THE FINANCIALISATION OF ALMOST EVERYTHING

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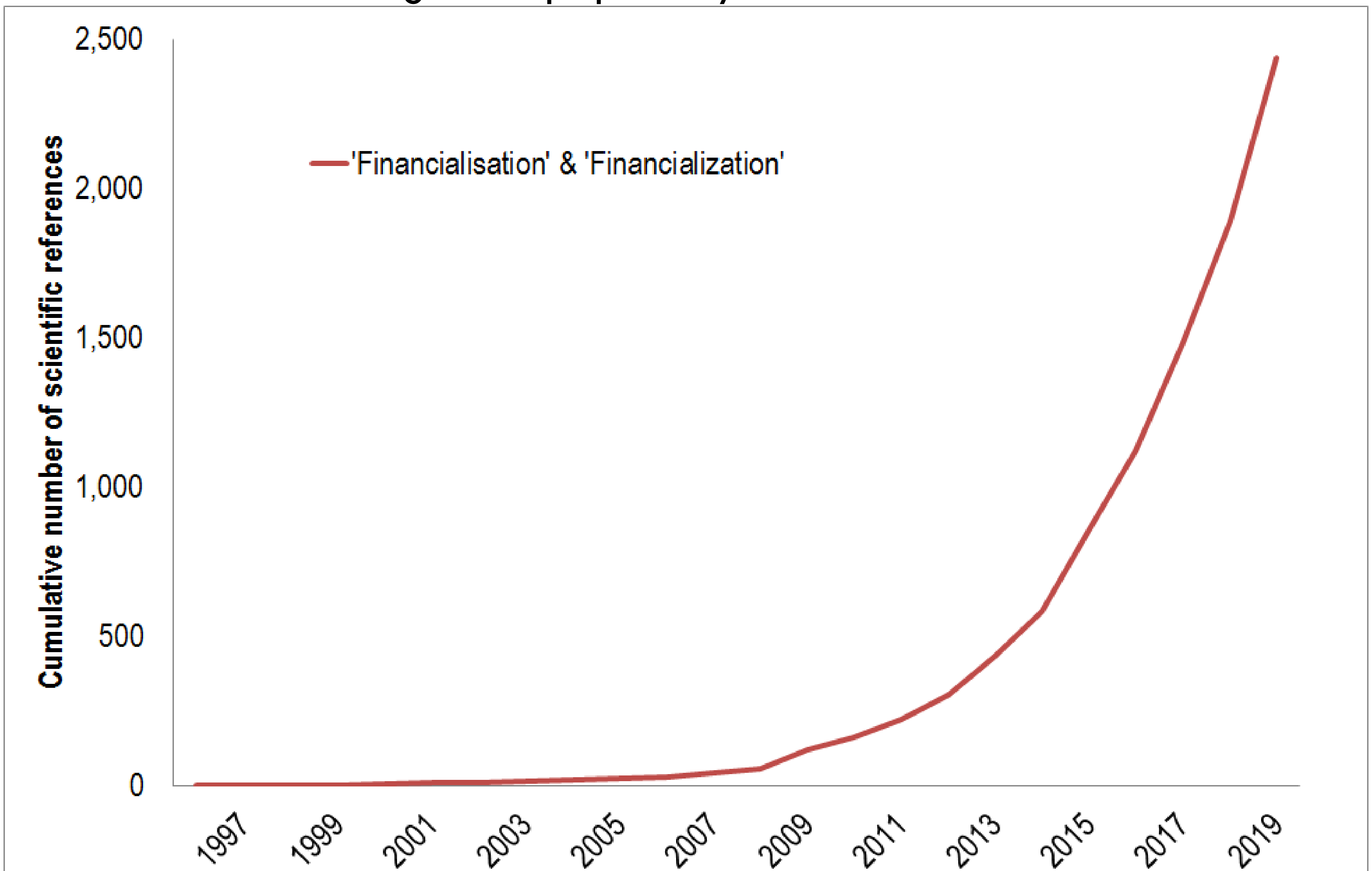
LECTURE OVERVIEW

