

# Guardians of the regime

## Central banks and the dual role of finance in sociotechnical transitions

*Emanuele Campiglio, Jérôme Deyris, Frank Geels, Christopher Schroeder*

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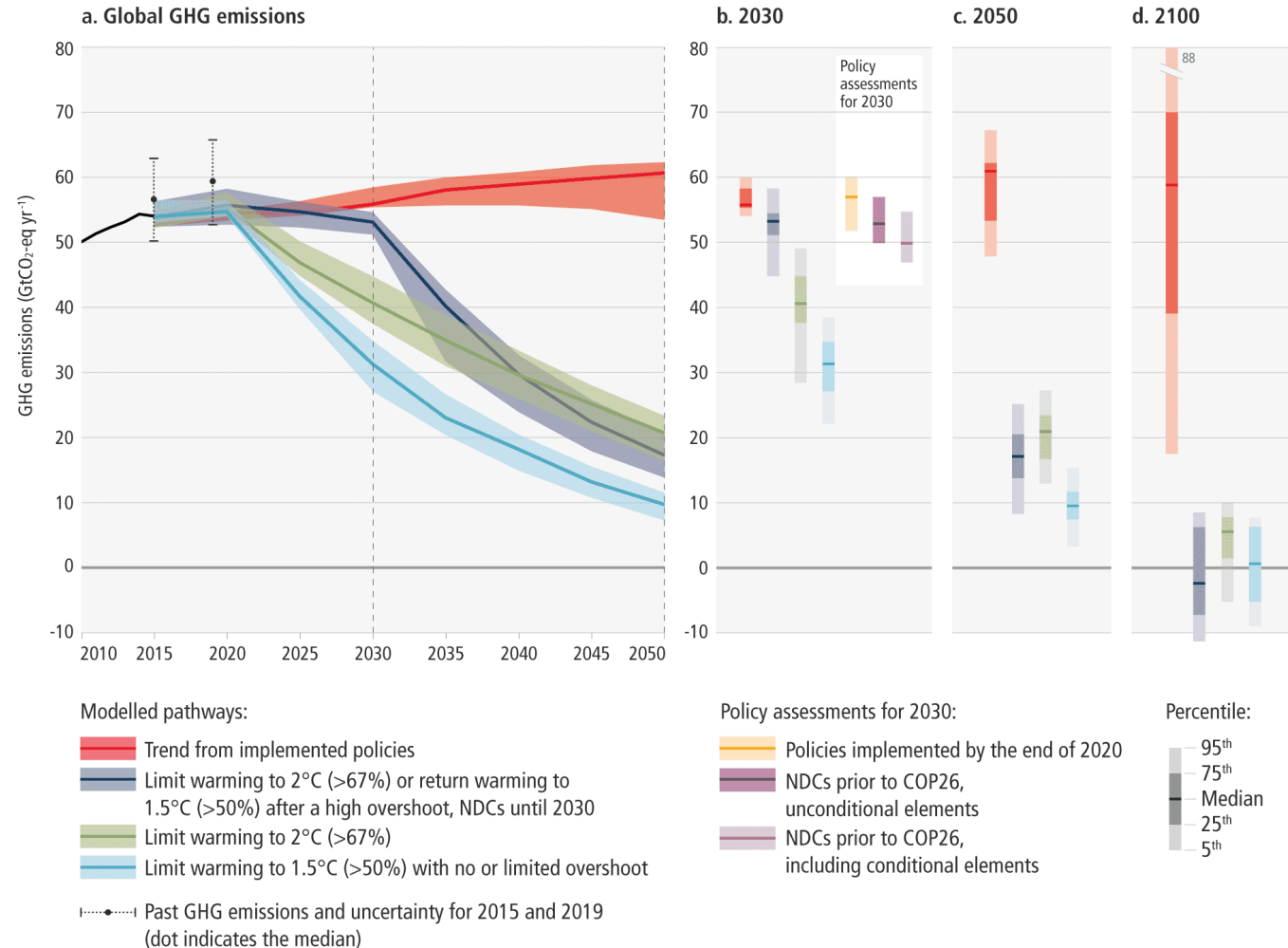
Institutions and power: Monetary & financial systems for sustainability

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# Motivation

- Climate change → Rapid decarbonisation
- Accelerated policy debate & action on sustainable finance
  - Physical/transition/liability financial risks
  - Strong involvement of central banks and financial supervisors

Projected global GHG emissions from NDCs announced prior to COP26 would make it likely that warming will exceed 1.5°C and also make it harder after 2030 to limit warming to below 2°C.



