Derisking as Worldmaking:
Keynes and the Politics of Climate Uncertainty

Stefan Eich
Department of Government, Georgetown University
stefan.eich@georgetown.edu

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Abstract: The derisking state has by now emerged as the key aspirational agent of the energy transition. But what is the concept of risk involved in derisking? This article places debates about derisking within a broader politics of uncertainty by developing an account of derisking as a peculiar form of financial worldmaking based on a demand for calculability and profitability on the part of private investors. Derisking entails from this perspective not merely a redistribution or reduction of risk but rather a more profound transformation of uncertainty into risk, as well as a comprehensive framework for how risk is perceived, articulated, and managed. Building on this re-framing the article then articulates an alternative model of technocratic financial worldmaking by a smart green state that is committed to decarbonization. Throughout the article I turn to Keynes and different strands of Keynesianism to articulate competing political visions of the politics of uncertainty and expectations. I conclude by reflecting on the democratic limits of technocratic green worldmaking while stressing the need for tools that can discipline carbon capital.

> Practically any investment entails, as a necessary complement of entrepreneurial action, certain safeguarding activities such as insuring or hedging.
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> —Joseph Schumpeter, *Capitalism, Socialism & Democracy* (1942)

> Finance is a world-making force.
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> —Adrienne Buller, *The Value of a Whale* (2022)

Introduction

Climate risk has arrived in a snowless Davos. From physical risks of climate change to liability risks from past emissions to transition risks from climate policies, new classes of risk have entered financial and technocratic discourse (Carney 2015). Policymakers are increasingly engaged in the "riskification" of the natural world (see van 't Klooster and Prodani 2023). Meanwhile, the instinctive solution to the problem of underinvestment offered by the "Wall Street Consensus" (Gabor 2021) is for states to "derisk" private investments. But what is the concept of risk implicitly invoked in these debates? In this article, I approach this question by embedding derisking in the broader politics of uncertainty and by developing an account of financial worldmaking. My starting point is thus the observation that much of the derisking literature operates with an undertheorized conception of risk. I turn instead to a series of foundational debates over risk and uncertainty by drawing throughout on John Maynard Keynes's fertile if ambiguous conceptualization of radical uncertainty.

Originally deployed as a technical term for anti-money laundering measures as well as the removal of toxic assets from bank balance sheets in the wake of the Financial Crisis of 2008, derisking has since left the world of financial crime.[1] As a political arrangement to guarantee financial returns to private investors (Gabor 2020; Gabor 2023; Kedward et al. 2022), derisking has by now emerged as the policy tool of choice to address a wide range of underinvestments. As such, derisking is today widely seen as a key component of how to fill the enormous investment gap for climate change mitigation and adaption (though I will question below whether decarbonization is best framed as merely a problem of underinvestment).[2] While it is today primarily associated with the energy transition, derisking first gained prominence however as a tool of development finance. As Jim Yong Kim, then president of the World Bank, explained in the 2017 World Bank Annual Report: "If the conditions are not right for private investment, we need to work with our partners to de-risk projects, sectors, and entire countries." (Kim 2017)

Interestingly, Kim was here referring not so much to financial subsidies but to institutional reforms of laws and regulations, "knowledge transfers," and "improved economic practices." This was derisking through structural reforms of deregulation and putting in place a neoliberal knowledge-finance nexus. To "derisk" was to assuage perceived (or real) hostility to capital, both in the form of regulatory obstacles and latent threats of nationalizations. Derisking private investments meant placing credible checks on any such threats and thereby altering the regulatory context for capital. Uncertainty was thus primarily understood as political uncertainty, especially as the result of unpredictable democratic politics. The promised reward for this

[1] For one early such use, see Deutsche Bank (2011). Closer to its original meaning, derisking has simultaneously acquired a geo-economic use in the European Union's efforts to "derisk" its Chinese trade and supply chain dependencies. See von der Leyen (2023).

[2] According to one recent estimate, commissioned by the UN High-Level Climate Action Champions, $125tn of climate investment will be needed by 2050 if the world is to meet the goals of the Paris Agreement. (Climate Champions 2021; Williams and Hodgson 2023). Stern (2021) similarly estimates an extra $3tn a year over the next 30-40 years, totalling around $90tn-$120tn.

neoliberal straitjacket was an inflow of private financing and especially foreign direct investment.

It did not take long for derisking to lose its metaphorical veil and become an explicit provision of financial guarantees through which any kind of potential investment losses could be transferred to the public sector—though, as we will see, derisking's early more overtly political ambition of making the world safe for capital are worth recovering. Gabor (2021, 434) has influentially defined financial derisking in this sense most broadly as "a range of public subsidies and guarantees including direct grants, tax relief or debt-based instruments (preferential credit, loan guarantees, first-loss equity tranches in private equity funds, green bonds)." The concept of derisking revolves here around material incentives and subsidies provided as inducements and insurances to private investors, but also, crucially, the creation of legal and institutional certainties in favor of capital.

While the explicit language of derisking might be new, such a broad definition helpfully allows us to detect similar strategies as a core part of state-market relations under capitalism, especially in the second half of the twentieth century.[3] As I want to suggest, some forms of Keynesianism can from this perspective be seen as also entailing tacit practices of derisking. Derisking thus not only stands in a long lineage of modes of economic governance that proceed through an appeal to interests (Hirschman 1977), but it also aligns with postwar modes of governance that effectively sought to insure industry against shortfalls in aggregate demands. More pointedly, governing through incentives—positive and negative—rather than rules has of course often been seen as a particularly pronounced feature of the kind of neoliberal governance

[3] For an even earlier call for the public insurance of private profits in order to stimulate production in the wake of WWI, see Friday (1921). See Barker (2023) for a discussion of Friday's stillborn proposal.

that has emerged since the 1970s (Brown 2015; Popp Berman 2022; for some of the continuities, see Offner 2019).

