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[Revised version]

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There has taken place, over the last three decades, a considerable structural change in economies in terms of the sector-wise contribution to aggregate output as well as employment in majority of economies which today include the advanced as well as the developing economies. The structural changes include a rising share for the services sector, providing more than one-half of the GDP in the majority of countries. The changes get reflected in the proportionate declines in the shares relating to the remaining sectors - with the drop being particularly steep for industry. As for the services sector, which covers activities ranging from finance to transport, hospitality and other miscellaneous activities, those include the *high value financial activities*, the weights of which are disproportionately large. *As a result the rising share of services to the GDP indicates simultaneous increases in the share of financial activities to the GDP*.

That structural changes as above, discussed in the literature, have major implications for the functioning of economies, is an aspect which would be discussed further in the present paper. The processes of these structural changes rely on the politico-economic and social realities in economies. There has been earlier attempts in the literature to explain above changes as a sequential path for the three major sectors of agriculture, industry and services , which necessarily remain incomplete.

Analysis as available in the literature has explained the structural changes by using the role of the *relative profitability* of different activities, which work as the *prime mover* to explain the actions of agents across different activities in the market. (Pasinetti, L 1965). The path indicates an *unilineal move* guided by the profit motive, which operates as a *prime mover* of change.

One can also relate the process to financialization of economies, which, as pointed out in 2005, works as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies." (Epstein 2005)

In analysis as above we further identify a *circuitous link*, prevailing between the socio- political and economic-forces on the one hand, and the *changing weight* (tantamount to *power relations*) of different sectors in the economy on the other - continuing to shape the dynamics of the structural changes. (Sen,S 2023)

Changes as above, mostly reinforced by pressures from domestic as well as international financial institutions , oblige the state in the developing countries to ensure financial de-regulation. Above can be held responsible for the growth of financial activities at a faster rate as compared to activities in the industrial sector. The path that emerge reflects the respective changes in the real and financial activities - often moving in opposite directions. With financial institutions achieving a superior status in the economy , especially with their effective persuasion (to the ruling state in alliance) to keep open the flows of capital - finance gains ground in the economy as the most powerful sector. The fast growth of the finance-related activities also renders financial activities a major role in the services sector of those economies.

As pointed out (Scazzieri 2011) ,the path taken by finance in achieving its current state of dominance by relying on relative profitability as the *prime mover* of structural changes , can proceed beyond the unilineal explanations as provided by Pasinetti (1965). Scazzieri here brings in Fernand ,Braudel's position that capitalism entails a *multi-layered structure*. In this one can find a *variety of trajectories* in the path of structural changes by considering the *specifics* of the dynamic impulses as remain open in a profit-driven economy. As pointed out, the alternate trajectories relate to "… the 'horizontal' reshuffling of activities in the real economy (as well as) the 'vertical' shifting of liquid funds between real and financial activities." (Scazzieri 2023) . As Braudel pointed out, with economic success there has been a switch from horizontal layers of specialisation (or de-specialisation) to the vertical layer of diversification between real and financial activities. (Braudel, 1977, Chap. II) Braudel also pointed out that shifts of activity to banking and finance reflects "..shift of business from low to high levels of activity". (Scazzieri 2023)

Structural changes in an economy where finance rises to dominance entails an *expansionary path for the financial sector* itself which rests on an access to larger volumes of liquidity. This usually comes up, *first* by moving out liquidity from the relatively low profit activities in the real sector to the high- risk high-return short -term financial assets . This amounts to a shift away from the real sphere of activities to the financial, generating an economic environment in which the profit motive induces short-term capital flows through the purchase and sale of financial assets, under volatile price movements. In addition, there remain a second route to the expansionary path of finance which can generate additional liquidity by using financial engineering (or innovations) to initiate different forms of derivatives in the market.