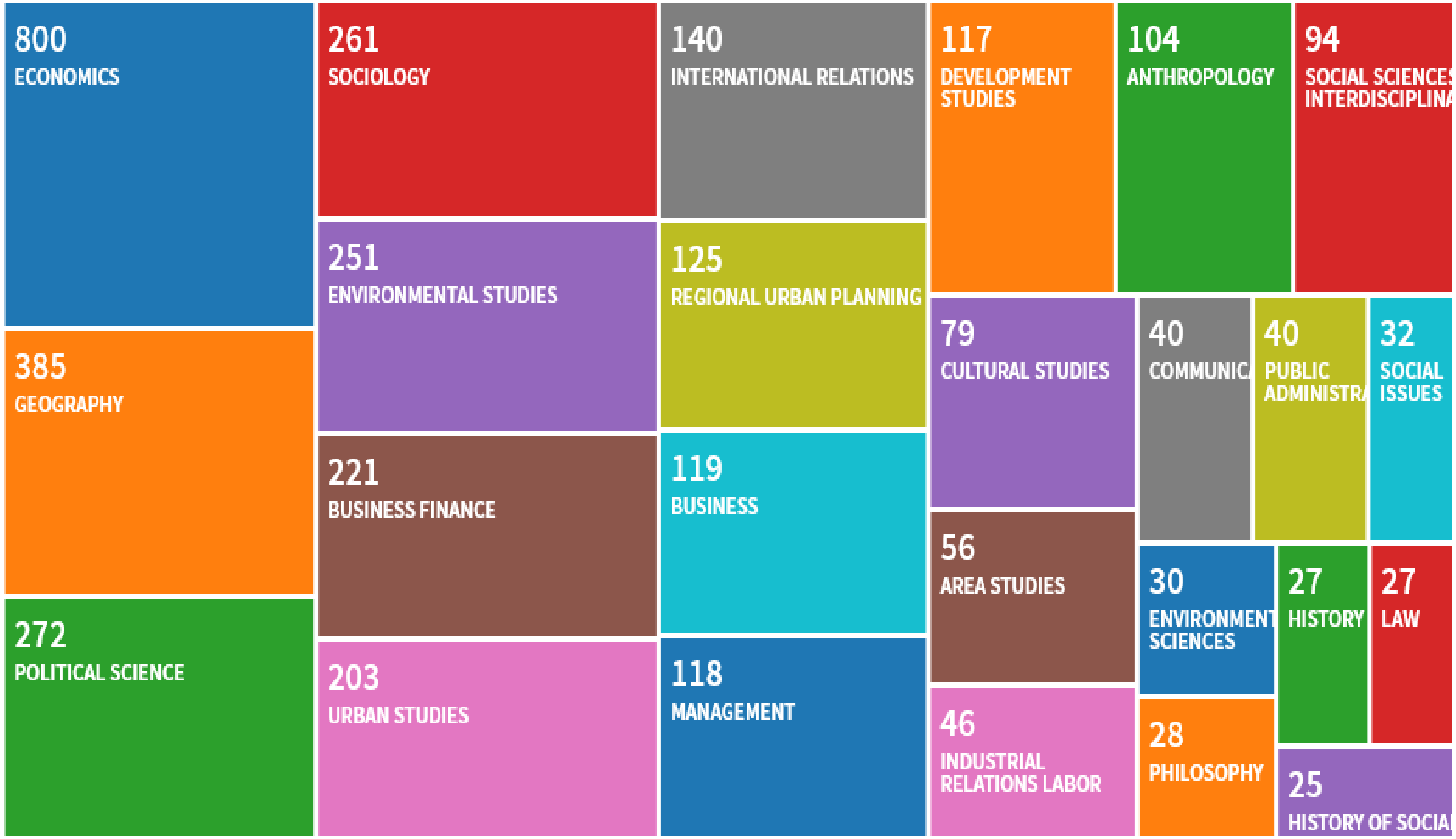
- Definition
- Sectoral manifestations
- Finance & Democracy
- COVID-19: The end of financialisation?
- Link to PK theory

FINANCIALISATION

'Financialisation' has gained popularity since 1990s.



FINANCIALISATION



ASSOCIATION

What do you associate with the term "financialisation"?

https://www.menti.com/1qhb3459u9

Or go to www.menti.com and use code: 7031 1547

DEFINITION

"Financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operations of the domestic and international economies." Epstein (2005, p.3)

- Origin: Kevin Phillips: Boiling point (1993), Arrogant capital (1994); Arrighi (1994): The long twentieth century
- Krippner: shift in accumulation regime
- Fine: penetration of *interest-bearing capital* across economic and social reproduction
- Nowadays even Forbes magazine warns of 'financialisation' (Denning, 2014).

A SECTORAL VIEW

Macro-influenced view:

- Non-financial companies
- Financial sector
- Foreign sector
- Excursus: Global South
- Households
- The state

