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The work of financialisation

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Financialisation is defined in this contribution as a specific process for transforming the world, by practices, theories and instruments that originated in the financial sector and are now being used to reassess all sorts of questions, some of them theoretically far removed from that world (social, environmental, educational and cultural questions). This approach through technicalities, devices and valuation processes (Chiapello, 2015) makes it possible to propose a new definition of financialisation, and to focus on the "work of financialisation". Indeed, financialising requires considerable efforts, "investments in form" (Thévenot, 1984), into systems of visibility creation, metrics, databases, development of theoretical conceptualisations, production of a large number of policy documents and laws, preparation of contracts, and setting up new organisations. All this activity mobilises the efforts of a large number of public and private actors interacting in many national and international arenas. The purpose of this article is to propose a descriptive language to account for this distributed process.

After resituating the concept of financialisation as used here in the literature (1.), I propose to identify a certain number of basic operations that mark the stages along the road to financialisation (2.), bringing out a gradual increase in financialisation, which can vary in intensity.

1. An approach to financialisation

The concept of financialisation has been used for slightly over a decade to designate a collection of changes in our economic system that began to emerge in the 1970s and have been accelerating since the late 1990s (Van der Zwang, 2014; Boyer, 2009; Erturk et *al.*, 2008; Epstein, 2005; Krippner, 2005). The term has been used to describe changes in the governance of large firms subject to demand for shareholder returns (Aglietta, Rébérioux, 2004), the growing capture at macro-economic level of resources by providers of capital, to the detriment of labour (Duménil and Lévy, 2001), a growth in financial activities by non-financial firms (Baud, Durand, 2012), changes in the forms of government financing with a rise in indebtedness on the financial markets (Streeck, 2014; Lemoine, 2016), development of savings products for households, faster accumulation of wealth for personnel working directly or indirectly for the financial sector (Godechot, 2012; Lin and Tomaskovic-Devey, 2013), and so on. All this research emphasises the rising power of actors in finance who manage and handle money professionally and act (mainly, but not exclusively) on the financial markets. These actors now have more influence than previously on the decisions made and the policies applied by other economic agents: households, States, non-financial firms both large and small, non-commercial organisations, and public services.

These different articles all take an approach to financialisation that I call "externalist", stressing the role and power of financial actors, i.e. mainly the asset management industry and all categories of investment funds. These are the actors that keep the financial markets in operation, and organise a financing circuit for the economy in which they play the leading role, collecting savings and investing in the purchase of various types of asset. It is this investment financing circuit that has grown substantially with financialisation; it must be distinguished from the credit circuit which is based on traditional banking intermediation[1], and also from the tax and public spending circuit.

Rather than concentrating on financial actors, I propose a slight shift in focus, towards the socio-technical arrangements that enable them to create these financing circuits in which they are the principal operators, the forms of knowledge and knowhow they use in these operations, and the techniques – primarily financial and legal – in which they are experts and on which their legitimacy is founded. My approach can be called "internalist" in the sense that what matters most is *what* is done, said, and made, rather than *who* is doing, saying, and making. This approach focuses on the techniques, management instruments, devices and instruments (Lascoumes, Le Gales, 2004; Chiapello, Gilbert, 2013, 2016) that equip the action, have substantial influence on situations, and partly escape the underlying intentions and aims. Financialisation in the "internalist" sense can be seen as a "colonisation" of situations by "financialised" forms of reasoning and calculation (Chiapello, 2015), involving financial flows management techniques specific to the financial industry.

This approach interacts easily with the "externalist" approach that concentrates on financial actors, because it is through the implementation of a range of specific practices and instruments that financial actors are gaining power and become increasingly likely to capture resources. Nonetheless, techniques and ways of thinking clearly have a specific appeal and a capacity to circulate in partial independence of the professions whose core knowledge they constitute. This is what makes the analytical distinction between the two approaches interesting and particularly relevant when rather than directly concerning the financial world, an investigation concerns social spaces where very few financial professionals are to be found, and where the traditionally important knowledge and knowhow relate to other types of expertise (educational, social, medical, environmental, etc). Financialisation of these areas can also be observed in the arrival of approaches and techniques specific to finance, even when no financial actors are involved and there is no significant change in financing circuits.

