

Green Swan Central Banking and Central Bank Mandate for Climate Risk: Symbiotic Evolution of Central Banks in Financialised Capitalism

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A new La Fontaine bird parable: from Weberian and scientised (Marcussen 2009) hawks and doves to financial stability owls and swans in financialised capitalism (Bowman et al 2013 and Erturk 2014, 2024)

FT Alphaville Christine Lagarde

A new birding guide for central bankers

Caw blimey



Brendan Greeley and Mark Blyth MAY 5 2023

Brendan Greeley is an FT contributing editor. Mark Blyth is a professor of international economics at Brown University.

A [profile of Christine Lagarde](#) this week noted that the head of the European Central Bank does not like to think of herself as a hawk or a dove, but a thoughtful owl.



The green swan

Central banking and financial stability
in the age of climate change

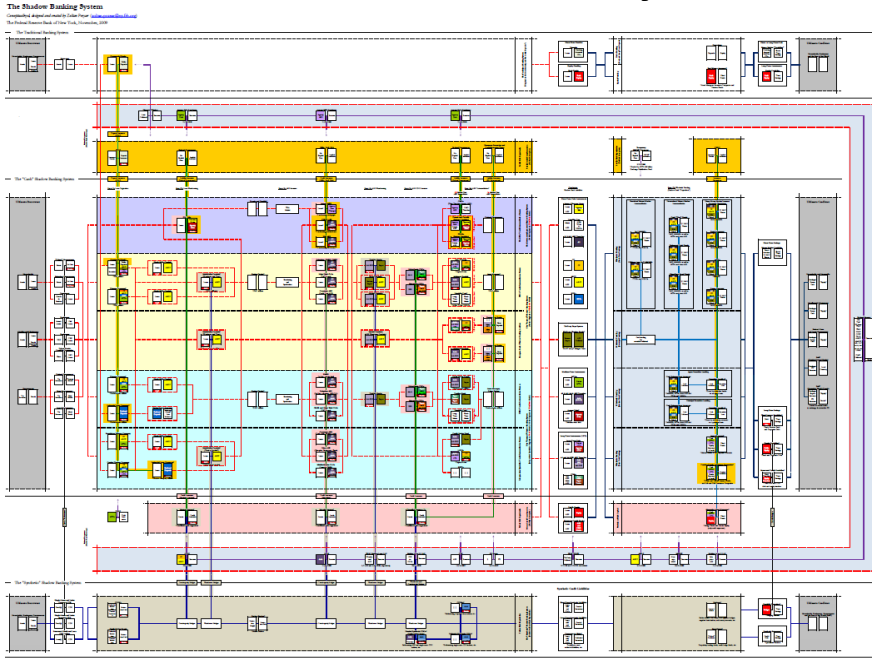
Patrick BOLTON - Morgan DESPRES - Luiz Awazu PEREIRA DA SILVA
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January 2020

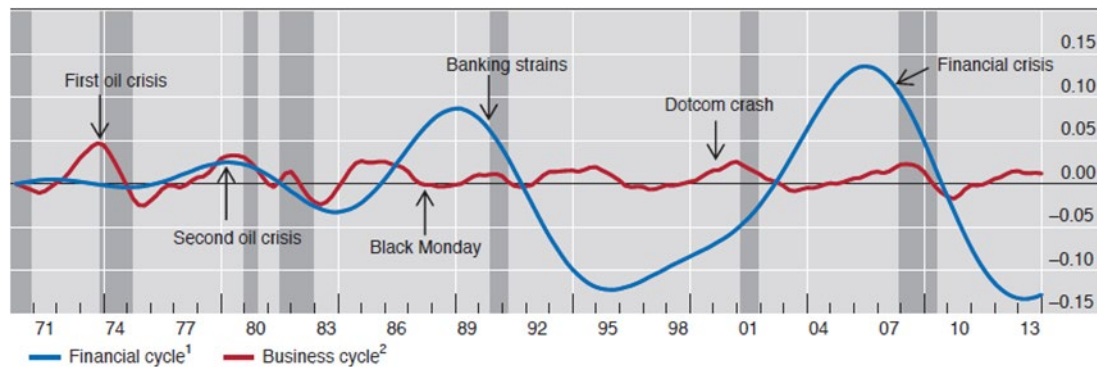
From detached technocracy to symbiotic public role for financialised capitalism

