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# Financialisation: a 21st century commercial determinant of health equity

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In 21st century capitalism, financial markets reign supreme. The elevation of investing, trading, and speculating as a way of making profit has shifted economic power towards institutional investors and enhanced the power of financial capital. Financialisation has introduced uncertainty in the commitment to public provision of goods and services. The behaviours of corporations focus more on profit for shareholders and senior executives to the detriment of wages, worker protections, livelihoods, and impact on prices and the environment. The practices of this financial system pose major challenges to public health and planetary health equity through the influence on social inequality, climate change, and health outcomes. The aim of this Viewpoint is to expand the understanding of the commercial determinants of health to explicitly include the financial system and present key plausible pathways via which the financialisation of advanced economies influences public health and planetary health equity. The global public health community must pay close attention to these key commercial determinants of health. It is now crucial to reduce the power of financial actors and hold financial actors accountable. Civil society groups can highlight their practices, articulate alternative visions, and hold financial actors and governments to account. Interdisciplinary research must provide a diagnosis of the financial and public health issues, and, importantly, illuminate effective pathways forward. Financial and commercial worlds must return to stakeholder primacy rather than that of the shareholder.

## Financialisation of societies

The 2023 *Lancet* Series on the commercial determinants of health defines these as “the systems, practices, and pathways through which commercial actors drive health and equity”.<sup>1</sup> This definition recognises that commercial actors operate within wider systems that can enable profit-driven human and planetary health harms. In this Viewpoint, we refer to these wider systems as the consumptogenic system: the web of institutions, actors, policies, commercial activities, and norms that encourages and rewards the exploitation of natural resources, and excess production and hyperconsumerism of fossil-fuel-reliant goods and services. This results in environmental degradation, climate change, and health inequities.<sup>2</sup> At the core of this broad conceptualisation of commercial determinants of health and the consumptogenic system lies a financial system that has become increasingly economically dominant, complex, and favourable to the more affluent. It is rapidly decoupling from the real economy and presents a growing threat to economic stability.<sup>3</sup> The aim of this Viewpoint is to expand the understanding of commercial determinants of health to explicitly include the financial system, and show key pathways via which financialisation, particularly of advanced economies, can influence public health and planetary health equity (PHE). Financialisation is defined as the “increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies”.<sup>4</sup>

Throughout the 1970s and 1980s, high-income countries embraced the deregulation of capital, labour markets and financial institutions, widespread privatisation, and increased recognition of property rights.<sup>5</sup> A shareholder value revolution started. The proliferation of institutional investors (organisations that invest money on behalf of clients) shifted the gaze of

corporations towards the stock market.<sup>6</sup> The nature of capitalism changed again in the 21st century. Large-scale profits now accrue predominantly through financial and intellectual property channels rather than through the production and consumption of real goods and services.<sup>7</sup> Even non-financial entities (eg, supermarkets) often rely on financial investments and products (eg, leases and loans) for profits—illustrating the increasing influence of the finance system and the resulting financialisation of societies.

## The 21st century finance system: the rise of institutional investors

The scale and diversity of financial actors involved in capital accumulation has increased substantially, including insurance companies, retail banks, investment banks, and asset managers.<sup>8</sup> Institutional investors are key actors when it comes to PHE risks. These are companies or organisations (including investment banks and assets managers) that manage and invest the money of other entities. Institutional investors manage and make money using different strategies, including investing, trading, and speculating.

Institutional investors invest others' money in shares and bonds in individual companies, commodities, and currencies. They also aggregate shares and bonds into financial products called funds (eg, index funds, equity funds, hedge funds, and pension funds). Collectively, these different types of investments are referred to as assets, which institutional investors then trade on the market. For example, USS Investment Management Limited is an investment management company that manages the Universities Superannuation Scheme—the largest pension fund in the UK.<sup>9</sup> The asset manager (USS Investment Management Limited) pools the pension contributions from individuals and invests them

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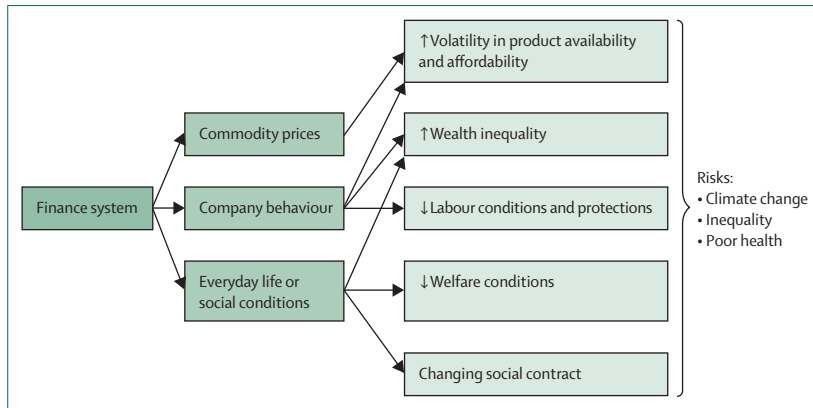


Figure: Pathways through which financialisation can influence health equity

in the pension fund, which is a portfolio of company shares, bonds, and commodities.

