

FESSUD

FINANCIALISATION, ECONOMY, SOCIETY AND SUSTAINABLE
DEVELOPMENT

Working Paper Series

No 127

The nature and variegation of financialisation: a
cross-country comparison

Andrew Brown, Marco Veronese Passarella and David

Spencer

The nature and variegation of financialisation: a cross-country comparison

Andrew Brown, Marco Veronese Passarella and David Spencer

Affiliations of authors: Leeds University Business School, The University of Leeds, U.K

Abstract: The aim of this paper is to provide an analysis of the nature, processes and stages of financialisation of EU economies and other selected countries since circa 1980. To this end, the definition of financialisation offered by Fine (2012) is adopted. This definition identifies eight features of the financialisation' process that has occurred in developed countries in the last thirty years. The paper offers an analysis of the size and structure of the financial sector in a number of selected countries. The data show that the financialisation process is not clearly reflected in the share of employment in the financial sector. This is likely to be the result of the labour-saving nature of technological and organisational innovations introduced in financial sector in the last two decades. There is also no clear evidence of financialisation in the case of the profitability of the banking sector. By contrast, the increasing weight of finance in the economy is reflected in the trend of the ratio of the value added of financial sector to total value added (though with some exceptions) and, especially, in the trend of the ratio of the value of financial assets to GDP. There is also evidence of the increasing indebtedness of households and of increasing social inequality (in distribution of both disposable income and wealth) which is consistent with our definition of financialisation. Overall, based on the evidence reviewed, it is possible to conclude that EU member-States and other economies considered have gone through a process of financialisation in the last three decades; however, as discussed in the paper, this process has been 'variegated'. The variegation of the financialisation process is explained by differences in economic and social structures between nations.

Date of publication as FESSUD Working Paper November 2015



JEL-Classification Codes: G01; G18; G21; N20.

Keywords: Financial Crises; Government Policy and Regulation of Financial Markets; Financial Institutions; Varieties of Financialisation.

Contact details: A.Brown@lubs.leeds.ac.uk m.passarella@leeds.ac.uk
D.A.Spencer@lubs.leeds.ac.uk

Acknowledgments:

The research leading to these results has received funding from the European Union Seventh Framework Programme (FP7/2007-2013) under grant agreement n° 266800.

Table of Contents

Introduction	6
1. The nature, process and impact of financialization.....	7
2. The structure, size and composition of the financial sector	11
2.1 The size of financial sector	11
2.1.1 Employment in financial sector	12
2.1.2 The value added of financial sector	15
2.1.3 Financial assets to GDP ratio.....	19
2.2 Profitability of financial sector	21
2.2.1 Financial profitability in early-industrialized EU economies	21
2.2.2 Financial profitability in other EU and non-EU economies	24
2.2.3 Financial sector vs. non-financial sector profitability.....	31
3. Financialisation, profit share and inequality	32
3.1 Consumer debt and household mortgage loans.....	32
3.2 Inequality in distribution of income and wealth.....	37
4. Has there been a process of financialisation of EU economies?	46
Final remarks.....	48
References	50
Tables and figures.....	55

Table and Figures

Figure 1. Employment in financial intermediation, real estate, rental and business activities (% to total).	55
Figure 2. Employment in financial intermediation, real estate, rental and business activities (Index 1995=100).	55
Figure 3. Growth rate in value added of financial sector (finance, insurance and business services) to total value added in a number of selected countries.	56
Figure 4. Financial assets to GDP ratios in top-5 European economies (left-hand chart) and its trend since 1995 (right-hand chart, Index 1995 = 100).	57
Figure 5. Gross value added of financial service activities and manufacturing sector, respectively.	57
Figure 6. Average composition of gross value added (by subsector) of major EU economies during decade 1999-2009.	58
Figure 7. Return on (average) equity of banking sector as a whole in some selected economies.	59
Figure 8. Foreign direct investment intensity (i.e. the average value of inward and outward FDI flows divided by GDP, multiplied by 100) in a number of selected countries.	59
Table 1. Net interest margin (NIM), return on average assets (ROAA), return on average equity (RAE) and leverage effect (LEV) in a number of countries. Average values 1997-2011.	
60	
Table 2. Relative trends in a number of financial dimensions since the early 1990s.	61

Introduction

This paper aims to provide an analysis of the nature, processes and stages of the *financialisation* of EU economies and other selected countries since circa 1980. It does so by drawing on and synthesising data contained in the country reports produced as part of WP2 in the FESSUD project. More precisely, the paper seeks to establish whether the economies considered have gone through both quantitative and qualitative change in the process of creation of economic value that has been defined as the financialisation process. In a sense, capitalist economies have always relied heavily on finance; however, what is distinctive about the present era is the deepening and broadening of finance in capitalist economies (Fine 2007: 7). This development has been defined as the process of 'financialisation'. The latter 'summarises a broad range of phenomena including the globalisation of financial markets, the shareholder value revolution and the rise of incomes from financial investment' (Stockhammer 2004: 720). One of the most inclusive and influential definitions of financialisation has been provided by Epstein (2005: 3), according to whom financialisation 'means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies'. For our purposes, we follow the definition of Fine (2012). Fine identifies eight features which mark the process of financialisation of developed countries in the last thirty years: i. the phenomenal expansion of financial assets and financial activities relative to the rest of the economy; ii. the proliferation of different types of financial assets and derivative products; iii. the rise of speculative investment in place to real investment, coupled with the maximization of shareholder value as main corporate target; iv. the increasing dominance of finance over industry; v. the increasing weight of credit- and asset-inflation-led consumption; vi. the penetration of finance into all areas of economic and social life, such as pensions, education and health; vii. the birth and the spread of a 'financial market' anthropology; viii. the re-definition of the role of the states for it to promote the process of financialisation.¹ This specific viewpoint, stressing the cohabitation of different (though interconnected) forms of financialisation across regions and socio-institutional systems,

¹ Notice that the FESSUD Project description of work incorporated these eight features. The terms of reference for the national financial system reports were also based on those eight features.

has been labelled the 'varieties of financialisation' approach.² Applying Fine's approach, the paper will try to answer the question whether EU and other selected economies have been 'financialising' in the last three decades.³

In what follows, we will focus on the multiple quantitative dimensions of the process of financialisation, regarded as a geographically and temporally variegated dynamic. To this end, the rest of the paper is organised as follows. In Section 2 an analysis of the structure, size and composition of the financial sector in a number of selected countries is provided. Different measures of the financial sector (notably, the employment share of the financial sector, the ratio of value added accounted for by the financial sector, and the ratio of financial assets to GDP ratio) are taken into consideration. Both the level and trend in financial profits are also analysed and compared with the profitability of non-financial business. Section 3 investigates the link between the process of financialisation and increasing social inequality (relating to the distribution of both income and wealth) as well as increasing household indebtedness (in the form of consumer loans and/or mortgage loans). Section 4 addresses the key question of whether there been a generalized process of financialisation across EU and other selected economies. Section 5 offers some broad conclusions and reflections.

1. The nature, process and impact of financialisation

As clarified in the FESSUD project,⁴ in what follows the term 'financialisation' is designed to describe the role of finance in and of itself and also the economic, social and environmental embedding of finance in the system as a whole. In the thirty or so years of global financial expansion leading up to the financial crises of 2007-09 and the diverse issues at diverse levels that these events and the crisis itself have engendered, can be given an orderly description under the rubric of the term financialisation. The latter term originates in non-

² We refer again to Fine (2012), who talks about 'varieties of financialisation' within a 'variegated capitalism' theoretical framework. See below.

³ A concept which is strictly linked to that of financialisation is the concept of 'financial integration'. This latter term refers to the increasing (asymmetrical) cross-border interconnection of banking systems and financial markets, involving the strengthening of debit/credit relationships among economic units which are located in different geographical areas (see Veronese Passarella, 2015). A preliminary analysis of the process of financial integration of Euro Area's economies is provided in Veronese Passarella (2013, 2014).

⁴ This section is an extract from FESSUD project, "Concept and objectives".

mainstream economics and is therefore well suited to address in an interdisciplinary and open way the important social and economic changes that have occurred over recent decades (on the discussions of financialisation see, for example, Epstein 2005, Hein 2010, Fine 2009, and Erturk *et al.* 2008, IJPE 2013). There are several features which distinguish the era of financialisation.

First, it refers to the large-scale expansion and proliferation of financial markets over the past thirty years, during which the ratio of global financial assets to global GDP has risen in the order of three times (see Blankenberg and Palma 2009). In this and many other dimensions financialisation has been driven by 'Anglo-Saxon' economies with the United States having the predominant influence. The scale of changes in the European Union can be illustrated by figures for the Euro Area⁵ where the ratio of equities to GDP rose from 8 per cent in 1980 to 82 per cent in 2006, and corresponding figures for private debt securities from 14 per cent to 114 per cent, government debt securities from 13 per cent to 61 per cent and bank deposits from 43 per cent to 99 per cent (see Frangakis 2009: 59).

Second, the process has been closely interwoven with de-regulation of the financial system itself and the economy more generally. Frangakis (2009) provides a discussion of the main elements of de-regulation in the European financial sectors. It was not just that de-regulation enabled the financial sector to expand rapidly, but that often inadequate preparation for de-regulation fostered rapid credit expansion and financial fragility. Further, the financial sector was at the head of those promoting the de-regulation agenda.

Third, financialisation, understood as both the expansion and the proliferation of financial instruments and services, has been associated with the birth of a whole range of financial institutions and markets, and corresponding acronyms, that are bewilderingly complex, quite apart from futures markets for trading in commodities yet to be produced (for which futures carbon trading is the most striking) and, infamously, subprime mortgages. The expansion of the latter and their bundling into derivatives that were bought and sold and

⁵ In this document, the official term 'Euro Area' is preferred to other informal definitions, such as 'Eurozone'. Euro Area is the group of countries which have adopted the euro as their single currency. It currently consists of Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia, and Spain.

which ultimately had the effect of triggering the crisis, is indicative of the previous two aspects.