Financialisation in the internalist sense is reflected in the spread of a financialised technical culture[2] that tends to see everything from the point of view of an investor, i.e. from a capitalist angle, as described in Marx's formula M-C-M'. In this view, money should be invested in order to generate more money, a financial return for the investor, and the activity (the goods

[1] With financialisation, the credit circuit has become extensively hybridised with the financial circuits. On one hand the banks have begun asset management activities and are offloading their loans via securitisation. On the other hand, as research on shadow banking shows, the financial sector contributes to monetary creation and issuance of credit.

[2] I proposed a first description of this financialised technical culture based on three identified conventions of valuation that are specific to financial methods (Chiapello, Walter, 2016): 1) the actuarial convention, which uses discounting to present value, 2) the mean-variance convention central to portfolio management techniques, which considers that any value can be expressed in terms of expectation (returns) and standard deviation ("risk"), 3) the market-consistent convention, which identifies value with market price.

produced and sold) that makes financial growth possible is only a means to greater wealth. It is only worth buying a thing, or investing for it, if it produces future revenues that are higher than the amount invested, if it can be considered as “capital”. The capitalist (or, here, the investor) is the person who bears the risk of the circulation of capital (investment) to recover the gain (the return); he analyses any outlay as an investment associated with an expected return and a risk. This culture carries embedded forms of valuation, calculation methods, and decision-making rules, and it is possible to trace the adoption and incorporation of these formats and ways of thinking into new socio-technical arrangements in a very diverse range of sectors (Chiapello, 2015).
In this article the term “the work of financialisation” is used to refer to the efforts made by actors to distort practices, and incorporate into them these financialised forms of thought and action.

2. The work of financialisation

This section proposes to identify the different stages or operations in this work of financialisation. This should also enable us to measure how advanced the financialisation is: is it simply a metaphorical financialisation (“weak financialisation”), or have new financial circuits been created that operate under financialised rules and have connections with private investors (“strong financialisation”)?

Three types of operation is required to construct these new financing circuits : first, the work of **qualification and interpretation** of the world using the words and perspectives of an investor (1); second, the activity of **making assets** and **liabilities** through financial quantification work (2); and finally, the activity of **structuring monetary flows** around these new assets and liabilities (3). I illustrate these stages based on questions which would appear to be far removed from the financial world, such as social and environmental issues.

2.1. Qualification and interpretation of the world using the words and perspectives of an investor

This first stage concerns work that is chiefly discursive and ideological, consisting of relabelling social and environmental questions in terms of investment, capital, returns and risks in order to present the decision as a choice between alternative investments, a consideration of the comparative expected returns and associated risks.

One way to do this is to call the thing to be protected or encouraged “capital”, a precious commodity because it should generate returns in the future, and thus worthy of care and expenditure. For example, “human capital” is used to designate the stock of people’s skills and knowledge, “natural capital” to designate the environment. Social questions then become questions of investment in “human capital”.
Another way is to redefine things that are to be avoided and problems encountered as “risks”, which thus affect future returns. This is observed in references to “environmental risks” and “climate risks”. This language indicates probable losses, suggesting that it is necessary to both reduce and cover the risks – potentially using financial techniques.

2.2 Making assets and liabilities

The second activity in the work of financialisation is giving physical embodiment to these concepts of capital, i.e. making assets, and symmetrically, turning risks into liabilities. In this case the work consists of producing figures and models, then monetary valuations of these new objects. This creation of visibility lends credibility to the theory that they are worthy of investment, and also means they can be included in reports, calculation of optimisations and investment decisions.

The work of quantification requires upstream explicitation work (Linhardt, Muniesa, 2011; Muniesa, 2014) setting the boundaries of the risk and capital, the types of returns, the expected services and benefits, and the associated risks. This explicitation work is based on input from the specialists in the public issue being addressed. The concept of "ecosystem services", intended to capture the value of nature, is one illustration of this process. It shares the financial framework's view that the value of a thing relates to the services it provides and is thus very useful to support the work of financialisation. Thanks to this conception, nature can be made into a "natural capital" whose worth is measured by the "returns" it generates. This perspective was initially based on descriptions and inventories drawn up by natural science specialists (ecologists and naturalists). During the 1990s and 2000s, the concept became established in the political arenas: one key step was the *Millenium Ecosystem Assessment* launched by Kofi Annan in 2000 (Boisvert, Vivien, 2010). The reports resulting from this international process have proposed classifications and lists of services provided by nature: regulating services (air quality, water quality, etc), provisioning services (wood, food, etc), cultural services (aesthetic and leisure services), and supporting services such as the provision of habitat. This initial stage of explicitation then led to work on more detailed definitions and non-financial quantification of these services, drawing on knowledge from the natural sciences.

