and supported by the assertion that liberalized (deregulated) markets could lead to equilibrium and then do not require regulatory constraints to function in an efficient way. This assertion, defended by many policy makers and scholars[1], allowed governments to implement financial liberalization policies that radically changed the face of financial markets. More decentralized and self-regulation-based practices (the so-called micro-prudential mechanisms) were substituted for macro-prudential public supervision rules. The light-touch regulation of financial institutions and markets allowed banks to manage their risks through their own internal models (Internal Ratings-Based, IRB) along with private rating agencies' services on assessment of banks' balance-sheets (and the securities they issued) that banks purchased as regular clients of the new regulatory framework. These new (de)regulatory policies assumed that subsequent new financial instruments and practices, the financial innovations, would result in the Schumpeterian creative destruction process, replacing inefficient old practices with better processes and services. However, Ülgen (2014a) shows that contrary to Schumpeterian entrepreneurial innovations, financial innovations mainly rely on short-sighted profitability and generate debt-funded speculative excesses such that banks and financial operations are disconnected from the long-term evolution and financial needs of the real economy. Therefore, liberalized finance dynamics do not provide the economy with better products and processes but lead to reckless finance (Schumpeter, 1939), provoking destructive evolution.

Indeed, structural regulatory and institutional changes that occurred in financial systems transformed the traditional banking business model into a speculative opportunistic environment on both the liability side of bank balance sheets (market mutual funds) and on the asset side (public capital markets), and generated large, complex and highly leveraged financial activities and companies (Ülgen, 2019). The financial engineering on securitization and derivative instruments nurtured this evolution and perverted the dynamics of the financial sector. Financial innovations modified the monetary and financial conditions on which the whole economic structure was laid. More elastic, financial system became also more open to systemic shocks.

[1]See Ülgen (2019) for a comprehensive list of references on this point.

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The mainstream wisdom usually maintains that price-oriented free market mechanisms would lead to an efficient social outcome, the so-called optimal economic equilibrium. That assigns to state a very limited role: conducting market-friendly policies that could enhance market incentives (after-crisis recovery interventions, if necessary), self-control reinforcing regulation, etc.). In the last decades this became a political motto that dominated the modern economics (Akerlof and Shiller, 2009). Therefore, a new consensual theory became the basic reference of (de)regulatory reforms as from the 1980s. This consensus, also called the "New Monetary Consensus" by Wray (2004), and the "New Consensus Macroeconomics" by Arestis (2009), is a set of different mainstream approaches that mainly rest on Neo-New Classical synthesis of efficient/optimal markets. It is closely related to the paradigm of Free Markets Efficiency (FME) and remains a non-monetary approach such as money and financial variables do not play any core role in economic evolution.

This consensus supports financial liberalization through two assertions: the ability of free markets to self-adjust in case of disequilibria and the efficiency of private/decentralized self-regulation mechanisms that do not require any collective regulation. Therefore, the relevant institutional framework could rest on market-friendly institutions and related incentives to cope with exogenous shocks. This assertion maintains that financial liberalization generally plays a stabilising role since it would enhance the opportunities for smoothing out the effects of real shocks and promote competition and efficiency in the financial sector. The example of advanced countries is used to indicate the right direction for emerging and developing countries in their process of development toward efficient market capitalism. However, contrary to these assertions, many emerging economies experienced monetary and financial crises in the 1990s and 2000s. Mainstream economics interpreted these crises as common transition problems partly due to bad public management. Unfortunately, with the worldwide systemic crisis of 2007-2008, this assertion has revealed to be erroneous and inconsistent with the characteristics of modern capitalism since advanced and "financially developed" market economies did not reveal to be spontaneously self-equilibrating systems of decentralized individual decisions (Ülgen, 2017).

Therefore, it is not obvious to state whether the general financialization of economies could obviously lead to efficient financial systems that would feed productive activities and economic growth. This article maintains that the evolution of modern capitalism again brought forth an unsustainable accumulation regime that generated expansive financialization which played the role of a black hole that devoured every economic decision on its path.