- 2007 GFC and Covid have transformed central banking's relation to the financial system, characterised as financialised, via its financial stability mandate from one of detached technocratic regulator to one of symbiotic institution of financialisation with unconventional (monetary) policy tools
 - LSAP (QE) is a CB balance sheet being transformed by:
 - a) failed financial innovation with Polanyian cost (CDOs in 2007 and ETFs in 2020)
 - b) financialised firm behaviour – competition in stock market to deliver shareholder value (share buybacks and high premium M&As rather than investments in productive economy- well documented by policy economists at OECD, BIS, IMF)

Financial Innovation mapped as shadow banking and financialisation conceptualised as financial cycles and ex-post introduced into the monetary transmission mechanism

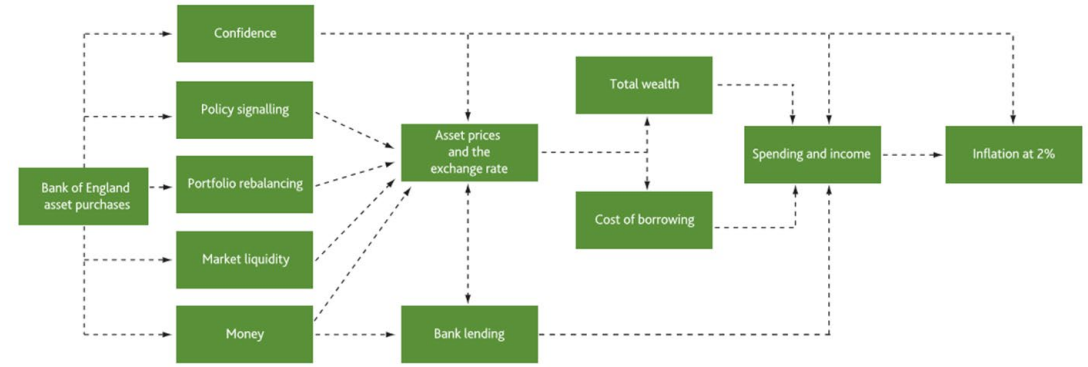


Pozsar et al., 2010

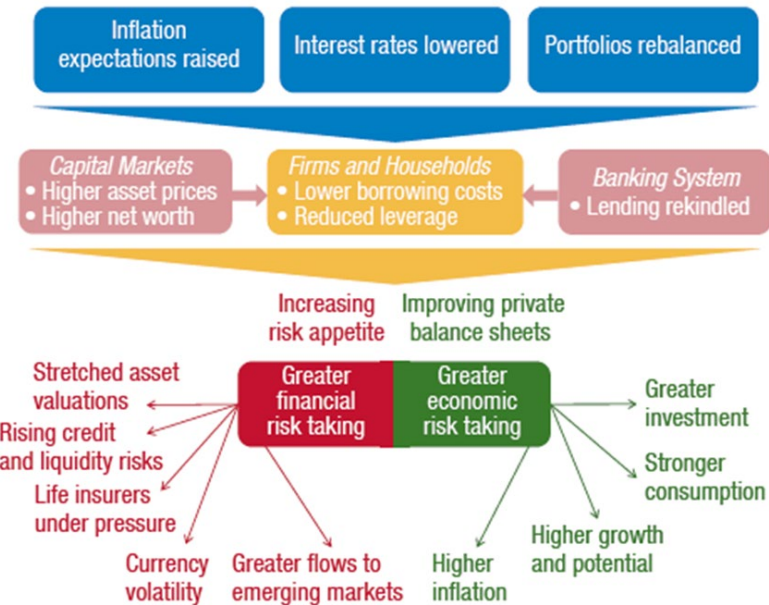


¹ The financial cycle as measured by frequency-based (bandpass) filters capturing medium-term cycles in real credit, the credit-to-GDP ratio and real house prices. ² The business cycle as measured by a frequency-based (bandpass) filter capturing fluctuations in real GDP over a period from one to eight years.

