This paper analyses the nexus between financialisation and sustainability from an evolutionary point of view. The historical evidence suggests that the process of financialisation may be seen as a long-run tendency characterizing the evolution of market relations. This trend, however, has often been restrained by constraints of religious, ethical and political nature. Financialisation has been driven by innovations meant to increase the choice flexibility of decision makers by relaxing the constraints on the available option set. For example, according to received wisdom, the adoption of money as medium of exchange has removed the strictures of double coincidence of wants, while the modern forms of credit have been developed to relax the cash-in-advance constraint to economic transactions. As these examples suggest, financial innovations aim to extend the set of options in time, space and contents for the decision makers who introduce them. Financial innovations are adopted because, ceteris paribus, a larger option set is positively correlated with higher expected returns. Their systemic effects, however, may have negative implications such as instability in the financial sector and underinvestment in the real sector. When the negative consequences of financialisation accumulate beyond a tolerable threshold, a remedy has to be sought in stricter rules of self-regulation, or of regulation by law, or even in severe measures of financial repression. This conflict brought about an alternation of periods characterized by sizable financial repression as in the Bretton Woods era, and periods characterized by the systematic relaxation of financial restraints leading to an acceleration of financialisation, as at the turn of 19th century ("First financialisation") culminating in the Great Depression, or in the neoliberal era starting in the early 1980s ("Second financialisation") leading to the Great recession.

The differences between the First and the Second financialisation are spelled out to show why the second financialisation led to a development trajectory increasingly unsustainable. The comparison between the two ideal-types may be considered as a preliminary step propaedeutic to a thorough analysis of financialisation in a specified area and period. We have to distinguish two influence channels of finance over the real economy: extrinsic and intrinsic. The extrinsic power exerted by finance determines which of the possible decisions can be implemented by receiving the necessary financial support. This influence was pre-existent to capitalism but became more systematic and more influential after the industrial revolution when credit became a crucial condition of great part of industrial investment, in particular the most innovative one. During the First financialisation this power started to be exerted in a more systematic way leading finance to play the role of coordination and orientation of capitalistic decisions. At the turn of 19th century a few major investment banks became so powerful to be considered almost as planning authorities. The influence of finance became also intrinsic during the Second financialisation, systematically affecting the choices of non-financial firms and households also in reference to their contents. The logic of choice of any subject in any field became more and more influenced by the financial paradigm of portfolio selection within a time horizon as short as that of financial choices. The choices consistent with sustainability became thus increasingly non-competitive with alternative choices that look more profitable in the short period since sustainable choices often imply sizable immediate costs and significant benefits only in a relatively distant future.

A second crucial difference has to do with the different role of banks. The First financialisation has been mainly "bank-based" while the Second financialisation has been rather "market-based". This is not to say that in the Second financialisation big banks have played a subordinate role because they have taken a crucial role in controlling financial markets directly (through the manipulation of the Euribor and currency exchange rates, complacent ratings of crony agencies, "creative accounting", and so on) or indirectly (through governments and regulators). The crucial difference was, however, that in the second case the banks exerted their power in a more indirect way through markets, while the financial motivations became decisive even within the real economy.

A third crucial difference may be seen in the strategy of expansion of capital investment. During the First financialisation the prevailing capitalist strategy pointed to an expansion, with the help of the state, in new geographical areas (imperialism and colonialism). During the Second financialisation the expansion sought was not so much territorial (notwithstanding significant exceptions) but aimed to the systematic seizure of the space formerly occupied by the Welfare State. In Europe, for example, the rules underlying the introduction of the Euro and the austerity policies implemented after the crisis went a long way towards the dismantling of the Welfare State and the systematic privatisation of health, education, and social security services.

Finally a fourth crucial difference has to do with the active role of powerful central banks in the Second financialisation. Their policy of “asymmetric monetarism” inaugurated by Greenspan in 1987 and pursued afterwards by Bernanke and most other central bankers has significantly undermined the appeal of industrial investment as compared to that of financial investment. According to this policy strategy central banks react immediately to any inflationary symptom originating in the real economy by restrictive monetary measures (in particular by promptly increasing the rate of discount), while asset inflation is not repressed but rather favoured by massive creation of liquidity whenever the upward trend of asset prices seems on the verge of decline. This policy translated in an implicit insurance in favour of financial investment and increasing speculation crowding out industrial investment. The consequent wealth increase of financiers and rentiers sustained to some extent aggregate demand but not enough to compensate for the declining profits and wages in the industrial sector.

This view of the process of financialisation has clear implications for the sustainability of development. The compatibility between financialisation, that seeks the relaxation of constraints on economic decisions, and sustainability requisites setting crucial economic, social, and environmental constraints, is in principle problematic. In particular this paper shows that the interaction between economic, social and environmental factors of unsustainability within the existing financialisation trajectory brought about the ongoing Great recession. This does not imply, however, that the conflict between finance and sustainability is necessarily insurmountable. Finance should be induced to help the transition to sustainable development by making possible the massive investments necessary to reach this goal. This requires however a radical reform of finance by repressing its growing self-referentiality and by channeling instead its activity at the service of the real economy in the direction of a new development trajectory consistent with sustainability.