The efficiency criterion used to assess the market outcomes relies on the ability of free markets to quickly generate high returns on investment. This criterion prevails ever since over every economic and social decision and determines the conditions of financing of private as well as public activities and decisions. The result is unfortunately perverse market incentives that prevent agents from long-term engagements and encourage them to look for short-sighted speculative opportunities. Perhaps relevant at individuals' micro level, free market incentives turn out to be catastrophic at the macroeconomic-systemic level.

Such a transformation of institutional forms of the accumulation regime may be studied in terms of institutional regime of accumulation (O'Hara, 2012) or through the social structure of accumulation theory (SSA). The latter suggests an analysis of long-lasting capitalist institutional structure that promotes profit-making, and forms a framework for capital accumulation. Kotz (2008) argues, for instance, that Hilferding's finance capital and current financialization are distinct phenomena as the former lies in a relationship between financial and industrial capital, with the banks serving as coordinating centers for financial groups in an ordered environment to prevent excessive competition and speculative fervors of decentralized actors in markets.

The financialization is the process that allows operators to seek purely financial and short-term profits independent from the evolution of productive activities and usually generates a separation of finance from non-financial activities. In the financialization process, the accumulation regime is founded on the expectations that sustain economic engagements. These expectations rest on speculative positions mainly related to the likelihood of short-term high rents *whatever* the industrial-productive linkages behind the process. As the increase in investment is mainly in the financial sector or in some related speculative activities (as the home industry in the pre-crisis period of the 2000s), there is no direct causality going from the increase of investment to an increase of industrial productivity which would rest on the introduction of new capital plant and the scrapping of old ones as in the case of Schumpeterian entrepreneurial innovations. Furthermore, the sense of the cumulative causation[2] is different since the ripple effects of changes in the economy may be such that new things in the financial area (financial innovations) will cause a cascade of other changes that will not necessarily be positive for the system's long-run stability. The financialization process of capitalism reduces indeed the attractiveness of traditional productive

[2] In the sense of Allyn Young and Gunnar Myrdal. For a specific analysis of the cumulative causation process from an institutionalist perspective see Kitagawa (2016).

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activities resting on medium/long term financial and organisational engagements and substitutes the industrial and wage stagnation to employment-based growth. In such a regime, finance replaces production and rent-seeking replaces long-term profit expectations[3].

The identification of the systemic features of a capitalist economy and of the characteristics of its crises is of paramount importance in order to understand the contradictions of financialization and to design crisis-preventing policies and consistent market organization.

III. Contradictions of financialization in a monetary economy

Capitalism is a monetary economy in which monetary and financial structures (rules, regulatory design, related policies, incentives, etc.) do matter more than any other concern and must then be studied and framed more "seriously" than in the way that it has been done in the past. From this perspective, Ülgen (2020) specifies three major features of capitalism:

- A capitalist economy is a monetary economy that relies on continuous credit/debt operations among all economic units such as banks, financial intermediaries, enterprises, individuals, etc.;
- The credit/debt operations allow individuals, and especially entrepreneurs, to finance their plans and achieve accumulation. The accumulation process results in wealth growth but also in new debts;
- As a basic and fundamental rule of any credit/debt mechanism, debts must be repaid. In a continuous-time process, debts are accumulated, some debts are repaid, but all the debts cannot be repaid in a dynamic and future-oriented society. This last feature is an endogenous result of the functioning of a monetary economy and recurrently generates pressures over the continuity of economic relations such that if the debt accumulation process is stopped for any reason, that might lead to systemic crises and call into question the viability of the entire economic (and social) system.

Therefore, one can argue that in a (monetary) capitalist economy, financial rules, mechanisms and markets do play a crucial role since they provide mechanisms to allow private agents to undertake decentralized activities. This is a complex society that requires specific institutions to function in an appropriate manner. Its evolution then relies on the consistency of institutional patterns that shape private as well as public actors' behavior and determine systemic coherence (macro stability). The latter is a macro-concern and cannot rely on micro-regulatory mechanisms related to private objectives and practices.