# Research questions

- *How* are CBs and FSs in the EU acting on transition-related matters?
- What consequences does/will their involvement have on the dynamics of the energy transition?
- Can we improve the institutional configuration in support of a rapid and smooth transition?

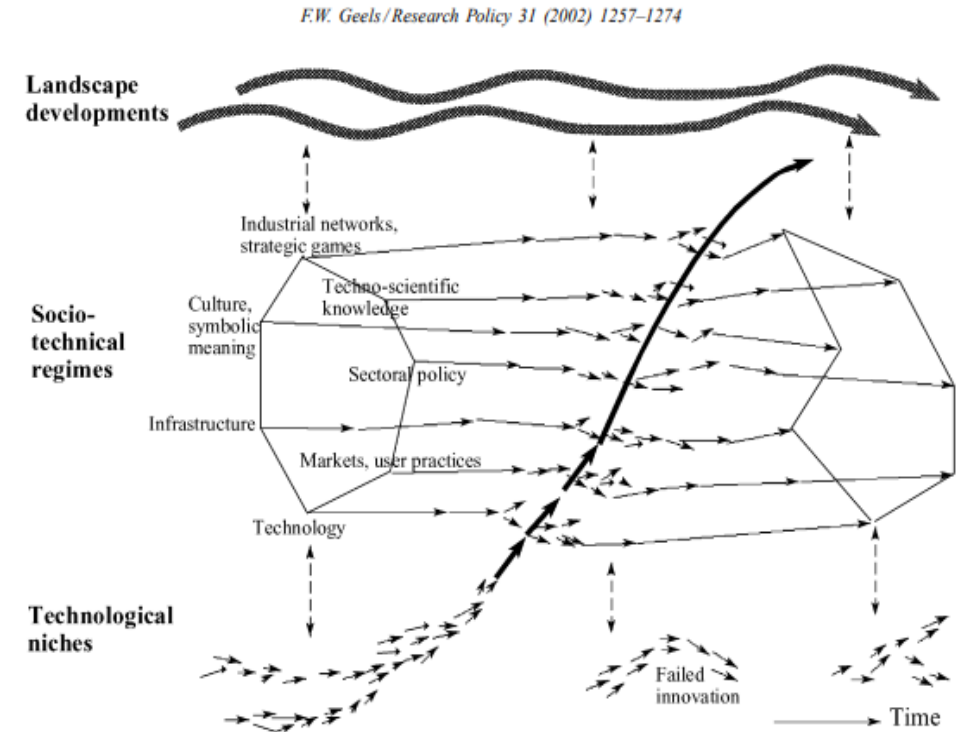
# Literature (I) - 'Political Economy of Green Central Banking & Sustainable Finance'

- What explains different outcomes in green financial policy action & how can we classify them?
  - *Baer et al., 2021; Dikau/Volz, 2021; D'Orazio/Popoyan, 2022; Steffen, 2021...*
- Why does climate change matter for the financial system & what policies should be adopted?
  - *Bolton et al., 2020; Campiglio et al., 2018; Chenet et al. 2021; Fontan/Van't Klooster, 2020; Semeniuk et al., 2021; Svartzman et al., 2021; Van't Klooster, 2020...*
- But: refrain from exploring conceptual & empirical links to **technological transition in the *real* economy**

# Literature (II) - 'Sociotechnical transitions'

- **Multilevel Perspective** (Geels 2002)
  - Socio-technical transition as interaction between three levels
- Two main processes
  - a) Emergence of niche-innovations
  - b) Decline of incumbent regimes
- GAP: Finance underdeveloped
  - Some have looked at a)\*
  - But very little regarding b)!
- We bring in neo-institutionalist concepts (policy paradigm)

