Studia Humana
(2021), pp. 1—12

Financialization and the Erosion of the Common Good

Anna Horodecka

Warsaw School of Economics
Niepodległości 162 Avenues
02-554 Warsaw, Poland

e-mail: ahorod@sgh.waw.pl

Andrzej J. Żuk

The John Paul II Catholic University of Lublin
Racławickie 14 Avenues
20-950 Lublin, Poland

e-mail: andrzej.zuk@kul.pl

Abstract:
The phenomenon of financialization is multifaceted and can be considered from different points of view. The main purpose of the article is to show how financialization affects the erosion of the common good. To achieve this, various negative sides of financialization are described, referring to the eight principles of the common good: effective use of limited resources, freedom, prosperity, justice, responsibility, solidarity, primacy of interpersonal relations and institutional principle. Further considerations concern the presentation of possible solutions to the problem of financialization. Two perspectives are selected. First, the answer of Catholic social teaching to the phenomenon of financialization, as presented in the form of the Vatican document *Oeconomicae et pecuniariae quaestiones* from May 2018. Next, one of the main causes of financialization is shown: economic and financial theories, which has become the theoretical foundation for the phenomenon. On this basis, the need for new theoretical solutions based on the institutional approach in the science of economics and finance is discussed. Possible new alternative approaches, including the concept of financial personalism, are also recognized.
Keywords: financialization, common good, new institutional economics, Catholic social teaching, ethics in finance.

1. Introduction

The subject of the study is the phenomenon of financialization, which due to its numerous economic, social, political and ethical consequences, has received a vast number of studies. It arouses the interest not only of financiers, but also representatives of broadly understood social sciences: economists, political scientists, sociologists, anthropologists, and even the Church and Catholic social teaching (further called: CST). The main purpose of this work is to show financialization as a phenomenon that harms the common good. We put forward the thesis that financialization erodes the common good, i.e. it violates the principles of the common good.

At the beginning of the study, various approaches to financialization, and the most important concepts of the common good are presented. Further, based on the understanding of the common good in Catholic social teaching, examples of the negative impact of financialization on individual principles of the common good are presented, demonstrating the legitimacy of the thesis. The rest of the study describes possible responses to the phenomenon of financialization. First, the position of CST is presented in the example of the Vatican document *Oeconomicae et pecuniariae quaestiones*, highlighting, among others, the need for adequate institutional solutions. Then, the weaknesses of traditional economic and financial theories in the context of the phenomenon of financialization were highlighted. Here, the potential of new institutional economics is discussed. In the summary, first of all, the contradiction between financialization and implementation of the common good is clearly emphasized, and then possible new theoretical approaches useful to describe the socio-economic reality of the era of financialization are outlined.

2. The Concept of Financialization

The varied definitions of financialization can be divided into two groups. In the first, this phenomenon is defined narrowly – it is presented in relation to the economic system and the economic sphere of human activity in general. The second group of definitions treats the phenomenon of financialization more broadly, referring not only to the economic sphere, but also to the social, political, legal, cultural or moral spheres.

2.1. Financialization as a Phenomenon Related to the Economic Sphere

First of all, the group of narrower definitions includes definitions that explicitly include financialization as a change in the form of the economy – the transition from corporate capital to financial capital [46]. A similar approach to the phenomenon of financialization was presented by Foster [18] – it is a shift of focus in the economy from the sphere of production and from a large part of the services sector to the sphere of finance. Ahn [2, p. 3] in his definition went somewhat further by defining financialization as 'the growing dominance of capital market financial system that results in the explosion of financial trading with a myriad of new financial instruments'.

There are also definitions describing the disturbance of relations between the real and financial sector and the disturbances governing the economic system. In this key, Bibow understands financialization as 'a definite change in priorities within the financial sector, whose participants – instead of financing the real economy – took up speculation and gambling' [cf. 17, p. 18].

The analysis of the phenomenon of financialization considered at various levels – from the growing importance of the financial market, through changes in the way it is organized, to the evolution of the priorities of market participants – leads to the question about the current ability of the financial market to perform its traditional functions. For a long time, it was widely believed that the main function of the financial market is intermediation in the transfer of funds from entities (market participants) that possess them to those that demand them [5]. The market operating in this way had direct allocation, capital mobilization and investment financing functions, and indirectly served as a capital valuation. Financialization implies a gradual detachment of the financial market from the real economy, and its dominant function seems to be a continuous transfer of funds between market participants, taking the form of continuous speculation [1]. For Ratajczak [38, p. 261], financialization is not only 'the process of autonomization of the financial sphere in relation to the real sphere', but even 'obtaining the superiority of the former over the latter'. In this context, Krippner [23, p. 174] understands financialization as 'a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production.' This is also associated with transformations in the financial system, which is why, according to Seccareccia, 'the essence of financialization is the transition from a financial system with the dominant position of banks to a system in which financial markets play a key role' [cf. 17, p. 19].

