

LIBERALISED FINANCE AND INSTABILITY: “Does It Drop Out as a Matter of Logic”?

Original Scientific Article

Faruk ÜLGEN

Centre de Recherche en Economie
de Grenoble (CREG) and Faculty
of Economics, University of
Grenoble Alpes, France

This article seeks to bring out the conceptual weaknesses of the assertion that free market mechanisms and liberal financial structures are necessary conditions for economic growth and stability, and to draw implications regarding financial regulatory policies required for the systemic viability. In this aim, it studies the very characteristics of a capitalist economy as a monetary economy and suggests an institutionalist analysis of the hypothesis of endogenous financial instability of Hyman P. Minsky. The process of financial liberalisation since the late 1970s led economies to a speculation-based accumulation regime. However, the sustainability of such a regime reveals to be extremely fragile since it suffers from the conflict of interest, fallacy of composition, absence of macroeconomic vision and lack of consideration of the interconnectedness among market actors. Therefore these pitfalls of free and decentralised markets must be addressed towards collective rules and principles if one would prevent them from continuously resulting in systemic financial turmoil. The main implication of such an analysis is that tough macro-prudential regulatory reforms must be implemented in order to create public-led supervision systems in which social efficiency should replace the individual economic efficiency criterion and lead policies to prevent speculative banking and finance and direct markets towards system-consistent behaviour.

Keywords: Economic stability, financial liberalisation, institutional analysis, Minsky, regulation

Introduction

THE STANDARD ECONOMIC THEORY USUALLY asserts that market mechanisms are globally able to lead economy to higher growth paths and are also “naturally” framed to self-adjust in case of cumulated disequilibria and possible crises. According to this *consensus*, financial markets and institutions have been liberalised in major economies from the 1980s and this has resulted, in 2007–2008, in a large and long-lasting crisis, started in UK and US bank and financial markets, and widened since then to a large part of the world economy and gone beyond the financial sector. This crisis put whole sectors of the economy in bankruptcy and people in employment, transforming public finances into insoluble deficit holes. In the wake of such an economic and social catastrophe, this essay seeks to bring out the conceptual weaknesses of the assertion that liberal financial structures are necessary conditions for economic growth and stability, and to draw implications regarding financial regulatory policies required for the systemic viability. In this aim it suggests a specific study of the very characteristics of a monetary capitalist economy through an institutionalist approach that relies on the hypothesis of endogenous financial instability of Hyman P. Minsky.

The major implication of such an analysis is that beyond the standard economic theory of neutral money and equilibrium-related finance approaches, monetary and financial policies must actively be directed through the criteria of social consistency of economic structure and actions. Such a political orientation requires tough macro-prudential alternative regulatory reforms to be implemented in order to tame speculative short-sighted finance and to create public-led supervision mechanisms. Such mechanisms should rest on collective-objectives based financial policies that might limit or block speculative banking and direct markets towards financing needs of long-term activities able to create employment and sustainable wealth. Sustainability means here that the process of creation of wealth is compatible with social objectives (poverty reduction, employment enhancing), environmentally acceptable, not harmful to the continuity of life on earth for future generations, etc. It then appears that the after-2007 crisis (market-friendly) regulatory reforms keep difficulties and their sources unscathed, and the assumption that self-interest based self-regulation would lead financial system to Pareto-

To assess the relevance of such assumptions, the article is presented through three sections. The first section recalls the basic assertions of the liberal approach to the functioning of capitalist economy. These assertions are then opposed to the monetary nature of capitalism in order to draw attention to the distinctive characteristics of monetary and financial relations in market economies. The second section maintains that with respect to those characteristics, liberalised financial markets do literally function on the razor's edge –highly dependent on stabilising public relief as it is argued in the Minskyian financial instability hypothesis and in institutional analyses that point to the malfunctioning of financialised capitalism. The third section then points to some basic institutionalist principles for an alternative and system-consistent regulation in order to reduce, if not to prevent, systemic financial instabilities and to give more chance to job-creating productive activities.