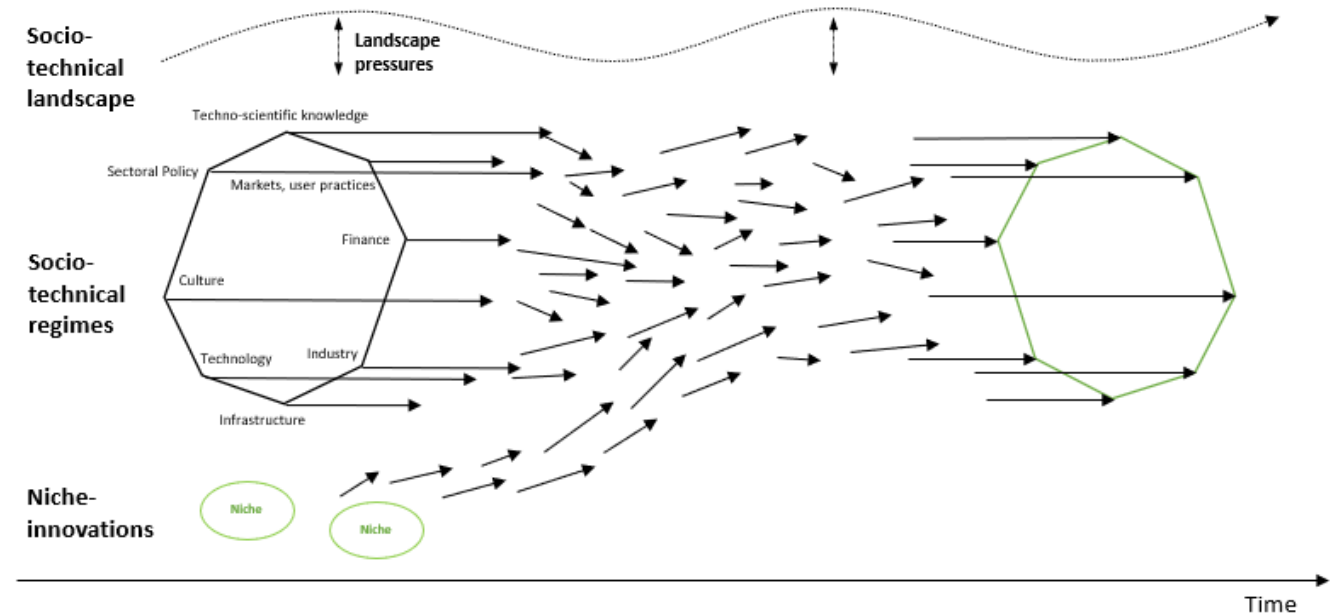
\* Bolton/Foxton, 2015; Geddes & Schmidt, 2020; Seyfang/Gilbert-Squires, 2019; Falcone et al., 2018; Urban/Wojcik, 2019...



# Conceptualisation

# Finance as socio-technical regime

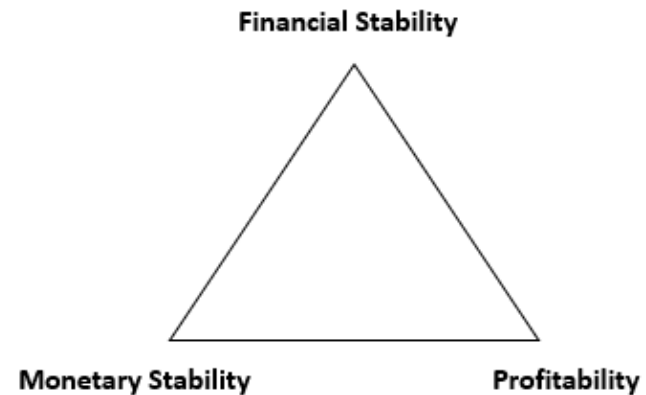
- Finance as its own socio-technical regime
  - Own networks, rules & institutions (e.g. Geddes & Schmidt, 2020; Falcone et al. 2018; Urban/Wojck, 2019)
  - Own incumbents
    - Banks
    - Non-Bank FIs (esp. institutional investors & asset managers)
- Peculiar: Interconnected with all other socio-technical systems
  - Function of enabling economic activity & innovation
  - No 'substitute for finance' (Geddes & Schmidt, 2020; Schumpeter, 1942)



# Finance as regime with intrinsic & extrinsic objectives

- **Intrinsic objectives**

- Preserve continuity (dynamic stability)
- Reproduce regime architecture



- **Extrinsic objectives**

- Intermediated by the landscape
- Socially desirable objectives in other regimes
- Dual role of finance for energy transition

**a) Phase-in:** Finance for low-carbon technologies

**b) Phase-out:** Devaluation of high-carbon assets



# Regime Guardians & Policy Paradigm

- **Financial Regime Guardians**
  - Public institutions
  - Central Banks, Financial Supervisor, National Financial Regulators, European Commission
  - In charge of regime stability (intrinsic objectives)
  - Receptors of landscape pressure (extrinsic objectives)
- How do regime guardians align these objectives?
  - Deep uncertainty in decision-making (Blyth, 2002; Chenet et al. 2021)
  - Use 'prism of the **policy paradigm**' (Hall, 1993)
- What is a policy paradigm?
  - Ideational framework that becomes institutionalised (Hall, 1993)
  - Institutionalisation creates path-dependency (Andrews-Speed, 2016)
  - Semi-coherent set of cognitive, normative & regulative rules
- We argue: (Mis)-Alignment of intrinsic & extrinsic objectives shapes co-evolution of finance & energy systems