Source: BIS Annual Report 2014



Source: Joyce et al 2011



Source: IMF Global Financial Stability Report April 2015

Consequences of CB symbiotic relations with financialised capitalism (Piketty's $r > g$) analysed by rating agency, consultancy company and mainstream media-disconnect with real economy and worsening inequality

-Conceptualised as “spillovers” by CB economists (Chen et al 2013) and some political economists (Montecino and Epstein 2015), and as rise of asset economy by sociologists (Adkins et al 2020)



RatingsDirect

Economic Research: QE And Economic Inequality: The U.K. Experience

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eKinsey Global Institute



November 2013

QE and ultra-low interest rates: Distributional effects and risks

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The market v the real economy

May 9th 2020 edition >

Financial markets have got out of whack with the economy. Something has to give

May 7th 2020

Editor's note: The Economist is making some of its most important coverage of the covid-19 pandemic freely available to readers of The Economist Today, our daily newsletter. To receive it, register [here](#). For our coronavirus tracker and more coverage, see our [hub](#)

STOCKMARKET HISTORY is packed with drama: the 1929 crash; Black Monday in 1987, when share prices lost 20% in a day; the dotcom mania in 1999. With such precedents, nothing should come as a surprise, but the past eight weeks

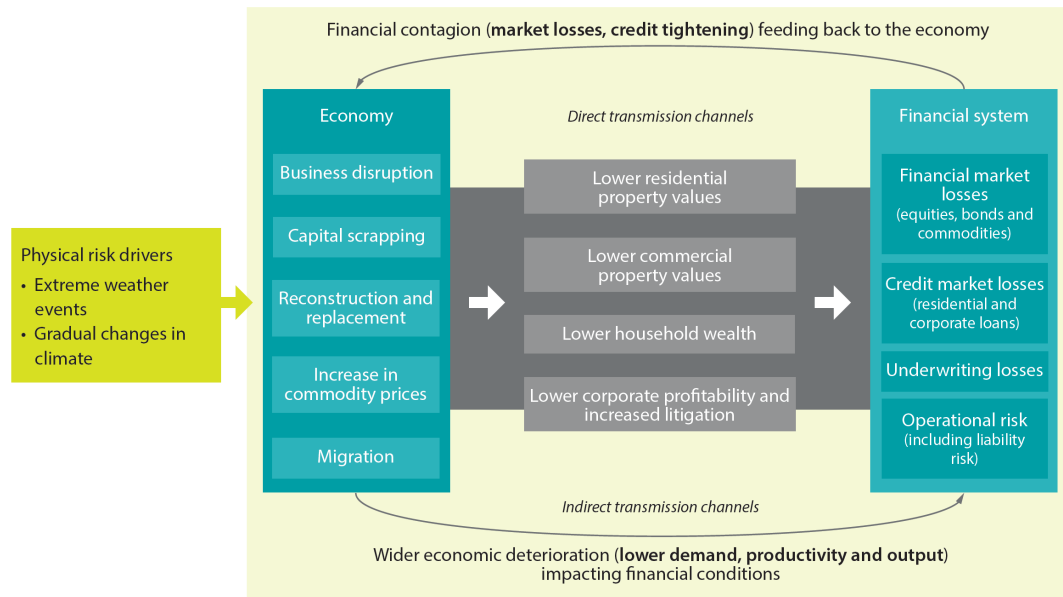
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Distributed logic of financialisation in capital markets in the forms of:

- unregulated activist hedge funds/PE (reversing/preventing capital allocation for environment –Unilever, Danone, Thames Water)
- assetised ESG rankings-misselling (ineffective regulatory fines for misallocating capital for net-zero-CS serial violator)
- narratively-driven valuation of green companies (Tesla) and financial innovation companies (Wirecard and FinTech)
- banks using Basel algorithms for arithmetically efficient use of shareholder funds (ROE as driver of valuations- SVB)
- ... **CHALLENGES** the financial markets/real economy linearity under Green Swan risk modelling of economic futures
- ... **CREATES** for CBs symbiosis risk with financialisation (promoting unregulated use/non-use of private ESG financial innovation)