Free Efficient Markets Equilibrium Versus Monetary Capitalism

Efficient market hypothesis and real economic equilibrium features are inconsistent with the characteristics of a monetary capitalist economy. Therefore they cannot lead to an appropriate understanding of the working of such an economy and give valuable directions for its governance. Furthermore, the “natural” evolution of capitalism through more and more liberalism and financialisation make that one cannot deal with the problems of our modern economies by using the hypotheses and tools of the equilibrium economics.

Consensual macroeconomic models usually assert that free market economies could evolve through a globally sustainable growth path thanks to the spontaneous efficiency of market mechanisms. To give some examples to this stance, widely shared by scholars and spread by official institutions and policy makers throughout society, in the *Annual Reports of the Council of Economic Advisers* transmitted to the Congress in 1991 and 2004 (to quote but a few) together with the *Economic Report of the President* of the USA, one can read: “In the U.S. economy, free markets fuel and direct the process of economic growth. Market forces in the financial sector channel savings into growth-enhancing investment opportunities; these forces both reward and encourage entrepreneurship- the economy's sparkplug. The flexibility of the market-based U.S. economy both increases its re-

silience in the face of disturbances and enhances its ability to make the most of new opportunities” (Economic Report 1991, 22). It is also maintained that: “An important reason for Americans’ high standard of living is that they live in a free-market economy in which competition establishes prices and the government enforces property rights and contracts. Typically, free markets allocate resources to their highest-valued uses, avoid waste, prevent shortages, and foster innovation” (Economic Report 2004, 149).

Romero de Avila (2003) states that in the case of the European Union, liberalization of capital controls has mainly affected growth through improvements in the degree of efficiency in financial intermediation. In the same vein, Schleifer (2009, 135) argues that: “(...) economics got the right answer: free market policies, supported but not encumbered by the government, deliver growth and prosperity”. The book edited by Balcerowicz and Fischer (2006) put to the fore the same theoretical and political position.

Whatever their precise theoretical direction those assertions rest on non-monetary models (i.e. mainly on Walrasian-like competitive markets assumptions and subsequent real equilibrium conditions). Whatever their scope, general equilibrium or partial equilibrium, they do not (cannot) deal with money and monetary issues.¹ Consequently, they do consider finance as a simple matter of equilibrium through loanable funds market where price mechanism could lead demand for investment to meet supply of savings and result in a steady-state through a final equilibrium price (interest rate) without public intervention. This assertion gained strength in the last four decades and led to the implementation of economy-wide liberal policies. These policies modified the stance of monetary policies and the structure of financial markets. This mainstream wisdom is obviously related to the neoclassical equilibrium model since its core assumption is the efficient working of market price mechanism leading to economic efficiency. It should also be noted that market efficiency is assumed to result in social efficiency as it is thought as a relevant way of guaranteeing a Pareto-optimal social outcome. I call this theoretical stance the New Consensual Theory (in the line of Arestis, 2009) that implicitly or explicitly admits the free market efficiency paradigm, developed at the origin by Eugene Fama, among others. Two major assertions can be drawn from the New Consensual Theory about the financial markets and the liberalisation process. The

1 For some alternative theoretical conceptions of a monetary economy, see, among others: (Ülgen 2013a).

first is that free markets are able to self-adjust in case of disequilibria. And the second is that private and decentralised self-regulation mechanisms are more efficient than any other public regulation. Such assumptions result in new monetary and financial policies, from the late 1970s, through mainly two directions:

- the sharp separation between the government and the central bank (the so-called independence of central banks) taking monetary policy away from governments and entrusting it to the anti-inflation policies of central banks;
- the deregulation of financial markets in favour of micro-prudential supervision mechanisms letting banks and other private agencies (such as rating agencies) provide assessment on markets financial activities. Therefore, the state and its agencies reduce their roles and presence in markets and implement market-friendly incentives policies instead of restrictive supervision.

