FMM conference 2014

Organised Session

FESSUD: Changes in the Relationship between the Financial and the Real Sectors of the Economy and the Financial and Economic Crisis: country studies

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1. The rescue of the big banks: The 2007-2009 crisis and the restructuring of financial capital in the US

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From the early 1980s the US economy registered weak fixed investment and a stagnant growth of wages for most working and middle class employees. Economic growth became increasingly dependent on the expansion of credit and when growth faltered in 1990 and in 2000 the state prevented the onset of deep recessions by pumping money into the economy. As is widely known, this constellation could not be sustained and following the onset of increasingly severe financial failures in 2007 and 2008, the US economy suffered its most serious crisis since the 1930s. This paper will outline the major tensions which emerged in the US economy from the 1980s to 2007; it will review the main contours of the crisis in 2007-2009; it will assess the main policy responses initiated by the US state in response to the crisis; and it will conclude with a brief examination of how the major financial institutions have responded to developments since the crisis.

2. Financialisation and economic crisis in Spain

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This study shows the main distinctive features of the financialisation process in Spain. First, we show that the financialisation in Spain was driven by the growth of the banking sector. Second, we analyse how the bulk of this process took place in a short period of time, namely in the decade of the 2000s, when most of the increase of the size of the banking sector in Spain and the borrowing of the private agents, households and non-financial corporations, took place. Third, we will argue that this excessive private borrowing, a key determinant of the crisis that affects Spain since 2009, was favoured by a procyclical fiscal policy in the years prior to the financial crisis. This fiscal policy fuelled the private and public borrowing, and generated an overheating of the Spanish economy. Moreover, it exhausted the leeway of the fiscal policy, leading to an unsustainable public finances.

3. The French economy and financialisation: from the oil shocks to the financial crisis of 2008

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The French economy has followed quite closely the major cycles of crises and rebound of European and Western economy since the eighties. It alternately won and lost market shares in an environment marked by the deepening of international competition and the development of multinational firms. The movement of financialisation of economic relations was less important than in the Anglo-Saxon countries. As everywhere the rise in the share of profits in value added has characterized the period from 1980 to 2008. In part this rise compensates the decline observed in the late seventies. In the household sector there was not observed a significant credit bubble. Inequality has increased notably during the recent period, but remained very inert if we compare its evolution to that of the United States and other European countries. The French model of growth and distribution is characterized by its high stability with respect to what has been observed elsewhere. Financialisation has not been unbridled and the main problems were induced by European economic policies that have slowed the pace of growth across countries and the low real wage flexibility, especially during the last period, which limited the competitiveness adjustment to the standards of its partners.

4. Finance-dominated capitalism in Germany, deep recession and rapid recovery

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This study on Germany examines the long-run changes between the financial and the non-financial sectors of the economy and in particular the effects of these changes on the macroeconomic developments, which have led or contributed to the financial crisis starting in 2007 and the Great Recession in 2008/09. The first part provides some descriptive statistics on real GDP growth, on the growth contributions of the main demand aggregates, and the financial balances of the macroeconomic sectors since the early 1980s, and classifies the German type of development as ‘export-led mercantilist’. The second part examines the effects of an increasing dominance of finance since the early/mid 1990s on income distribution, investment in capital stock, consumption and the current account in more detail. The third part links the long-run developments with the financial and economic crisis in Germany and examines the causes of the quick recovery.