Two differences nonetheless mark contemporary derisking. First, whereas governing through interests and ensuring the profitability of industry has a long pedigree that also allows for powerful ways of manipulation and redirection, contemporary derisking is marked by a striking lack of imagination: not so much as a ruse of statecraft than simply a set of generous subsidies aimed at affirming rather than undermining market expectations. As such, derisking is a particular iteration of neoliberal precepts of governance rather than a deviation from them. Second, while part of the older logic of disguised intervention was precisely its hidden quality that allowed states to speak of "free markets" yet simultaneously steer the construction and functioning of market outcomes, derisking is now itself overt. What was once a tacit secret of capitalist governance has now become an explicit strategy. The precise terms and flows of subsidies might still be withheld from public scrutiny but states now actively acknowledge their own agency, albeit in a peculiarly self-denying form. It is this tension between an embrace of agency and its simultaneous disavowal that interests me here and that constitutes a critical opening for articulating alternative conceptions of governance and economic statecraft.[4]

As a first step, I will lay out some of the early twentieth-century conceptions of risk and uncertainty, such as those of Frank Knight and John Maynard Keynes, that are helpful to sharpen our underlying account of risk (section 1). I here side with Keynes's more radical conception of uncertainty in this reconstruction and link its implications back to debates over investment policy. As we will see, risk always contains "insurmountable uncertainty" which not only resists quantification but may even increase as we attempt to quantify it (Beck 2008, 18). This calls for

[4] For an excellent discussion of the full breadth of the policy toolkit, see Mason (2023) who helpfully distinguishes between rules, positive incentives ("carrots) and negative incentives ("stick") while acknowledging that these distinctions begin to blur when pushed analytically.

a broader engagement with the politics of uncertainty. In deploying Keynes as my key interlocutor throughout this enquiry, I will thus follow his emphasis on pervasive uncertainty which has received extensive attention by scholars of international political economy interested in Keynes's "constructivist orientation" concerning the power of expectations and intersubjective conventions (Abdelal, Blyth, and Parsons, 2010; Beckert 1996; Blyth 2002; Widmaier 2004).[5] This historical and theoretical detour allows us to better grapple with the often-implicit conceptual framing within which the derisking debate takes place.

Such an engagement with the politics of uncertainty allows us to better appreciate derisking as not merely a particular distributive strategy or policy tool but instead as one specific form of what I will call financial worldmaking (section 2). Such a framing highlights the ways in which financial conventions—including the quantifications and framings underlying derisking—are never purely descriptive or merely distributive but instead appear as reflexive engines of realizing expectations through which some future states of the world are constructed or denied. To understand derisking as a form of worldmaking by and for finance helps to account for its wide-spread proliferation but it also highlights its shortcomings and makes visible alternative critiques of contemporary derisking. Most critiques of derisking have—not unreasonably—focused on the underlying macrofinancial political economy of derisking (Gabor and Braun 2023), including by pointing to the distributive implications of a policy based on the liberal provision of carrots for capital. In this article I extend such concerns by arguing that derisking is more than a questionable transfer of resources but instead a comprehensive framework for how risk is articulated that molds the very contours of how financial markets manage uncertainty and shape the future. As such, the powerful carrots of derisking are of a special kind: they are carrots

[5] Abdelal, Blyth, and Parsons (2010) have, for example, drawn attention to Keynes's "injunctions on the importance of the 'state of confidence' (what constructivists would today call an "intersubjective convention," or how market participants' beliefs do not stand apart from markets but are causally imbricated in markets."

of worldmaking that affirm the existing world rather than helping to bring about a different one. In eschewing other tools of altering expectations and tying itself to the existing expectations of financial markets, derisking ultimately itself underestimates the politics of uncertainty. Derisking continues to be in this sense based on the illusion of overcoming uncertainty by protecting financial markets from it.

In section 3, I relate this account of financial worldmaking and the politics of uncertainty back to Keynes's own ambiguous stance and the divergent traditions this has produced. My goal here is not to resolve these debates but to illustrate how different readings of Keynes's account of uncertainty and investment maps onto divergent models of financial worldmaking. I subsequently add some more specificity to this discussion by turning to Keynes's own assessment of interwar investment policies. This also allows me to highlight different aspects of the US Inflation Reduction Act (IRA) from Keynes's perspective.

In section 4, I articulate instead an emerging vision of how a smart green state would govern with and through uncertainty instead of seeking to reduce it. Instead of a logic of derisking this points to the need to discipline capital and alter the expectations of financial market actors. I end this section with a series of democratic concerns, as well as an account of the political and materials limits of the smart green state more broadly, that point toward an aspirational demand for green democratic worldmaking. Such a more radical demand encourages us to explore possible alternative "governing strategies" (Best 2008) that address the politics of uncertainty in democratic ways rather than allowing financial markets to set the paradigms under which uncertainty is managed. Appreciating the broader forces of financial worldmaking allows us to better differentiate between different forms of derisking and articulate more democratic ways of responding to uncertainty.

1. Risk and Uncertainty

While mainstream economics has by and large adopted a Bayesian conception of probability based on expected utility payoffs in order to conceptualize risk, other traditions of political economy, especially international political economy, have long emphasized the need to grapple with notions of radical uncertainty (Blyth 2002; Nelson and Katzenstein 2014; Best 2022). The distinction between calculable risk and unquantifiable uncertainty has in this light become a foundational one.

The basic distinction is often traced back—somewhat misleadingly but not entirely unduly—to Frank Knight's (1921) *Risk, Uncertainty, and Profit*. As Knight himself summarized his argument: "The word 'uncertainty' seemed best for distinguishing the defects of managerial knowledge from the ordinary 'risks' of business activity, which can feasibly be reduced if not eliminated by applying the insurance principle through some organization for grouping cases." (Knight 1957, lix) While there was thus a domain of ordinary business risks against which one could insure oneself, there was a second domain that was essentially uninsurable "because unmeasurable and this because unclassifiable." (Knight 1921, 251). This was the realm of uncertainty. Measurability, in as far as it existed at all, was here only possible after the fact and could only to an extremely limited extent be used for purposes of prediction. Instead, economic actors, especially entrepreneurs on Knight's account, acted on the basis of judgment rather than calculation. Interestingly, this meant that profit was precisely not a reward for risk-taking, as had been—and continues to be—a misleading commonplace, but rather a true residual of judgments under conditions of uncertainty (Hirsch 2022).

While uncertainty was abundant in this vision of the social and economic world, Knight at the same time saw many areas of economic life as adequately captured by calculable risk.

Rather his vision was that of an economic science that, as his title implied, tackled *both* risk and uncertainty (Emmett 2009, 31-47; Hirsch 2021, 1146). Indeed, some of the most penetrating passages of *Risk, Uncertainty, and Profit* sought to capture the complex institutional dynamics that arose from attempts to move away from uncertainty and toward more calculable forms of organization. Both markets and firms emerged in Knight's telling thus as institutions that sought to convert uncertainty into measured risk. Specialization, the division of labor, market consolidation, the organizational structures of the modern firm, these were for Knight all more or less successful attempts to impose a degree of predictability onto an unpredictable world. They constituted ways of translating uncertainty into risk (Knight 1921, 259; see also Hirsch 2021, 1147).[6]

Impressed by the possibilities of the war economy of WWI, interwar commentators meanwhile wondered whether it might not be possible and desirable to reduce the uncertainty of profits also during peace time. Some even called in this light for the active role of the state in insuring the profitability of production (Friday 1921). Others simply encouraged more Knightian means of profit protection, not least in the form of large firms with pricing power. Schumpeter (1942, 88-89), for example, argued that entrepreneurial activity necessarily required some sort of insurance, hedging, or protection—and he therefore recommended certain "safeguarding activities" that could include predatory pricing strategies, the seeking of patents, or other attempts to establish and safeguard a monopolistic position to ensure profitability.