In a second phase, this enormous production of knowledge and creation of visibility began to fuel more detailed financial assessments seeking to assign a value to each type of service, drawing on different actors and forms of expertise, not without attracting resistance and criticism from the actors of the first stage. Going further than the earliest attempts at giving natural capital a monetary value[3], the development of methods, organised data collection, and a general monitoring apparatus made it easier to put a financial value on specific ecosystems and transform them into assets. This was the work undertaken by TEEB (The Economics of Ecosystems and Biodiversity), an international initiative launched in 2007 with notable financial backing from the European Commission, and now hosted by the UNEP (United Nations Environmental Program). Having proposed a general methodology, it is now trying to disseminate it, and assist States in their valuation operations and the creation of new policies based on these values.

Once at this stage, the work of financialisation of social and environmental questions is well advanced: there is a narrative using the language of investment and its returns, capital and its risks, and various methods and sources of financial quantification that can assign values and incorporate them into calculations. But these elements are not enough to ensure that the

[3] Generally considered to date back to an article published in *Nature* in 1997 by ten authors (R. Costanza et al.) entitled "The value of the world's ecosystem services and natural capital" (vol 287, pp. 253-260).

rhetoric of investment will in fact attract private investors. That is the role of financialisation activities, which we shall now examine.

3.3. Structuring monetary flows

This stage requires mobilisation of specific competences, principally legal and financial, to bring about change in the legal and regulatory frameworks and elaborate cleverly-structured financial operations. Creating a financial circuit largely proceeds from the work of law-writing, defining entities which receive funds that are managed under certain criteria by certain people, signing contracts with other entities that organise monetary exchanges and lay down the terms for such transactions. How can funding be provided for the maintenance, protection or growth of the newly-identified assets (human, natural, intangible, etc)?

Creating financial securities

The first possibility is turning these assets or liabilities into merchandise that can be sold, i.e. financial securities, under the same principle as the principles governing formation of a company limited by shares. Industrial firms that need to finance their material investments had found it convenient to issue shares, which are rights to future profits. For the new social and environmental assets, they need to sell rights to future income generated by the assets. This gave rise to the markets for social impacts (Barman, 2015; Chiapello, Godefroy, 2017) and environmental impacts. Negative effects were transformed into “pollution rights”, while positive effects became “carbon credits”. Other liabilities (probable debts) that can be calculated by insurance techniques, potentially carried in insurers’ balance sheets or implicitly guaranteed by the State have also recently been turned into securities (such as “catastrophe bonds”) to capture the funds that can cover them.

Note that government action is vital if these securities, newly-devised through shrewd legal and financial engineering, are to be purchased and thus provide new resources. The public authorities can make their purchase compulsory in some situations (the “polluter pays” principle), or ensure scarcity in such instruments (carbon emission rights) which determines their price and therefore the amounts invested in the cause. They also have to take care to manage investors’ expectations of returns, i.e. make sure that there will actually be future monetary flows that can end up in their pockets.

Creating returns

One example of the creation of returns is France’s *Contrats à impact social* (social impact contracts), modelled on the UK’s Social Impact Bonds (SIB). They were first tried out in 2016 to provide financing for a social sector suffering from lack of public funding. These contracts encourage financial investors to put money into projects which are, by definition, non-profitable – such as support programmes to prevent re-offending of prisoners. The trick is considering that if the social activity is well-managed, then the induced costs for the community will be lower (fewer re-offenders means less public expenditure in the future). It may thus be in the community’s interest to promise the investor a return if the entity financed achieves its social objectives. Another way to create returns is to offer tax incentives for social and environmental investments.