Fourth, at a systemic level, financialisation has been located in terms of the dominance of finance over industry. Empirically, this is not a matter of finance telling industry what to do as recent trends have witnessed corporations relying less rather than more upon financial institutions to fund their operations as they have been able to raise funds on their own account. Yet, especially in the United States, even nonfinancial corporations have necessarily been caught up in the process of financialisation as they have increasingly derived profitability from their financial as opposed to their productive activities. The corresponding implications for the level, pace and efficacy of productive activity have been highlighted by any commentators and stakeholders, not least those negatively affected by the pursuit of shareholder value at the expense of continuing productive activity.

Fifth, financialisation is strongly associated with market mechanisms, complemented or even reinforced by policies that have underpinned rising inequality of incomes and of inequality more generally. Certainly, the rewards to finance systemically and individually have been astonishing. Incomes within the financial sector have become increasingly unequal in many countries. The period of financialisation has been associated with generally rising inequality (for example, OECD 2008, 2011a,b; Piketty and Saez 2003, 2006). In many countries the wage share has declined substantially, with consequent effects on the level of aggregate demand and on the pressures for consumer credit to maintain consumption levels, and may well have been one factor contributing to the growth of consumer debt.

Sixth, consumption has often been sustained by the extension of credit, not least through the use of capital gains in housing as collateral. This is, however, a single element in the much broader system of financial arrangements at the global level that has witnessed huge balance of trade and payments deficits for the United States, matched by a corresponding holding of US dollars as reserves by other countries (with dramatic increases for China in particular). This is a consequence of policies to relax if not eliminate exchange controls, opening economies to vulnerability to capital movements and, thereby, requiring high levels of reserves as a safeguard which, in turn, debilitates the capacity of the governments concerned to pursue developmental policies

Seventh, it is not merely the expansion and proliferation of financial instruments and markets that are striking but also the penetration of such financing into a widening range of both economic and social reproduction – housing, pensions, health, and so on. This is, of course, of paramount significance for social and economic infrastructure and for the displacement of public by private sector provision, most notably in case of privatization which can lead to proliferation of financial assets and consultancies. There is also the dimension of the environment, where financial markets have developed for example in the trading of carbon permits, and in futures markets.

Finally, financialisation is associated with a particular culture which is to be interpreted broadly. It ranges, for example, from the shifting from admiration and envy to antipathy to those who work in finance, but equally is attached to an ethos of reliance upon the market and the use of the state merely as an agent of last resort. As has been highlighted by literature within political science, usually in an attempt to understand the diverse forms and rhythms associated with neo-liberalism of the past thirty years, there has been a rolling back of the state as markets were first heavily promoted followed by a rolling out of piecemeal interventions as dysfunctions emerged. Thus, the material culture of financialisation is much more than a set of ideas or images, or an ethos of being for or against the market, but is closely integrated with the public and private institutions that have evolved during the course of the rise of finance itself.

In short, financialisation is a complex term, containing several different dimensions and aspects. It may be seen as a phenomenon that has been more apparent in Anglo-Saxon countries, where the United States and the UK are the most representative cases. But equally other models or types of capitalism have been subject to processes of financialisation. This can be seen in the context of the crisis, as countries as diverse as Germany and the Baltic States have faced contagion from the upheaval in finance. The finance sectors in most EU countries more generally have become integrated, if unevenly in depth and breadth, into the global financial system, and they have experienced major changes in economic and social functioning as a result. Countries in the developing world have also been affected by financialisation. In the context of the crisis, they have been much less affected by international transmission mechanisms associated with toxic financial assets than through the slowdown in growth and corresponding export demand, in the

availability of credit for international trade, and in capital flows from direct foreign investment, aid and migrant remittances. Nonetheless, financialisation has been important in the developing world, with corresponding diversity of impacts on the way in which and the extent to which financial interests have been formed and have influenced policy. Attempts to resolve sovereign debt problems according to market rules have created a field of emerging market bonds and formed another impetus for financialisation. This reinforced creditworthiness situation was significant for growing importance of financial institutions and players in emerging market economies during the 1990s. This has been especially important for social policy and provision of economic and social infrastructure generally conceived, not least through the influence of donor agencies. We stress above that the processes and nature of financialisation have been differentiated (or 'variegated') across different economies and markets. This suggests that it would be inappropriate to construct an all-encompassing theory of financialisation where differences between individual countries are slighted. It also implies the inappropriateness of understanding financialisation in terms of finance versus the rest of the economy or society. Not only is financialisation non-uniform across countries, it is equally integrated into productive investments and economic, social and environmental policy in different ways across different sectors within particular economies. For our purposes, we see financialisation as a systemic process, though one that is highly variegated across and between nations.

2. The structure, size and composition of the financial sector

2.1 The size of the financial sector

In the previous section, we have identified eight dimensions which have been seen to characterise the process of financialisation. This, *inter alia*, should allow us to overcome one of the main issues raised by the analysis of the financialisation process, that is, the fact that figures and data often cannot be univocally interpreted. The consideration of a broad range of dimensions, reflected in a number of variables and indicators, is therefore necessary. Looking at the (trend in) size of the financial sector, three main measures are considered here: the share of employment in the financial sector; the share of finance in total value added; and the financial asset value to GDP ratio.

2.1.1 Employment in financial sector

Using a broad definition of finance (encompassing real estate, rental and business activity), the share of employment in the financial sector to total employment has grown in all the selected countries since the early-1990s, the only exception being Japan.⁶ Not surprisingly, the Benelux countries and the UK are the economies with the highest employment share in finance (all above 20% since the mid-2000s), closely followed by France and the US (see Figure 1). Interestingly enough, the German share of employees in this sector is rather high too. Italy represents a sort of middle-ground (around 15% in 2010), whereas the other Mediterranean countries and the Central and Eastern European countries (CEECs) still show a lower share of employment in the broadly-defined financial sector. The situation is reversed if we look at recent years. Hungary, Estonia, Slovenia, Poland and Slovakia are the countries in which employment in the financial sector has grown most since 1995,⁷ whereas 'early-financialized' European economies (along with Portugal) are those in which that the employment share of finance has grown least (see Figures 1 and 2). If we turn to a more strict definition of 'financial sector', however, the situation is much less clear. For instance, the financial sector is one of the largest employers in the French private sector (see Blot *et al.* 2013: 30-32). Yet, excluding the real estate, rental and business activity, the share of finance in total employment has been rather low and stable (in the range of 1.6-1.8%) since the mid-1990s. Similarly, in Germany the share of employment in the strictly-defined financial sector fluctuated in a range of 1.5%-2.2% since the 1990s and it seems to be decreasing.⁸ In Italy the maximum percentage of employees in the monetary and financial services sector reached in 2.78% in 1994 and decreased to 2.57% in 2010 (see Consolandi *et al.* 2013: 25-26).⁹ In Spain the financial sector has maintained a quite stable share of total

⁶ Japan had the lowest employment share in the financial sector of the considered countries in 1995 (4.73%, Source: OCSE). This slightly decreased in the subsequent period (falling to 4.42% in 2008).

⁷ In some countries, this happened in spite of the negative trend in total employment. For instance, in Estonia total employment decreased by 16% over the period of 1989-2003 (-60% in manufacturing), whereas employment in financial intermediation doubled (see Juuse and Kattel 2013: 12).

⁸ If we include also insurance services, employment in German financial sector increased from about 2.6% in 1970 to almost 3.5% in the 1990s, and then decreased to 3% of total employment in 2008-2010 (see Detzer *et al.* 2013: 19). As for the absolute level of employment, it stayed stable for the most part of 1990s and decreased during the 2000s (*Ibidem*: 56).

⁹ Overall, the employment in the Italian services sector has faced a huge growth since the 1980s: from 48% of total employment in 1980 to 68% in 2009, with a rate of growth of 41% (see Consolandi *et al.* 2013: 25-26).

employment (around the figure of 2.5% of total employment in the last decade). In Portugal, financial activities registered a marginal decrease in importance in terms of employment (from 3.1% in 1995 to 3.0% in 2011), even though the employment share of the financial sector in the broad sense has remained relatively stable (Lagoa *et al.* 2013: 30-32). In Greece, the total number of employees in the financial sector increased until 2009 and then reversed, whereas the share of total employment started to decline earlier (from 2.29% in 1995 to 2.53% in 2000 and then to 2.35% in 2009).¹⁰ Among the major EU economies, the UK is the only one in which the financial sector has kept on growing, though not dramatically.¹¹ It appears that Sweden followed a similar trend.¹² Turning to CEECs, there is some evidence of an increasing weight of the financial sector as employer. For instance, Hungary's and Poland's shares of employment in finance expanded gradually even in recent years, despite rather unfavourable conditions in labour markets (see Alfred *et al.* 2013: 8, 26; and Szikszai *et al.* 2013: 46).¹³ Finally a look at non-EU emerging countries reveals that the financial sector's shares of employment grew in both Turkey and South Africa since the 1980s. However, those shares peaked before the outbreak of the global financial crisis and then decreased somewhat (see Bedirhanoglu *et al.* 2013: 13; Mohamed *et al.* 2015: 28-30).

Summing up, the process of financialisation of EU economies is not clearly reflected in their shares of employees in the financial sector. CEECs (Poland, Hungary and Estonia) are those in which the share of employees in the financial sector has grown faster in the last two decades. As one would expect, the UK is marked by a high share of employees in the financial sector, even though its recent trend is rather flat. France shows a similar pattern for the broadly-defined financial sector, but the financial sector *per se* has remained relatively small. Similarly, in the Mediterranean' countries (Greece, Italy and Spain) and Portugal the share of employees in the financial sector *per se* has remained rather low, with

¹⁰ According to Argitis and Michopoulou (2013: 29-32), 'the fall in employment after the onset of the sovereign debt crisis is due [also] to the will of some employees to be retired before the materialization of significant reforms to country's pension system'.

¹¹ Employment in FIRE sector (i.e. broadly-defined financial sector *minus* rental and business activities) grew from 1.0 million in 1980 to 1.6 million in 2010, and from 3.9% of UK employees to 5.0% of employees in the same period (see Shabani *et al.* 2015: 40).