The intellectual history of the distinction between risk and uncertainty can thus be productively related back to derisking in order to make a fundamental conceptual point. From a

[6] While Knight's conceptual language can thus render intelligible the ways in which much of the modern corporation and economic policy are concerned with the transformation of uncertainty into risk, his account at the same time pointed to the futility and undesirability of fully eliminating uncertainty. After all, a world without uncertainty would also be a world without profit (Burgin 2009, 526; Emmett 2009, 41).

Knightian perspective, derisking does not entail a reduction in risk but rather a more profound transformation of uncertainty into risk. There of course important limits to the substitution of risk for uncertainty (Maechler and Graz 2022), but this framing helps us to appreciate that derisking, far from simply being about the reduction or redistribution of risk, instead relies on the state to convert uncertainty into calculable risk. Building on this insight and the associated institutional politics of risk transformation, derisking is better seen as a demand for greater calculability, usually on the part of private investors but always in association with the state as the primary agent that can convert uncertainty into calculable risk by providing public insurance for otherwise uninsurable events. This first step of the creation of calculability then makes possible a second step that consists in the provision of public subsidies and the level of profitability the state will promise financial actors. In order for risk to "shifted" (Hacker 2006) or redistributed, it first needs to be conceptualized. This initial act of conversion from uncertainty to risk has, however, the benefit of not appearing as a subsidy in the first place. Adopting a Knightian lens, the point of derisking—paradoxically—turns out to be the "risking" or "riskification" of areas of the world previously shrouded in incalculable uncertainty.[7]

Keynes and the Calculus of Probability

While Knight and Keynes are often invoked in one breath to draw a distinction between risk and uncertainty (Nelson and Katzenstein 2014), Keynes's own position is subtly but distinctly different, not least by being rooted in a comprehensive philosophical account of probability (Beck 2008; Hirsch 2021). There is of course some logic in the frequent alignment of the two as both Knight and Keynes do diverge from several core assumptions of our Bayesian

[7] Here the Knightian framing of derisking runs into a telling impasse. In a direct violation of the basic presumption of Knight's account of profit as the reward for judgment under uncertainty, the derisking state converts uncertainty into risk precisely as a tool to produce and safeguard profits.

age of subjective expected utility (SEU) modelling. And yet, this easily obscures not only their divergent visions of economics but also a range of fundamental epistemological, logical, and ontological disagreements—which are worth recovering in light of debates about derisking and climate uncertainty. As Best (2008) aptly summarizes, Keynes "provides a much more radical and social conception of the limits of political economic knowledge [than Knight]." (357) I will first retrace the philosophical development of Keynes's thought on probability before flagging the central role of conventions in his mature reflections on uncertainty.

Having initially set out an interpretation of probability as a relation of formal logic (Keynes 1921), Keynes revised and refined his conception of uncertainty several times during the 1920s and 1930s, not least in response to a decisive challenge by Frank Ramsey who proposed a more subjectivist approach to probability that Keynes partially resisted and partially accommodated by turning to the crucial role of conventions in making decisions in the face of uncertainty (Misak 2020). For Keynes, unlike for Knight, the point was not to distinguish between calculable risk and incalculable uncertainty but to offer a theory of probability which revolved for him ultimately around the logical relation between two propositions. This rendered probability a branch of inductive logic—thereby reviving a tradition of conceiving of probability that had lain dormant since Leibniz (Hacking 2006, 134).[8] In the *Treatise on Probability* (1921), Keynes thus rejected numerical probabilities and cast doubt on many actuarial principles.

In the *General Theory of Employment, Interest and Money* (1936), the problem of fundamental uncertainty similarly loomed large over the entire discussion of investment.[9] While Keynes largely refrained from elaborating on the theoretical underpinning of uncertainty and

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[8] In the *Tractatus*, Wittgenstein had framed probability in remarkably similar terms (Misak 2016, 160n13).

[9] There is by now an extensive literature concerning the contentious development of Keynes's conception of uncertainty between 1921 and 1936 (for an overview, see Faulkner et al. (2021) and the corresponding special issue). Especially, Frank Ramsey' challenge forced Keynes to partially revise his position while holding on to his skepticism about the powers of probability calculus.

probability in the book, in response to his critics he expanded on this dimension, “The calculus of probability, tho mention of it was kept in the background, was supposed to be capable of reducing uncertainty to the same calculable status as that of certainty itself; … Actually, however, we have, as a rule, only the vaguest idea of any but the most direct consequences of our acts.” (Keynes 1937, 213) Instead, the future was necessarily and inescapably “fluctuating, vague and uncertain” (Keynes 1937, 213). “About these matters there is no scientific basis on which to form any calculable probability whatever. We simply do not know.” (Keynes 1937, 213-4) And yet, as Keynes put it, “the necessity for action and for decision compels us as practical men to do our best to overlook this awkward fact.” (Keynes 1937, 214) Despite our inevitable ignorance, decisions have to be made.

Mimetic Judgment and Conventions

How do we respond to this “awkward fact”? According to Keynes, three improvised, haphazard devices do much of the necessary work in this context: (1) The assumption, past experience notwithstanding, that the future is much like the present. (2) The assumption that existing opinion—as reflected in prices—accurately reflects future prospects.[10] (3) Most importantly, in light of the futility of individual judgment we turn to *conventional* judgment. This is the mimetic logic of Keynes’s famous beauty contest, or rather a newspaper competition, that served as a gaze into the hall of mirrors of public opinion (Keynes 1936, 156). Rather than judging for ourselves, “we endeavor to conform with the behavior of the majority or the average.” (Keynes 1937, 214). Judgment of fundamentals has here been replaced by a complex intersubjective mimetic process of guessing the existing public opinion about fundamentals, each of which is in turn aware of this reflexive dimensions. Social mimesis emerged on this reading as

[10] Essentially the position later formalized as the Efficient Market Hypothesis.

one way to cope with uncertainty by aligning expectations in a performative manner. Conventions consequently acquired a pivotal role for Keynes as the embodiments of average opinion and conventional judgment. As a result, much of what otherwise passes for an actuarial assessment of risk is for Keynes instead based on tacit conventions that act as coordination devices. Being built on flimsy reflexive foundations these were subject to rapid reversals, sudden breakdowns of seeming certainty, and waves of disillusion (Keynes 1936, 154; Keynes 1937, 215). Given these fickle foundations it was hardly surprising that the volume of investment would fluctuate rapidly and widely.

In the *General Theory*, and even more explicitly in its wake, Keynes thus articulated the tools that ordinarily allow investors to haphazardly navigate uncertainty by assigning subjective relative probabilities or by falling back on social conventions as coordination devices.[11] In order to navigate uncertainties, Keynes insisted, we fall back on widespread and under-interrogated conventions and narratives that function as coordination devices and that create an illusion of objective risks. While these coordination devices work in good times, their precarious foundations and reflexive logic make them liable to rapid dissolutions in moments of crisis.