2.2. A broader Understanding of the Notion of Financialization

Generally, broader definitions of financialization concern the impact of this process not only on the economy, but also on non-economic aspects, thus opening the possibility of analyzing the impact of this phenomenon on the common good. Sometimes non-economic aspects are recognized as being an essential part of this phenomenon in relation to the economic sphere. An example of such definition is one from Epstein [cf. 17, p. 16], who understands financialization as 'the growing importance of financial motives, financial markets, financial actors and financial institutions in the functioning of the national and international economy'. This definition is similar to his earlier one, in which financialization means 'increasing the impact of financial markets, financial sector elites and motives for making decisions related to financial motivations on the functioning of the economy and institutions at both national and international level' [cf. 17, p. 16], wherein in this case the area of influence of financialization concerns not only the economy but also institutions.

Wiśniewski proposed the broadest definition of financialization from the point of view of the subject of its impact, understanding the term as 'financialization of economic life or human activity in a broad sense', so the definition covers the impact of financialization on all spheres of human activity [cf. 17, p. 17]. This phenomenon is also understand broadly by Zwan [46], who presented it not only from the point of view of the change in the accumulation regime and the dominance in finance of the shareholder value orientation, but also as financialization of everyday life. She also notes that financialization, due to the increasing independence of the sphere of global finance, has an impact on the basic logic of the industrial economy and the functioning of a democratic society. Aalbers also emphasizes the changes resulting from financialization, noticing 'the increasing dominance of financial actors, markets, practices, measurements and narratives at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households' [cf. 24, p. 113], thus going beyond the purely economic consequences of financialization.

The changes resulting from financialization also apply to more fundamental spheres, including in particular deeper transformations taking place in the sphere of values [cf. 1]. It is noted, *inter alia*, that the importance of material values and financial benefits has increased as a basis for making decisions in various areas of personal life, and the right to meet financial needs has been socially sanctioned [1]. The value category is combined with the common good category, whose various concepts are outlined below.

3. Concepts of the Common Good

The idea of the common good has its roots in ancient thought. For Plato, it referred to the common benefit of the citizens, for Aristotle – for the good formation of the whole civic life, and for Cicero – for the good of a commonwealth, understood in terms of the entire state and individual citizens [19]. For St. Augustine (in the *City of God*) achieving the common good, i.e. social peace (*pax et ordinata concordia*), ensuring sustainable development beneficial in the long run for all members of a given community, requires that all citizens recognize their common interest as more important than personal gain [43]. Similarly, for St. Thomas Aquinas, the common good was the order and perfection of the universe, extending its scope also to the social order, uniting the activities of individuals who strive for perfection. For St. Thomas the common good has an ethical structure, because it is reflected in the goals and tasks of individuals, and reaches its end in God, who Himself is the highest common good [15; 19]. In the 17th century, John Locke coined the notion of ‘public good of the people’ to express the pursuit of peace and social security. Other visions of the common good were proposed in the next century by Jean-Jacque Rousseau, for whom *le bien commun* was associated with the ‘general will’ of the people. Finally, in the 20th century, John Rawls presented in his *Theory of Justice* [39], the idea of the common good as certain general conditions that are equally beneficial to all – which clearly identifies the common good with the aspects of social justice [14]. In turn, the winner of the Nobel Memorial Prize in Economic Sciences Elinor Ostrom created, within institutionalism, an economic concept of the commons as common-pool resources that are jointly managed [33].

In relation to the analysis of the impact of the phenomenon of financialization, a useful concept of the common good is the social teaching of the Church (CST), including Catholic social ethics. Pope John XXIII defined the common good as ‘all those social conditions which favor the full development of human personality’ [34, sect. 65]. Such a broad approach to this category was confirmed by the Second Vatican Council in *Pastoral constitution on the Church in the Modern World (Gaudium et Spes*): ‘the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment’ [44, sect. 26]. Earlier, in the 1950s, Karol Wojtyła explained during his lectures that the common good (i.e. ‘the general good’) ‘should not be considered as a sum of individual goods of individual members of society’, but it is ‘a separate good which is closely connected with society only, and without [reference to] society there is no reason for it to exist at all’, so it is a good which has a social nature [50, pp. 78-79]. This means that the common good ‘is a more basic good than any individual good’, and no ‘individual good can be fairly and reliably realized without the common good’, and therefore ‘the general good determines the good of individuals’ [50, p. 79]. There is never a contradiction between the ‘real common good’ and the ‘real good of the person’: true common good does not interfere with the development of a person who tends to his perfection [50, pp. 79-80]. The relationship between the common good and the good of the person Karol Wojtyła developed later, as Pope John Paul II, indicating *inter alia* that respect for the human person, his dignity and rights remains the most important element of the common good [37]. Therefore, it is necessary to create for each member of the community the right conditions to fulfill his/her vocation, which also translates into prosperity and economic development in a given community [37]. Thus, for John Paul II, the common good is the basis (keystone) of social order – a commitment to create conditions for full development for all those who participate in a given social system [37].