¹² The share of employment in financial sector to total employment grew from around 6.5% in 1980 to almost 16% in 2010 (see Stenfors *et al.* 2014: 47; see also Stenfors 2014).

¹³ Interestingly enough, Poland's employment in financial sector increased even during the global financial crisis of 2008-2010, whereas in the overall economy the unemployment rate rose by about 3 percentage points (see Alfred *et al.* 2013: 8, 26).

a predominance of employees in the banking sector. Northern European countries as a whole have not recorded significant increases in employment, but they usually started from very high initial absolute percentages of employment in financial activities. The trend in the number of employees in the financial sector to total employment ratio seems, therefore, not to (wholly) capture the process of financialisation of European economies. Leaving aside the effects of the crises of 2001 and 2007-2008, one reason for the above trends could be that banking and financial sectors have recently experienced a switch of 'orientation from labour intensive to technology intensive driven with the introduction and development of automatic teller machines, cash dispensers, point of sales, phone banking, remote banking, TV banking, internet banking, where a large number of employees have been transferred from financial divisions to outsourcing and/or off-shoring companies' (Consolandi *et al.* 2013: 25-26). In any case, jobs have been lost in finance due to technological progress.

Notice that, within the financial sector *per se*, the banking sector usually appears as the main job provider. For instance, banks currently provide 70% of total employment in Greece and 90% in France (where this percentage has increased in the last two decades, see Blot *et al.* 2013: 30-32). By contrast, in other countries there has been a different re-composition among the financial sub-sectors. For example, in Spain the banking sub-sector has lost relative size in the last decades, whereas both the insurance and pension funds and the auxiliary activities has gained in size, 'although in both sub-sectors their shares in the total employment remain below the figure of 1 percent' (Amaya *et al.* 2013: 61-62).¹⁴ In many countries, such as the UK, the rise in employment of financial sector was not as dramatic as the relative growth of this sector's balance sheet. As we will argue below, what matters (in order to measure the *degree of financialisation* of a given economy or cluster of economies) seems to be 'not just the number of employees but their remuneration, the relative worth of the work done in this sector and its relationship to inequality within the economy' (Shabani *et al.* 2015: 40-41). The dramatic growth in the financial sector, in short,

¹⁴ This re-composition process becomes clearer insofar as one looks 'at the share of the three financial sub-sectors in the total employment of the financial sector. Since the late eighties, the financial services sub-sector is losing weight (-17.2 percentage points between 1987Q2 and 2012Q1) in favour of employment in the insurance and pension funds (+10.4 percentage points) and the auxiliary activities (+ 6.8 percentage points)' (see Amaya *et al.* 2013: 61-62).

has mainly been reflected in the value of financial assets and liabilities relative to GDP, whose creation and trading is not labour intensive.

2.1.2 The value added of financial sector

In spite of the flat trend in employment share, the increase in the share of value added of the financial sector has generally been quite remarkable¹⁵. This *inter alia* suggests that the labour productivity of employees in the financial sector 'has grown faster than the average' (Lagoa *et al.* 2013: 31), in most of the considered countries. In order to better account for the effects of financial crises and other shocks on the growth rate of the value added of finance (we can split the last two decades into four sub-periods (see Figure 3).

First period (1990-1994). Northern European countries (such as Benelux, Denmark, Sweden and Germany) are those in which the share of value added of finance, insurance and business services has grown most in the early 1990s, with an average growth rate of between 3.07 % in Germany and 4.36% in Belgium (OECD 2013). The UK and the US, along with Norway and Italy recorded positive growth rates (higher than 2% on average), whereas France and Spain recorded nil and negative growth rates, respectively.

Second period (1995-1999). This period approximately corresponds to the so-called 'New Economy' era and has been marked by an overall and remarkable increase in the value added of financial sector. Each and every country considered recorded an average growth rate in the share of financial sector value added that was higher than 2%, and the overall average was above 5%. Once again, Benelux and the UK, along with Austria, recorded very high growth rates. Finland, Greece, and, above all, Poland, recorded high growth rates as well. Interestingly enough, the three major Continental European economies (i.e. Germany, France and Italy) showed, by contrast, quite flat growth rates of value added of financial sector over this period.

Third period (2000-2004). This period roughly covers the crisis of the so-called new economy. This is reflected in the overall average rate of growth of financial sector value

¹⁵ Notice that this is 'value added' in the national accounts sense, i.e. as a contribution to GDP. However, it should not be inferred either that the financial sector is here regarded as valuable or that it is a 'creator' of (macroeconomic) value.

added, as it was two points below that of the previous 5-year period (though one point above that of 1990-1994). The only country in which the share increased in 2000-2004 was Spain (5.64% compared to 3.58% in 1995-1999 and -0.42% in 1990-1994). The UK, Austria and Denmark recorded the highest growth rates after Spain. No country recorded negative average growth rates in 2000-2004, even though Italy's and Germany's growth rates of finance were essentially zero.

Fourth period (2005-2009). The first part of this period (2005-2007) was marked by an overall boom in financial activities, but the boom was followed by a sharp fall in 2008-2009 involving mainly the Northern European economies.

Looking at the whole 20-year period, Italy turns out to be the country in which the value added share of the financial sector grew least, and it is closely followed by the other two major economies of Continental Europe (Germany and France) and by Finland. By contrast, Poland is the country in which the growth of financial sector value added has been more rapid.¹⁶ The UK and Benelux, along with Greece, recorded high growth rates as well. The share of value added of the financial sector to GDP has remained almost unchanged (though with quite large short-term fluctuations) in the two major economies of the EU, notably Germany and France, since the 1980s. More precisely, the value added of French financial and insurance companies represented almost 5% of French GDP in 2011. This value corresponds to the peak of the late 1980s, when it shifted upwards because of the 'the deregulation impetus'. However, 'it declined after each economic and/or financial crisis: 1993, 2001 and 2008'. This is the reason why it 'has remained between 4 and 5% from the 1980s onwards' (Blot *et al.* 2013: 30-31). Similarly, in Germany the financial sector's share in value added 'registered modest increases from 1970 to 1980', whereas '[f]rom 1980 until 2012 the share in value added remained relatively stable' (Detzer *et al.* 2013: 19).¹⁷ As for the other major EU economies, Italy has been marked by a similar trend. More precisely,

¹⁶ Notice that this impetuous growth did not involve each and every CAEE economy. For instance, 'the contribution of financial intermediation to the Estonian economy in relative terms has been stable throughout the years. Even during the boom period between 2004 and 2008, financial services contributed around 4% to Estonia's gross value added' (see Juuse and Kattel 2013).

¹⁷ More precisely, '[s]tarting with a share of 3.5% in 1970, the contribution of the financial sector (i.e. financial and insurance services) increased to 4.5% by 1980. Thereafter, a structural shift is not apparent, even though the financial sector's contribution increased to about 5.5% during the years of the stock market boom' (Detzer *et al.* 2013: 56).

the share of value added of the Italian financial sector to total value added averaged 4.47% until 2004.¹⁸ As one would expect, among major EU economies, the UK is the country in which the value added of the financial sector has grown faster in the last thirty years. Indeed it grew 'at more than twice the rate of the economy as a whole' (see Shabani *et al.* 2015: 177). Notice, however, that the US and the Netherlands recorded an even higher rate of increase of finance's income share (see Philippon and Reshef 2013: 80).

Turning to late-industrialized European economies, both Greece and Portugal have faced a rapid catching-up process, and the same is the case for a number of CEECs. The Spanish case is less clear, however.¹⁹ In Greece the financial sector, including mainly the banking sector,²⁰ 'has expanded from 3.8% of GDP in 1995 to 4.9% of GDP in 2009' (Argitis and Michopoulou 2013: 27), therefore recording an increase of almost 29%. In Portugal, the value added of the financial sector (including real estate) to total value added grew from 10% in 1986 to 15% in 2010. Actually, 'in 1995 the Portuguese financial sector was one of the smallest. However, from 1995 to 2011 the relevance of the financial sector in the overall GDP has grown faster in Portugal than in the Euro Area, with its pace of growth being only supplanted by Ireland's'. Notice, however, that if one considers only financial activities *per se* then 'the weight of financial activities in total value added in Portugal was among the highest in the Euro Area in 2011, and its growth between 1995 and 2011 was outstanding' (Lagoa *et al.* 2013: 30-32). As we have mentioned already, the weight of financial sector grew sharply also in CEECs. For instance, 'value added in the financial sector almost doubled in Hungary relative to GDP after the fall of communism. The statistic as a proportion of GDP stands at 23 percent in Hungary' (see Szikszai *et al.* 2013: 46). As for Spain, like in Portugal and Greece, the weight of Spanish financial sector in the economy is still 'somewhat less than the European average'. In 2007 'financial brokerage represented 5.3% of Gross Value

¹⁸ Notice that 'in 2010, albeit the experience of more than 3 years of financial crisis, the sector raised to 5.75%'. Furthermore, output of monetary and financial services (to GDP) increased quite sharply, as it 'grew from around 5% in 1980 to around 9% in 2009' (Consolandi *et al.* 2013: 26).

¹⁹ The point is that, at first sight, the share of the financial sector in gross valued added has had a declining trend since mid-eighties. Nonetheless, as has been observed, 'this conclusion may be wrong. The reason must be found in the methodological breaks that the series of the Spanish National Accounts, on which the figure is based, have suffered in the period analysed. However, data starting in the year 2000 have the same methodological basis and this is the most relevant period for Spain's financialisation' (Amaya *et al.* 2013: 57-59).

²⁰ Notice that 'the Greek banks contribute to GDP more than the 85% of the whole sector's value added' (Argitis and Michopoulou 2013: 28).

Added in Spain (compared to 5.6% in EU)' (Amaya *et al.* 2013: 23). However, from 2000 to 2009, 'the share of the financial sector as a percentage of GDP increased by 41%, rising from 4.17% of GDP to 5.88% of GDP'. Anyway, such increase 'is far from the increase registered in the size of the credit institutions systems, measured by the size of the assets and the liabilities as a percentage of the GDP' (Amaya *et al.* 2013: 57-59).

