

Is finance our master or servant?

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Larry Elliott, [writing in the Guardian this week](#), said:

Keynes said that finance should be the servant not the master, providing a steady and reliable source of funds for investment and not much else. In the decades after the second world war strict capital controls usually ensured that was the case.

The opposite now applies. Finance is the master not the servant. It decides what governments are free to do; it sets the terms of the debate; it shapes and dominates the economy.

Too bad, you might think. That's the way it is. But the reality is that, without curbs on finance, governments are severely constrained in what they are able to deliver, even if they have a powerful mandate. The triumph of finance has not been good for democracy. It has not been good for the economy either.

So, is Larry right? Is finance now the master?

There can be little doubt that within the neoliberal mindset he is. That mindset was created by Hayek and Friedman to establish the hegemonic power of wealth and, as a consequence, of finance, which is its chosen mechanism for delivery of that power. Larry's article suggest that this agenda has won the battle between the government, people, and financial elites. However, even if this is the case at present, neoliberalism can, like all human constructs, fail.

There are a number of ways in which that failure might happen. For example, war could upset the financial power of the elite and reinstate power in favour of the state. In a different era this did, of course, happen after the Second World War.

It is also, of course, just possible that people will have enough of the abuse that they are suffering from hegemonic financial interests, which abuse is denying them all prospects of hope. This trend is now being seen, very markedly, amongst younger people, many of whom now recognise that a supposed market economy is never going to offer them a chance of their own home, or the possibility of affording to have a

family or to have secure employment and economic prospects. As a result, it is something they do not wish to engage with. Outright rejection of the economic model is, therefore, quite possible without even taking into consideration the issue of climate change.

Regarding climate change, there will at some point in time be an event which means that the inevitability of climate change can no longer be denied, whilst revealing that it is global financial interests that have prevented us addressing this issue. What will that event be, and when? I do not know, but that it might happen seems to be inevitable. Then, this power relationship might need to change.

So, too, and perhaps most likely in the short term, is the chance of a major financial crisis changing this relationship. For all the attention given to supposed national debt, it is personal and corporate debt that is the real risk in the modern economy, and the expectations are that both will grow considerably in the future. Finance does, after all, want to increase the wealth of the wealthy and the biggest asset they now have is the debt owed to them by those who need to borrow. So hooked are they on their asset accumulation that they will not know when to stop debt creation - and households and businesses cannot create money to repay those debts when they are stressed, unlike sovereign states. So, this bubble will burst just as surely as it did in 2008, and then, I hope, the questions will be asked about why it was created.

It is easy to be fatalistic about the rise of the power of finance. I also accept that, at present, it is undoubtedly winning this battle. Without a tipping point event change is also unlikely to happen. But I think a tipping point event is likely.

Of those, I note, which is most likely? In order, a crash, a major climate event, a rejection of the current economic model by younger generations who will make its operation impossible, and war. None of them is attractive as all involve risk. But that risk is being created by the subjugation of the world to the power of debt-driven finance, from which many already see no escape.

There will be stress, but change will happen.