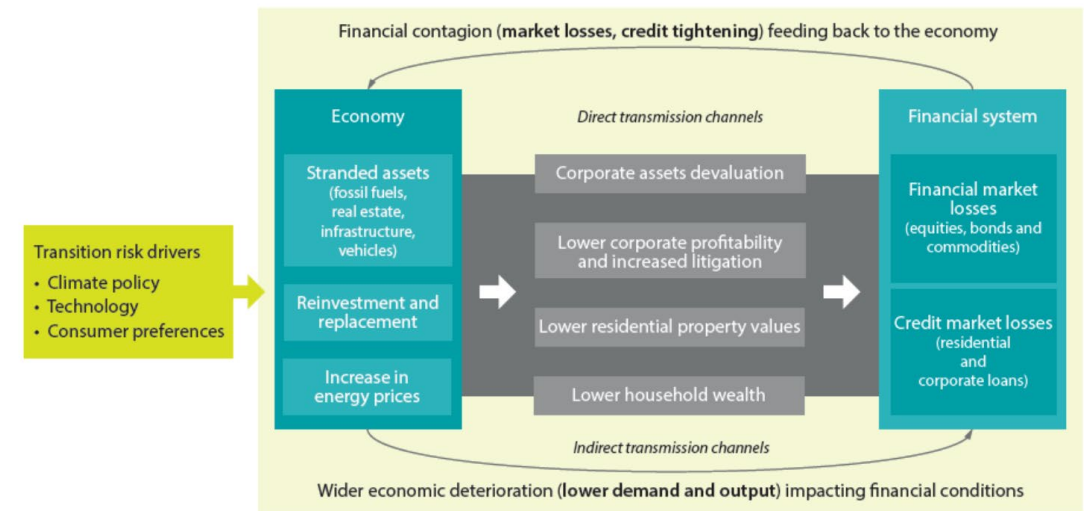
Climate Risk Transmission Channels – Scenario 1

From physical risk to financial stability risks



Climate Risk Transmission Channels – Scenario 2

From transition risk to financial stability risks



Challenges beyond Green Swan risk: supranational fragmentation and global architectural design

“The mandates of all institutions within the architecture should be reviewed and updated so a new goal is set at the heart of the financial system: to support and catalyse delivery of an orderly and just transition to achieve the outcomes of the Paris Agreement and Glasgow Climate Pact. ...We propose an ambitious plan to reset and repurpose the global financial architecture, one that would be brought to fruition at a “Bretton Woods +80” summit in 2024.”

(Waygood and Tayler 2022, p. 16 and p.3)

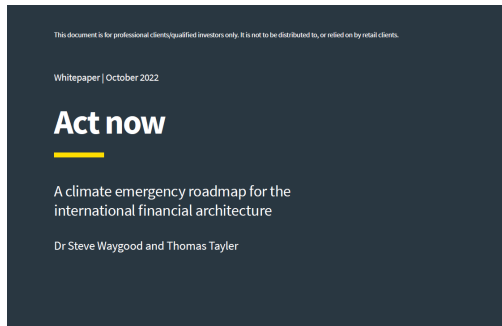
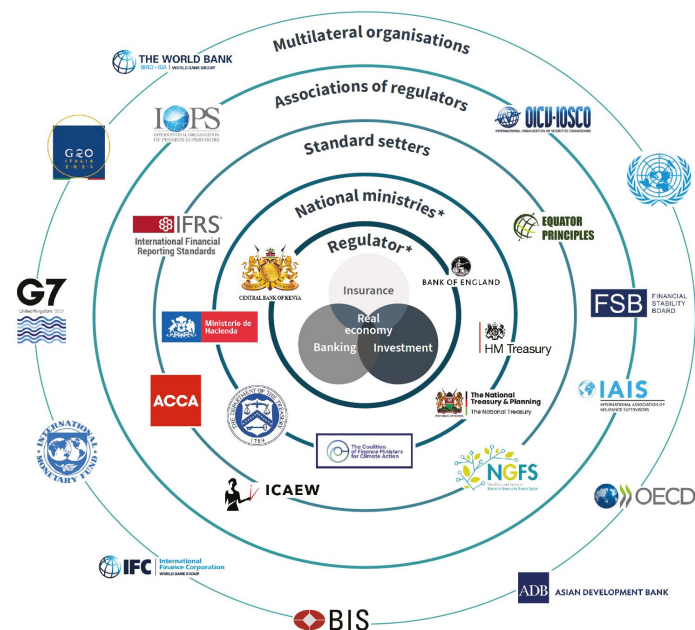