Looking at the non-European economies, in South Africa the contribution to GDP of financial services (including finance, insurance and real estate) 'has risen from 11% in 1980 to 15% in 1990 and to 21% in 2010. It is the single largest sector of the South African economy in terms of contribution to GDP and its growth has outstripped all other sectors'. At the same time, 'finance's contribution to total output has grown steadily from just over 2% in 1980, to 5.3% in 2010', reaching 'its highest point in 2007 when the sector contributed 5.8% to total output' (Mohamed *et al.* 2015: 27-28). Another emerging country, Turkey, recorded an increase of '11.7% in the activities of the financial intermediation sector, 2% in the ownership and dwelling sector and 9.2% in the real estate renting and business activities sector' (Bedirhanoglu *et al.* 2013: 5-9). The growth was particularly strong after 2003 and banks had 'the most important share (around 74%-84%) of both production and value added in financial and insurance activities between 2002 and 2010' (*ibid.*).

Summing up, a preliminary data analysis shows there has been a generalized increase in the share of value added of the financial sector to total value added in the last four decades, though with a few exceptions. This is consistent with the findings of Philippon and Reshef (2013: 74-75), who argue firstly that, 'finance's share of income today is significantly higher than it has been during the last 150 years'; secondly, the overall trend is upward; and thirdly, while in Anglo-Saxon countries and the Netherlands 'finance continues to increase after the 1980 [...] it seems that in other economies the financial sector's income share reaches a plateau, and even declines somewhat'. In other words, financialisation has affected the process of creation and distribution of value added in each and every country, but is has been doing so in different socially- and geographically-related forms.

In this regard, it is interesting to compare the gross value added of the financial sector with the gross value added of manufacturing sector. Figure 5 shows that France, Italy and Spain have been characterized by a remarkable increase in the relative weight of financial

and insurance activities along with a weak increase (or even a decrease, as in the case of France) of the weight of manufacturing sector. In both the UK and the Netherlands, the value added of the financial sector literally boomed. By contrast, in Germany the growth of manufacturing sector is only slightly lower than that of financial and insurance activities in 1991-2012. In fact, if we restrict the analysis to the last fifteen years (and we use 1999 as the basis for index numbers) the rate of growth of the manufacturing sector turns out to be even higher than that of financial sector. Finally, if we compare the gross value added of financial service activities with that of the manufacturing sector, Spain, along with the UK and the Netherlands, appear to be the economies which have been most affected by the process of financialisation. Not surprisingly, Germany is confirmed to be the least 'financialised' (or the most 'industrialised') economy. France and Italy represent a sort of middle ground, even though the increase in the importance of financial sector is evident in both countries. The average share (1999-2009) of gross value added of both financial subsectors and manufacturing sector in the top-four Continental economies (Germany, France, Italy and Spain) is shown in Figure 6. Notice that the importance of the Spanish real estate sector seems to be undervalued by the available statistics. In order to correct this underestimation, it would be necessary to further analyse the composition of the sector labelled "Other" (including agriculture, forestry & fishing, the whole industry, construction, other services, etc.). For instance, the average share of the Spanish construction sector value added to total value added is very high. It was 12.43% in the decade 2000-2011, compared to 5.74% in France, 5.95% in Italy, and 4.44% in Germany.

2.1.3 Financial assets to GDP ratio

The trend in (gross) financial assets to GDP is usually considered one of the key indicators of the process of financialisation. In some economies, such as Luxemburg, the Netherland and Ireland, the financial assets to GDP ratio recorded astronomical values in the last decade. The Euro Area (EA17) average was almost 600% in 2011 (OECD and Eurostat 2013). Surprisingly enough, by looking at major European economies, Germany is the one in which this ratio has historically been the highest, and been around 700% since the early 2000s (see Figure 4). In fact, the value of financial assets in the German economy 'grew rapidly in the 1990s, both in absolute terms as well as relative to GDP. While in the 1980s the ratio of

financial assets to GDP grew on average by 1.6% a year, this increased in the period from 1991 – 2000 to 6% a year' (see Detzer *et al.* 2013: 19). However, its growth has been slower compared to that of other major economies and, recently, the UK's ratio of financial assets to GDP has caught up (and overtaken) the German one. Notice also, in this regard, that the bulk of financial assets are owned by banks. Even in the case of the UK, bank assets alone 'have grown five fold (relative to GDP) since the 1970s; they were about 100% of GDP in the late 1970s, amounting to 520% of GDP in 2010' (Shabani *et al.* 2015: 117). In 2007, monetary financial institutions as a whole controlled around 60% of financial assets in the Euro Area, compared to less than 20% of the US (see Amaya *et al.* 2013: 23).²¹ Among major European economies, France and Italy are those with the lowest ratios, even though the French one has boomed in the last two decades. Besides, if we look at the financial interrelations ratio,²² 'in 1980 the Italian financial sector was not significantly different from the German and the Japanese cases'. This ratio was 0.87 in Italy, 0.80 in Japan and 0.81 in Germany, whereas it was 1.35 in the UK, and 1.05 in both France and the US. Two decades later, 'the values were 1.34 in Italy, 1.31 in Japan, 1.39 in Germany, 2.09 in the US and 2.86 in the UK' (Consolandi *et al.* 2013: 24), therefore confirming the last place of Italy in this ranking. As for Spain, between 2000 and 2008, 'the balance sheet of [credit] institutions (measured by the size of the assets as a percentage of GDP) increased by 64.7%' (see Amaya *et al.* 2013: 57-59). In 2007, the total value of financial assets accounted for 413%²³ of GDP' (see Amaya *et al.* 2013: 23) and it remained rather high in the subsequent years as well.

Turning to the other economies of the Euro Area, in Portugal the ratio of financial assets to GDP was around 700 per cent in 2011, i.e. one of the highest percentages among the European countries. The growth of financial assets in the period 1995-2010 was massive (around 140 percentage points) and similar to that of the EA17 (see Lagoa *et al.* 2013: 36-37). The Greek case is not that clear. According to Argitis and Michopoulou (2013: 135), '[m]onetary stability and banking liberalization made possible the rapid growth of capital

²¹ In some countries that percentage was even higher (for instance, it amounted to 80% of financial assets in Spain, see Amaya *et al.* 2013: 23).

²² This ratio has been suggested by Goldsmith (1955). It is defined as the ratio of gross financial assets to real wealth.

²³ According to both OECD and Eurostat statistics, this percentage would be even higher (reaching almost 580% in 2007, and reducing to a slightly lower value in 2011).

and money markets in the 1990s and the private non-banking financial assets were rapidly expanded during this period (from around 100% in 1987 to 300% in 1999)'. Yet, OECD statistics reveal that Greece, along with Italy, is the European economy with the lowest financial assets to GDP ratio (113% in 2011). Finally, CEECs represented a sort of middle ground. For instance, Estonia has been 'one of the leaders among Baltic and CEE countries' (Juuse and Kattel 2013: 26). The ratio of the banking system's assets to GDP 'doubled in eight years and reached 132% at the beginning of 2008 (whereas the ratio of financial sector as a whole exceeded 150%)', mostly driven by 'the expansion of the banks' loan and leasing portfolio, which has led to a consistently increasing share of the loan portfolio in the structure of assets' (Juuse and Kattel 2013: 35). In Poland '[t]he assets of the financial sector amounted to about 20% of GDP in 1991, to about 50% in 1995, whereas in 2011 it already exceeded 120% of GDP' (see Alfred *et al.* 2013: 8). To sum up, besides the 'special case' of the UK, the financial assets to GDP ratio has increased remarkably in each and every European country since the 1980s, though with some relevant national differences.

2.2 Profitability of financial sector

2.2.1 Financial profitability in the top-four EU economies

Within the economic literature, the impact of financialisation on profitability is usually linked to: first, the increase in profits from financial activities compared to those from non-financial activities; second, the increase in volatility of business and therefore profits; third, the increase in leverage ratios of economic units; fourth, the increase in the share of fees and commissions in banks' income (usually coupled with the reduction in interest margins of the banking sector). As we argue below, available statistics seem to support this thesis. Moreover, in most Continental European countries the domestic financial system is dominated by banks, in terms of both asset values and holdings of financial assets.²⁴ This is the reason why, based on the FESSUD country-reports, we will focus on the profitability of the banking sector.

²⁴ For instance, Italian banks' holdings amounted to 80% of financial assets in 2010 (see Consolandi *et al.* 2013).

We start with Germany and France. All indicators of the profitability of the German banking sector – notably, net interest margin (NIM), return on assets (ROA) and return on equity (ROE) – have been decreasing since the peak of the late 1990s. The same goes for the ‘leverage effect’, with some ups and downs though.²⁵ Thus, according to Detzer *et al.* (2013: 151-153), interest margins in Germany ‘were low in this period and were only undercut by those in France, which might imply a high degree of competition in the German banking sector in international comparison’. Notice that Hackethal (2004: 89, quoted in Detzer *et al.* 2013: 151) finds some signs of a ‘global shift in the focus of banks from traditional commercial banking towards more capital market-oriented services’, although he admits that German banks are still far behind in this regard, compared to Anglo-Saxon banks at least. This is the reason why, ‘by the late 1990s, the return on equity of German banks fell short of that in the US and the UK, but still exceeded rates in France and Italy’. However, in subsequent years, both ROE and ROA ‘have shown a tendency to fall, and the relative position of German banks has even deteriorated, so that it has fallen behind France and Italy, and in some years even behind the crisis ridden Japanese banking sector’ (see Figure 7).²⁶ It may be that the very low profitability in the domestic markets has ‘led the larger and more internationalised banks to increase leverage and invest more heavily abroad in search of higher returns’ (Detzer *et al.* 2013: 151). By contrast, the French banking sector has been one of the most profitable ones, among major economies at least. This is also due to the high leverage effect that grew from 9.27% in 2000 for ‘all banks’ to 14.58% in 2006 (Source: Blot *et al.* 2013: 135).²⁷ The financial crisis pushed the leverage effect down to negative values in 2008, but it recovered rather quickly achieving a positive value of 5.76% for ‘all

²⁵ The leverage effect (LE hereafter) measures the difference between economic and financial profitability. It can be expressed as the product between the ROE net of the cost of debt, and the debt to equity ratio. Algebraically: $LE = (ROE - r) \cdot D/E$, with r = cost of debt (i.e. interest rate due on loans), D = amount of debt, and E = equity. Moreover, since $ROE = ROA + (ROE - r) \cdot D/E$, it follows that: $LE = ROE - ROA$. Financial profitability increases with debt leverage, provided that economic profitability is greater than the cost of borrowing. Notice that LE is an important indicator of banks’ profitability because it points to the choice between equity and debt in their balance sheets. Three corollaries follow: i. a higher ROE may stem from a higher LE rather than from a higher ROA; ii. this would induce an increase in financial risk; iii. the higher the debt leverage, the more financial profitability will be sensitive to changes in economic profitability (see Creel *et al.* 2013, p. 122).