This choice rests on a political will that leaves no room for specific analysis of insolvency and illiquidity concerns in a capitalist economy since shocks and crises are assumed to come from the outside as surprises or accidents mainly due to some bad individual behaviour and not to the malfunctioning of markets. It is advocated that the relevant institutional framework should rest on good “market-friendly” institutions and related incentives to cope with exogenous shocks. This assertion maintains that financial liberalisation (including capital account liberalisation) 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 towards efficient market capitalism. In this direction, many emerging economies have experienced monetary financial crises in the 1990s and 2000s that have been interpreted by orthodox economists as problems of transition and bad public management (for a synthesis of different approaches developed on this topic, see Ülgen 2013b). However, in the wake of the 2007 crisis, this theoretical and political direction seems to be inconsistent with regard to the characteristics of financialised capitalist economies since advanced and “financially developed” market economies did not reveal to be spontaneously self-equilibrating systems of individual decisions. Instead of stability, advanced as well as emerging economies have experienced cumulative imbalances and several recurrent systemic crises. In-

stead of sustainable growth, economies have had (and continue to have) recession periods. But without any structural change of economic policies that have failed to give economies a sustainable growth path in the period preceding the 2007-crisis, most economies implement to date conservative policies to fight against increasing (crisis-related) public deficits. And last but not least, increasing and persistent unemployment dominates at long run and lets capitalism put pressures on wage negotiations and tame social claims.

Unfortunately, even after the 2007 systemic meltdown theories and policies remain fundamentally the same however with some cosmetic modifications in order to calm public ardour down. As the result of liberal finance disease, lethargy comes into the picture as a lack of interest in searching for structural alternatives since policy decisions transform into a deficiency in relevant economic alertness and activity. The economic theory behind this stance is powerless to suggest a relevant alternative to its own futile beliefs because there is no room, in real economic equilibrium theory, for specific analysis of sophisticated financial structures and related insolvency concerns that a capitalist economy can generate in its own evolution. So, such a theoretical and political direction is irrelevant with regard to the characteristics of capitalism which is a monetary economy where real equilibrium has no meaning and where treating money as a secondary variable (a mere veil) without any long-term influence over real variables results in poor and weak understanding of capitalism that prevents any relevant attempt to improve its working.

From this perspective, three major systemic features of capitalism can be specified.

- 1) The first feature is the monetary nature of capitalism. Capitalism is a monetary economy such that monetary and financial structures, rules, relations regulatory design, related policies, incentives, etc. do matter more than any other concern in the working of the economy. Private agents' decentralised decisions and actions rely on these rules and mechanisms. Actually, in capitalist economy economic activities rest on private/decentralised 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 *ambivalent* and *transversal*.

Money is *ambivalent* because it rests both on private units' decisions and non-private/public rules. It is created through private and decentralized decisions of banks (which grant credit without having previously accumulated savings in their hands) and entrepreneurs (which ask for financing of their projects that are related to an uncertain future as the demand for their products is not yet –usually– expressed in markets). This relation is entirely based on profit expectations of involved parties but it involves indirectly whole society (through the employment level that it would generate, the wage revenues that it would create and the indebtedness that it would imply). At the same time, it is obvious that the general validity and use of money as a unit of account (the common economic language of society as established and given for everybody and admitted by each member of the community of payments), a means of payment (to be used and then accepted by all agents and markets) and as a general means of settlement (money is also used to repay debts among private agents. It is the only general means of payment in full discharge) depends on non-individual, system-wide and system-valid public rules (Ülgen 2013a).

Parallel to this, money is also *transversal* because all economic transactions rely on monetary relations; economic projects and expectations are established in monetary terms and implemented in the whole economy involving more or less every citizen. That is why: “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 2014b, 263).

- 2) The second feature of a capitalist economy is its social and institutional complexity. Capitalism is a complex society since its structure rests on multiple and diversified institutional framework the consistency of which is continuously submitted to numerous pressures. Its evolution then relies on the consistency of institutional patterns that shape private/public behaviour and systemic stability.
- 3) And third, the continuity of capitalism lies in the possibility of systemic viability. This latter can be defined as the capacity/ability of an economic system to deal with systemic crisis situations that threaten the

continuity of the established order without being obliged to call its major principles, rules and values into question. Viability is eminently a macro-concern.