The idea of the common good is so important for Karol Wojtyła, that he defines society as ‘a permanent fusion of people who strive to realize the common good’, and immediately adds that ‘they do so under the direction of power’ [50, p. 81]. The task of society is therefore the implementation of the ‘real common good’, which in practice means coordinating the activities of individuals, and this is already the domain of power [50, p. 81]. Pope John XXIII thought similarly, stating emphatically that ‘the attainment of the common good is the sole reason for the existence of civil authorities’, which should do so for the benefit of all citizens and for every human being [35, sect. 54, 56]. Public authorities implement the common good in various ways, including creation of institutions capable of regulating social life [9] and provision of public goods, whose collection some even identify with the common good [cf. 31]. At the same time, taking into account the above considerations, the common good is not a precise institutional project but can also be understood as meeting a set of principles of life in society [cf. 9]. Therefore, the implementation of these principles in the practice of the functioning of a given community is in this regard the creation of the common good, while the lack of their implementation might contribute to the ‘common evil’ [cf. 21, p. 189]. The obstacles to the creation of the common good violates those principles, causing the erosion of the common good. In this sense, treating various aspects of financialization as obstacles, chapter four deals with the erosion of the common good.

4. The Erosion of the Common Good in the Era of Financialization

The principle of the common good particularly close to economists is the principle of efficient use of limited resources, which is associated in particular with thrift, frugality and not wasting resources. The distortion of this principle is the so-called 'efficiency ethos', which justifies any economic activity, if it leads to increased efficiency [10, p. 83]. Increased efficiency can lead to an increase in the so called 'general interest', defined as 'the sum of the individual interests of egoistically oriented individuals' [12, p. 90]. In the era of financialization, more and more complex financial instruments are created to increase efficiency and profits, not taking into account the threat of growing systemic risk [12], which threatens the common good, as evidenced by the economic effects of the recent financial crisis. In contrast to the general interest, the common good requires the cooperation of members of society and genuine care for it, which is not taken into account by the worldview based on the ethos of efficiency [10]. Another example of misuse of efficiency in the era of financialization is negative selection in managerial positions, which involves the replacement of honest persons by dishonest ones, who e.g. use psychological weaknesses and lack of information of their clients, due to the better financial results of the latter [4].

In the context of the misinterpretation of the principle of efficiency, it is worth discussing the principle of freedom – the pursuit of the common good does not deprive the individual's freedom as a member of society, however, as it results from the above considerations about the essence of the common good, this freedom is not absolute. Under the dominance of the ethos of efficiency, when efficiency ceases to be used to obtain benefits and becomes the only criterion for behavior, in an economy theoretically built on freedom of choice, market players in practice have no choice, acting under duress [10]. In the market system of the era of financialization, consumers also do not make free choices, due to the existence of enterprises that manipulate consumer tastes and disrupt they ability to evaluate and correctly choose what to buy [4]. Also, the purchase of risky financial instruments, which are the main cause of financial crises and subsequent recessions, can be considered in terms of 'phishing' customers who do not have adequate knowledge about purchased financial products [4, p. xxix].

A principle related to the one of effective use of limited resources is the principle of prosperity – the common good is associated with the situation of satisfying basic individual and social needs, for which the state is traditionally responsible (at the central, regional and local government levels). The sources of financing these needs are primarily taxes. Financialization as an effect of, among others, deregulation of financial activity is also based on the fact that generally financial transactions, including short-term speculative flows, are not taxed (taxation of financial transactions was once proposed by the winner of Nobel Memorial Prize in Economic Sciences James Tobin) [cf. 10], which means that financial markets, despite their growing importance in the economy and the large scale of turnover, do not support the state in providing public goods. Such taxation would also increase the 'financial markets stickiness', which would limit extremely dynamic price changes in those markets whose volatility is not justified in processes of real economy and serves only the speculators [cf. 12, p. 119]. Moreover, it is pointed out by Dembinski and Beretta that the negative role of rating agencies (as a manifestation of financialization), involving the exerting pressure on domestic economic and fiscal policy to meet the expectations of financial markets, does not serve the state to meet social needs [cf. 12].

The principle of justice is related to the principle of prosperity, wherein justice can be understood very differently [cf. 40]. The principle of justice in this work concerns the need of participants in social life (e.g. individuals, business entities) to bear the consequences of their choices. It strengthens the principle of efficient use of limited resources and the further discussed principle of responsibility. For example, according to this principle, the bankruptcy of a company that managed its finances poorly, because of missing responsibility or skills of its managers, is a just result. However, when a large economic entity is saved by the state, with the argument that its bankruptcy would have negative consequences for the entire financial system, this is considered unfair, especially when the entity has been proven guilty of performing very risky financial operations (the ‘too big to fail’ or ‘moral hazard’ problem). This situation, which depicts one of the side effects of financialization, affects the sense of justice in society, which can have negative consequences for economic decisions and economic activities, and thus for the common good [cf. 3].