²⁶ Notice that insofar as ‘government taxation is taken into account, the rates of return on assets and equity after taxes do not show a falling tendency anymore. However, the relative position of German banks in terms of profitability does not improve’ (Detzer *et al.* 2013: 152).

²⁷ The label ‘all banks’ encompasses commercial banks, cooperative banks and other banking operators.

banks' in 2009.²⁸ Plainly, the high value of the leverage effect 'means that French banks have had a greater margin on debt than on equity'. This is further confirmed by high values of 'debt leverage' (notably, 18.0% in 2000, 16.18% in 2003, 20.10% in 2007 and 16.92% in 2009) showing that 'French banks are used to preferring debt to equity' (Blot *et al.* 2013: 136).

Turning to Italy, 'income statements of Italian banks in the last twenty years show an increase in net income of 70%'. However, 'in the period 2001-2011 it decreased by more than 20%. Between 2007 and 2010, the aggregate net income of Italian banks fell by more than half; profits levelled off in 2009 and 2010, but then banks ran up considerable losses in 2011' (Consolandi *et al.* 2013: 100-106).²⁹ Between 1995 and 2011, the ROE recorded an average value of 5.63%, 'with maximum a value of 11.47% in the year before the crisis and a minimum of -6.10% in 2011, the only negative value ever experienced by the Italian banking sector' (Consolandi *et al.* 2013: 101). However, the banking sector profitability has been sustained by both 'an increasing role of extraordinary issues' and 'a decreasing average tax rate, from 78.9% (1995) to 25.5% (2010)' (*ibid.*). The high level of net interest income (accounting for more than 50% of gross income in 2010) is due not only to the fact that 'Italian banks are almost exclusively geared towards retail activities', but also to the 'high level of margins'. Notice that the business model of Italian commercial banks has been focused on the originate-to-hold strategy until the end of the 1990s. However, 'during the following decade the model has progressively changed towards an originate-to-distribute strategy'. The net interest income to gross income ratio declined from about 80% in early 1990s to approximately 50% in early 2000s. However, all profitability ratios, including ROA and ROE, followed a similar trend.³⁰ Bankscope's statistics (reported in both Figure 5 and Table 1)

²⁸ The same goes for the NIM of banks, that has increased since the financial crisis (it doubled from 2007 to 2009), 'except for cooperative banks that maintain a relatively stable trend' (Creel *et al.* 2013: 138). On the whole, the French banking sector 'has responded quite well to this shock by regaining a positive profitability in 2009' (Creel *et al.* 2013: 134).

²⁹ According to Consolandi *et al.* (2013: 100-106), the fall in profitability of Italian banks in 2011 depended on 'three major causes: 1. the net adjustment for impairment of loans; 2. the net adjustment for impairment of financial assets, generated by the euro sovereign crisis; 3. the impairment of goodwill, and intangibles'.

³⁰ Consolandi *et al.* (2013: 100-106) provide also an analysis of the negative trend in both the gross income on equity and the credit intermediation return on capital profitability. This is regarded as a demonstration that 'the traditional model of Italian banks was substituted by the more financial oriented model, approximated by the financial profitability'. More in general, Italian banks showed 'a decreasing orientation to contribute the net income with the net interest income (from 0.35 in 1995 to 0.10 in 2011) which represented the traditional strategic model. On the other side the financial services contribution increased from 1.31 to 1.89. At the same

confirm the lower profitability of the Italian banking sector compared to those of France, the US and the UK.

Among major economies, the UK is the one which recorded the highest profitability measured by ROAA, the second highest leverage effect (after Spain) and the second highest ROAE (after Spain) (Bankscope 2012). As Shabani *et al.* (2015: 79) noticed, 'the share of financial intermediaries (including banks, building societies, insurance companies, pension funds and other institutions) in total profits in both absolute and percentage terms saw huge growth'. However, a very large variation between periods has been observed, with financial profits peaking in 2004-2005 and collapsing in both financial crises of 2000s (particularly, in 2008-2009 and 2001-2002).³¹ The same trend marked the profitability of investment banks'.³² The majority of losses in 2008-2009 came from the 'credit risk including the write down of structured credit products such as senior tranches of CDOs and similar'. All British banks 'were affected by the fall in the value of Eurozone debt' (*ibid.*). Notice that, prior to the 2007-2008 crisis, banks' profits came mainly from the expansion of the client base and the range of products, particularly high margin products (notably, charges on overdrafts and transactions with insufficient funds, high margins, 'origination', financial services, as well as interest on mortgages and credit cards). Therefore, the crisis just 'revealed the risks, and related volatile profitability of retail business' (see Shabani *et al.* 2015: 101). In fact, the profitability of British banking sector fell below that of the other major economies in 2009-2010, even though there have been some signs of a possible recovery in the last two years.

2.2.2 Financial profitability in other EU and non-EU economies

Among EU economies, Spain appears to be the one in which the financial sector recorded the highest profitability since the late 1990s. Amaya *et al.* (2013: 121-133) split the data into three sub-periods. In 2000-2004, ROA decreased 'from 0.98% to 0.76%', whereas ROE has

time, its direct support to the employees' income appears to be decreasing. The variation of the earnings before taxes from 1995 to 2007 is 458%, while payments to the staff increased only of about 35%.

³¹ More precisely, '[f]rom 2004 to 2007, the average annual income is £20 billion with a share of income of 15%, but from 2008 to 2011, the average annual income is a £4 billion loss with a share of the net income of the three sectors of minus 3%. These figures indicate that financial services are an important sector in the economy' (Shabani *et al.* 2015: 82).

³² The top UK based investment banks are Barclays Capital, HSBC, Lloyds and RBS. US banks JP Morgan, Morgan Stanley and Goldman Sachs also have large UK-based investment banking subsidiaries.

been almost constant with an average 'value of about 15%' (*ibid.*). Notice that values provided by Bankscope (2012) are much higher and more volatile, showing a clear decreasing trend. In 2005-2007, ROA increased 'from 0.95% to 1.11%', whereas ROE increased 'from 16.94% to more than 19.50%'. After the financial crisis of 2007-2008 financial profits started to decrease. ROA reduced 'to 0.79% in 2008' and reached 'the minimum value 0.22% for the year 2011'. As for ROE, it diminished 'to 12.57% in 2008 and the diminution [continued] until it [reached] the value 3.04% in the year 2011'. Similar considerations hold for the value of the interest margin to gross income. This ratio recorded 'an increasing trend for the period 2005 to 2009, and a decrease in 2010 and 2011. However, the rates of increase and decrease have been very different. While for the period 2005-2009 the interest margin increases at rates between 14 and 23%, the decrease from year 2009 to 2010 is equal to 7%. What is more, the decreasing rate is even lower (about 3%) from 2010 to 2011' (*ibid.*). In the same period, noninterest expenses to gross income has kept almost constant (although with some peaks), and the same has gone for personnel expenses to noninterest expenses. Finally, trading income represented an increasing share of the total income in the years 2005-2007, but, since 2008, the trend became negative (with the exception of 2009). The spread between reference lending and deposit rates grew in 2005-2008 and fell in 2009-2011. Summing up, on the one hand, among major Continental European economies, Spain was the one with the higher profitability of financial and banking sector until the crisis of 2007-2008; on the other hand, Spanish financial system has been severely hit by the current crisis (see Amaya *et al.* 2013: 121-133).

As for the other Iberian economy, namely Portugal, from '1992 to 2010 there was a strong downward tendency the financial margin [...], especially in the period 1992 to 1998 (from more than 3.5% to less than 2%) as a result of an increase in competition, the reduction in interest rates and the improvement in operational efficiency (due to technological progress)'. By contrast, 'the income from services and commissions as percentage of average assets had a tendency to increase between 1997 and 2005 (from 0.3% in 1996 to almost 0.8% in 2005)'. That occurred because 'banks started to charge explicitly for the services provided'. However, '[a]fter 2005, there was a small downward tendency in the income from services and commissions'. The income from securities and financial operations fluctuated 'in accordance with the evolution of the stock market', though 'the

investment in securities in proportion of total assets had a clear downward tendency up to 2008, which was particularly strong from 1992 to 2002'. Notice that, since the early 2000s, both the intermediation margin for non-financial corporations and margin for consumer credit were, respectively, 1 and 2 percentage points larger in Portugal than in the EA. By contrast, the margin for housing loans was slightly smaller in Portugal than in the EA. As for the cost-to-income ratio, it increased in the beginning of the 1990s, decreased from 1995 to 2006 and then increased again after 2006. Anyway, comparing with other Euro Area countries, 'in 2010 the cost-to-income ratio of Portuguese banks was low, with only Spain, Finland and Ireland presenting a lower ratio'. The ROE (before taxes) of the Portuguese banks has increased between 1992 (around 12%) and 2006 (beyond 20%), but it has sharply declined in subsequent years (turning negative in 2011). Interestingly enough, the evolution of ROA was slightly different: between 1992 and 2006 (from around 1% to 1.30% with ups and downs) the upward tendency is not so clear, being more visible in 1996-99 and 2003-06. The difference in the trend of ROE and ROA reflects the increase in the leverage effect in mid 2000s. Anyway, 'the strong decline in ROA after 2007 was similar to the one that occurred in ROE' (Lagoa *et al.* 2013: 107).