2. Financial Worldmaking

This framing of financial uncertainty raises profound questions—largely unanswered by Keynes himself—about how such conventions *ought* to be shaped and whether the state *can* and *should* intervene in the realm of conventional judgment. Despite flagging the enormous significance of such conventional practices Keynes spent little time on how they could be improved or harnessed in ways that would produce superior outcomes. Only in the concluding pages of the *General Theory* did Keynes cryptically and elliptically refer to certain radical

[11] On conventions in this sense, applied to international politics, see also Nelson and Katzenstein (2014).

implications that could be the outgrowth of the application of his theory (Keynes 1936, 372-384). This selective silence and strategic ambiguity has given rise to fundamentally different ways of reading Keynes's stance on the politics of uncertainty and conventions.[12] Did he mean to emphasize the productive circularity or the fragility of conventions? Was the point to strengthen conventions or to reveal the folly of shaping policy based on the fickle expectations of financial markets? How precisely the Keynesian state is meant to guide and align expectations about the future has consequently remained a central area of contention with widely divergent assessments.

On one minimalist "Keynesian" reading, the role of the state consists merely in containing certain forms of speculation and in providing some future guidance about policy goals that will serve to align private market expectations. The state appears here primarily to reduce uncertainty at arm's length. On other readings, the circularity of market expectations calls for a more interventionist take based on Keynes's notoriously slippery reference to a "somewhat comprehensive socialisation of investment" (Keynes 1936, 378) as the only means for securing full employment (Keynes 1936, 378; Crotty 2019). On these readings, Keynes is seen to have called for more direct involvement of the state in closely managing the overall level of investment and perhaps even the composition of private investments. Crucially, this would not only include public investment but also some degree of control over the volume of private investment. Let me at this point connect the logic of Keynes's argument to recent social theories of finance and the political theory of worldmaking.

[12] Where mainstream Keynesian interpretations largely sidestepped the theme of uncertainty, and with it the reflexive quality of conventions, post-Keynesian readings have of course long placed uncertainty squarely at their heart (Minsky 1975). But the invocation of uncertainty alone nonetheless easily obscures divergent readings of the specific workings of conventional judgment and conventions.

The Social Construction of Uncertainty

Behind Keynes's ambivalent appreciation of the circularity of financial expectations lurks a broader point that has since been explored most extensively by recent social theories of finance interested in the social construction and performativity of financial markets (Callon 1998; MacKenzie 2006). Though the connection is rarely fully spelt out, there is a more or less direct link between these literatures and Post-Keynesian accounts of uncertainty centered around the beauty contest. While originally a divisive thesis, the performativity of financial markets has since, for example, become a fundamental pillar of our understanding of how financial models and financial markets more broadly function.[13] As such, theories of performativity have been reworked in richly nuanced iterations that flag the reflexive, self-fulfilling quality of financial markets (Lockwood 2015). Crucially, we do not have to accept thick readings of performativity—what MacKenzie (2006, 17) dubbed "generic" or, ultimately, "Barnesian" performativity (after the sociologist Barry Barnes)—to appreciate the broader point about feedback loops and constructivist institution building through the alignment of expectations. Indeed, making room for the possibility that performativity can fail seems to be an important aspect of a proper understanding of its underlying politics as well as the very possibility of critique (Butler 2010).

The most perceptive accounts have at the same time highlighted a set of underexplored paradoxes concerning uncertainty (Healey 2006). As Konings (2018, 40) has pointed out, even the critical finance literature often relies on a notion of performativity as successfully overcoming contingency which reproduces a conception of calculable risk that can be separated from uncertainty. But this approach continues to fall back on a positivist understanding of probability as knowledge about the future, rather than seeing probability theory and the concept

[13] For two excellent overviews, see Healey (2006) and Samman et al. (2022).

of risk as themselves active tools for handling precisely our lack of such knowledge (Konings 2018, 58). What is, arguably, at stake here is the difference between Knight and Keynes. For Knight, uncertainty was indeed merely a limit constraint on probabilistic risk. Keynes's account was subtly but radically different from this in appreciating the inescapable politics of uncertainty.

As we saw, for Keynes there was no firm distinction between risk and uncertainty. Instead, all our knowledge of the future is ultimately precarious and essentially a productive form of self-conceit.[14] This more radical conception of uncertainty has often been lost or diluted, not just at the hands of postwar Keynesians but at times even by post-Keynesians. Even references to Keynes's beauty contest, after all, more often than not attempt to cleave off the folly of speculative finance from "the rational kind of finance that serves the production of real value." (Konings 2018, 59). But financial markets and the modern financialized economy are not simply tools for overcoming uncertainty. Financial markets instead require a peculiar mix of risk and uncertainty. Just as a world without uncertainty would be a world without profit, so would a world of unmitigated uncertainty be one of ungovernable and, likely, unprofitable chaos.

This partially accounts for the seemingly contradictory demands of financial markets. At times one can observe market actors interested in reducing uncertainty by making the world more governable and predictable, for example through the use of credit ratings. Financial market actors here strive to create what Daston (2022, 19) has recently described as temporary "islands of stability, uniformity, and predictability" in a vast ocean of unpredictability. At other times, however, finance is fundamentally committed to engineering uncertainty in order to create opportunities for profit. Uncertainty is then not simply a fact of nature but itself a social construction, "an effect to be engineered." (Mitchell 2022) Financial markets create themselves a

[14] Best (2008) has consequently argued that Keynes is better understood through the lens of "ambiguity" instead of risk or uncertainty.

particular kind of order amidst uncertainty—and while that frequently means managing risk it often also entails intentionally manufacturing uncertainty (Mitchell 2011, 158).

Worldmaking

This perspective—built on Keynes's emphasis on the reflexivity of conventional judgment under uncertainty, as well as the social finance literature—allows us to appreciate finance as more than an allocative tool. Instead, finance is best understood as a powerful engine of worldmaking (Buller 2022). Be it through private credit creation, capital allocation, or its broader influence on investment decisions, finance does not merely distribute resources in the present, but it shapes the very contours of possible futures.[15] Finance thus alters the very conditions under which both private individuals and public institutions make decisions and are able to contemplate possible futures.[16] Crucially, especially the role of expectations and finance's conceptualizations of risk and uncertainty have wide-ranging consequences as effective tools of worldmaking.

Political theorists have meanwhile created a rich vocabulary for conceptualizing resonant practices as the politics of worldmaking or world-building (Getachew 2018; Srinivasan 2019; Jurkevics 2022). The concept of worldmaking has for example been powerfully invoked in a literal sense in international politics to capture holistic attempts to alter relations between states and thereby the nature of the international order in the wake of decolonization (Getachew 2018). But behind this also stands a broader tradition, often drawing on the thought of Hannah Arendt,

[15] For an account of the relation of financial scenario planning to climate risk and "possible worlds thinking," see Cooper (2010).