Those features are mainly related to systemic characteristics of the economy and cannot be thought throughout private-objectives-related micro units' decisions or separate/decentralised market mechanisms. From this perspective, money stands in the middle of society as a social institution, a set of social rules that let a market-like capitalist economy work in a quasi-decentralised way. It appears, indeed, that capitalism as a monetary economy rests on private/decentralised decisions which in turn rely on debt relations, peculiarly between banks and entrepreneurs which are the main dynamic factors of the production machine. Obviously, in a private-initiative/decisions based economy such as capitalism, the debt-financing process depends on private units' expectations about the future (but uncertain) profits, revealing the non-ergodic character of the economy. In such a process, monetary relations are the basis of economic activity and decisions and involve directly (people who are included in the decision and action process, employees and employers, for instance) or indirectly (people who can or cannot find a job, people who depend on the economic decisions of the others, of state, etc.) everyone into the economic process resting on monetary and financial relations provoked by some economic agents. At the same time, the viability of the capitalist accumulation process lies in the systemic possibility to validate the debt structure by the realisation of expected profits. However, in such a non-ergodic economy there is no guarantee to validate the societal compatibility of separate decisions/actions such as a general socially efficient equilibrium can be reached. Hence, the working of the economy requires some collective rules and mechanisms to organise and to guide private actors' strategies with respect to systemic viability.

Instability of Liberal Financialised Capitalism: Basic Pitfalls

18 In capitalism, given the aforementioned features of the monetary economy, some particular facts point to endogenous instability when financial systems are largely liberalised and public supervision weakened. Thereafter three facts are brought to the fore as some of the major basic pitfalls of a liberalised finance-based capitalism: confusion between two separate activities (financial intermediation and rating of financial activities) that generates conflict of interest, fallacy of

composition and interconnectedness among actors and markets. When a tightly organised and constrained public regulatory intervention is absent, those facts become dominant over society and prevent the working of markets from reaching social optimum and often result in systemic crises.

- 1) First of the basic pitfalls of liberal finance is related to the massive substitution of private evaluation mechanisms to public regulation of private financial activities. Banks are encouraged to proceed to the control and evaluation of their own financial positions and soundness of their balance-sheet through their own models of risk assessment (*Internal Rating Based, IRB*). They are also invited to entrust rating agencies to assess “objectively” the soundness of their balance-sheet. This provokes *de facto* huge confusion between two activities that must absolutely be separated: to rate (rating agencies’ job) and to be rated (banks’ and financial intermediaries’ legal duty). The problem lies in the fact that the rating agency is a profit-seeking private economic institution through this job of rating/assessing the soundness of its client’s (bank or financial intermediary) engagements while it has also to advise (which is a second profit-seeking job) the same client when this latter tries to imagine, design and market new financial products and services. The elaboration of various categories of credit and their evaluation are relied on the permanent intervention of agencies as technical and commercial advisers of banks. Furthermore, Sy (2009) shows that the principle of self-regulation, through 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.
- 2) Second, decentralized markets evolve through fallacy of composition which relates to the confusion between micro-rationality and macro-consistency. The sum of individually rational/efficient decisions does not obviously give an optimal economic system. In other words, individual economic efficiency does not obviously mean social efficiency (optimal society). With regard to this argument and in a Keynesian vein, Minsky (1991) points to the fragile posture of micro-rationality and subjective probabilistic risk calculations that ignore the true nature of the world. This means that there is no automatic bridge between micro-rationality

and macro-consistency of economic decisions. In this sense, even if micro behaviour can subjectively transform uncertainty into risk in the private decision process, this does not reduce potential systemic instability at a macroeconomic level. Rational micro decision units cannot deal with system-wide macro concerns which are beyond the individuals' capacity of forecasting and acting but which are also generated by the addition of separate and uncoordinated actions. It then appears that there is a crucial difference between micro-rationality and macro-stability. This difference is between what it seems to be efficient at individual level and what would be efficient at the whole society level.