Reducing risks
The reasoning used by investors closely associates returns and risks, which are in fact two sides of the same coin, since they are both indicators describing the same cash flows expected of an investment. Whenever products are structured in a way that generates returns, there are invariably conditions, and therefore risks, attached. A commitment by the State to lease a building constructed via a Public-Private Partnership for 40 years is a sure return, as is an immediate tax break or a waiver of income in a concession, while the signature of a Social Impact Bond in which payouts are conditional on achievement of social objectives suggests slightly greater risks. Portfolio theory has rationalised this investment choice, considering that for a high risk a high expected return is required, and conversely a low expected return should be associated with more certainty. The engineering work consists of creating acceptable risk-return balances that can attract investors.

In this work, certain measures exist entirely to manage the question of risk, for example the guarantee systems granted by the public authorities, or increasingly by guarantee funds (an option that allows the State to limit its exposure to the amount of the fund, and offers the financial industry funds to invest).

Similar to company shares, these new financial instruments, investments or contracts that grant conditional rights to potential future income can provide funding for the target causes. And also like shares, the investors may want liquidity, i.e. want to be able to resell these contracts or securities, often in order to reduce their risks.

Creating liquidity
Offering potential investors liquidity can thus be part of the work that must be done to make these new financing circuits operational, and this requires a specific sort of engineering. Organising marketplaces or exchanges is one possible solution, but the products traded there must be known, regularly valued, and comparable so that participants can invest and divest, and manage their portfolios. This work has traditionally been done by specialised professionals (auditors, ratings agencies, data brokers, financial analysts,…). The creation of new assets means they need to create new metrics and collect new data.

Another way to create liquidity is to use the legal instrument of the investment fund, for which the relevant professionals are financial actors. Funds manage money by creating pockets that confine the risk to the amounts invested, which are managed by appointed fund managers in accordance with various objectives. This creates liquidity through a form of securitisation that groups several investments of a non-liquid nature, for example investments in small and medium enterprises, into a single investment vehicle. This vehicle purchases shares, makes loans, and signs contracts which cannot be simply sold on. However, shares in the vehicle are sold to investors, giving them rights to future profits. A first type of liquidity can be organised inside the fund itself: some funds choose not to invest all the money collected, and retain a certain percentage in order to be able to reimburse a share-owner if requested. A second type of liquidity is trading shares in these funds on specific marketplaces: although the providers of capital cannot buy and sell the investments made by the funds, they can buy and sell their own shares in the funds.

For social questions, one example of this type of financing system is the European Investment Bank's (EIB) Social Impact Accelerator (SIA), which was established in July 2015 and raised €243 million to fund social enterprises. The SIA is a fund of funds, with plenty of public finance

input, that invests the money collected in “impact investing” funds in various European countries. These mpact investing funds are supposed to raise additional money from private investors and to contribute funding for enterprises with social objectives, either directly or indirectly via other funds specialised in specific themes or geographical areas. The public authorities hope that their initial contributions to such funds of funds will act as a “leverage” for private investors and extend their action, as government involvement is supposed to be reassuring.

Financialising an issue, an organisation, an activity or a public policy thus consists of transforming the language and instruments that organise it, and importing practices and ways of thinking that come from the financial world. This transformation may remain at the first stage (weak financialisation) or progress through all three stages and connect with the world of private finance by constructing alternative financial circuits (strong financialisation). This description appears to match the case of social and environmental questions where the work of financialisation is in progress, but it also covers the action that has been necessary for listed firms (whose shares are largely owned via a range of funds) or firms owned by Private Equity funds, which have as a result also been “financialised”.

The same three stages of financialisation are detectable. Listing or sale to investment funds is possible because the enterprises concerned are considered as objects of investment whose purpose is to produce returns for the shareholders (instead of places of socialisation, activities that supply jobs, or places where products or services are made, for example) (stage 1). The development of financial valuation techniques and a world of professional experts in such valuation offers the required expertise for estimating the value of these investments, consultants and analysts such as in-house teams identify untapped reserves of value, growth potential, and stage “corporate products”. They paint a glowing picture of the gains on such and such a sale or acquisition project, backed up by their calculations and simulations (stage 2). Finally, other actors create the connection with the world of finance (stage 3): in the case of Private Equity finance, and more broadly the worlds of Mergers and Acquisitions, banking intermediaries act as brokers, lawyers and tax specialists organise international operation structures that make use of tax laws to increase returns; in the case of listed firms, other merchant bankers, with the help of service providers from various fields (legal, accounting, etc.) give out advice for IPOs, set share issue prices, organise sales, etc. Finally, the investment funds become purchasers and the stock markets organise the liquidity of shares. The credit circuit, meanwhile, rather than directly funding firms as is the case in traditional financial circuits, instead funds the financial holding companies that make acquisitions, enabling new shareholders to use the leverage effect to increase returns further.