The just-mentioned principle of responsibility means that the common good is based on the accepted responsibility before or at the time of the action (*ex ante* responsibility) of individuals and social groups, including the responsibility towards each other. *Ex ante* responsibility is taking into account the potential consequences and impact of actions taken under the responsibility, and acting with awareness of the consequences for others and the values at stake [11, p. 42]. Therefore, responsibility limited to financial compensation for damages paid after the fact (*ex post* responsibility), which leads *de facto* to the total disappearance of the sense of responsibility for consequences of ones actions, is unacceptable [cf. 11, 12]. In this context, the manifestations of financialization are the existence of speculative capital and the character of a speculator who strives for short-term profits by changing entities, countries and regions of investing without being responsible for his decisions in relation to them. This is due to the complexity of financial markets, which overshadows the consequences of actions and promotes the division of responsibility, so that in fact it is not known who is responsible. Consequently, speculators are moving in a ‘closed space of finance, feeling there more powerful than other participants of economic life’ [10, p. 190].

The principle that particularly emphasizes the social dimension of the common good is the principle of solidarity – every person and every social group is important in creating the common good, which requires sharing limited resources within a given community. Solidarity applies to various groups, including family, business, state and the world. A violation of this principle at the level of joint-stock companies is the shareholder value optics, characteristic of the phenomenon of financialization. According to this view ‘the most important manager's responsibility is to maximize shareholder assets, achieved by caring for higher and higher share prices’, which means that the company's other stakeholders (including employees, clients) become somewhat ‘tools for achieving the shareholders' goals’ [12, pp. 54-55]. The common good of the firm in the aspect of solidarity requires the use of management optics that takes into account all stakeholders without discriminating anyone. This requires not only the recognition of the moral sense of the common good, but the orientation of management towards a firm-specific common good, which is not the sum of individual goods of stakeholders. Public and legal recognition of such business management optics would be tantamount to legitimizing the common good at the level of economic activity [cf. 12].

The social and personal dimensions of the common good concern the principle of primacy of interpersonal relations – the common good is primarily based on relationships between people as thoroughly relational beings. Financialization is a serious threat to these relationships, which prompted Dembinski [10, p. 20] to define financialization as a process of ‘profound changes in the relationship of the two basic elements typical of every community: relationships and transactions’. According to this author, ‘financialization is about instrumentalizing relationships for transactional purposes,’ which ‘directly harms the relationship between partners: they become more cautious and less willing to engage in new relationships’ [10, p. 181]. An example of such instrumentalization was the establishment of relationships by banks with their clients in the form of sub-prime loans, which was not aimed at establishing long-term relationships with clients (it was known that borrowers may have a problem with loan repayment), but was dictated by the desire to make the bank's debt claims the subject of transactions by using debt securitization [cf. 10; 13]. Thus, from the point of view of the common good, there is a need ‘to restore the primacy of relationships over the subordinated transactions in every sphere of life – with particular emphasis on finance and economy’ [12, p. 150].

The above principles of the common good are complemented by the institutional principle – the implementation of the common good requires specific institutional solutions in the form of the common good structures. Examples of such structures are the Financial Activities Observatory (www.obsfin.ch), which attempts to link ‘the world of financial techniques to the ideas of the common good' [10, p. 229], banks implementing codes of good conduct, 'contributing to the dissemination of best practices' and 'reminding managers of various types of risk that they might otherwise forget' [13, pp. 73-74] or ethical funds that are guided by the principles of socially responsible investing [cf. 8]. Somehow opposing to the structures of the common good are the 'structures of sin' [36, sect. 36-40], defined as 'institutional order established by man, conditioning and encouraging others – often socially subordinate – to do evil or, interchangeably, to discourage doing good' [12, p. 147]. The structures of sin 'come from individual sins: greed, pride, egoism, disloyalty and lies, which are transformed into specific organizations or legal structures' and thus have a great impact on society [12, p. 147]. The problem of 'sin structures' is also very serious because they affect people who participate in these structures due to the mechanism of cognitive dissonance: 'when actions carried out by a given person become inconsistent with their previous convictions, that person often changes their convictions' [42, p. 233]. In the era of financialization the examples of sin structures are often hedge funds, whose 'main sin' is an access to confidential information, allowing them above average returns from stock market investments [45, p. 309]. The structure of sin in the form of a financial pyramid turned out to be the hedge fund owned by Bernard Madoff. This was possible because of the absence of reaction from the US Securities and Exchange Commission (SEC), which did not detect the existence of this fraudulent investment program, despite reports from stock analysts [cf. 42]. The importance of institutional issues consider also the subsequent parts of the work.

5. The Document *Oeconomicae et Pecuniariae Quaestiones* as a Response to Financialization

Financialization is of interest to CST, as evidenced by the document entitled *'Oeconomicae et pecuniariae quaestiones' [Economic and financial issues]. Considerations for an ethical discernment regarding some aspects of the present economic-financial system*, prepared by the Congregation for the Doctrine of the Faith and the Dicastery for Promoting Integral Human Development, which was published in May 2018. Although the term is not mentioned in the document, it refers to a number of issues discussed above.