- 3) And third, in open and globalised free economies there is strong interconnectedness between actors and markets. The interconnectedness is a macro concern while self-regulation is only based on individual evaluation and capacity. Thus microeconomic behaviour may generate multi-lateral effects, chain reactions in numerous markets. Decentralised 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. This calls for a specific analysis of modern financial systems as a complex network structure to understand contagion phenomena and various channels of crisis transmission.

From the perspective of those pitfalls in liberalised-finance-dominated capitalism, light can be shed on some implications for systemic stability through the opposition between micro/self-regulation and macro-prudential regulation. Micro/self-regulation deals with factors that affect the soundness of individual institutions, mainly resting on self-monitoring and legal incentives to assure the regular disclosure and accountability, rating agencies and banks' own IRB models, but inevitably it provokes conflict of interest issues as emphasised above. Whatever the supervision mechanisms implemented by public authorities over micro decision units, in a micro/self-regulation schema the incentives fail to prevent short-sighted individual behaviour that relies on the limited horizon of decentralised private expectations and strategies. On this issue, Minsky's Financial Instability Hypothesis (FIH) may offer a relevant alternative approach in order to characterise the major weaknesses of the liberal finance (Palley 2009; Wray 2012). It may also allow to

20 | focus on some basic principles for consistent reforms that could aim at strength-

ening the organisation and working of financial systems and reducing systemic welfare-destroying crises.

Minsky (1982; 1992) explicitly relates financial instability to the characteristics of capitalism and states that financial instability and a capitalist economy with expensive capital and sophisticated financial system go together. Related to the issue of financial instability of capitalism, Ülgen (2014a) notes 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. 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 relevant financial regulatory structures in monetary economies.

Monetary and financial rules and markets continuously call for socially guided and controlled institutions in order to make capitalism as sustainable as possible with regard to the pitfalls of the working of decentralised markets and subsequent endogenous financial instability. As stated above, this is mainly related to the peculiar nature of money which is ambivalent and transversal. Therefore, a relevant alternative analysis of the working of monetary capitalism and its instability concerns can be expected through a specific institutionalist approach that should put the emphasis on the issue of social consistency of market institutions and regulatory framework with regard to the stability and viability of the economic system.

Relevant Regulatory Design: An Institutional Appraisal

Institutions can be defined as the rules that intend to structure social interactions (Hodgson 2006), to make relations among people sustainable in order to allow society to evolve in a coherent way and to make ordered decision and action possible by framing human activities in a consistent way. Ostrom (2010) suggests a polycentric governance approach to complex economic systems while North (2000) identifies the economic and political structure of a country as a complex set of rules, norms, conventions and beliefs that serve to organise society.

Consequently, confronted with recurrent disequilibria or systemic turmoil, it is relevant to search for innovative alternative institutional forms to frame and guide the economy in socially desirable directions. Minsky (1982; 1992) also argues that economic evolution depends upon institutions, usages, and policies and they are closely related to the impact of alternative institutional specifications.

To put this stance into perspective with regard to the 2007 financial crisis, one can remark that from the 1970s–1980s, a specific institutional environment (financial deregulation-liberalisation-micro/self-regulation) comes into the picture and replaces previous restrictive state/public control mechanisms. This leads actors and markets to imagine and implement new strategies that mainly rest on the financial intermediation process encouraging short-term speculative activities, transactional banking and securitisation operations contrary to the bank-credit based long-term productive activities financing process of the after World-War II period. This evolution feeds a new regime of accumulation, based on speculative financial gains and transforms financing relations into Ponzi schemes à la Minsky. From 2003 (after the dotcom burst of the early 2000s) till 2007 crisis, the economy turns out to be a bubble environment, based on real-estate-related debt leveraging in search of capital gains, sustained by the continuous rise of land/home prices. Thanks to financial innovations and loose regulation, the new accumulation regime result in money manager capitalism and dominates society's economic perspectives and expectations (Minsky 1991). Economic development is then entrusted to a non-job-creating but short-term financial gains producing speculation industry.