More accurately, in such an economy, economic activities mainly rest on private/decentralized decisions that depend on debt relations involving bank credit and financial intermediation. The debt-financing process relies on private units' expectations about the future (but uncertain) profits. In such a process money has a peculiar nature: it is *transversal* and *ambivalent*. Money is transversal because all economic transactions rely on monetary relations: "Monetary and financial problems do structurally matter to all other sectors through the changes of strategies of the credit-money providers (banks) and financial intermediaries. Hence, changes in money/financial markets affect the whole economy irrespective of decision units which are or are not involved in debt relations" (Ülgen, 2014a: 263). Money is also *ambivalent* as it has a twofold nature that lies both in private decisions and public rules. Its creation lies in private decisions of banks and entrepreneurs based on profit expectations. It is a free decision/action tool. But paradoxically, its general use and validity as a means of payment and general settlement depends on public rules. From this perspective, money - as a private decisions-related creation - is a social institution, a set of social rules that allow private economic units to undertake free decentralized debt-based activities. Therefore, the viability (i.e. the capacity of the economy to deal with systemic crises without calling into question the legitimacy of its basic principles and values) of the accumulation process lies in the systemic possibility to validate the debt structure by the realization of expected profits. However, in such a non-ergodic economy there is no guarantee to validate the societal compatibility of separate decisions/actions. In the last decades the financial system became source of macro instabilities. As the global market expands, the need for international regulation becomes urgent. Arestis and de Paula (2008) show that there is little relationship between financial liberalization and economic growth, even in emerging countries. The comprehensive works led by Dymski, Epstein and Pollin (1993), Epstein (2005), and Hein, Detzer and Dodig (2016), Chwieroth and Walter (2020), among others, thoroughly study - in the case of advanced and emerging economies - the process of transformation of capitalism into a finance-dominated

[3] See Ülgen (2019) for a comprehensive presentation on the consequences of financialization and the process of deindustrialization in the 1990s-2000s.

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system. Those works document that the liberalization process undermines growth through its distorting effects on economic structures and everyday life of people. Implications point to necessary alternative regulatory reforms in order to lead financial markets to finance productive long-term activities and then put economies on more economically and socially sustainable and positive development path. Whatever the core arguments developed in different analyses, lessons converge toward modifications in the institutional structure of financial markets in favor of tougher macro-prudential regulation to supervise and control the working of markets.

In such an environment, some particular elements point to endogenous instability of liberalized financial systems. Those elements prevent the working of deregulated markets from reaching social optimum without organized and constrained public intervention.

First of them is the threat that comes from the confusion between two activities that must absolutely be separated: to rate/advise and to be rated. The liberal regulation indeed abetted the decline of financial stability (Kregel, 2010) partly through the increasing importance of rating agencies in the evaluation of the soundness of banks positions and financial intermediaries since it has created a kind of structural conflict of interest. The elaboration as well as the assessment of various categories products and processes were relied on the permanent intervention of agencies as technical advisers of banks. Obviously, this results in a deep confusion between the business of advice and that of the assessor. Sy (2009) also shows that self-regulation mechanisms that rely on private rating agencies, involved themselves in the market activities of banks, generates a pro-cyclical movement as it fuels the expansion of financial markets and operations during the periods of euphoria and abruptly stops asset price increase during the periods of turmoil. The "rated" and the "rater" have a common fate: developing and selling profitable speculative products. How, therefore, could they remain unperturbed in the face of such opportunities for gain, which they hold the means to promote in the markets. The "law of the market", i.e. the incentive to undertake actions and strategies that aim at higher and higher gains (which is the ultimate criterion of efficiency), will prevent the participants from taking a step back from their commitment and also from the general evolution of the market, and from evaluating the situation in the most objective and impartial way possible.