In the introduction the assumption was made that there is no area of human activity, which in relation to ethical principles based on freedom, truth and solidarity, is impenetrable or is beyond them [32, sect. 4]. The economy, like any other sphere of human activity, according to the words of Benedict XVI from the encyclical *Caritas in veritate*, even 'needs ethics in order to function correctly — not any ethics whatsoever, but an ethics which is people-centred.' [32, sect. 8]. In this context, it was stated that 'every human action, even in the economic sphere, implies some conception of the human person and of the world' [32, sect. 9]. Today, the vision of the human person is often reduced – a human is perceived as an individual and a consumer, and not as someone having a 'relational nature and a sense for the perennial search for gains and well-being that may be more comprehensive, and not reducible either to a logic of consumption or to the economic aspects of life' [32, sect. 9]. It has also been rightly noted that in reality, 'in the transmission of goods among persons there is always something more than mere material goods at play, given the fact that the material goods are often vehicles of immaterial goods whose concrete presence or absence decisively determines the quality of these very economic relationships (for example, trust, equity, and cooperation)' [32, sect. 9].

Consequently, in the document, referring to the pastoral constitution *Gaudium et Spes*, we find the principle that 'all the endowments and means that the markets employ in order to strengthen their distributive capacity are morally permissible, provided they do not turn against the dignity of the person and are not indifferent to the common good' [32, sect. 13]. At the same time, it was emphasized that 'markets, as powerful propellers of the economy, are not capable of governing themselves. In fact, the markets know neither how to make the assumptions that allow their smooth running (social coexistence, honesty, trust, safety and security, laws, and so on) nor how to correct those effects and forces that are harmful to human society (inequality, asymmetries, environmental damage, social insecurity, and fraud)' [32, sect. 13]. For this reason, the recent financial crisis, according to the authors of the document, not only gives rise to building a new economy that will take more account of ethical principles, but also to introducing new regulations for financial activities to neutralize 'predatory and speculative tendencies' in the financial markets and to 'acknowledge the value of the actual economy' [32, sect. 5]. Especially since 'financial industry, because of its pervasiveness and its inevitable capacity to condition and, in a certain sense, to dominate the real economy today, is a place where selfishness and the abuse of power have an enormous potential to harm the community' [32, sect. 14].

What would the abovementioned regulations apply to? Firstly, it would involve 'supranational co-ordination among diverse structures of local financial markets' through cooperation between national regulatory authorities to ensure binding decisions 'in the face of the threats to the common good' [32, sect. 19, 21]. Secondly, it would be about 'serious control of the quality and reliability of every economic-financial product, especially of those more structured' [32, sect. 21]. In addition, 'when the velocity of the innovative processes produces excessive systemic risk, the economic operators must accept the obligations and limits that the common good demands' [32, sect. 21]. It is the regulatory and institutional vacuum that creates 'space not only for moral risk and embezzlement, but also for the rise of the irrational exuberance of the markets, followed first by speculative bubbles, and then by sudden, destructive collapse, and systemic crises' [32, sect. 21]. Thirdly, a concrete institutional solution of a formal nature would be the establishment of Ethical Committees within the banks that would ensure compliance with accepted standards for decision-making processes and major financial products [32, sect. 24].

Institutions can be described as 'rules of the common life' [48, p. 109], which emphasizes their key importance for the common good. As part of CST, it is recognized that 'ethical behavior emerges only within the framework of the right institutions', especially those that 'facilitate greater dialogue between the different interests represented in production organizations' [30, p. 13]. Thus, 'individual ethics should be complemented by socio-economic institutions helping individuals to work for the common good, and including a renewed emphasis on ethical education, common definition of entitlements, and acknowledgement of the duties that accompany personal rights' [30, p. 13].

6. The Importance of Institutional Approach to the Phenomenon of Financialization

According to Sen [41, pp. 7, 9], 'the nature of modern economics has been substantially impoverished by the distance that has grown between economics and ethics', therefore 'economics, as it has emerged, can be made more productive by paying greater and more explicit attention to the ethical considerations that shape human behavior and judgment'. Once, at the beginning of economics, it was different thanks to its father, a moral philosopher Adam Smith, who in the *Theory of Moral Sentiments* perceived moral standards as the main pillar of the wealth of nations [cf. 6]. Although he noticed that 'in the sphere of economic behavior, the motive of profit is particularly important, this does not mean that in this area of activity people should not be guided by the principles of ethics and morality and what Smith called sympathy, which today is rather associated with the concept of empathy' [38, p. 266]. It seems that such ethical concepts as justice, honesty and thrift are still key to explaining the wealth of nations [6]. However, today in the mainstream of economics, i.e. neoclassical economics, there is a paradigm of using mathematically rigorous tools to determine the efficient allocation of resources. In this approach, the behavior of market entities is considered ethically neutral, and behavioral problems, including issues of information asymmetry or moral hazard, are recognized as incentive problems, and not as ethical issues [6]. As a result, such well-known financial theories as Markowitz's portfolio theory or Fama's efficient market hypothesis are devoid of reference to moral standards [6]. On the basis of these achievements, awarded the Nobel Memorial Prize in Economic Sciences, the 'ethos of efficiency supported by proven truths' was created, which 'gradually broke the resistance of an ethical or moral nature', 'becoming the final criterion for judgment' [25, p. 226].