Institutional investors now control most of the shares of public companies and have a substantial impact on the voting outcomes at the annual general meetings and behaviours of those companies. In 2022, together, the top 500 global asset managers had US\$132 trillion in assets under management (more than \$25 trillion higher than global gross domestic product).<sup>10</sup>

Investors also speculate. Speculating is a form of financial gambling, based on a guess about which way the share price will go rather than on long-term value or income generation. Key to speculation is the use of derivatives, which are financial contracts with a value linked to the expected future price of an asset. In effect, they allow for the trading of, and speculation on, the financial risk between investors. For example, in the USA, fund managers and investment banks created large quantities of financial contracts based on real estate and mortgage derivatives. The derivatives were traded.<sup>8</sup>

### Pathways through which financialisation influences PHE

There are three plausible pathways through which the financial system can drive climate change and social and health inequities: commodity prices, company behaviours, and everyday living conditions (figure). We draw heavily on examples from the food and energy sectors, which are key elements in the consumptogenic system.

#### Pathway 1: commodity prices

Speculation can contribute to marked volatility in commodity prices, thereby creating inequities in access to health-essential goods and services, including nutritious food and energy.<sup>11</sup>

Clapp previously showed how speculative practices transformed the motivation of the global food system towards increasing profits for financial and corporate actors rather than nourishing people in an environmentally sustainable manner.<sup>12</sup> This transformation

occurred when financial actors became interested in food, not as a real commodity to trade, but as a thing to bet on.

Nowadays, more than 3 billion people globally experience food and energy insecurity.<sup>13</sup> The large spikes in the cost of food and energy, observed in many countries during 2021–22, contributed massively to these insecurities. In the UK, for example, foods such as bread and pasta increased by as much as 60% between 2021 and 2022.<sup>14</sup> While prices were surging, institutional investors took advantage of the uncertainty and bet on commodity prices going up or down in those markets, thus making large returns. Following Russia's invasion of Ukraine in February, 2022, investors started betting on rising food prices, reminiscent of the speculation on food and oil markets that happened in the lead up to the 2007–08 food price crisis.<sup>11</sup> The world's top ten hedge funds made profits of almost \$2 billion from speculative trading in the prices of grain and soya beans in the run-up to and aftermath of the Ukraine invasion. Computer algorithms were used to identify rising or falling prices and then automatically buy or sell the derivatives in response.<sup>15</sup> This profit is derived purely from price speculation; none of it is generated through investment in agriculture.

The reasons for energy price surges are similar to those of food. Trade in oil, and associated profits, reached record highs in 2021 and 2022. The trade is not of physical oil but of derivatives and speculation on future prices. Because this virtual trading has come to dwarf real trade, it now determines the price of oil and gas, stoking volatility. One possible upside might be a related shift to clean energy sources. Currently 2.6 billion people lack access to clean energy and cooking options. One way to achieve the necessary investments in clean energy sources that are required for net-zero greenhouse gas emissions by 2050 is through the stock market. In theory, an increase in oil prices boosts the demand for clean energy, and investors shift their investments into those firms. As a result, clean energy share returns increase.<sup>16</sup> That said, increases in oil prices can also make additional investments in fossil fuel firms more attractive and drive additional carbon lock-in. Fundamentally, questions should be raised over the role of speculation in food and energy systems when one of the major risks is uncertainty and spikes in prices, with attendant health risks for millions of people worldwide.

#### Pathway 2: company behaviours

Financialisation has shaped the behaviour of companies, leading them to practices and products that have negative implications for environmental, social, and health outcomes (panel 1).

Non-financial companies (eg, a food company) have become increasingly beholden to financial entities and markets, including the expansion of their product portfolios into financial products and services. This

increased coupling of companies with the finance system has meant that short-term shareholder interests dominate normal company practice.<sup>19</sup> Investors typically have short-term horizons<sup>20</sup> and are increasing their ownership of public firms (via increasing percentage of shares). Corporate governance laws, based on the principle of shareholder primacy, are empowering investors to demand that company policies and behaviours focus on maximising short-term shareholder value, which can undermine the long-term wellbeing of a company and its workers. One negative consequence is growing economic inequality. Company managers and senior executives often receive shares as part of their remuneration package,<sup>8</sup> which has led to substantial redistribution of wealth towards shareholders and senior executives of companies, thereby increasing economic inequality. Between 1995 and 2011, globally, wealth grew by 92% among high-skilled workers, which includes managers and chief executive officers, and fell by 91% for the low-skilled workers.<sup>21</sup> This discrepancy is problematic for PHE. An expansion in economic inequality is linked to increases in negative health outcomes via impacts on status anxiety and material resources.<sup>22</sup> In some contexts, economic inequality also contributes to climate change, with more equal societies less likely to have soaring amounts of conspicuous consumption compared with less equal societies, correlating with higher amounts of greenhouse gas emissions per capita.<sup>23</sup>

Another popular way for corporations to maximise shareholder value has been the sale of less profitable departments and product lines, as well as outsourcing in-house functions. Much of the outsourcing has shifted production and work to countries with weaker labour and environmental laws.<sup>24</sup> Such outsourcing has resulted in volatility in the quality of services and mass layoffs in advanced economies, with negative health effects,<sup>25</sup> and it can also result in environmental degradation and increased labour exploitation in the poorer countries where production shifted to.