Second, a phenomenon of *macular degeneration* is observed in decentralized markets. In a liberal environment, private actors/regulators try to make short-term speculative positions last since they are unable to regard the evolution beyond the peripheral opportunities they can immediately perceive, they become blind to disaster (Orléan, 2009) because they suffer the phenomenon of *cognitive dissonance* (Akerlof, 2005). Economic agents usually believe that their speculative strategies remain enough safe even when cumulated disequilibria grow since they desire to keep making further profits. That is a micro-rational behavior. Market players then make (voluntary) judgment errors due to the discrepancy between their beliefs and what could be called the "objective" (true) state of the world. Moreover, in a non-ergodic world, the objective state of the world is a very confused concept. Each individual may have her/his own true state to guide her/his own strategic decisions. This potentially generates dissonant behavior as individuals and market institutions avoid prudential behavior and prefer to continue to engage in likely profitable positions till the "music stops" for the whole system.

Third, decentralized capitalist markets evolve through fallacy of composition. This means that there is no automatic bridge between micro-rationality and macro-consistency of economic decisions. Minsky (1991) points to the fragile posture of micro-rationality and subjective probabilistic risk calculations that ignore the true nature of the world. And Keynes (1936) refers to the phenomenon of mass psychology that allows individuals to enter into heroic but fragile positions. Rational micro decision units cannot deal with system-wide macro concerns that are generated by the addition of separate and uncoordinated actions.

And last but not least, in open and globalised free economies there is strong interconnectedness between actors and markets. Microeconomic behavior may generate multilateral and multi-level effects, chain reactions in numerous markets. Decentralized individual decisions not only contribute to the accumulation of systemic fragilities but they may also be pyromaniac (and no panic-proof) in face of distress. Regarding this issue, Minsky's Financial Instability Hypothesis (FIH) may offer an alternative approach (Palley, 2009; Kregel, 2010; Wray, 2012), a relevant analytical grid in order to characterise the major weaknesses of the liberal finance. At the same time, it may also allow to focus on some basic principles for consistent reforms that could aim at strengthening the organisation and working of financial systems and reducing systemic crises. Minsky (1992) explicitly relates financial instability to the characteristics of capitalism as he states that financial instability and the characterisation of the economy as a capitalist economy with expensive capital and sophisticated financial system go together. Minsky (1986) argues that market mechanisms cannot lead to full-employment equilibrium since *serious business cycles are due to the financial attributes that are essential to capitalism*. He then states that capitalism as a private debt-financing economy is naturally instable ("The tendency to transform doing well into a speculative investment boom is the basic instability

in a capitalist economy", 1982: 66). From this perspective, Minskyian financial instability analysis is an alternative to the equilibrium economics and allows economists to understand bubbles and crises as endogenous features of capitalism to be dealt with for systemic viability (Whalen, 2012).

Related to the issue of financial instability of capitalism, Ülgen (2014a) remarks the relevance of the institutionalist Minsky-Schumpeter connexion since Schumpeter -with his analysis of the rise of reckless finance- and Minsky –with his endogenous financial instability as the rise of the turmoil after the calm- both study capitalism as an institutionally framed evolutionary process along with unstable financial dynamics. Such an approach is firmly related to some institutionalist principles. Developing an institutional approach Gruchy (1974) emphasizes that contrary to the "decentralists" and the Chicago School that assume the function of providing for the social control of business is performed by competition and not by government, institutionalists think that laissez-faire cannot be count on to do this and the working of markets calls for continuous public vigilance. Instead of spontaneous market equilibrium, institutionalist theories develop the concept of balanced equilibrium under governmental direction in the tradition of Common's social/public control in economic affairs (Gruchy, 1952).

Institutional economics explicitly gives government an interventionist role as a developer of industrial and technology policies. Following this, the emphasis might be put on the role of government as a developer of financial regulatory structure in monetary economies. This role is a crucial one as money and related financial structure are the cornerstones of capitalism.

Hence, the working of the economy requires some collective rules and mechanisms to organize and guide private actors' strategies with respect to systemic viability.

IV. Financial regulation as a collective action framework

Behind the opposition between regulation and deregulation or between liberalised *versus* socially controlled financial markets lies the crucial question of what should a system-consistent institutional framework be with regard to the characteristics of capitalist economies.