Arguably, Greece is the Euro Area's member-State that has been harshly hit by the so-called Sovereign Debt Crisis. Yet, the Greek banking sector was one of the most profitable until 2008. Profits came mainly from 'traditional banking products, in particular loans to the households and small/medium firms'. Not only interest revenues were the main component of total revenues, but NIM was one of the highest of the Euro Area. However, the deregulation process and the increasing competition led to a reduction of the average NIM from around 3.3% in 1990s to around 2.5% in 2000s. Turning to ROA and ROE, they exhibited fluctuations in the 1980s, a massive increase in the early 1990s, a decline in the early 2000s, and again a remarkable increase in 2003-2007. The average value of ROE in 1997-2008 was more than 16%, one of the highest values in the Euro Area (Source: Bankscope 2012). However, in 2011 the average ROE was fallen to 1.30%, because of the sharp decrease in 2010 (-8.22%) and 2011 (-167.56%) triggered by the SDC. As has been argued, both the booms and the collapses of bank profits are likely to be associated with the stock market trend (see Argitis and Michopoulou 2013: 152-158).

The financial sectors of most CEECs' financial sectors, with Slovakia and Hungary being exceptions, recorded rather high, though very volatile, rates of return, until the Sovereign Debt Crisis at least. Within the Eurozone, Estonian banks have been marked by an 'exceptionally high profitability [...] witnessed in the tripling of profits during a 3-year span from 2005 to 2007 before going into decline and eventual losses in 2009'.³³ The main source of revenues was interest income (above 60% of total income). Since the 2000s, in spite of the declining interest margins, profitability has been maintained through the reduction of the cost-to-income ratio (i.e. higher efficiency), as well as the provision of services and the wide range of financial products. In the same period, the use of debit and credit cards has increased exponentially: '[a]t the end of 2007, 100% of the population had debit cards and 30% owned credit cards [...]. As a result, already in 2005 the fee and commission income accounted for over a half of the net interest income of the banking sector'. Furthermore, the increasing concentration (and therefore the decreasing degree of competition) of the Estonian banking sector, coupled with tax system reforms, contributed to support profitability of big groups. On the whole, 'all market participants in the financial sector generated profits for years before financial crisis in 2008' (Juuse and Kattel 2013: 100-106).

Outside the Euro Area, both Poland and Romania recorded high profits in financial sector. Poland, along with Bulgaria, is the only CEEC whose banking sector has seemed not to be affected negatively by recent crises. Since the mid-1990s, ROA and ROE have declined, but they have remained always positive and, anyway, higher than in other CEECs (see Alfred *et al.* 2013: 9).³⁴ Once again, the 2004 reduction of the corporate income tax rate to 19%, supported net earnings of banks. As for the sources of banking income, the weight of non-interest revenues to total income has gradually increased over time, whereas the share of net interest margin has decreased, mainly because of the intensified competition (see Alfred

³³ Given the model of Estonian banking and its high level of internationalization, the figures on the profitability of financial sector's sub-sectors need careful interpretation. Figures on profitability in asset management (investment fund) or insurance might present a wrong picture, as most of the companies that dominate in these segments belong to credit institutions and thus, their profits are reflected in the consolidated income statements of banks. Moreover, the reliability of profit figures in the early 1990s is questionable, as at that time immature accounting practices and loopholes in legal framework led to the manipulation of profit figures in reporting (see Juuse and Kattel 2013: 100).

³⁴ Notice that the Polish banking sector is dominated by the two largest banks, notably *PKO BP* and *Pekao*. Also notice that there are significant differences between the efficiency of commercial banks and that of cooperative banks, due to the difference in scale of operations and scope of activities, as well as the structure of customers served (see Alfred *et al.* 2013: 75-81).

et al. 2013: 75-81). Turning to Romania, when state-owned banks dominated the system, profitability was highly volatile, 'falling from high return on assets and equity in 1996 (5.6% for ROA and 48.8% for ROE) and 1997 (8.2% and 75.1%) to negative ratios in 1998 (-2.88% and -25.9%) and 1999 (-1.7% and -17.3%) as the banking crisis unfolded and several banks experienced severe losses or became bankrupt'. However, '[o]nce foreign banks become dominant after 2003, profitability stabilized at lower values for both return on assets and return on equity – comparable to regional peers (min. 0.3% in 2011 and max. 2.6% in 2004 for ROA; min. 2.7 in 2011 and max. 19.4% in 2004 for ROE). In fact, banks experienced small increases in their ROE between 2005 (16%) and 2008 (23.7%)'. Since then, Romanian banking sector's profitability has declined sharply until 2012. The decline was even more dramatic for non-bank financial intermediaries, the second most important credit institution in Romania. Despite this, the average rate of returns of Romanian banking sector has been one of the highest in the EU. Interestingly enough, net interest margins have fallen from over 15% in the late 1990s to around 4% in the last few years. However, the net interest income to operative income ratio remained above 60%, increasing slightly since the crisis (63.7% in 2011). At the same time, the share of fees and commissions increased from 17.8% in 1997 to 31% in 2005, to then return to 20% by 2008, 'as lending activity, and interest revenue, picked up rapidly on the household segment'. Finally, '[t]rading and derivatives saw their share increase since 2008 to above 10% of overall income, due to increased activity on the government bond market segment and counterparty to non-resident carry trades on the money markets' (Gabor 2013: 175-199).

Unlike the Romanian one, the Hungarian banking system has been severely hit by the crisis. Actually, since the 'bank consolidation of the first half of the 1990s and the subsequent economic recovery fuelled by an influx of foreign investments, the Hungarian banking sector became relatively profitable', though it remained 'rather segmented'. Starting from the early 2000s, competition in Hungarian banking sector increased (except in the household segment), efficiency improved, and the profitability increased. This latter has been mainly prompted by the increase in households' and corporations' demand for loans. The boom in the lending activity was stimulated also by the Polish government's mortgage loan interest subsidy system. In addition, since the end of 2003, the very tightening of the terms of the state subsidy scheme, along with the increase in market interest rates,

prompted Hungarian households to replace state subsidized loans with housing loans denominated in foreign currencies (notably, Swiss Franc and Euro). This ended up inflating the profitability of the banking sector 'in spite of the tightening domestic funds'. On the whole, commissions and interests were the largest and the most stable sources of income for Hungarian banks in the last decade. In the most profitable years, the values of ROE and ROA peaked to '26% and near 2.5%, respectively' (Szikszai *et al.* 2013: p. 8). Both rates of return remained rather high until the late 2000s, when the unfavourable international environment increased the cost of funding, whereas the persistently low rate of growth of economy reduced the demand for loans, while reducing interest margins (see Szikszai *et al.* 2013: 185-189). As we mentioned, since the late 2000s 'the credit portfolio of the banking sector deteriorated because of the economic slowdown and the fierce risk based competition from 2004 that led to the over indebtedness of households. The main consequence of the financial crisis in the Hungarian banking sector was that these accumulated risks manifested themselves in enormous loan losses to banks in 2010 and 2011' (Szikszai *et al.* 2013: p. 8).

Finally, a look outside the EU reveals a slightly decreasing trend in profitability of the banking sector in 1997-2011, with some exceptions and high variability linked to the two financial crises of 2000s though. According to all available statistics, the South Africa's banking system has been one of the most profitable in the world over the last two decades: '[o]perating profit generally increased throughout the 2000s except for 2009 when there was a huge decline due to the effects of the global economic crisis'. By contrast, 'ROE and ROA were fairly volatile'. They recorded a sharp fall in 2002 and a slight decrease in 2009, before recovering in 2010-2011.³⁵ Notice, in this regard, that 'although interest income [coming mainly from mortgage loans] has always contributed the most to income in the sector, non-interest income [especially, fees and commissions] has increased massively in recent years to even surpass interest income in 2009 and 2010 before being overtake again in 2011 by interest income after the sector recovered from the economic downturn'. Notice, also, that

³⁵ More precisely, ROE has been volatile but generally stayed above 15%. It peaked in 2001 at 23% before crashing to its lowest levels in 2002 (14%) and 2003 (12.5%) and then staying above 15% for the rest of the period with another sharp rise in 2008. As for ROA, its average value for the period 1993 to 2011 stood at about 1.33% (see Mohamed *et al.* 2015: 70).



'[t]he main contributor to the fall in profit was the sharp increase in credit losses. The sector has since picked up again with profits increasing marginally in 2010 and sharply increasing in 2011 with operating profits peaking at about R49 billion at the end of 2011 representing almost an increase of 30%.' (Mohamed *et al.* 2015: 69). Looking at other non-EU countries, the Turkish banking sector has showed a quite similar trend: '[a]part from the years corresponding to "bankers' crisis" (1982-3) and the crisis year of 1994, both ROA and ROE [of banks] were fairly satisfactory in the 1980s and the 1990s' (staying between 2% and 4%). This was basically the result of the high level of nominal interest rates. However, between the end of 1990s and the early 2000s, both rates of return fell down. From 2003 to 2006 gradually and remained fairly stable (or slightly declining) thereafter around 3%. As usual, the trend in profitability is closely related to the volume of loans and net interest incomes obtained from loans, although the NIM has been substantially decreasing since the early 2000s (see Bedirhanoglu *et al.* 2013: 103).

Summing up, it seems to be possible to detect some common features concerning the financial profitability of considered economies: i. the dominant role of credit institutions in the most part of EU countries' financial systems (the main exception being the UK); ii. the rather high volatility of financial profitability measured by NIM, ROA and ROE,³⁶ as (also) the result of the two financial crises of the 2000s; iii. the high level of leverage ratios in the financial sector; iv. the gradual decline of interest margins, and therefore in interest net revenues, as a source of bank profits (until the Sovereign Debt Crisis at least);³⁷ v. the increasing share of fees and commissions in bank income (until the Sovereign Debt Crisis at least). Other two common features seem to be the circumstance that commercial banks have usually been more affected by recent financial crises than cooperative banks (vi), and the difference in profitability of financial sector compared to nonfinancial sector. In the next sub-section we briefly focus on feature (vi).