NON-FINANCIAL COMPANIES

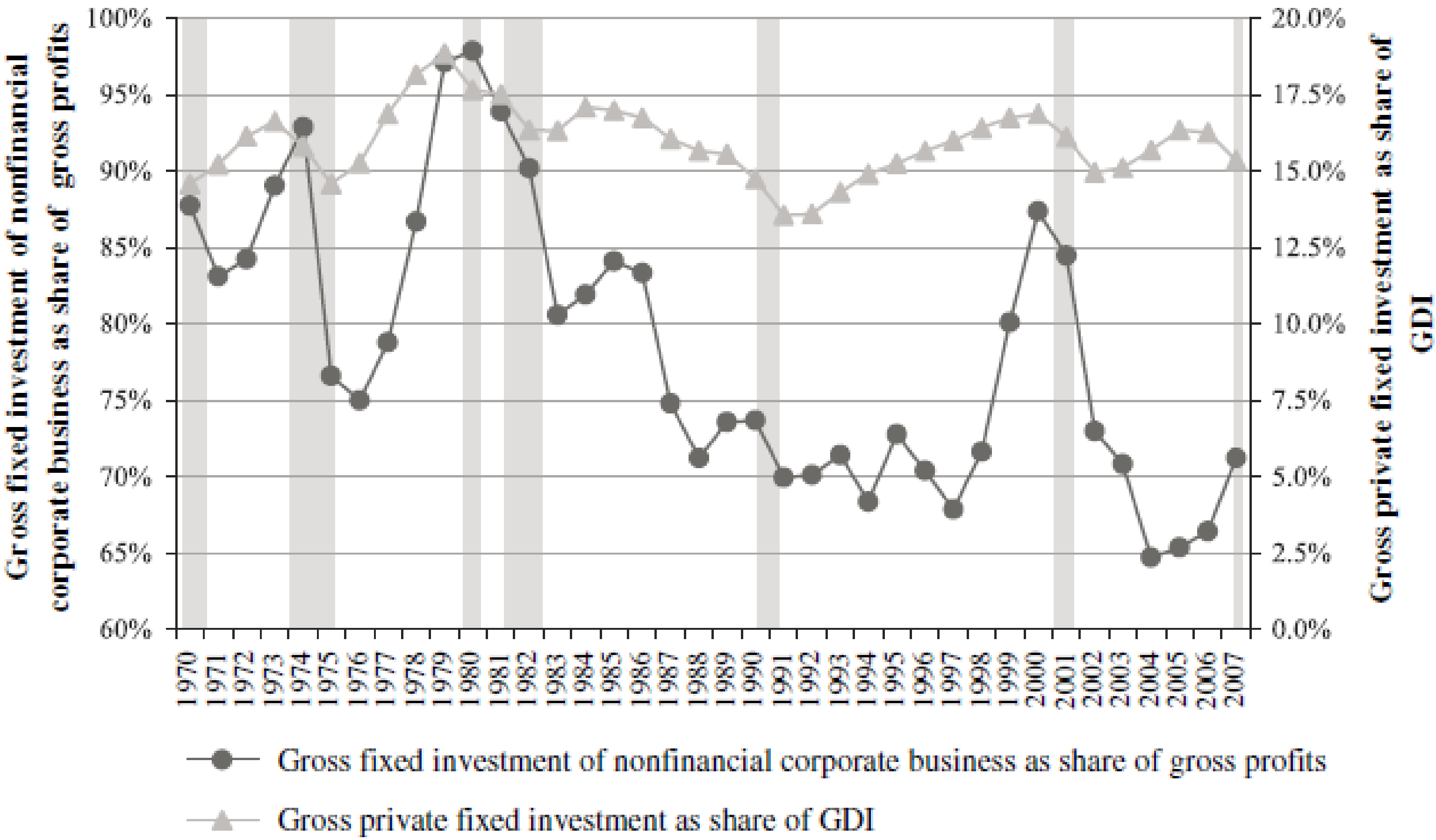
Why did **NFC** investment in major OECD economies slow down since the 1980s?

Shareholder value has to be generated: Shift from ‘retain and re-invest’ to ‘downsize and distribute’ (Lazonick & O’Sullivan 2000)

NFCs are squeezed by the **rentier** (Stockhammer 2004, Orhangazi 2008, Demir 2007, 2009)

Alternatively: **NFCs as financial rentiers** (Krippner 2005)

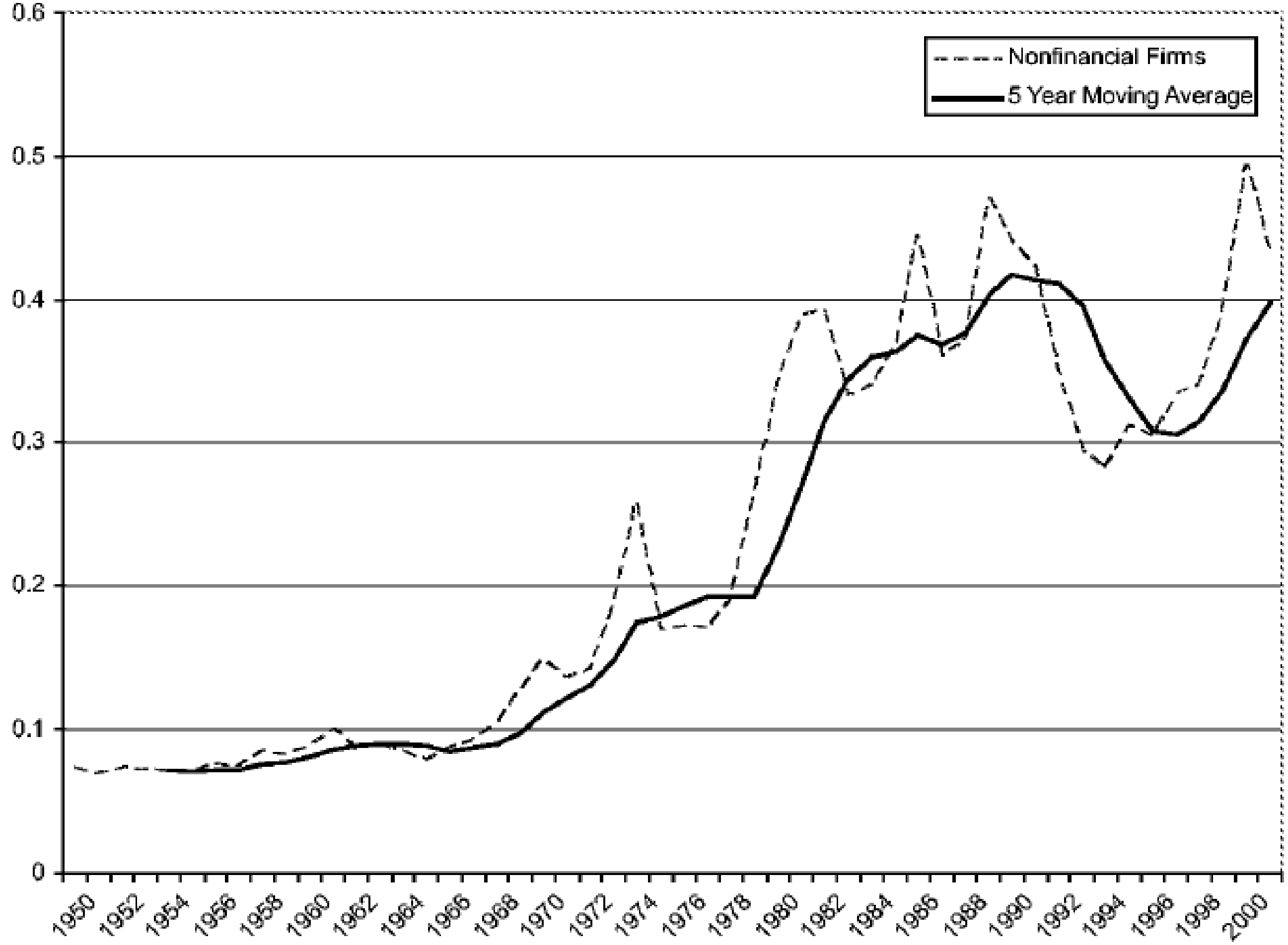
US investment shares, total & NFCs, 1970-2007