Ülgen (2019) provides a synthesis on the consensual private-interest based regulation models that argue that constrained regulation and hands-on influence over financial systems cannot enhance financial soundness. These approaches maintain that supervision mechanisms must encourage private monitoring of banks through sound contract enforcement systems. Even in the aftermath of the worldwide catastrophe started in 2007, "new" regulations seem to merely tinker with existing rules rather than prevent the next systemic crisis. For instance, even though Financial Stability Board (2010) advocates that regulation should be designed to reduce market reliance on ratings, it also maintains that private sector risk management practices should involve appropriate internal expertise for credit assessment. This consensual wisdom focuses on slightly removing market reliance on rating agencies and strengthening information disclosures without calling into question the "flawed principle" of market-friendly micro-regulation. Epstein, Plihon, Giannola and Weller (2009: 142-143) note that despite the economically and socially terrible consequences of the current crisis "most governments in the Europe and the United States have chosen to return, for the most part, to the status quo ante. This consensus appears to be forming among the G-20 governments along the following lines. First, governments should exert relatively little formal control over the financial institutions that they have heavily invested in. Second, governments should develop an "exit strategy", which effectively means they should clean up the balance sheets of these banks and then re-privatize them as quickly as possible. Third, financial regulation should be strengthened somewhat, so that privately owned financial institutions do not expose the world's largest economies to the risk of major financial crises. At the same time, though, these regulations should not be so strong that they create inefficiencies and stifle "financial innovation" "[4]. Consequently, current regulatory reforms do not seem to be able to prevent the next systemic crisis, and yet several researches exist on the topic and point to different experiences and possible alternatives.

On the contrary, the alternative institutionalist approach maintains that the stability of monetary and financial relations determines systemic viability conditions and then requires collectively designed public regulation. It advocates for powerful public regulatory and supervision agencies to directly monitor and discipline banks and financial institutions in order to improve macro stability and strengthen systemic viability. It maintains that the stability of the financial system is a systemic and collective concern which must be produced and managed through macro-regulatory frameworks.

[4] It is worth noting that in this "process of liberal finance recovery", losses are socialized through the privatization of public funds. This obviously poses the very embarrassing question of the meaning of our today's democracies.

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Minsky's financial instability approach and institutionalist social control theory (Ülgen, 2014b) can then be used to understand the working of a capitalist economy and its natural implications regarding the necessary public intervention. Such an alternative approach especially rests on the key role of public institutions in economic development and advocates that policies must aim at supporting sustainable economic activity through collective action. Central banks must act as social organizers of financial markets. Beyond their crucial role as lenders of last resort in case of systemic distress and as providers of valuable information about the evolution of markets through interest rates changes, public authorities must aim at organizing monetary and financial systems in an alternative way and leave the liberal ideological blindness to disaster. This alternative consists in organizing and framing market economies through the visible hand of the public power. It calls for more rigorous bank supervision and tighter regulation of financial markets that must be designed and implemented at the systemic and global level in coherence with the core characteristics of monetary capitalist economies.

One of the main arguments behind this assertion is that systemic problems are the cumulative results of individual actions that imply collective actions since individuals' capacities are limited to their own interests and micro knowledge. As systemic problems resolution generates social advantages which are superior to private advantages and as every private individual unit would benefit from the resolution of such problems even if she/he does not contribute to any effort by her/himself, the reduction of system-wide threats requires an enforceable system-wide regulation. Such regulation is obviously related to two principles. First, given the characteristics of money emphasized above, monetary/financial stability has a peculiar status as a kind of specific collective matter as a sort of public good (Ülgen, 2021). It concerns the whole society and its viability conditions. And second, monetary/financial stability cannot be produced or consumed according to decentralized and anonymous market mechanisms but calls for public intervention that must play the role of referee and stand outside of private market relations in order to organize, supervise and regulate capitalist monetary and financial system.