### Pathway 3: living conditions

Increasingly ubiquitous financial products that have resulted in complex mortgage products, rising access to and use of consumer credit and debt, the rise of non-professional traders (the so-called mom and pop traders), superannuation schemes, and insurance policies are all ways in which people have become increasingly bound to financial systems in their everyday life.

This coupling of people to the financial system normalises the presence and role of finance in their lives, resulting in fundamental changes to the social contract and undermines the commitment to universal social welfare. Good health requires sufficient income to access basic needs such as housing and health care. In high-income countries, non-employment income is often provided by social protection systems, and when that is absent, credit markets.<sup>26</sup> While derivatives and futures

### Panel 1: Impact of financialisation on company behaviour in the food and energy sectors

The rise of institutional investors in the food and agricultural sector and subsequent concentration of ownership by large asset managers contributes to oligopolistic behaviour among the large transnational corporations. As Clapp explains, “the world’s largest asset management firm BlackRock...holds shares in a number of the world’s largest food companies including Nestle, Coca-Cola, PepsiCo, Walmart, Anheuser Busch InBev, Mondelez, Danone, and Kraft Heinz”.<sup>12</sup> Some of the same asset management firms are deeply involved in the energy system. In 2021, data showed that BlackRock, Vanguard, and State Street had continued to grow billion dollar stakes in some of the most carbon-intensive companies since the Paris agreement.<sup>17</sup> The top ten institutional investors held 20-95% of BP shares in 2023. The potential CO<sub>2</sub> emissions from their investments were equivalent to 38% of global fossil fuel CO<sub>2</sub> emissions in 2018.<sup>18</sup>

This concentration of company control enables the asset managers to use their votes at annual general meetings to influence company policy. As an example, BlackRock and Vanguard routinely opposed motions at fossil fuel companies that would have forced directors to take more action on climate change.<sup>18</sup> Rather than divesting from greenhouse-gas-emitting industries (large food and agribusiness and fossil fuel companies), the asset management firms, and other types of investors, are helping to keep the consumptogenic system in place. Such strategies have major implications for planetary health equity.

markets are the tools of the wealthy, credit markets are more for people experiencing poverty. Financial systems have penetrated into a range of life necessities: housing (panel 2), pensions, and health care. This infiltration has created a shift towards people obtaining their basic needs through financial products, while governments have retreated from providing the same. The fees and interest that accompany these financial products and services are ways in which the financial sector extracts profit from individuals. In addition to health risks, these credit regimes and cheap money might contribute to climate change by stimulating the overconsumption of resource-intensive products and services and driving greenhouse gas emissions.<sup>27</sup>

### The way forward

The elevation of investing, trading, and speculating as a way of making profit has shifted economic power towards institutional investors and enhanced the power of capital. The global public health community must address financialisation and the commercial determinants of PHE. Meaningful action must be taken to ensure financial systems function in ways that promote, or at least do not undermine, health, social equity, and the environment.

**Panel 2: Financialisation and housing**

The degree to which homes are treated as commodities and as a means of generating a financial return varies by national housing systems. This variation is a function of the extent of mortgage financing, the availability of social housing, rental market utilisation, and whether housing is treated as a financial asset and savings vehicle. The most commodified and financialised systems—including the UK, USA, Canada, Ireland, and Australia—are typified by extensive use of mortgages, limited government provision of public housing, and less protective rental regulations. Increases in the financialisation of housing appear to have fundamentally undermined access to housing and spurred greater inequality within countries.<sup>27,28</sup>

The response must be about reducing the power of financial actors. Transparent checks and balances must be built into these systems, with state actors using their regulatory power to guide financial practices in ways that are good for PHE and hold financial actors accountable. Civil society groups can highlight these practices, articulate alternative visions, and hold financial actors and governments to account. Interdisciplinary research must provide a diagnosis of the financial and PHE problem. Importantly, the research must illuminate pathways forward, highlighting effective regulatory approaches, and effective strategies and tactics that can be used by socially oriented actors to pressure the finance and commercial worlds to return to stakeholder rather than shareholder primacy.

**Contributors**

SF conceptualised and wrote the first draft of the paper. All authors contributed to the development of the ideas and review of literature, and contributed to writing the paper.

**Declaration of interests**

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