Derivatives in the market are designed to protect the value of financial assets by hedging against risks under rising uncertainty which come up in de-regulated financial markets. The additional flow of liquidity to meet the demands for hedging under uncertainty amounts to further expansions of the financial sector; thus adding to its share of finance to the GDP as well as in the services sector. It is worth noticing that most of those derivatives are usually backed by credit margins provided by banks, which implies an a*ccommodative* expansion of liquidity by the financial institutions.

The dual routes as above bring in the additional liquidity as are needed to continue the expansionary path of the financial sector.

The *quantitative* significance of finance which is contributed by additional liquidity as above is supported by the *qualitative support* lent by the power of finance which originates from the socio-economic and political set-up (including those of the state in alliance) ; ever-ready to support the expanding pace of the financial activities under contemporary capitalism.

One can observe from above a close relationship between de-regulation of finance, uncertainty and related volatility in markets, which encourages speculation and flows of short-term capital. As we pointed out earlier, 'speculation by nature is rife in markets only when these are fluid' -. The co-evolution of rising uncertainty and increasingly liquid short term investment goes hand-in-hand with financial innovation (mentioned above) , which may have 'a contractionary effect on the real economy' – all due to the fact that rising uncertainty in the financial markets draws away finance from the real economy. (Sen, 2014, p. 116; Sen,S 2023).

To explain the shifting structure in an economy with changing weight and power of individual sectors vis à vis the rest, we deviate here briefly from the main argument by providing an exposition of the role as well as the *pattern* of uncertainty in the process. An economy can encounter a crisis when faced with what has been identified in the literature as 'fundamental uncertainty', which relates to "the un-knowability of the future, to *creative* human agency and the unique nature of unfolding time"(Dunn 2008, 96).

As further mentioned, it reflects the future as "transmutable or *creative* in the sense that future economic outcomes may be permanently changed by the actions today of individuals, groups and/or governments, often in ways that are not even perceived by the creators of change." (Davidson,P 2003, pp 234). Thus with "creativity" of actions by investors, new realities come up as "potential surprises". (Rosser 2001, pp 547; Sen,S, 2018)

We mention here the elucidations by Crotty which brings up Keynes's characterisation of the effect of fundamental or radical uncertainty on the capital investment decision of the firm, in chapter 12 of the General Theory. As Crotty mentions,"..fundamental uncertainty means that probability distribution that describes future states of the economy are *not knowable in the present* because these states have yet to be determined in the present and will be influenced by decisions taken today and tomorrow by *agents ignorant of the future*" (Crotty 2019 p240, italics added). Crotty views this notion as a "crucial underpinning" of Keynesian revolution in macro theory, apart from providing a construction of agent choice in micro theory. Fundamental uncertainty can also be viewed as a typical Ponzi finance situation where the financial assets held by an investor fail to perform while the financial liabilities as become due cannot be met by incurring further liabilities (borrowings). The situation leads to steep declines in the profitability of financial assets held by the investor. With finance privileged by higher profitability as compared to those in the real activities, investments in financial assets will continue to grow along with rising uncertainty , but only until the stage of fundamental uncertainty. With growth in real assets having already taken a downhill path, those in financial assets now will too turn negative. The economy, as a consequence, will now move along a decelerating growth path.

Thus the triumph of the financial sector and its superior weight in the economy, while pushing the system along a finance-led path led by high-risk high-return investments, may not continue beyond the critical stage of 'fundamental uncertainty' when speculation consistently fails to add to further profitability of financial investments. Situations such as above can be identified in the episodes of crisis as are observed in recent times.