By definition, systemic instability concerns must be addressed towards collective rules and principles. To cope with crises and their destructive consequences and to give markets a positive role in economic evolution, the redesign of financial regulation is a sine qua non condition. Therefore, macro-prudential regulation-based principles must be substituted to micro-regulation schemas as they are related to factors that affect the stability of the financial system as a whole. This calls for modifications in the institutional structure of financial markets through tighter and accurate macro-prudential regulatory schemas.

A relevant regulatory framework must take into account different facets to the process of regulation such as structural/economic regulation (about the financial market's structure and competition), conduct regulation (concerning private actors' behaviour), social regulation (consumer and labour protection) and societal regulation (collective objectives, development issues, etc.) to tame speculative short-sighted finance. However, this would result in abandoning the ongoing market-friendly regulatory reforms that rest on the belief that it might be possible to create systems in which self-interest based self-regulation (due to various rewards and punishments) might lead all agents to system-consistent behavior.

From an institutionalist perspective it seems to be relevant to give public institutions (such as government, central bank, supervision agencies, etc.) a crucial role in the design and implementation of sound financial systems and related regulatory structures since the cornerstone of capitalist economies -monetary/financial framework- cannot be built up and consistently managed through private-interests based market relations. The major characteristics of capitalist market economies require the organization and implementation of a system-consistent environment to be framed through collective objectives and constraints. Institutional economics precisely appears to be an appropriate approach to deal with today's major economic issues since it assumes that in capitalist economies monetary/financial rules, mechanisms and markets play a central role. Veblen (1919: 89) notes the dominant role of money and finance in the economy by stating that the discretionary control over the real economy came to vest in the captains of finance, the masters of financial intrigue "who are highly skilled in the haggling of the market".

Gruchy (1989: 860) notes that the question of economic reform plays a central role in institutionalism that mainly focuses on the problem of "the kind of economic system that may be more serviceable to the community than is present day capitalism". However, even in the aftermath of the 2007-2008 worldwide catastrophe, the recovery policies have not been accompanied by sound regulatory reforms to change incentives and rules in financial markets in order to strength institutions and reduce crisis-provoking and crisis-prone market activities. As Boyer (2013: 136) states: "the strong resurgence of liberal orthodoxy played a decisive role in blocking the reforms that are needed to restore the viability of financial systems and their contribution to a return to growth. Reference to Keynesian interventionism was therefore short-lived, and far from marking the beginning of a new era."

The next section suggests some alternative directions for relevant financial regulation seeking to strengthen the

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viability of the financial system.

V. Relevant regulation for a viable financial system

Brunnermeier et al. (2009: vi) argue that the prevention of crises in the banking system is more important than in the case of other industries: "The current approach to systemic regulation implicitly assumes that we can make the system as a whole safe by simply trying to make sure that individual banks are safe. This sounds like a truism, but in practice it represents a fallacy of composition. In trying to make themselves safer, banks, and other highly leveraged financial intermediaries, can behave in a way that collectively undermines the system."

To cope with crises and their destructive consequences and give markets a positive role in economic evolution, redesigning financial regulation is indeed a systemic prerequisite. Central banks and related public supervision agencies must act as social organizers of financial markets and frame markets through the visible hand of the public power in order to design financial regulation at the systemic and global level in coherence with the core characteristics of monetary capitalist economies.

Crucial differences between micro-rationality and macro-stability; between what it seems to be efficient at the individual level and what would be efficient at the whole society level render the management of market activities very difficult. Micro-rationality is limited as it is based on private information about the micro-environment while macro-stability seeks at assessing the situation of the whole system and then to evaluate its possible deviation from the sustainability/viability path. From this point of view, it seems to be possible to shed light on some implications for systemic stability through the opposition between micro-prudential regulation and macro-prudential regulation. Micro-prudential regulation deals with factors that affect the stability of individual institutions, mainly resting on self-monitoring and legal incentives to assure the regular disclosure and accountability, rating agencies and banks' own Internal Ratings-Based models but inevitably provoking conflict of interest issues. Whatever the supervision mechanisms implemented by public authorities over micro decision units, in a micro-prudential schema the incentives fail to prevent short-sighted individual behaviour which often develops macular degeneration reflecting the very limited horizon of decentralized private expectations and subsequent actions.