# Case & Methodology

# Case & Methodology

- Single-case study: European Union
- Semi-structured elite interviews
  - Finance regime guardians, financial incumbents, landscape actors (national & supranational)
- Triangulation (Hancké, 2009) to counteract problem of replicability
  - ...with other primary and secondary sources (speeches, reports, academic articles) *“that directly corroborate[s] or indirectly support[s] the statement that you are relying on.”*
  - *“The purpose of the interview is then less to find the silver bullet, but to collect insights and pieces of information that you can match to other pieces of information, which together make up a convincing story.”*
- Coding cross-checked to reduce bias (Eisenhardt, 1989)
- Sample selection
  - Balance public & private actors
  - Reflect major EU economies
  - Stop when no new insights observed (Eisenhardt, 1989)

## Interview guide

### **Present**

*Delay/accelerate phase-in/phase-out*

### **Short-to-medium term**

*e.g. financial instability, energy insecurity...*

### **Central Bank Reaction**

*Counteracting/exacerbating effects*

### **Feedback Effects**

*Delay/accelerate phase-in/phase-out...*

# List of interviewees (so far)

#	Category	Organization	Country	Interviewee's role
1	Financial Incumbent	Group of Private Banks	France	Head of Sustainable Finance
2	Financial Incumbent	Sustainable Asset Management	France	CEO
3	Financial Incumbent	Sustainable Asset Management	France	CEO
4	Financial Incumbent	Asset Management	UK	Portfolio Manager Sustainable Investment
5	Financial Policymaker	National Central Bank	Austria	Senior Expert
6	Financial Policymaker	National Central Bank	Denmark	Senior Expert
7	Financial Policymaker	National Financial Supervisor	France	Leadership Function
8	Financial Policymaker	National Financial Supervisor	France	Senior Expert
9	Financial Policymaker	National Central Bank	France	Leadership Function
10	Financial Policymaker	National Central Bank	Germany	Leadership Function
11	Financial Policymaker	National Central Bank	Germany	Portfolio Manager
12	Financial Policymaker	Supranational Central Bank	Supranational	Senior Expert
13	Financial Policymaker	Supranational Central Bank	Supranational	Senior Expert
14	Financial Policymaker	Financial Supervisor	Supranational	Expert
15	Financial Policymaker	Financial Supervisor	Supranational	Senior Expert
16	Financial Policymaker	National Central Bank	UK	Senior Expert
17	Landscape Actor	NGO	France	Expert
18	Landscape Actor	University	UK	Academic Expert

# Findings

# Win/Win narratives within policy paradigm

- Finance Regime Guardians promote win/win narratives
  - To justify alignment of intrinsic & extrinsic objectives
  - Use 'prism of policy paradigm' to articulate problems & solutions
    - rest on prevalent economic ideas & fit well in pre-existing governance framework
- **Win/Win I: Phase-out promotes *financial stability***
  - 'Climate-related risks' as financial stability risk
- **Win/Win II: Phase-in promotes *profitability***
  - 'Green Growth' as financial opportunity

# Finance regime on a 'transformation path'

(Geels & Schot, 2007)

- Guardians pursue strategy of incremental change
  - *Not too quickly, please! Adjustments take time*
  - Minimise disruption to regime architecture & minimally-sufficient commitment to extrinsic objectives
- Regime architecture stays intact
  - New rules are *additive & do not override* old rules
  - Emergence of *new networks* to bring about regime adjustments
  - Financial incumbents *modify* innovation activities
  - Faith in policy paradigm *prevails*
- Within this pathway: some room for maneuver but significant limitations

# The 'Monetary Stability Embarrassment'

- Win/win narratives focused on financial stability and profitability
- No win/win narrative for monetary stability
  - Transition dynamics might fuel inflation → jeopardise intrinsic objective
  - Transition-led inflation partially in line with extrinsic objectives
  - Price stability interventions by guardians might slow-down transition
- Great uncertainty how to deal with this **divergence of objectives**
  - Prevalent policy paradigm provides no ideas & solutions
- In absence of paradigm shift: Guardians must favour intrinsic over extrinsic objectives → **obstacle to transition**



# Discussion

# Go beyond...

## **...the policy paradigm**

- Internalise extrinsic objectives
- Dual interest rate policy
- Coordination among guardians of different regimes

## **...the finance regime**

- Guardians of the energy regime are weak
  - Weak institutional configuration, internally conflicted, credibility problems
- How can we strengthen the energy guardians?
  - New institutional capacity → Carbon Central Bank?



# Thank you!

[christopher.schroeder@unibo.it](mailto:christopher.schroeder@unibo.it)

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