[16] As Folkers (2023) has put it, by locking in investment in fossil infrastructures that are only profitable when they drag societies into an unsustainable future not compliant with climate targets, finance "colonizes the future."

that has long been interested in processes of "world building." (Honig 1993)[17] These refer to "collective practices through which communities build, rebuild, negotiate, and govern their shared physical world." (Jurkevics 2022, 45) World building is here an act of collective agency that reflects one of the highest goals of political action. This is the politics of constructing and maintaining shared public spaces but also other shared pieces of societal infrastructure. While cautioning against idealistic readings according to which representational interventions alone necessarily amount to worldmaking, Srinivasan (2019, 145) has described worldmaking in this sense as "the transformation of the world through a transformation of our representational practices." Such collective practices of worldmaking require complex acts of coordination that usually exhibit a dimension that draws on forms of the collective imagination.

While political theorists have largely focused on the aspirational ideal of democratic or feminist worldmaking, arguably the most successful and pervasive projects of worldmaking have however been those of financial markets.[18] It is especially in the realm of risk and uncertainty that can we witness the ways in which representational practices—financial models, metrics, and calculations—performatively feed back into expectations. Such practices of the collective imagination can be productively linked back to the techniques and tools through which financial markets encounter uncertainty (Beckert 2016). By positing a web of credit claims that necessarily extend into the future financial actors also shape that future in their own interests and help to bring into being. This acquires all the more salience once we appreciate that most of these credit claims are implicitly backed up by public guarantees. But financial worldmaking is at the same time a form of worldmaking that is entirely driven by a pursuit of profitability. It lacks an

[17] In addition to Arendt, the classic philosophical account of worldmaking is Goodman (1978).

[18] As Srinivasan [2019, 147n34] poignantly acknowledges in a footnote: "worldmaking is not a proprietary practice of the left. Indeed, one might worry that the most successful worldmakers of our current moment are on the right."

accountable architect or democratically legitimated agency. Moreover, and this might itself be a sign of its own success, financial worldmaking is a form of hidden worldmaking that presents itself as merely responding to an uncertain world instead of acknowledging the ways in which its responses make some future worlds more likely than others. Existing financial worldmaking is thus of a peculiar kind: it is not about consciously building a new world but instead about preserving, remaking, and expanding existing patterns of accumulation in a way that hides both one's agency and the possibility of different future worlds.

Derisking as Hidden Privatized Worldmaking

By attending closely to the politics of uncertainty and the role of finance as one particular kind of hidden worldmaking, we are now able to articulate some aspects of our contemporary challenge of climate politics and decarbonization more precisely. The above account of finance as a site of worldmaking through the engineering and management of uncertainty—where conventions for managing uncertainty become self-fulfilling predictions that structure our shared world—speaks directly to the conjoined hopes placed in private climate finance today and it helps to account for why the derisking state has emerged as the lead agent of the green transition.[19] But simultaneously we can now see more clearly that through its sole reliance on incentives and the continued promise of profitability ("carrots"), derisking necessarily validates the existing conventions and expectations of financial markets. In vindicating and reinforcing existing distributions of power, derisking essentially underwrites the ability of financial markets to remake the world in its image. It is in this sense that the carrots of derisking are carrots of worldmaking for a world continuously re-made in the image of existing financial markets.

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[19] See also Chenet et al. (2019).

Derisking as a form of worldmaking is from this perspective extraordinarily strong, and at once paradoxically weak in refusing to acknowledge its own agency or entertain the possibility of different worlds. Financial worldmaking is conservative privatized worldmaking in the sense of seeking to craft a world that can satisfy the existing expectations of financial markets. The foundational promise of derisking—namely its appeal to profitability—thus translates into a refusal to alter the macrofinancial context in which expectations and conventional judgments are formed. Derisking here becomes hegemonic as worldmaking precisely because it allows powerful actors to preserve the status-quo when confronted with growing uncertainties. Derisking here also implies that companies and financial actors are essentially shielded from having to adapt their risk management processes to the radical uncertainties of climate risk (both physical and transitional). Instead of having to adopt more cautionary risk frameworks or more flexible scenario planning, derisking allows financial actors to preserve the pretense of an old world of risk management in which risks can be quantified and hedged. This can amount in the climate context to a refusal to accept the changed realities of the climate crisis.

3. Keynesianism and Derisking

Before I turn to alternative forms of worldmaking, let me briefly step back here and relate these different strands to divergent readings of Keynes on the politics of uncertainty and investment. Keynes's ambiguous account of investment in the *General Theory* has divergently been read as calling for a wide range of extremely different stances of economic governance that range all the way from a minimalist interference (akin to the Small Green State) to stabilize financial expectations to the socialization of all investment (akin to the Big Green State). Much of the history of Keynesianism and post-Keynesianism can in this light be read through the lens

of two conflicting objectives concerning the role of uncertainty in the *General Theory*: a) bolstering private investments by reducing uncertainty, and b) cultivating a mode of experimental governance—and with it an increase of uncertainty—as the primary mode of social change.

Most traditions of "Keynesianism" have exclusively focused on the former aspect. Indeed, the most immediate conclusion that many readers derived from Keynes's account of investment was that investors' fear of the future—often simply driven by an overwhelming sense of uncertainty—can easily become perniciously self-enforcing and thus had to be avoided. The Keynesian state appeared from this perspective as a tool to coddle financial expectations in the hope of reducing investor uncertainty. The so-called confidence fairy is thus in an important sense a progenitor of the contemporary derisking state. For Keynes himself however uncertainty was not a simple bad. Instead, deep institutional experimentation, he insisted, was necessary to solve big political and economic problems and this requires keeping the future a site of promissory uncertainty. From this perspective, Keynes's point was never to simply vindicate all conventions and expectations of financial markets (as his reference to the eventual "euthanasia of the rentier" makes clear; on which more below). Instead, he vaguely pointed to the need for pragmatist experimentation and all his other writings are firmly oriented toward an experimental attitude meant to cultivate alternative future possibilities in the present. Here experimentation actively serves to produce uncertainty and multiply latent possibility.