Milberg & Winkler 2010.

Ratio of portfolio income to cash flow for US NFCs

50%



Krippner 2005.

FINANCIAL SECTOR

Large institutional investors have emerged since the 1980s.

Assets of institutional investors as % of GDP

	Pension funds		Insurance companies		Investment companies		Total assets	
	1980	2000	1980	2000	1980	2000	1980	2000
Canada	16	48	17	29	1	37	35	114
France	..	..	9	69	3	63	11	132
Germany	2	3	13	39	3	38	18	80
Italy	..	5	..	21	..	39	..	98
Japan	4	19	17	60	16	11	37	98
United Kingdom	21	79	22	103	6	31	49	213
United States	28	69	23	41	5	66	56	199

Source: OECD, *Institutional Investors Statistical Yearbook*, 2003

Evans 2009.

Capital market inflation: Shift from pay-as-you-go pensions to funded pensions (Toporowski 2000, Clark 2000)

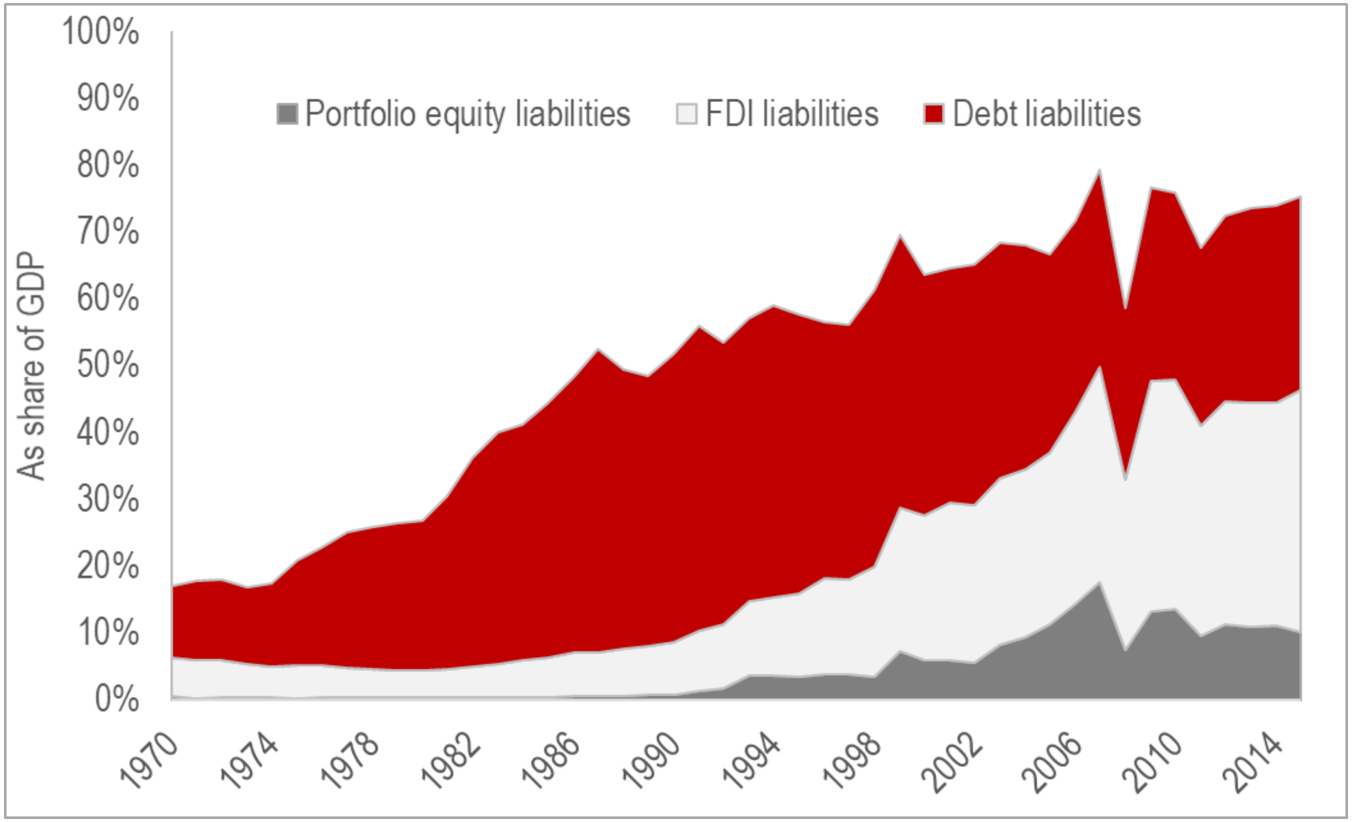
Deregulation has led to financial 'innovation' (e.g. shadow banking, see Pozsar et al., 2010)