The private-interest based regulation argues that constrained and restrictive regulation over financial systems cannot enhance financial soundness. It maintains that supervision mechanisms must encourage private monitoring of banks through sound contract enforcement systems. In case of fire, central banks and governments must intervene to calm down panic behaviour. However, as the diagnosis of the crisis is not robust in this kind of approach - that fundamentally rests on the belief of well-working of free markets -, the cure is not sustainable. As analysed in Kregel (2009) and Wray (2012), the 2007 crisis is seen as a temporary liquidity crisis and central banks intervened through quantitative easing programs without regarding the structural weaknesses of liberalized speculation-oriented financial systems. Even in the aftermath of the worldwide catastrophe, “new” regulations aim at “patching up” the malfunctioning of existing rules rather than to deal with

structural issues and let huge difficulties (for instance, the European Union's crisis and world-wide economic recession) last for several years without being able to open up new horizons for economies.

Minsky's financial instability approach and institutionalist social control theory resting on the key role of public institutions in economic development are serious alternatives to this lethargy and advocate that policies must aim at supporting sustainable economic activity. Institutional analysis indeed brings to the fore the crucial importance of monetary/financial relations, the central role of institutions and institutional change in shaping economic evolution and the issues related to systemic stability/viability through collective action as developed in the works of Mitchell, Veblen and Commons, among others (see Ülgen 2014b for an in-depth analysis on this assertion). Such an alternative puts the emphasis on the failures of markets and of neoclassical incentive mechanisms to deal with macro-stability concerns. It maintains that the stability of the financial system is a public good which must be produced and managed through macro-regulatory frameworks. It is worth noting 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. As stated in Ülgen (2015), such regulation is obviously related to two principles. First, monetary/financial stability has a peculiar status as a kind of specific collective good since it concerns the whole society and its viability conditions. And second, monetary/financial stability cannot be "produced and consumed" according to decentralized and anonymous market mechanisms but calls for public intervention that must play the role of referee and stand outside of the private market relations in order to organise, supervise and regulate capitalist monetary and financial system. Minsky (1982) wisely argues that the central bank should use its monetary powers to guide the evolution of financial markets in directions that are compatible with financial stability in the longer run rather than improvise controls that put out fires but which let the underlying market situation unchanged.

The endogenous nature of financial instability in capitalist economies makes relevant the policies that aim at sustaining domestic economic activity and central

banks that act as social organizers of financial markets. Such an alternative approach especially rests on the key role of public institutions in economic development as the organisers of monetary and financial systems in an alternative way. This alternative consists in 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 endogenous instability of monetary capitalist economies.

With regard to those assertions, one may wonder how the lost reputation in the economics could be regained after several decades of worldwide disaster. First, one should begin by abandoning the wrong, doctrinal, unscientific neoliberal beliefs of socially and economically efficient free markets and selfish individual strategies. Second, if one would continue to live in a free enterprise society, one should sustain societal efficiency-seeking public interventions aiming at making decentralised individual decisions and actions socially consistent according to collective objectives: “Re-regulation cannot therefore lie in some improved control devices of actors’ behaviour in a liberal environment. It must be founded on alternative principles to cut financial markets’ ardour down and push them to adopt less speculative strategies. That means, at least, the prevention of speculative positions through new regulatory rules, for instance by separating the financial intermediation and the traditional – productive system financing – bank activities. ‘Finance to finance’ and ‘finance to produce’ must be distinguished” (Ülgen 2014a, 272–273).

This alternative paradigm is fed by various heterodox approaches such as Post Keynesian theories, evolutionary models and institutional economics. Groenewegen and Van der Steen (2007) maintain that contrary to traditional mainstream economics which claims a role for government only in the case of market failures, (Original) Institutional Economics explicitly gives government an interventionist role as a developer of industrial and technology policies. Following this, the emphasis must be put on the role of government as a developer of financial regulatory structure of monetary economies. This role is a crucial one as money and financial structure (relations, markets, rules) are the cornerstones of capitalism.