There is of course an obvious tension between the need to stabilize economic expectations and the desire to encourage political experimentation.[20] As no one understood better than Keynes, the very uncertainty produced by political experimentation was inimical to the

[20] This tension between the assurance of capital in the short run and its experimental sublation in the long run captures the sense in which Keynes continues to be read both as having saved capitalism from itself and as having pointed the way to a world beyond capitalism.

capitalist investment decision with its constant risk of deferral and a fear of uncertainty. The need for political experimentation as the source of social change here seems to clash with his more immediate economic vision of making the capitalist machine roar. Keynes largely sought to defuse this tension by aligning economic stabilization with gradualist reform.[21]

Keynes on Investment Policy

Precisely because Keynes's stance in the *General Theory* is characterized by a substantial degree of strategic ambiguity, it is worth turning to his own practical assessment of investment policy during the 1930s—which indicates some skepticism on his part about then contemporary forms of derisking—before briefly extending and translating parts of this assessment to the US "Inflation Reduction Act" (IRA). As we will see, these indicate some skepticism on Keynes's part about the *efficacy* of contemporary proposals for derisking while pointing to the need for a more comprehensive tool kit for an activist smart state.

The question of how to revive investment was a hotly discussed topic in British politics after Britain had cut itself loose from the interwar gold exchange standard in September 1931. One contribution came in the summer of 1932 in the form of a policy pamphlet published by the Labour Party, then in opposition.[22] Alongside resolutions on currency policy and greater political control over the Bank of England, the pamphlet called for the creation of a National Investment Board. Keynes reviewed the pamphlet in a two-part article for *The New Statesman* (Keynes 1932b). Characteristically, his response managed to confound everyone. For after having brushed

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[21] Keynes consistently insisted that social change emerged from economic booms and not from crises or class struggle. As he put this "admittedly paradoxical" point, "it is in times of growing profits and not in times of growing distress that the working classes stir themselves and threaten their masters. … It is the profiteer, not privation, that makes man shake his chains." (Keynes 1922, 116)

[22] *The Labour Party Policy Report No. 1, Currency, Banking and Finance* (1932). The document had largely been written by Hugh Dalton, the later Chancellor of the Exchequer from 1945-1947 (see Ritschel 1997, 132-4).

aside Labour's proposal for bringing the Bank of England formally under public ownership, Keynes proceeded to criticize Labour's investment proposals as far too timid and insufficiently radical. "My main feeling is," he explained in a contemporaneous letter to Harold Macmillan, "that you are not nearly bold enough with your proposals for developing the investment functions of the state." (Keynes 1932a, 109) While he "warmly welcomed" the idea of setting up a National Investment Board, the resolution did "not go nearly far enough" (Keynes 1932b, 134).[23] The problem, according to Keynes, was twofold. "You are trying it would seem to socialize the part which the state must play and you endeavour to get your results by a sort of combination of private enterprise and subsidy; and I doubt the feasibility of this at any rate in present times." (Keynes 1932a, 109) Because Labour was seeking to keep the role of the state minimal in investment decisions, it was forced to rely on "a sort of combination of private enterprise and subsidy" (Keynes 1932a, 109)—essentially a form of derisking private investments in today's language. The main problem with this approach, according to Keynes, was that it would likely fail to deliver its key objective, which was after all achieving a certain quantitative level of new investment. Instead of actually being able to steer the level of investment, the duties of the envisaged Labour Board of Investment would, Keynes explained, "be mainly negative, and would have the object, apparently, of protecting the private investor from the abuses of private capitalism." (Keynes 1932b, 134)

While protecting capitalists from capitalism might be seen as morally objectionable to some—not least Labour's voters—this was not Keynes's main concern. Indeed, he acknowledged that "it would be useful to protect the individual investor from loss if an effective means for doing so could be devised." (Keynes 1932b, 134) But any such scheme would still fail

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[23] This support for a National Investment Board, was later matched by his plans for a Board for International Investment as part of his proposal for an International Clearing Union (Keynes 1941, 59-60).

to solve the main problem which was delivering a certain amount of investment. In his critique Keynes largely refrained from spelling out his own ideal vision of a more effective Board of National Investment but he did hint at the broader task that would have to be pursued. What was needed, he argued, was a "co-ordinated policy to determine the rate of aggregate investment by public and semi-public bodies, in which case we could safely leave industry to raise what funds it needs as and when it chooses." (Keynes 1932b, 135) As this formulation illustrates, Keynes's much-discussed cryptic reference in the *General Theory* to the "somewhat comprehensive socialisation of investment" (to which I return below) was grounded in a specific vision of how the state ought to control the aggregate level of investment.

Keynes returned to a more explicitly practical discussion of these questions in the immediate wake of the *General Theory* in a piece for *The Times* on "How to Avoid a Slump" in January of 1937. As he explained there, the areas in greatest need for investment were all infrastructural and thus already of a semi-public character. "Building and transport and public utilities, which can use large amounts of capital, lie half way between private and public control. They need, therefore, the combined stimulus of public policy and a low rate of interest." (Keynes 1937a, 394) This aligns well with Keynes's exhortation in the *General Theory* of developing more effective public control over the level of overall investment—public and private—while ensuring an interest rate low enough to attract private capital and enable cheap credit financing. The complex political and macrofinancial double challenge was thus creating effective new state institutions of economic steering while ensuring monetary policies that could keep interest rates low. Neither was a ready-made solution and both required new forms of expertise, but, as Keynes (1937a, 394) insisted it was essential to develop "a wise public policy to promote investment."

We can relate this account about derisking briefly to contemporary debates about the "Inflation Reduction Act" (IRA). On one level, the IRA has been described as sharing many familiar features of contemporary derisking (Gabor 2023). Others have by contrast insisted that there is an important difference between the derisking of manufacturing capital as opposed to merely derisking financiers (Mason 2023). On a first level the return of at least the semblance of a more active industrial policy ("Bidenomics") is of course welcome in the context of climate politics.[24] Keynes himself would probably nonetheless first of all seek to deflate the debate by pointing to the mismatch between celebrations of the IRA's passing as a transformative event in American statecraft and its rather humble size in the context of the overall US budget.[25] As we saw, Keynes was furthermore deeply skeptical about the efficacy of incentive-based investment stimulation alone and thought it would ultimately likely fall short of what was required—all the more so if central banks simultaneously raise interest rates and thus financing costs as has happened in the context of the IRA. Instead, Keynes can be seen to point toward the need for a broader toolkit and a more activist state that would intervene more directly in processes of expectation formation.

4. Technocratic Green Worldmaking and the Smart Green State

Behind this pointer lurks the aspirational idea of a smart green state that would engage in a different form of financial worldmaking, namely technocratic green worldmaking, by governing actively with and through uncertainty. Highlighting the ways in which practices of derisking arise from the broader politics of uncertainty and financial worldmaking allows us to formulate not only better critiques of derisking but also sketch alternative paths and

[24] Though, as both the fine print of the IRA and the 2022 CHIPS and Science Act abundantly highlight, the primary objective seems not so much decarbonization but geostrategic competition with China.