FOREIGN SECTOR

- financialisation research agenda emerged in the context of rich countries
- distinctiveness of financialisation in global South generally agreed: strong role for foreign 'drivers' of financialisation
- foreign financial inflows (portfolio & FDI)
- external policy advice/intervention (IMF, World Bank)

CONSEQUENCE? FINANCIAL INFLOWS

Foreign liabilities of EMEs/Developing Economies



Source: Lane & Milesi-Ferretti, 2017.

EME/DE foreign liabilities have grown substantially.

But why is this a problem?

Surely, Foreign Direct Investment (FDI) is desirable?

Let's look at:

(1) portfolio inflows, (2) FDI and (3) debt one by one.

PORTFOLIO INFLOWS

This is mainly 'hot' money.

Potential for 'sudden stop' or inflow 'reversal'.

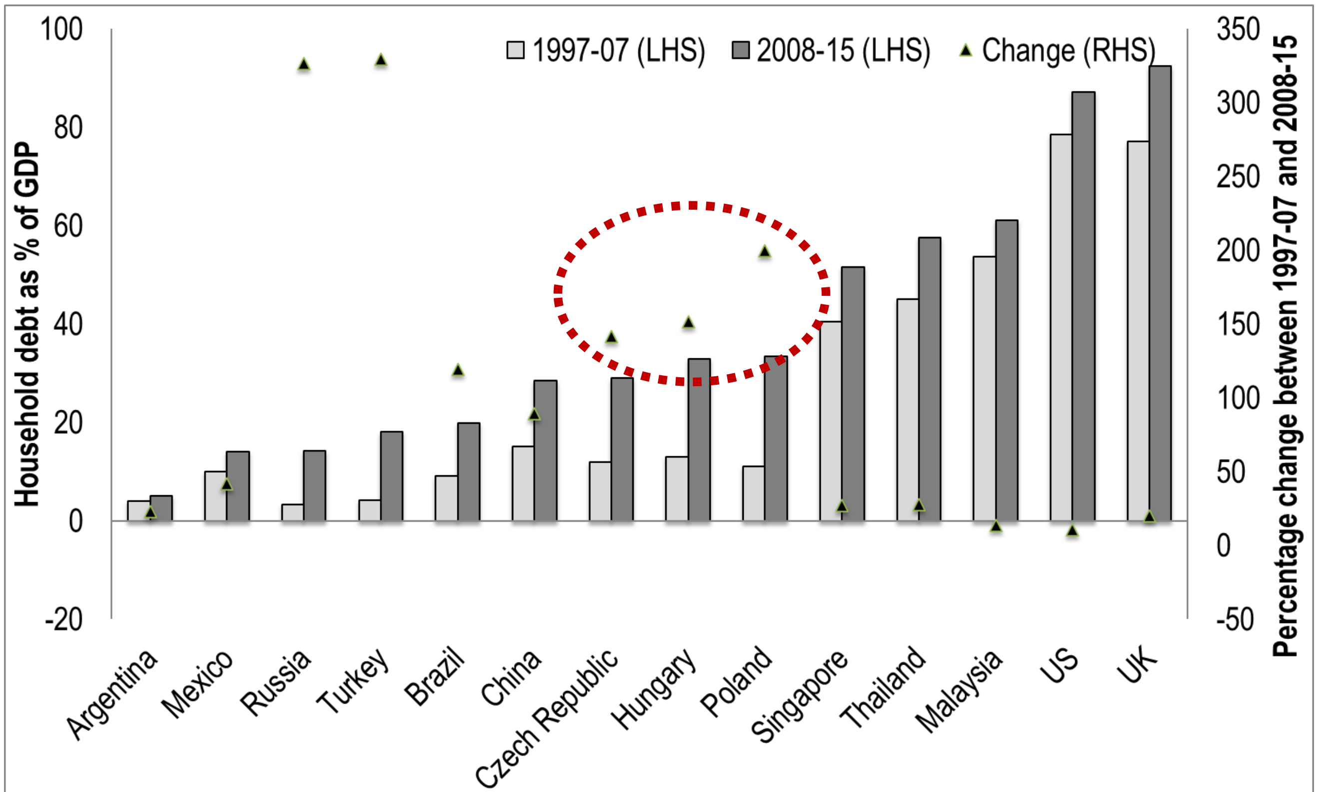
Prudential response by EME/DE governments: reserve accumulation!