Analysis as provided above remains incomplete unless the implications of fundamental uncertainty on 'agent choice' to determine the path of investments are worked out. Crotty highlights the answer provided by Keynes in his post-GT writings and lectures, an early formulation of which can be traced back to the GT. A clarification of the above matter is provided by Jim Crotty (Crotty: 2019 p240) , mentioning Keynes in the General Theory (chapter 12) on "… the effect of radical or fundamental uncertainty on capital investment decisions of the firm. " As we have already mentioned above, Crotty further goes to provide an explicit definition of fundamental uncertainty which, may be worth repeating here. It "… means that the probability distributions that describe the future states of the economy *are not knowable* in the present because these states have yet to be determined in the present and will be *influenced by decisions taken today or tomorrow by agents* ignorant of the future." (Crotty 2019, p240 italics added) As held by Crotty, this observation is a 'revolutionary transformation of macro theory' while it simultaneously provides a theory of 'agent choice ' in micro theory. He also points out that the argument, while demolishing the claim in neo-classical economics based on rational choice, has remained largely unrecognized. (Crotty 2019, p240)

Here comes Jim Crotty's pointer to the decision making process of agents faced with the fundamental uncertainties which relate to future as identified by Keynes in his post-GT writings which include the 1937 Galton lecture. (Crotty 2019:p242)

Above brings us back to an important question which relates to the way agents choose their investment policies when the future remains completely unknown. Since they would like to avoid a chaos as can come with the radical/fundamental uncertainty, how do they justify their own decisions taken by pinning it down to some criteria? However, to overcome the lacunae of the unknowns on basis of which the agents choose their actions in the market, Crotty cites the Galton lecture by Keynes published by the *Eugenics Review* . April 1937 which goes as follows:

".. Nevertheless, as living and moving things we are forced to act. Peace and comfort of mind require that we should hide from ourselves how little we foresee. We tend therefore*, to substitute for the knowledge that is unattainable, certain conventions* the chief of which is to assume, contrary to all likelihood,that the future will resemble the past" (Collected Works of Keynes Vol XIV p124 cited in Crotty 2019: p202)

Moving further, Crotty notices that 'conventions' help agents the calming of nerves, and (as Keynes argued), those collectively develop a "conventional process of expectation formation." Above, as held by Crotty, is one of most important theoretical innovations" of Keynes which brings in expectation formation and decision making by agents based on custom , habit, tradition, instinct etc as relevant in a model of human agency faced with fundamental uncertainty. (Crotty 2019:p243)

Crotty had raised earlier in a paper (Crotty 1994) *two* further questions on how decisions are made by agents under fundamental uncertainty. The *first* relates to agents encountering the ' dilemma ' of unknowability. Crotty in this paper mentions the answer from Keynes as, ".. Given that "..agents are socially and endogenously-constituted human beings…., a theory of agent choice.. must reflect both the social constitution of the agent which is contingent on institutions, values, and practices specific to time and place as well as the psychological complexity of the human-being-in-society."

The second point, on a behavioural issue, seeks answers to the actual decision-making process . Here Keynes reverts to human behaviour as a psychological trait leaning on continuity even when it turns out as un-realistic. Keynes's proximity to democratic socialism is reflected here by a mention of institutions as good support to agent choice as above.

There remain, however, further issues, in particular, relating to decisions based on conventions which, as Keynes had held, " ….Knowing that our own individual judgement is worthless, we endeavour to fall back on the judgement on the rest of the world which is perhaps better informed." (Keynes 1937 p214) Now, does above remind the reader of Keynes' 'beauty contest' analogy on reaching a decision in stock markets , or even of 'animal sprits' or 'herd behaviour' in similar situations?

This, however is strongly denied by Keynes, a point Crotty makes clear (Crotty 2019) with a citation which goes as follows : "In the end ,it is the it is the propensity of agents to believe in the solidity and validity of the *conventional* forecast and not just "animal spirits" – some innate or genetically transmitted urge to "spontaneous action" rather than inaction".

We draw our conclusions here, on the pattern of structural changes in economies, with finance gaining ground as the major activity with power moving along an unstable path . Much of the rise and dominance of finance goes through the uncertain terrain of the future in de-regulated markets, however conditioned by conventional decision making by agents, with uncertainty of a radical or uncertain nature often bringing in a crisis, led by finance and spread to the real sector.

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