Ethical issues can be considered in the framework of the new institutional economics. Institutions defined as ‘the rules of the game in a society or, more formally, […] the humanly devised constraints that shape human interaction’ are divided into formal and informal [29, pp. 3-4]. Interrelated formal and informal institutions shape the so called ‘institutional matrix’ [1, 29, p. 7]. Mainly spontaneous informal institutions (including traditions, customs, norms, shared values, religion) impose restrictions on formal institutions, which in turn affect those informal institutions on the basis of feedback loops [cf. 1, 49].

The definition of the institutional matrix shows that in the case of establishing formal institutions incompatible with informal institutions, there might be changes in informal institutions, as a result of feedback loops. Thus, for example, if we adopt certain mechanisms of the functioning of financial markets (as a certain formal institution) that allow the creation of complex financial instruments whose risk is in practice impossible to estimate, it may lead to transformations of informal institutions, e.g. a sense of responsibility for one’s own actions, which is associated with blurring the distinction between what is good and what is bad (thus affecting the sphere of morality). This way of changing informal institutions is also indirectly demonstrated by the retributive theory in criminal law: if something is legally permissible and is not met with opposition, it may consequently be considered good and right [cf. 47]. Translating this into finance, consent to the current model of functioning of financial markets (as a manifestation of financialization) has led and can further lead to reevaluations in informal institutions. It is also noticed that, due to financialization, ‘the importance of material values has increased, the importance of financial benefits as a basis for making decisions in various areas of personal life has increased’ [1, p. 53].

Other basic concepts of new institutional economics can also be used to show some ethical issues in financial markets. Firstly, according to Blommestein [6, p. 59] ‘financial markets that lack integrity are characterized by relatively high transaction costs and therefore operate less efficiently than markets that are characterized by a high degree of honesty and credibility’. This is associated, for example, with opportunistic activities that are a consequence of imperfect information and uncertainty of information [6]. Secondly, the contract, which means an institution shaping human interactions using formal rules, is related and conditioned by a network of informal rules and standards, including moral standards [6].

Nevertheless, not only neoclassical finance theories, but also new institutional economics is unable (for now) to explain the relationship between the credibility and efficiency of financial markets and moral standards. Therefore, according to Blommenstein [6], one should strive to explain why moral standards play a key role in the evolution towards more effective and complete financial markets.

At the same time, there is no doubt that efficiency should not be a criterion of choice in decisions where moral issues are important, but it is the developed moral standards that should set the boundaries of pro-efficiency aspirations. Thinking in this way, the conclusion is that institutional solutions that would introduce a certain ethical framework in the world of finance should precede rather than follow a new financial theory that would take into account the ethical considerations of operations on financial markets. Looking from this angle, it does not seem reasonable to criticize financialization as a construct that would be an obstacle to the emergence of a new financial theory [cf. 27]. Defining financialization and explaining the mechanisms of this phenomenon may first become the basis for institutional solutions, and then the basis for theoretical constructions using the achievements of the new institutional economy, as part of the institutional approach in finance.

These considerations prove how close the financial (and economic) sphere relates to the ethical one, and that they are in practice inseparable. For this reason, there are no ethically neutral economic and financial theories, unless the theory is: purely mathematical, not based on any assumption about the nature and choices of man and devoid of the social context of market processes, actually not going beyond purely technical or abstract issues. Otherwise it will only be ‘apparent neutrality’. For example, the formulation that ‘financial theories are (largely) devoid of moral content' [6, p. 61] means that these theories are not explicitly related to ethical issues. However, this does not mean 'real neutrality', because these theories implicitly refer to certain ethical assumptions, and may also lead to moral consequences.

A good example is the widespread and still key mainstream economics and finance model of 'the economic man' (*homo oeconomicus*) as a certain image of man [cf. 22], who aims to 'maximize wealth, profit, utility or preference' [cf. 16, p. 8]. It is true that the *homo oeconomicus* is only an abstract model, but following the principles derived from the assumptions on which it is built in economic reality, can lead to specific moral consequences for the individual and society [16]. Also, the fundamental dogma of finance, which recognizes the maximization of value for shareholders, is normative, because it shows a specific purpose of action and may be subject to moral evaluation [cf. 7]. In fact, it is impossible to separate means to achieve goals (as a traditional subject of financial theories) from goals alone (as a possible subject of ethics) within financial theories, because the choice of goals is ethically entangled [cf. 7]. In practice, the general assumptions and specific doctrines of finance theory not only affect the perception of financial managers in terms of how to proceed to achieve goals, but also affect the choice of what should be targeted [cf. 7].