EXCHANGE RATE POLICY	1990s	2000-07	2008-13
International reserves	**11.9**	**16.9**	**20.9**
EEs	13.7	19.4	25.2
LMIs	10.8	15.9	19.3
LDCs	11.2	15.2	17.6
High debt countries	11.5	16.2	19.0
Transition economies	7.7	15.6	19.5
Oil & gas exporters	7.9	20.4	29.3

Source: McKinley & Karwowski, 2015.

FOREIGN DIRECT INVESTMENT

Household debt as share of GDP, selected EMEs



Adapted from: Karwowski & Stockhammer, 2017.

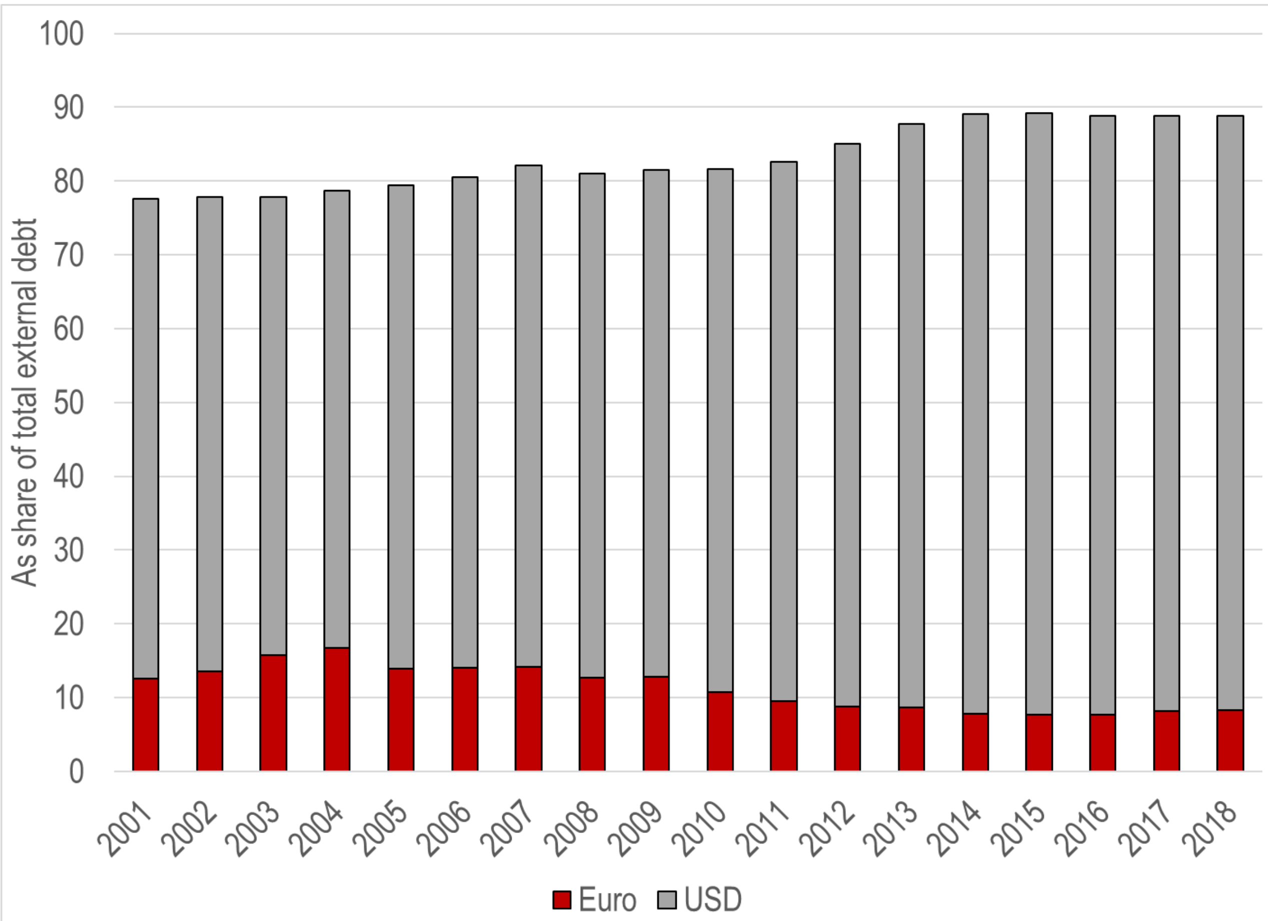
More long-term in character.