[25] Tooze (2023) has made a similar point.

complementary tools. Unlike the IRA, a smart green state would not only subsidize to ensure profitability but also implement institutional solutions for profit sharing. This could, for example, entail to introduction of excess profit taxes as a logical accompaniment of public derisking—a point already made by Friday (1921, 249). This could alternatively take the form of certain strike prices above which a company has to pay the government, as for example already widely used in many wind energy schemes in Europe that combine "derisking" with strike prices that guarantee a certain level of profits but cap these profits by awarding upside to the state. This would still be derisking but it would be smart derisking in which the state insures private profits but also shares the potential upside of profitability.

One can detect the seductive outlines of such a smart green state in a number of contemporary technocratic reflections on climate policy (Carney 2016; Bolton et. al 2020). This would neither simply be the Big Green State nor the Small Green State, but the smart green state would strategically use the tools of either where appropriate. Such an emphasis on the strategic and evolving use of a wide range tools has recently for example been echoed by a climate politics literature that stresses the pragmatist need for "experimental governance" (Sabel and Victor 2022) and the importance of processes of "creative learning" (Allan and Meckling 2021). In the context of uncertainty, this also means forcing financial actors to take much longer time horizons to solve the "tragedy of the horizon" (Carney 2016).

Here, however, the tools matter. For in order to alter the expectations of financial markets some recourse to at least the threat of "sticks" is required—be it in the form of placing legal constraints on investments that actively harm the world or making such investments less attractive through the use of taxes or other levies. The lack of sticks of any kind in the IRA inversely aligns it more closely with the refusal of most forms of derisking to alter the

expectations of investors. A smart green state, by contrast, that is genuinely committed to decarbonization would have to go beyond merely coordinating or stabilizing existing private expectations. It would have to act instead as an active agent able and willing to effectively alter the conditions under which the reflexive "conventional judgement" of private investment decisions take place.

Crucially, the smart green state would not simply accept existing financial expectations but strategically rely on regulation precisely to alter expectations. To be effective in altering the very context in which private investment expectations are formed these sticks and guardrails would have to be credible and, arguably, not easily reversible.[26] This entails on a first level the urgent need for states to set clearer and firmer expectations about climate policy while ensuring that investors understand that such commitments to specific decarbonization timelines are genuine constraints. But it arguably also entails the strategic use of specific rules, bans, caps, taxes and minimum carbon prices. In the metaphorical language of mule racing (to which I will return in conclusion), the effective coordination of expectations requires at least *some* use of sticks and not merely inducements through carrots. Most fundamentally, changing behavior through the use of carrots alone means that one inevitably appeals to an existing appetite. Even where this works (a big if), this means that altered behavior comes at the cost of reinforcing existing relations of power overall.

Disciplining Capital and the Euthanasia of the Carbon Rentier

Some of these framings of a smart green state that governs experimentally through uncertainty echo aspects of Keynes's own preferred stance of economic governance. But perhaps the most trenchant parallel to the climate debate is offered by Keynes's provocative vision of the

[26] This introduces an interesting tension with green democratic worldmaking to which I turn below.

gradual "euthanasia of the rentier, of the functionless investor" (Keynes 1936, 376). After all, carrots-only approaches to decarbonization—from financial derisking to the IRA—are premised on the gambit that a boom in renewables and electric cars will produce or at least pave the way for an effective energy transition. But investing in renewables and green growth will only be able to bring down carbon emissions, if fossil fuel consumption is effectively reduced at the same time. It is far from clear that markets will do this on their own. Infrastructures are entrenched, as is the power of fossil fuel incumbents, as well as the habits of consumers. That means that that derisking—but also the IRA—is much more likely to produce an "energy addition" rather than an energy transition (York and Bell 2019).

This means that even if derisking were able to mobilize green investment, it does not tackle the right problem or at least not the full problem. The carrots of derisking—or in the case of the IRA, its "bottomless mimosas" (Sahay 2023)—will have to be complemented by something else. To actually decarbonize it would instead be necessary to alter the overall macro-financial regime in ways that divert credit creation away from carbon assets. It is thus on us today to pose one of Keynes's most controversial questions anew with a crucial twist: What would it take to bring about the euthanasia of the not merely "functionless" but actively harmful carbon rentier? Most broadly, what will be required are ways to discipline carbon capital. Instead of merely boosting green private investments through derisking subsidies, it would for example be more effective to create more certainty around the *unprofitability* of brown investments. After all, one lesson of the *General Theory* is that an effective way to stimulate investment is not simply by rewarding investors for investing but to reduce the expected benefits that accrue from *not* investing. For Keynes, this meant driving down long-term interest rates but for us it arguably also entails actively curtailing the possible returns to carbon assets.

Recent measures by central banks to discipline, if not fully euthanize, carbon rentiers constitute from this perspective an intriguing case of technocratic worldmaking. Central banks largely use tools that rely on a derisking logic—in the sense of altering the comprehensive framework for how risk is articulated—but they do so in ways that can exercise intense pressures on investors to alter their behavior. In other words, central banks are able to create tools that combine carrots with sticks. Conceptually, this illustrates not only the necessarily blurry distinction between carrots and sticks but it also points to the political promise of more creatively combining carrots with sticks or what we can call "stick derisking." And yet on their own such efforts have so far proven remarkably fickle and short lived. To give these measures staying power central banks would have to consciously break with the desire to stabilize market expectations and instead commit to more comprehensive forms of green worldmaking.

Other measures are disciplining carbon capital are technically more straightforward if politically more explosive. For example, instead of providing green derisking subsidies, states could phase out the vast amounts of fossil fuel subsidies they currently provide to the tune of $7 trillion per annum or around 7% of global GDP (IMF 2023; McCulloch 2023).[27] Instead of ramping up green derisking, it would be easier to end brown derisking. There will of course be entrenched power interests that will try to prevent this path. This gap between the structural powers of the current order and the need for decarbonization will inevitably produce opposition. Derisking seeks to avoid these political standoffs and struggles at all costs. Instead, its current political appeal derives precisely from the hope that a carrots-only approach is sufficient to achieve decarbonization. But as we have seen, not only is it far from clear that derisking will actually be able to mobilize the necessary capital, even if it does, we should not lose sight of the

[27] In its climate studies the IMF (2023) assumes, for example, (a) that there will be a comprehensive tax or price on carbon emissions, and (b) that all fossil fuel subsidies will be ended.

fact that this concession to affirming the expectations of financial markets traps policy makers in processes of financial worldmaking that reproduce current power relations rather than altering them. This concession and the refusal to confront entrenched carbon interests constitutes a tragic failure of democratic politics (see Downey 2023). Instead of just stabilizing and reproducing the old world of carbon expectations, it will be necessary to build a new world.