7. Conclusions

Currently, financialization can be considered the most important 'organizational principle' [10, p. 193] not only of economies, but also of societies and smaller communities. In the fourth part of the study it is proved that the principle stands, at various levels, in contradiction with the idea of the common good. In fact, the concept of the common good can be considered as an alternative organizational principle of socio-economic reality.

Better understanding of the phenomenon of financialization and the importance of the common good, can be achieved by applying an institutional approach in economics and finance. It seems that institutional changes, including those of a regulatory nature, are necessary to reorient the socio-economic perception from the optics of financialization to the common good. Somewhere at the junction of these institutional issues and various ethical issues concerning functioning of financial markets, one can see the emergence of a new institutional theory of finance. Such a theory would be grounded in a realistic worldview, which puts observations and description of the changing reality over deductive thinking. The latter leads to conclusions which are coherent, but over-simplified and often contrary to reality [cf. 12].

Another possibility is the emergence of 'a new discipline, closer to sociology, that would attempt to describe markets and financial institutions, social networks and power relationships' [28, p. 26]. It would also be interesting to develop the concept of financial personalism (personalistic finances) similar to the concept of economic personalism (personalistic economics) [cf. 20]. The creation of an 'ethical political economy' based on CST was also raised, whose core would be the vision of the common good with its three pillars of justice, solidarity and subsidiarity [26, p. 45].

References

1. Adamska, A. Finansjalizacja a zmiana matrycy instytucjonalnej, *Finanse* 1(10), 2017, pp. 45-56.
2. Ahn, I. Reconstructing an Ethics of Credit in an Age of Neoliberalism, *Religions* 10(8), 2019, pp. 1-16.
3. Akerlof, G.A., R.J. Shiller. *Zwierzęce instynkty. Czy ludzka psychika napędza globalną gospodarkę i jaki to ma wpływ na przemiany światowego kapitalizmu?* Warszawa: Wydawnictwo Studio EMKA, 2010.
4. Akerlof, G.A., R.J. Shiller. *Złowić frajera. Ekonomia manipulacji i oszustwa*, Warszawa: Polskie Towarzystwo Ekonomiczne, 2017.
5. Banaszak-Soroka, U. System finansowy, In U. Banaszak-Soroka (ed.), *Rynki finansowe. Organizacja, instytucje, uczestnicy*, Warszawa: C.H. Beck, 2014.

6. Blommestein, H.J. Why is Ethics not Part of Modern Economics and Finance? A Historical Perspective, *Finance & Bien Commun* 24, 2006, pp. 54-64.
7. Boatright, J.R. *Ethics in Finance*, Oxford: Blackwell Publishing, 1999.
8. Czerwonka, M. *Inwestowanie społecznie odpowiedzialne*, Warszawa: Difin, 2013.
9. Dembinski, P. H. From Cracks in the Liberal Edifice to the Rediscovery of the Common Good, *Journal of Markets and Morality* 7(2), 2004, pp. 423–439.
10. Dembinski, P.H. *Finanse po zawale. Od euforii finansowej do gospodarczego ładu*, Warszawa: Wydawnictwo Studio EMKA, 2011.
11. Dembinski, P.H. *Etyka i odpowiedzialność w świecie finansów*, Warszawa: Wydawnictwo Studio EMKA, 2017.
12. Dembinski, P.H., S. Beretta. *Kryzys ekonomiczny i kryzys wartości*, Kraków: Wydawnictwo M, 2014.
13. Dewatripont, M., J.-Ch. Rochet, J. Tirole. *Zbilansować banki. Nauki z kryzysu finansowego*, Warszawa: Polskie Towarzystwo Ekonomiczne, 2016.
14. Diggs, B. The common good as reason for political action, *Ethics* 83(4), 1973, pp. 83–293.
15. Dupre, L. The Common Good and the Open Society, *The Review of Politics* 55(4), 1993, pp. 687–712.
16. Dzionek-Kozłowska, J. *Model homo oeconomicus. Geneza, ewolucja, wpływ na rzeczywistość gospodarczą*, Łódź: Wydawnictwo Uniwersytetu Łódzkiego, 2018.
17. Fierla, A., A. Grygiel-Tomaszewska. Proces finansjeryzacji, In A. Fierla (ed.), *Finansjeryzacja gospodarki i jej wpływ na przedsiębiorstwa*, Warszawa: Oficyna Wydawnicza SGH, 2017.
18. Foster, J.B. The Financialization of Capitalism, *Monthly Review* 58 (11), 2007, pp. 1-12.
19. Gocko, J. Dobro wspólne, In *Wielka Encyklopedia Nauczania Jana Pawła II*, 2014, Retrieved on June 3rd 2019, https://www.centrumjp2.pl/wikijp2/index.php?title=Dobro_wspólne
20. Gronbacher, G.M.A. *Personalizm ekonomiczny*, Lublin: Instytut Liberalno-Konserwatywny, 1999.
21. Hollenbach, D. *The Common Good and Christian Ethics: New Studies in Christian Ethics*, Cambridge: Cambridge University Press, 2002.
22. Horodecka, A. *Obrazy człowieka w ekonomii*, Warszawa: Oficyna Wydawnicza SGH, 2018.
23. Krippner, G. The Financialization of the American Economy, *Socio-Economic Review* 3(2), 2005, pp. 173–208.
24. Lagoarde-Segot, T. Financialization: Towards a new research agenda, *International Review of Financial Analysis*, 51, 2017, pp. 113–123.
25. Manifest Obserwatorium Działalności Finansowej, In P.H. Dembinski, *Finanse po zawale. Od euforii finansowej do gospodarczego ładu*, Warszawa: Wydawnictwo Studio EMKA, 2011.
26. McHugh, F.P. Thinking Ethics While Learning Finance, *Finance & Bien Commun* 24, 2006, pp. 38-46.
27. Michell, J., J. Toporowski. Critical Observations on Financialization and the Financial Process, *International Journal of Political Economy* 42(4), 2013-2014, pp. 67–82.
28. Montagner, H.R-L. Financial Theory on Ethics: the Reasons for Silence, *Finance & Bien Commun* 24, 2006, pp. 20-27.
29. North, D.C. *Institutions, Institutional Change and Economic Performance*, Cambridge: Cambridge University Press, 1990.
30. O'Boyle, E.J., S. Solari, G. Marangoni. Financialization: critical assessment based on Catholic social teaching, *International Journal of Social Economics* 37(1), 2010, pp. 4-16.
31. O'Brien, D., T. Shannon. *Catholic social thought: encyclicals and documents from Pope Leo XIII to Pope Francis*, Maryknoll: Orbis, 2016.
32. *'Oeconomicae et pecuniariae quaestiones'. Considerations for an ethical discernment regarding some aspects of the present economic-financial system*. Congregation for the Doctrine of the Faith and the Dicastery for Promoting Integral Human Development, 2018, Retrieved on October 25th 2018, https://press.vatican.va/content/salastampa/en/bollettino/pubblico/2018/05/17/180517a.html