But: might import financialization practices.

E.g. entry of foreign banks in CEE.

DEBT LIABILITIES

Foreign debt of EMEs/Developing Economies by currency



This includes debt across private & public sector (i.e. government debt, but increasingly NFC debt, financial sector leverage).

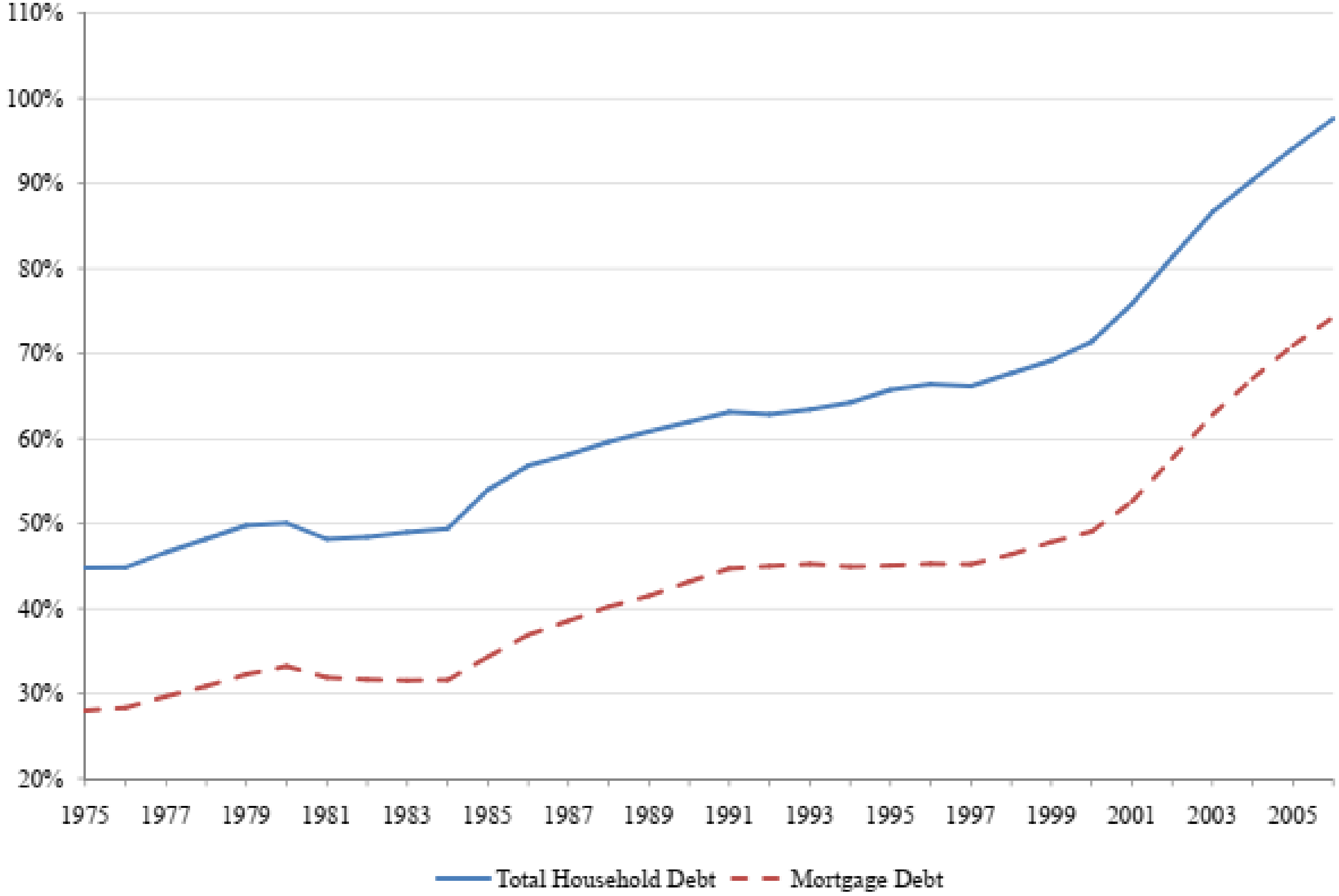
HOUSEHOLDS

The financialisation of everyday life (Martins 2002) is an important research field among cultural political economists, economic geographers, sociologists etc.

Individuals are turned into balance sheets (debtors) through their mortgage/ student loan commitments and pension fund investments.