Therefore, macro-prudential regulation principles must be substituted to micro-regulation schemas as they are related to factors that affect financial system's stability as a whole. A relevant regulatory framework must take into account different facets to the process of regulation such as structural/economic regulation (about the financial market's structure and competition), conduct regulation (concerning private actors' behavior), social regulation (consumer and labor protection) and societal regulation (collective objectives, development issues, etc.) to tame speculative short-sighted finance. The ultimate challenge for regulatory policies is to implement societal efficiency-seeking public interventions and then make decentralized individual decisions and actions socially consistent according to collective objectives. More precisely, societal consistency of a financial system rests on its capacity to prevent speculative banking/finance and to serve job-creating productive needs. An alternative societal efficiency paradigm should be substituted to the consensual market (economic) efficiency criterion, and lead to reshape alternative rules, policies and incentives according to society's common objectives that should aim at improving the wellbeing of citizens in the entire society.

From this perspective, financial stability must rest on a broader concept of societal stability including macroeconomic stability, political stability as well as cohesive and inclusive stability. This requires a kind of "finance without financiers" (Epstein, Plihon, Giannola and Weller, 2009). The design and implementation of such an environment obviously require transparent and democratic governance, as open and supra individuals as possible beyond local and group interests. In this case, regulation will not appear as a restrictive external constraint over free individuals but as a means to strengthen society's foundations and cohesion among citizens with respect to common objectives, rights and duties that aim at preventing harmful out of control strategies of financial institutions.

In this aim, alternative regulatory rules might consist in separating securitization and industry financing activities: *A little bit of incentives, a whole lot of prudential supervision* "Finance to finance" and "finance to produce" must be distinguished and the objective of realisation of societal long-term targets replace private-interest based incentives through two principles: *constrained preventive financial structure* and *preventive funding.* Even if banks can create branches in these two sectors, their engagements should be clearly separated with regard to their balance-sheet positions such that when a securities market specialized branch has difficulties, the industry financing branch would not have balance-sheet links with her and would not be directly impacted by such disequilibria. Parallel to this proposition tougher capital and liquidity requirements and severely limited speculative engagements could be implemented. That is the *rule of constrained preventive financial structure* which would be not conducive to

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systemic interconnectedness among individuals and institutions able to lead to instability degeneration. To create strong incentives to direct banks' decisions through less fragile and less unproductive engagements, it could be judicious to increase charges and commitments for banks' activities as zero or punishment bonus-minus system and unlimited liability partnership. That is the *rule of preventive funding* to involve directly banks and speculators into crisis losses financing. Obviously, those regulatory measures must be accompanied by regular public evaluation of banks' activities (for instance, every two years) with respect to their contribution to the realisation of societal objectives. Market-based assessment systems (such as the internal ratings-based approach or private credit-rating agencies) must be replaced by neutral and objective public oversight mechanisms in order to prevent conflict of interest and to enhance the impartial character of the rating and supervisory process in the name of society. From this perspective, the organization, supervision and assessment of banking activities would be related to the objective of realisation of societal long-term targets even though banks would remain private and capitalist enterprises. Regulation would concern the social utility of banks and the quality of their engagements and their ownership or current management. Therefore, societal incentives would replace private-interest based incentives.

In the aftermath of the 2007-08 crisis, the Chairman of the Board of Governors of the US Federal Reserve System, Ben S. Bernanke (2011) declares that: "The explicit incorporation of macroprudential considerations in the nation's framework for financial oversight represents a major innovation in our thinking about financial regulation, one that is taking hold abroad as well as in the United States. This new direction is constructive and necessary, I believe, but it also poses considerable conceptual and operational challenges in its implementation".