³⁶ ROE is the most reliable ratio in order to bring up banking profitability, as it comes close to the underlying concept of profitability (see Creel *et al.* 2013: 134; see also Box 2, p. 133; see also Box 3, p. 139).

³⁷ See, for instance, Hackethal (2004), who found deteriorating interest margins in several countries (Germany, France, Italy, UK and the US, among others) over the period from 1985 to 1999.

2.2.3 Financial sector vs. non-financial sector profitability

As we have mentioned at the end of Sub-section 2.1.2, profits of financial sector have grown faster (or decreased more slowly) than profits realized by non-financial corporations in the most part of EU economies. For instance, the profitability of the French financial sector, measured by the ratio of EBITDA³⁸ to employed capital, has remained relatively volatile around a stable trend (around 10% or 5% according to Blot *et al.* 2013's calculations) since the mid- 1990s. By contrast, the profitability of the non-financial sector 'has constantly decreased since 1998 and has established itself in 2010 close to the financial sector profitability' (Blot *et al.* 2013: 140). In Spain, 'the value of the respective ROEs reveals that the financial sector's profitability tended to be higher in the years before the crisis than that of nonfinancial sector' (Amaya *et al.* 2013: 131). In Portugal, the average ROE (after taxes) of the banking sector was almost double than the average ROE of non-financial firms and slightly higher of that of large corporations (see Lagoa *et al.* 2013: 107). However, the financial crisis has usually hit more harshly the financial sector than the non-financial sector. For instance, the profitability of French financial sector 'dropped from 12.06% in 2007 to 4.51% in 2008', whereas 'the non-financial sector has not been affected' by the crisis, as it has increased from 10.53% in 2007 to 10.95% in 2008 (see Blot *et al.* 2013: 132-140). Similarly, after the financial crisis, the Spanish non-financial sector turned out to provide higher profits than financial sector. Right after the collapse of Lehman Brothers in September 2008, the profitability gap (between financial and non-financial sector) reversed and its absolute value increased from -1.6 in 2009 to -2.8 in 2010 (see Amaya *et al.* 2013: 121-133). The same has occurred in Portugal where, 'due to the larger effect of the financial crisis on banks, the situation inverted and the ROE of banks has become smaller than the one of non-financial firms' (see Lagoa *et al.* 2013: 107). Finally, notice that the contribution of financial sector's incomes to total income is still rather low in absolute terms compared to that of other sectors (within the biggest economies at least). Even in the hub of the world of financialisation, i.e. the UK, the non-financial services sector still dominates both the financial services and the manufacturing sectors with a share of 75% of all sector net income between 2004 to 2011. Manufacturing is also important with 'a share of 19% of all

³⁸ EBITDA is the acronym of 'Earnings Before Interests, Taxes, Depreciation and Amortization'.

sector income from 2004 to 2011 but, significantly, very little variation in annual income throughout the period'. By contrast, in the same period, financial services accounted for only '6% of all sectors' income' (Shabani *et al.* 2015: 54-82).

3. Financialisation, profit share and inequality

3.1 Consumer debt and household mortgage loans

The link between financialisation and inequality has been the subject of a huge crop of writings in the last decade (see, among recent works, Stockhammer 2010, Onaran *et al.* 2011, and Galbraith 2012). On the whole, both consumer credit and household mortgage loans show increasing trends in Europe since the 1990s. The crisis that started in 2007-2008 interrupted (when not reversed) those trends, but the indebtedness of household sector is still very high. There are, of course, some relevant differences between European countries, especially between the main 'manufacturing' economies, on the one hand, and the other EU economies (including not only the UK, but also Iberian countries and new EU member-States), on the other hand. More precisely, in both France and Germany the main component of household debt is housing loans, whereas consumer credit is of minor importance (in the aggregate at least). Furthermore, domestic real estate markets appear by no way critical, while subprime loan markets did not develop in those countries. Private household debt in Germany is comparatively low, and had not shown any tendency to increase before the crisis. However, 'what is true for the aggregate private household sector must not be true for low income households'. Low-income households are prone to over-indebtedness. Furthermore, financial and real-estate wealth are extremely unequally distributed in Germany, and inequality has increased in the early 2000s (see Detzer *et al.* 2013: 27, 250). Unlike the Germans, 'the French have a strong preference for credit cards'. However, 'consumer credits and cash loans are mildly developed, and most public services are still under the aegis of the State' (Blot *et al.* 2013: 4).³⁹ Looking at the figures, the main type of debt incurred by French households is 'housing loans (51% in 2012), whereas consumer credit (cash loans, 16% in 2012) is not much developed'. The growth rate of outstanding

³⁹ Furthermore, 'French public authorities implement collective actions to try to curb over-indebtedness and unequal access to banking services' (Creel *et al.* 2013: 4).



credits to consumption was generally between 4% and 5% in 2000s, far below the Euro Area's average. The household debt to GDP ratio was rather low too. In March 2011 it was 53.6%, higher than Italy (44%), but far below the UK (215.8%) and the US (93.7%). This is also the result 'of French debt-averse culture' (Blot *et al.* 2013: 238-240). In a sense, Italy followed a similar pattern. Not only Italy is traditionally considered as a 'high-saving' country, but, along with Germany, it is the country having the 'most regulated' real estate market in the EU (see Cardarelli *et al.* 2008, quoted in Detzer *et al.* 2013: 273-274). Unlike France and Germany, though, consumer credit has developed remarkably in the last two decades. On the whole, a 143% increase in the financial liabilities of Italian households (including loans, consumer credit, home mortgages and other debts) occurred in 1995-2010. Even though loans and home mortgages accounted 'for larger shares of the total household liabilities, consumer credit grew the most by a factor of just over 14 (a 1332% increase between 1995 and 2010)' (Consolandi *et al.* 2013: 29-30). Anyway, the dynamics residential mortgages and consumer credit peaked in 2002 (with loans for house purchase reaching almost 30% and consumer credit reaching 25%) and declined in subsequent years.

The growth in household debt was, as already mentioned, more evident in Portugal and Spain. Portuguese banks have been undertaking securitization operations, mainly in the segment of credit to households, since the late 1990s. The easier financing linked to the securitization practice allowed Portuguese banks to satisfy the increasing demand for credit of households. Between 1980 and 1998, loans to households increased sharply (from 14% to 53% of total loans) and then stabilized in subsequent years. Housing loans grew from 64% of total loans to households in 1980 to 80% in 2011 (see Lagoa *et al.* 2013: 53-54). On the whole, this led Portugal to turn from one of the lowest levels of household debt in 1995 (26.1% of GDP) to one of the highest levels in the EA in 2009 (peaking at 95.4% of GDP).⁴⁰ As for Spain, loans to private non-financial sector increased remarkably in the two decades preceding the Sovereign Debt Crisis, raising from 64.8% of GDP in 1995 to 175.4% in 2010 (see Amaya *et al.* 2013: 9, 40). Notice that the financialisation process in Spain 'has come

⁴⁰ Both demand and supply factors contributed to the increase in Portuguese households debt levels: the attenuation of liquidity constraints, facilitating the access to credit (especially mortgage loans); the reduction in interest rates; the emergence of new financial products; the malfunctioning of the rental market; tax benefits to loans; increase in credit for consumption (especially for the purchase of durable goods) (see Lagoa *et al.* 2013: 56-58).

with the maintenance of the traditional structure of the banking business, with a predominance of the weight of the loans in the balance sheets of the credit institutions' (Amaya *et al.* 2013: 9). It has also been argued that 'the process of borrowing of the Spanish economy was not led and fuelled by the household sector, but by the financial and the non-financial corporations'. However, the very value of the net financial assets of Spanish households 'fell since 1998 until 2008 in 62 percentage points of the GDP (from 128.8 percent to 66.7 percent of GDP)' (Amaya *et al.* 2013: 73).

Like the Portuguese and the Spanish private debts, the Greek private sector's debt increased sharply from 1995 to 2011. More precisely, bank loans to Greek private sector increased from 28.2% of GDP in 1994⁴¹ to 44.0% in 2000, and then boosted to 115.3% in 2011. A great part of these loans were loans to households, which amounting to 48.4% of total financing to the private sector (two-thirds of which were housing loans, as reported by Argitis and Michopoulou 2013: 59). Households' debt increased from less than 10% of GDP in 1995 to slightly above 60% of GDP in 2011. Similarly, 'the ratio of household debt to their (estimated) gross disposable income rose to 72.8% in 2009 (2008: 70.9%), but remained considerably lower than in the Euro Area (2009: 95.4%, 2008: 94.3%). In 2011, the household debt-to-GDP ratio remained virtually unchanged at about 60.0%'. Interestingly enough, the 'level of indebtedness varies across household income levels, with the lower income household groups recording the highest debt ratios' (Argitis and Michopoulou 2013: 44). As one would expect, the crisis which began in 2007-8 has led to 'a considerable reduction in the growth rate of loans provided by the domestic monetary and financial institutions, pinpointing the liquidity constraints that Greece face in the last years' (Argitis and Michopoulou 2013: 32-39) and giving rise to a process of deleveraging of Greek economy.

As one would expect, a 'huge expansion of credit' in the household sector, mainly through mortgages and consumer debt, has taken place in the UK in the last decades. Between 1997 and 2008, mortgage lending in the UK increased almost twenty fold. This boom 'was driven by retail banks expanding lending for mortgages as the housing market boomed'. Notice that the connected 'boom in securitization required mortgages to be continually originated to maintain the liquidity of the housing market as well as to provide the loans needed to

⁴¹ But notice that loans to Greek private sector amounted to 42.3% of GDP in 1980.

incorporate into new securitized products. [...] as the housing and securitization booms proceeded additional customers were needed to prevent the collapse of the booms and, as in the US, lending standards declined in order to allow for this'.⁴² Notice that a similar expansion of supply, coupled with a reduction in lending standards, also occurred in consumer credit and credit cards. Therefore, 'when the economy and housing market started to weaken from 2007 the combination of huge exposures, falling house prices and fundamentally weak credit risk amongst these marginal borrowers resulted in a surge in arrears'. Notwithstanding this, 'there appeared to have been relatively small impact on consumer demand and banks profitability from this contraction' (Shabani *et al.* 2015: 107).