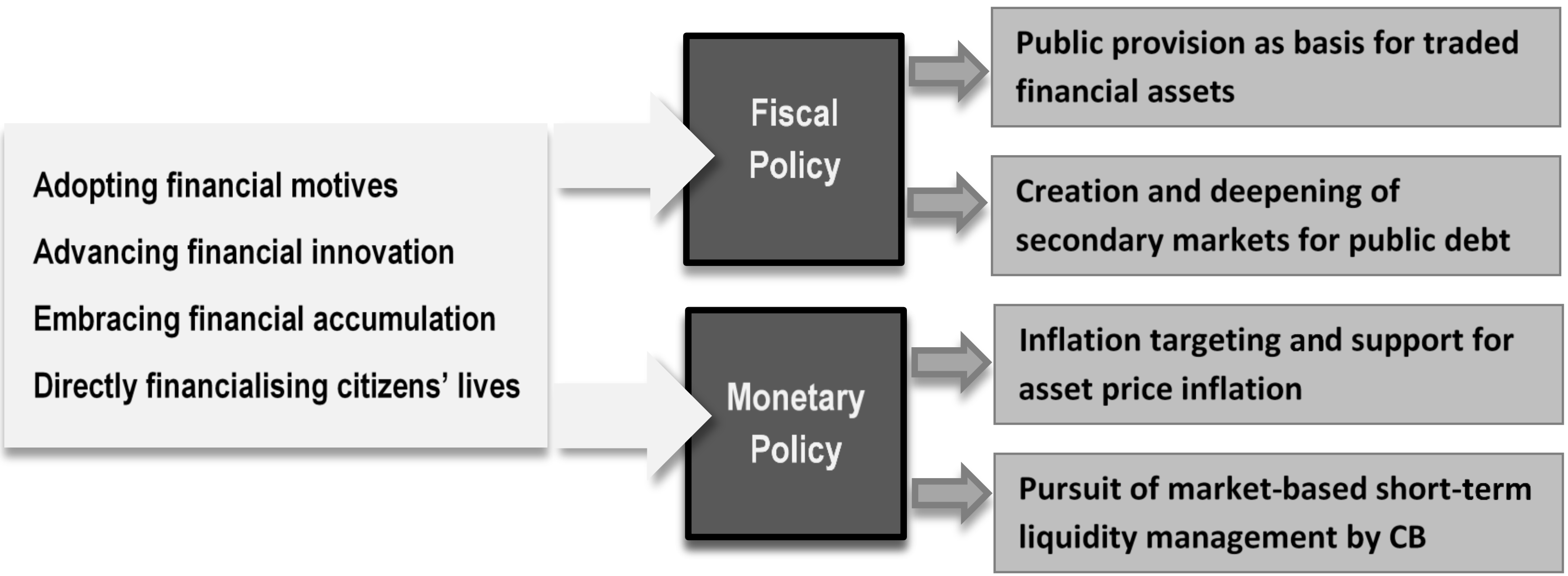
Wage stagnation and cuts to welfare provision make household debt important driver of growth (Crouch: ‘privatized Keynesianism).

US household debt as share of GDP, 1975-2005



Cynamon & Fazzari 2008.

STATE FINANCIALISATION



State financialisation is 'the increasing influence of financial logics, instruments, markets, and accumulation strategies in state activities in a way potentially detrimental to the state's accountability towards its citizens'. (Karwowski 2019: 1002).

FINANCIALISATION AS OPPORTUNITY?

- Torrance (2009): Financial markets as new revenue source

  "Australian cities have incorporated the institutional investors' participation as a way to develop infrastructure assets in a **more economical manner** while American cities are under pressure to raise funds due to cash strapped budgets.…processes are developing in which sophisticated financial and legal instruments are capturing the value of a place while **distributing the risk of it around the globe**" (p. 817)

A HIGHLY PROBLEMATIC OPPORTUNITY

- policy design is de-politicised (Allen & Pryke 2013)
- less transparency/accountability due to opacity of financial instruments & need for financial experts (SIB; tax-incremental finance, Pacewicz 2013)
- accountability is to financial investors not to society/ public institutions (SIB, Cooper et al. 2013)
- a shift in aim: from public provision to financial profit generation (impact on policy design: maturity, measurability)
- austerity (narrative) enables this shift (active role of the state)

FINANCIALISATION & DEMOCRACY

Recent research:

- Nölke (2020): size, network character & complexity of financial sector undermine democracy
- Jessop (2013: 83): democratic deficit is not unique to financialisation & decades-old, BUT: it has 'been strengthened by the expansion of a finance-dominated accumulation'
- BUT state financialisation is not merely imposed on public institutions but happens from 'within' (re-regulation?)

OPEN QUESTIONS

COVID will change the world but will it change financialisation?

Will there be a roll-back of financialisation?

Or will this crisis be an opportunity for the further spread of financialisation?

→ I argue that it will be the latter:

Commercial finance for development: a back door for financialisation, *Review of African Political Economy*, DOI: 10.1080/03056244.2021.1912722

MAIN CONTRIBUTION OF PK THEORY/POLITICAL ECONOMY?

- critical view on finance
- money is not neutral (e.g. debt dynamics, currency hierarchies)
- rejection of financial repression/ financial deepening story
- Cui bono?
- socio-economic/ holistic view: what is the impact on society, e.g. including democracy

What do you associate with the term "financialisation"?

Mentimeter

capitalism
profit-driven
shareholder
time value of money
epstein
neoliberalism
modern capitalization
money
trap
asset-isation
corporate profits
marketising
finance dominates economy
exploitation
capitalism development
consumerism
income inequality
investment
share

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