Conclusion

Through a Minskyian and institutionalist analysis, this article argued that neoclassical-equilibrium-based liberal models cannot consider, by definition, problems lying in the very characteristics of monetary capitalist economies. Those models rest on micro/self-regulation paradigm and advocate highly liberalised financial economy. The implementation of such a paradigm since the late 1970s led to a speculation-based accumulation regime. However, the sustainability of such a regime is extremely fragile because it suffers from the conflict of interest, fallacy of composition, absence of macroeconomic vision and lack of consideration of the interconnectedness among private actors. These pitfalls indicate that individual actors cannot take into account systemic instability concerns since those concerns are beyond their capacity of decision and action. Therefore those liberal-markets related weaknesses must be addressed towards collective rules and principles if one would prevent them from continuously resulting in systemic financial turmoil.

Consequently, two major features that characterise the liberal finance have to be ended in order to make capitalist economy a bit viable: the domination of self-regulation over the prudential public supervision of financial systems and the domination of the micro-prudential approach over any macro-prudential framework of financial markets. Those propositions result in a *social efficiency paradigm* that could replace the free markets efficiency belief in favour of societal sustainability to cope with crisis-provoking capitalist finance evolution and its destructive consequences. It is then obvious that the redesign of the regulatory framework is more than a simple intellectual matter of debate and requires strong voluntarist policies to give financial markets more positive supportive role in economic evolution. Financial stability depends mainly on the capacity of consistent organisation of financial systems with regard to monetary and financial imbalances coming from behaviour and expectations of diverse participants before they are transformed into a systemic crisis. That calls for modifications in the institutional structure of financial markets. Stronger macro-prudential regulation framework must be designed instead of market-friendly micro-prudential regulation and must aim at preventing short-sighted speculative activities and broadening sound finance to sustain productive activities. Minsky wisely maintains that “For the viability of economic relations, we have to imagine a good financial society in which the

tendency by business and banks to engage in speculative finance is constrained” (1982, 69).

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Rezime:

Liberalizovane finansije i nestabilnost: „Da li je logički gledano to očigledan zaključak?”

Rad ima za cilj da iznese na videlo konceptualne slabosti tvrdnje da su slobodni tržišni mehanizmi i liberalne finansijske strukture neophodni uslovi za ekonomski rast i stabilnost, i da na osnovu toga preporuči promene u pogledu finansijske regulatorne politike koje je neophodno sprovesti u delo radi obezbeđivanja systemske održivosti. Sa tim ciljem proučavaju se karakteristike kapitalističke ekonomije kao monetarne ekonomije, i predlaže se institucionalistička analiza hipoteze endogene finansijske nestabilnosti Hajmana P. Minskog. Proces finansijske liberalizacije od kasnih sedamdesetih godina prošloga veka vodio je ekonomije do režima akumulacije zasnovanog na spekulacijama. Međutim, održivost takvog režima počiva na krhkim osnovama jer se zasniva na sukobu interesa, kompozicionoj zabludi, odsustvu makroekonomske vizije i nedostatku brige o povezanosti među tržišnim akterima. Zato se ove zamke slobodnih i decentralizovanih tržišta moraju rešavati prema opštim pravilima i principima, kako bi se sprečilo kontinuirano finansijsko previranje. Glavna implikacija ove analize je neophodnost sprovođenja korenite makroprudencijalne regulatorne reforme, u cilju stvaranja javnih sistema nadzora u kojima društve-

na efikasnost treba da zameni kriterijum individualne ekonomske efikasnosti, i tako dovede do politike kojom se sprečavaju spekulativno bankarstvo i finansije, i istovremeno usmerava tržište ka konzistentnom sistemskom ponašanju.

Ključne reči: ekonomska stabilnost, finansijska liberalizacija, institucionalna analiza, Minski, regulacija

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