Such a "discovery" might be seen as a good sign for systemic institutional changes in order to improve financial stability. However, with a broader analytical reading of some non mainstream economics it would have been obvious to remark that macro-prudential coordination does not really represent a major innovation in our thinking since in institutionalist and post Keynesian approaches it is the major constituent part of a general alternative economic and social orientation.

In institutionalist approaches this question gives rise to the studies on the social control of economic activities such as large firms, monopolistic markets, financial activities, etc. often in parallel with social welfare objectives. The design of financial institutions, i.e. of an alternative institutional macro-framework for more rational systemic regulation that contains systemic fragilities and dampens instability is one of the main policy problems of our time. The aim of the analysis is to study the nature of the social process in a way that takes the economics far beyond the study of market equilibrium and focuses on the role of public institutions in the functioning of capitalism.

Consequently, the analysis of economic relations among decentralized individual decisions and actions in a market-based capitalist economy is the analysis of an instituted economy in evolution (e.g., system-consistent institutional development). Minsky (1982, 1986) states that the evolutionary path of an economy depends upon institutions, usages, and policies and is then closely related to the impact of alternative institutional specifications. An alternative societal efficiency paradigm should be substituted to the consensual market (economic) efficiency criterion, and lead to reshape alternative rules, policies and incentives according to society's common objectives that should aim at improving the welfare and wellbeing of citizens. From this perspective, financial stability must rest on a broader concept of societal stability including macroeconomic stability, political stability as well as cohesive and inclusive stability. The design and implementation of such an environment obviously require transparent and democratic governance, as open and supra individuals as possible beyond local and group interests. In this case, errors and poor results can be discussed and adjusted together whatever the responsibilities of policymakers involved in the process. In this case, regulation will not appear as a restrictive external constraint over free individuals but as a means to strengthen society's foundations and cohesion among citizens with respect to common objectives, rights and duties through an efficient organisation of markets that could prevent free rider behaviour and out of control strategies of financial institutions. Through this, a societal/structural efficiency might be set up. In a similar vein, Gruchy (1974: 242) states that "In the open forum of the national planning program, whatever economic power was possessed by special interest groups would be exposed to view, and no interest group could operate in a manner that was contrary to the community welfare.

VI. Concluding remarks

The 2007-08 crisis did not really lead to a necessary self-critique of a-monetary equilibrium-related micro and macroeconomic models that usually consider monetary and financial systems as a mere adjunct to efficient markets real equilibrium. Thus, there is no room for specific analysis of sophisticated financial structures and related instability concerns that a capitalist economy can generate in its own evolution (Minsky, 1986).

Recurrent difficulties and systemic crises occurred in the late twentieth century in several advanced as well as developing economies are mainly due to the evolution of liberalized and loosely regulated and weakly supervised financial systems. Debates developed in the wake of the 2007-08 global crisis have rekindled the flame of Minsky-like and pro-institutionalist ideas and propositions without calling into question the foundations of financial liberalisation. So, it seems that if one follows the different works offered by the institutionalists of the early 20th century, it is not possible to eschew the opposition between individual interest-based private economic efficiency and societal efficiency. The same remark does also hold for the opposition between the virtual and inconsistent real equilibrium theory and the managed administrative equilibrium by the public power that should pursue the aim of improving the societal welfare and cohesion. Therefore, it is not surprising that major institutionalists advocated for national planning as a framework for both antitrust action and public utility regulation. As it is asserted that money and related relations (such as financial markets and activities) belong more to the entire society than to some private profit-seeking individuals, the "management" of money and finance cannot (must not) be entrusted to private interests. The logical necessity of a tight and accurate regulation comes from those arguments and must be understood as a matter of logic and not as a matter of politics. Macro-prudential approach, accompanied by administrative restrictions on banks' speculative activities, seems to be more able to take into account societal aims and concerns as it would be designed and implemented independent of vested private interests. The result of such a vision could lead to more security and stability for the masses, performed by public authority as it was defended institutionalist approaches. Put in such a perspective, institutionalism may appear to be a more precise and politically applicable alternative to dominant economic theory in the aim of stable financial systems and human-wealth creating sustainable growth.

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