The Limits of the Smart Green State: Toward Green Democratic Worldmaking

At this point an intriguing set of democratic tensions opens up that I want to acknowledge in closing. For one, consumers have come to take for granted the provision of brown carrots in the form of fossil fuel subsidies. For an energy transition to be both just and democratic, it would have to be accompanied by distributive schemes that assist individual households. But behind this lurk even thornier democratic dilemmas. For the use of carbon ceilings or other credible commitments to rearrange financial expectations about the profitability of brown investments would have to act as an effective constitutional constraint of sorts that would remove certain political possibilities—such as *not* decarbonizing—from democratic decision making in order to remove the possibility that certain carbon targets could be undone again in the next legislative period. Only a credible long-term commitment to decarbonize will effectively align financial markets with the energy transition, otherwise the incentives to play the democratic process and gamble on climate passivity will always be too tempting. There are, to be sure, several ways of addressing this democratic commitment problem, not least in the form of notions of democratic self-binding but behind such notions of democratic self-binding stand larger worries about the technocratic nature of policymaking in the smart green state, not least the tension—all too

familiar to Keynes himself—between the politics of expertise and the politics of democratic opinion formation which could easily pull apart.[28]

In addition to such democratic binds, the smart green state that governs with and through uncertainty will moreover likely run into other political and material constraints. As long as investment decisions are ultimately made by profit-seeking entrepreneurs there is a not unlikely possibility of a "climate Kalecki" moment (Tooze 2021) in which even the most sophisticated interventions of the smart green state are revealed as ultimately depending on the political goodwill of a business class that wields ultimate control over investment decisions. Both this possibility and the democratic shortcomings of the technocratic smart green state return us to more radical interpretations of Keynes's references to the "somewhat comprehensive socialisation of investment". The dominance of the derisking discourse marks here a profound opening for critique and for more radical attempts of democratic green worldmaking. For while derisking itself might not be new, its novelty lies in the fact that it is no longer hidden or unspoken. Instead, calls for derisking now freely acknowledges that private finance needs the state. This opens the door to more radical demands for aligning finance with more democratic forms worldmaking. Appreciating the shortcomings of derisking as financial worldmaking makes it necessary to explore not only the enlarged tool kit of the smart green state that engages in technocratic worldmaking but also even more ambition forms of green democratic worldmaking that strive toward a just green transition.

Conclusion

Keynes continues to offer conceptual resources that can help to make visible the politics of uncertainty and expectations under financial capitalism. Climate change and the challenge of

[28] On this tension in Keynes's thought, see also Eich (2022, 143-150).

decarbonization has given this a further twist. While expectations about the estimated impact of climate change ("physical risks") have begun to converge, expectations about whether political coalitions for decarbonization can be found ("transition risks") diverge more than ever. The very discourse of a "carbon budget," a "carbon bubble," and "stranded assets" thus tacitly assumes the successful emergence of an effective climate politics, which is precisely doubted—and actively undermined—by financial market actors.

Reframing the politics of uncertainty as struggles over different forms of worldmaking can help to open up better critiques as well as possible alternative paths. This perspective allows us to see derisking not merely as a distributive arrangement of resources in the present but as a comprehensive calculative convention across time that functions as a privatized machine of worldmaking. While derisking is commonly conceptualized as the reduction or redistribution of risk, strategies of derisking necessarily participate in the reflexive management of uncertainty by essentially affirming the expectations of financial markets. The stakes in the derisking debate are thus not merely over the distribution of resources and public subsidies but they extend to the very conception and shape of the future. Most immediately, one upshot of this reframing of derisking is thus the need for policymakers to approach derisking with an awareness that they are engaging in—or more often: unleashing—a constructive process of worldmaking. Derisking's narrow focus on merely manipulating risk-reward structures through the use of incentives (combined with the way in which financial markets engage with uncertainty) means that derisking entrenches existing expectations, not least the expectation that everything can continue as before and that financial markets do not need to grapple with the fundamental scrambling of uncertainty and certainty due to climate change. Appealing to existing financial expectations thus cannot

overcome the impediment of existing carbon rentiers and this will likely hamper any attempt of decarbonization.

States have a wide range of tools at their disposal to manage uncertainty. They can, to be sure, offer extensive forms of public insurance to capital. This is the derisking state. But states are also able to engage in worldmaking themselves through the use of public investment. Finally, states can actively shape practices and contexts of "conventional judgment," including by consciously altering them to better reflect the public interest rather than private financial gains or by constructing new boundaries of the space of conventional judgment in which financial expectations are formed. This is the smart green state. Such an approach would imply governing through uncertainty instead of simply protecting financial markets from it through derisking or invoking the state as able to overcome uncertainty. Instead of policies that aim to overcome uncertainty—either through derisking or the big green state—what would it mean to put uncertainty to productive use and to deploy it strategically against financial markets (Konings 2018, 40)? The above diagnosis points in this sense to the greater need to appropriate ambiguity from financial markets rather than merely insuring them against uncertainty.[29] This, however, will require a more comprehensive toolkit that will consist of strategic combinations of incentives and rules. It will require the use of carrots that can hurt and sticks that can become edible. This will mean being more comfortable with the use of prohibitions and constraints but also with the strategic use of negative and positive incentives. At the very least, the use of carrots thus needs to be accompanied by the threat of sticks in order to alter expectations and discipline capital. As long as derisking is primarily concerned with affirming the existing expectations of financial markets it will entrench existing power relations—including those of financial market

[29] This recalls Hirschman's concept of the "hiding hand" as essentially a manipulative device through which states can hide uncertainties without insuring against them. (Hirschman 1967)

actors that continue to hedge against transition risks by reaping the rewards of carbon rentierism. Keynes's pointer to go beyond merely stabilizing expectations thus holds important lessons for contemporary debates over derisking and decarbonization.

In concluding, it is worth recalling the original context of the metaphor of sticks and carrots. To use the original terminology of Russian and German folklore, how can one get a stubborn and self-centered creature—usually, a donkey or mule—to follow one's wish? Is it more effective to punish with the whip or to reward with sugar? Tellingly, it was Bismarck who seems to have popularized the image for modern politics by refusing to elevate one tool over the other. Instead, he advocated endlessly alternating carrots and sticks (Steinberg 2011, 333) in a way that combined positive appeals based on hope and negative appeals based on fear. A smart green state would similarly combine and alternate the use of carrots and sticks. As I have argued, this vision holds certain promises over the hidden privatized worldmaking of derisking, but it also runs into a series of impasses that would require a more comprehensively democratic response.

There is a final twist, however. In Bismarck's image, the stubborn and self-centered creature that had to be moved along was of course labor whereas today in the derisking debate it is capital. But how plausible is this appealing reduction of capital to a productive mule being made to work on behalf of a confident jockey? Judging from the rapidity with which the derisking carrots have been gobbled up it is far from clear that we are indeed currently riding the donkey rather than being taken for a ride. And yet, it might be precisely the existence of radical uncertainty that can pull us back from complete resignation. As Keynes recognized, the very ineliminability and non-rationalizability of uncertainty also liberates us by making room for ambiguity and surprise.

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