

07/09/2016

The contributions of political economy to the understanding of financialisation

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This project is funded by the European Union under
the 7th Research Framework programme (theme SSH)
Grant Agreement nr 266800



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Introduction

- What is financialisation?
- “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” (Epstein, 2005a, p. 3).
- van der Zwan (2014) identifies three broad approaches to financialisation in the present era: ‘financialization as a regime of accumulation’, ‘the financialization of the modern corporation’, and ‘the financialization of the everyday’.



- Financialisation (a la Epstein) persistent feature of capitalism.
- “The First financialisation occurred in the second half of the 19th century and lasted until the beginning of the Great Depression, while the Second financialisation started after the end of the Bretton Woods period (1971) and is going on unchallenged notwithstanding the crisis” (Vercelli)



Features of present era of financialisation

- Rapid expansion of financial institutions and financial markets; blurring of the distinction
- Evolving financial institutions including shadow banking, changing structures and privatisation/de-mutualisation
- De-regulation, financial liberalisation



Features of present era of financialisation

- Financial crises (especially as compared with 'golden age')
- Household debt: causes of tendency to rise?



- Relationships between financial sector and real sector including ownership by financial sector of corporations, pursuit of shareholder value, and fusion between financial and non-financial corporations



Features of present era of financialisation

- Financialisation (in present era): one of three legs of period since 1970s with neo-liberalism and globalisation
- Inequality and financialisation: what contribution of financialisation? Rent and the financial sector; Inequality and financial crisis



Features of present era of financialisation

- Penetration of finance into a widening range of both economic and social reproduction – housing, pensions, health; ‘financialisation of the everyday’
- The ‘culture of finance’



- Each of the above (and more) have been analysed: and political economy should have a comparative advantage in such analyses
- Provided case studies on individual aspects; aggregate demand influences; instabilities: financial liberalisation; social and political dimensions



Financialisation and the mainstream

- Mainstream economics handicapped in their analysis of financialisation by the nature of the models used – equilibrium, efficient markets, nature of money etc.
- Why hasn't heterodox economists and social scientists made a greater impact?



Financialisation and the mainstream

- Zingales (2015): presidential address to the American Finance Association asks ‘does finance benefit society’, and then comments that for an academic economist the answer would appear to be obvious. In the opposite direction, the answer for academic political economist on whether the financial sector benefits society may also be obvious!



Financial deepening and economic performance

- Financial deepening as an element of financialisation
- General finding had been positive relationship between financial deepening/development and economic growth
- But no longer: series of studies suggesting no relationship or negative one over high range of deepening

- Many studies from post Keynesian literature and others suggesting negative effects of ‘pursuit of shareholder value’ on long-term investment and research and development
- More generally: has the financial sector become dysfunctional and ‘too large’?



- Epstein and Montecino (2016) overall place the total costs imposed on society by the financial sector as between \$12.9 trillion and \$22.7 trillion in the period 1990 and 2023, which represents between 66 per cent and 133 per cent of one year's US GDP.

Can financialisation continue?

- Where now for the financial sector?
- Is there scope for further expansion of financial sector?
- How will financial sector deal with lower growth and lower interest rates?
- How long will the real sector tolerate the drag of the financial sector?



De-financialisation?

- Are there possibilities for de-financialisation and for a socially and environmental responsible financial sector?
- Stakeholder vs shareholder financial institutions;
- Role of regulation?