Conclusion

The work of financialisation is built on the practices and techniques of financial actors, and tries to meet their demands in terms of returns, risk and liquidity. It also requires considerable effort and investments in metrics, databases, development of theoretical conceptualisations, policy and law-writing, preparing contracts, and formation of new organisations. This activity mobilises efforts by professional groups who specialise in the techniques applied – and are also the people who have found support and prospered thanks to financialisation (financiers,

lawyers, auditors, consultants, assessors). Its rise has given them an opportunity to gain legitimacy by showing that their knowledge can serve causes other than money, and for some, an opportunity to extend their market and sell their services. The third stage, when operational financial circuits are created, is the stage that most needs their involvement.

The first stage essentially engages economic expertise, using theories of value applied to the objects concerned and making public policy recommendations, while the second stage particularly mobilises specialists in the issues concerned (biodiversity, global warming, social questions[4], etc), who strive to produce appropriate metrics that are then adopted by economists and financiers. The number and range of actors and skills required for the work of financialisation and the fact that they do not all have the same access to the places where policy is made also explain why – depending on the spaces and issues addressed – financialisation is a heterogeneous, uncertain process.

For a given case of local organisations or issues currently in the process of financialisation, the level of financialisation can be assessed by examining whether there is only a discourse, or there is a discourse plus valuation methods and offers of expertise, or new financing circuits have been constructed. On social questions, for example, the existence of a few Social Impact Bonds that have managed to attract a few investors is an indication of strong financialisation at local level. At worldwide level, however, greater nuance is needed: a few successful experiments will not necessarily become generalised, and may simply be a reinforcing factor for stages 1 and 2.

At systemic level, the financialisation of an issue must be considered in the early phases or weak when it is essentially discursive. A large body of grey literature exists, metrics are proposed, standards have been developed, consultants are proposing their services but in practice, part from a few much-hyped experiments, the financial volumes involved are low and the social or environmental impacts are tiny, or debatable. This is currently the case for Social Impact Bonds (much has been written about them, but they are still few), or concerning anti-global warming policies for REDD[5]+ projects which prevent deforestation in very small areas. Both these cases have failed to attract many financial investors, who are reluctant to get involved in projects of this kind. These financial innovations are widely discussed but make very little difference to the problems they are intended to solve. In many respects their role appears essentially ideological, with financialisation presented as an answer to social and environmental questions rather than one of their causes. To the financial industry as a whole, the extremely small-scale activity of certain funds dedicated to such questions can look like a form of social washing or greenwashing. The experiments that have succeeded, whatever the involvement and authenticity of the actors implementing them, can be accused of being no more than proofs of concept whose job is to support the ideological work and general legitimacy of financial activities.

However, a weak level of financialisation can also be considered as the first step towards much greater financialisation as the innovations tried out become more common and the new financial circuits become better-established. Private Equity funds have developed significantly in certain countries, becoming key actors in business handovers, while other countries are

[4] For the financialisation of firms, management expertise is mobilised.

[5] Reducing emissions from deforestation and forest degradation

more reticent. Extending financialisation is clearly the aim of some of the actors whose input supports stages 1 and 2. The progress or otherwise of financialisation depends on the issues, the national spaces, the channels used and the resistance triggered by these projects. In social questions, strong financialisation would mean a significant rearrangement of the welfare state - for example, a substantial shift towards a funded pension system (which would provide income for investment funds). In the case of France, despite significant development in the arrangements that would allow this shift, it has not (yet) taken place. Financialisation is not inevitable. It is, however, supported by dominant groups of actors who have an interest in its development, either to gain legitimacy or profit, while other actors seek to enrol them in their social or environmental causes.

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