33. Ostrom E. *Governinig the Commons: The Evolution of Institutions for Collective Actions*, Cambridge: Cambridge University Press, 1990.
34. Pope Giovanni XXIII. *Mater et magistra*, 1961, retrieved on September 25th 2019, http://www.vatican.va/content/john-xxiii/en/encyclicals/documents/hf_j-xxiii_enc_15051961_mater.html
35. Pope Giovanni XXIII. *Pacem in terries*, 1963, retrieved on September 25th 2019, http://www.vatican.va/content/john-xxiii/en/encyclicals/documents/hf_j-xxiii_enc_11041963_pacem.html
36. Pope John Pope II. *Sollicitudo rei socialis*, 1987, retrieved on September 25th 2019, http://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_30121987_sollicitudo-rei-socialis.html
37. Pope John Paul II. *Veritatis Splendor,* 1993, retrieved on September 25th 2019, http://www.vatican.va/content/john-paul-ii/en/encyclicals/documents/hf_jp-ii_enc_06081993_veritatis-splendor.html
38. Ratajczak, M. Ekonomia w dobie finansyzacji gospodarki, *Ruch Prawniczy, Ekonomiczny i Socjologiczny*, 76(2), 2014, pp. 259–270.
39. Rawls, J. *Justice as Fairness: A Restatement*, Cambridge, MA: Harvard University Press, 2001.
40. Sandel, M.J. *Sprawiedliwość. Jak postępować słusznie?* Warszawa: Kurhaus Publshing, 2013.
41. Sen, A. *On Ethics & Economics*, Oxford: Blackwell Publishing,1987.
42. Shiller, R.J. *Finanse a dobrobyt społeczny*, Warszawa: Polskie Towarzystwo Ekonomiczne, 2016.
43. Sienkiewicz, E. Koncepcja państwa według świętego Augustyna, *Studia Paradyskie* 25, 2015, pp. 201–220.
44. *Sobór Watykański II. Konstytucje, dekrety, deklaracje*, Poznań: Pallotinum, 1968.
45. Stiglitz, J.E. *Freefall. Jazda bez trzymanki. Ameryka, wolne rynki i tonięcie gospodarki światowej*, Warszawa: Polskie Towarzystwo Ekonomiczne, 2010.
46. Van der Zwan, N. Making sense of financialization, *Socio-Economic Review* 12(1), 2014, pp. 99–129.
47. Von Hirsch, A. Uzasadnienie istnienia i wymiaru kary we współczesnym retrybutywizmie, *Ius et Lex* 1, 2006, pp. 45-83.
48. Wilkin, J. *Instytucjonalne i kulturowe podstawy gospodarowania*. *Humanistyczna perspektywa ekonomii*, Warszawa: Scholar, 2016.
49. Williamson, O.E. The New Institutional Economics: Taking Stock, Looking Ahead, *Journal of Economic Literature* 38 (3), 2000, pp. 595-613.
50. Wojtyła, K. *Katolicka etyka społeczna*, Lublin: Wydawnictwo KUL, 2018.