Figure 2. The current architecture does not deliver optimal outcomes for society



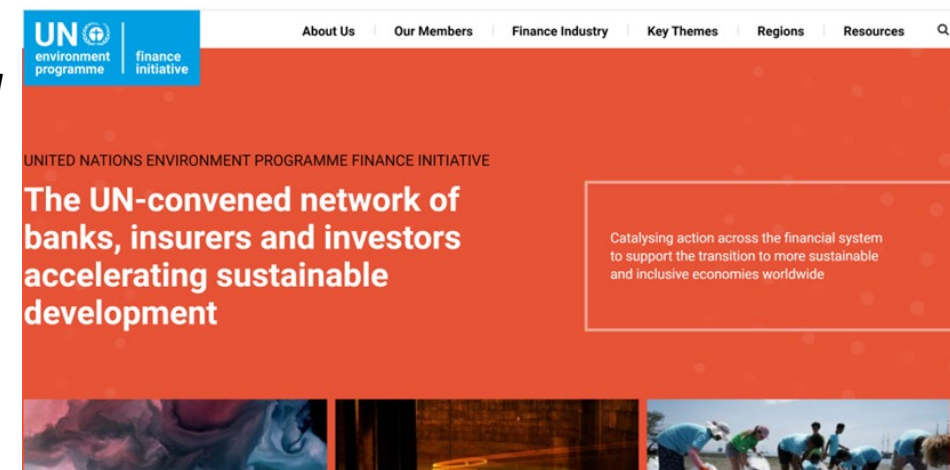
Note: This is not a completely exhaustive view – but highlights key global organisations due to their mandate. *Illustrative examples. Source: Aviva Investors, September 2022.

As such, and grounded in the transdisciplinary approach that is required to address climate change, this book makes four propositions (beyond the obvious need for carbon pricing) that are deemed essential to preserve financial stability in the age of climate change, related to: long-termism and sustainable finance; coordination between green fiscal policy, prudential regulation and monetary policy; international monetary and financial coordination and reforms; and integration of natural capital into national and corporate systems of accounting.”

(Bolton et al 2020,p.10)

“The multiplication of sustainable finance initiatives and different approaches and tools has created a fragmented landscape, which hinders progress in mobilizing sustainable financing for the global climate agenda and the Sustainable Development Goals”

(ToR-G20 SFWG, June 2021)



Green Swan Central Banking and Academic Research on Climate risk/ecology and Finance

- An activist academic research can intervene in insider debates on finance and climate/ecology to replace financial measures/logic that financialisation tends to naturalise and disconnect financial resources from “real” economy.
- Since the 2007 financial crisis the dysfunctionality of the financial system is widely acknowledged but has not been remedied. The environmental crisis invites radical thinking on and re-design of the relationship between money and environment.
- “Green Swan is not only about risk, it is also about redefining central bank role ‘framing the debate’ epistemological framework with references to the history of science (Bachelard) and a call for post-disciplinary perspectives opens new theoretical and analytical paths. Green Swan

“Through exclusively social contracts, we have abandoned the bond that connects us to the world, the one that binds the time passing and flowing to the weather outside, the bond that relates the social sciences to the sciences of the universe, history to geography, law to nature, politics to physics, the bond that allows our language to communicate with mute, passive, obscure things- things that, because of our excesses, are recovering voice, presence, activity, light. We can no longer neglect this bond.”

Serres 1995, p.48