In the majority of CEECs, household debt recorded a sharp growth in the years preceding the crisis. The most part of 'new lending was attributable to housing loans,⁴³ which already account for more than 50% of total household loans'. On the whole, today's household debt accounts for 'more than a quarter of GDP in the new member states of European Union (EU10), but there is a significant cross-country variation' (Szikszai *et al.* 2013: 65-71). Even though the indebtedness of private sector has been on the rise over the last decade, the average private debt to GDP of CEECs is much lower than that of Euro Area's countries (around 140%). The same goes for household debt to GDP, as it is below the average of Eurozone's member-States (around 65%) (we refer, again, to Szikszai *et al.* 2013: 65). However, many of these countries are marked by a rise in retail foreign currency lending to households, mainly because of the differential between domestic and foreign interest rates.⁴⁴ In addition, some of CEECs (such as Hungary, Poland and Baltic Countries) have been marked by a process of acquisition of domestic banks by foreign financial institution.

⁴² 'Towards the peak of the cycle in 2008 practises such as mortgages for 100% or more of housing values, buy-to-let mortgages for speculators and the rise of the "self-certification" mortgage, which required no proof of income by borrowers, were common. [...] Critically too, many borrowers "withdrew equity" often for consumption, where credit was given against the unrealised gains in housing' (Shabani *et al.* 2015: 104).

⁴³ There are some exceptions though, such as Romania.

⁴⁴ According to Szikszai *et al.* (2013: 65-71), three different clusters of countries can be identified: 'Estonia and Latvia with a very high foreign currency loan share of about 85%; Romania, Bulgaria, Hungary, Croatia and Lithuania with a medium share ranging between 55% and 63%; and finally, countries with relatively small shares: Poland (26%), Slovakia (19%; this share fell to nearly 1% after the introduction of the euro in January 2009), the Czech Republic (9%) and Slovenia (7%; before euro adoption in January 2007, the share was 64% and had risen substantially in the period immediately before euro adoption). In most of these countries, the euro accounts for a clear majority of total foreign currency loans to the nonbank private sector. Notable exceptions are Hungary and Poland, where the Swiss franc predominates foreign currency loans to households'. On the same point, see also Gabor (2013: 233-234).

This, *inter alia*, progressively shifted the focus in their credit policy from manufacturing industries to households and real estate companies. This, along with the tendency to use bank credit for consumption rather than investment, eroded the margins of safety by insufficient generation of foreign currency earnings to meet the external liabilities (see Juuse and Kattel 2013: 2). Furthermore, during 2000s real estate bubbles developed in a number of countries (such as Estonia), due to the privatization process, the reduction in interest rates, loosening in credit requirements, and fiscal incentives (see Juuse and Kattel 2013: 150-153). Within the Euro Area, Estonian household debt (compared to both GDP and disposable income) increased sharply since the late 1990s, while housing market boomed.⁴⁵ Outside the Euro Area, household loans to GDP increased exponentially in Hungary, Poland and Romania, during the 2000s, driven by rapid growth in foreign currency lending (Swiss Franc in the case of Hungary). For instance, the ratio of Polish households loans to GDP increased from approximately 7% in 2004 to 31% in 2010 (see Alfred *et al.* 2013: 8). In Romania, the share of household loans to GDP increased fifteen fold between 2002-2008, from less than 2% of GDP to about 22% of GDP (see Gabor 2013: 15).⁴⁶ The same trend characterized to an even greater degree the Baltic countries and Bulgaria, all of whom had pegged currencies. Housing market was fuelled by credit boom. This latter mainly supported a consumption boom though. Taxation also contributed to upholding the high level of households' debt and the widening of real estate market.⁴⁷

⁴⁵ More precisely, from 2000 to 2005, the total volume of Estonian housing loans (and leasing) 'increased annually more than 40%, and the household debt grew nearly four times, amounting to 30% of GDP [...]. The level of household debt has increased from 5-6% in the late 1990s to 57% of GDP in 2009, while the ratio of debt to disposable income grew from 3% in 1996 to 60% in 2009. At the dawn of the credit boom in 2004, on average 18% of a family's monthly net income went to service loan and interest payments, while for 1/5 of the debtors loan-servicing costs rose above 29% of the family's net income [...]. By 2010, the average monthly debt servicing had climbed to 26% of the households' monthly net income [...]. From 2005, the net financial position of households started to deteriorate, dropping from 70% of GDP level in 2005 to 50% of GDP level in 2010' (Juuse and Kattel 2013: 35-36).

⁴⁶ Notice that, since the early 2000s, consumer loans to Romanian households 'amounted systematically to around 70% of overall household credit, the opposite of Euroarea, where mortgage loans dominate household liabilities (less than 15% consumer credit for 2008). This composition of household credit reflects particular trends in income and inequality in Romania. Indeed [...] households' disposable income contracted by 25% between 1995 and 2000 (see Molnar 2010), reducing demand for durable goods in particular. In contrast, the improved economic outlook after 2000, growth in real wages and rapidly increasing remittances strengthened general consumer confidence, and increased demand for goods' (Gabor 2013: 238-239).

⁴⁷ For instance, in Estonia the Income Tax Act of 1993 provided the possibility to deduct housing loan interests from taxable income (Juuse and Kattel 2013: 90).

Finally, outside the EU, there are different situations. For instance, in Turkey household borrowing grew very fast, but its absolute level is still low compared to EU countries.⁴⁸ By contrast, household debt in South Africa is the highest among the BRICS countries and is in line with the EU average.⁴⁹

3.2 Inequality in distribution of income and wealth

Inequality increased in all the countries considered (with remarkable national differences though), as is demonstrated by both income and wealth trends. Official reports published by ILO (2008) and OECD (2008, 2011a,b) show that the recent decades have been characterized by a rise in inequalities. Basically, empirical results show the increasing concentration of both income flows and wealth stocks at the top of the distribution curve (see Consolandi *et al.* 2013: 195). Focusing on market income, the relative Gini coefficient indicates a tendency towards a more unequal personal income distribution in most industrialised countries since the mid 1980s. Looking at the Gini coefficient before taxes, it turns out that Finland, Italy, Portugal, the UK, and Japan witnessed the most dramatic increase in market income inequality, followed by Germany (see Detzer *et al.* 2013: 290). As for inequality of disposable incomes, Gini index after taxes decreased over the last three decades in a number of countries, such as Belgium, France, Greece, Ireland, and Spain. However, it increased in other countries, such as Germany, Sweden and Finland. Papatheodorou and Dafermos (2010; quoted in Argitis and Michopoulou 2013: 253) argue that the differences in income inequality among the EU countries could be attributed (also) to the different systems of social protection. In particular, countries that are characterised by the Southern-European and the Liberal welfare system usually show higher income inequality. By contrast, countries that have adopted Social Democratic or Conservative-Corporatist welfare regimes

⁴⁸ In Turkey, the ratio of household debt to GDP is still very low in absolute terms. However, it increased rapidly: from 7.9 % in 2005 to 13.6 % in 2008, and further up to 15.4 % in 2009. In 2001 it fell to 14.4% of GDP (see [‘Andy’ report] 2013: 27). The consumer credit to household disposable income ratio has been increasing rapidly too, turning from 7.5% in 2003 to 51.7 % in 2011 (see Yalman *et al.* 2013: 169).

⁴⁹ The South African economic growth path was shaped by debt-driven consumption and speculation- fuelled growth of the financial system (see Mohamed *et al.* 2015: 15, 24, 123, 155, 158, 160). In 1991 the household debt to disposable income (after taxes) for South Africa stood at 56%. By 2011, it was 76% after rising to 83% in 2008. As has been observed, the household debt in South Africa is the highest among the BRICS countries (Mohamed *et al.* 2015: 195).

have lower income inequality. Nevertheless, in the period 2005-2007, inequality has increased in all countries with Social Democratic and Conservative-Corporatist welfare system. By contrast, in the same period, there was a fall in income inequality in the Southern European countries. As for the countries with Liberal welfare systems, inequality increased in the United Kingdom and decreased in the Ireland. Finally, notice that the trend in income inequality in the EU-15 over the period 2005-2007 is similar to the trends developed in the period 1994-2007.

Focusing on major economies of the EU, in Germany inequality of market incomes started rising following unification in 1990 and, since the early 2000s, there has also been an increase in inequality in disposable income.⁵⁰ Similarly, 'the wage share began to decrease in the mid-1990s and the decline was especially marked in the early 2000s'. The shrinking of the government sector, along with the diminishing power of trade unions (due to both the deregulation of labour markets and the threat of outsourcing) pushed the wage share down in the non-financial sector. By contrast, the wage share 'has been relatively stable in the financial sector which normally employs high-skilled staff' (Detzer *et al.* 2013: 28-29). Looking at the figures, the wage share 'decreased in the 1980s from 65 to 61%, although it recovered in the early 1990s following German unification due to the higher wage share in East Germany. From 1994, however, a decrease in the wage share can be observed, with a more pronounced trend after 2000, reaching a low point of 56% in 2008'. By contrast, the 'share of rentier income (net property income) tended to increase, rising from 11% in 1980 to 18% in 2008. In particular in the early 2000s, one can observe a sharp decline in the wage share, and a rise in the shares of retained earnings and rentier income' (Detzer *et al.* 2013: 289). Notice that 'the non-financial sector has maintained a major role in Germany contributing, on average, 93% of the total net value added of the corporate sector as a whole' (*Ibid.*). Consequently, the fall in the wage share in that sector reduced the overall wage share as well. Focusing on 'personal income distribution, in Germany, the inequality of market incomes rose considerably, with the Gini coefficient rising by 0.065 from the mid-1980s

⁵⁰ 'High unemployment and low economic growth in Germany during the first half of the 2000s were accompanied by excessive wage moderation, which had major consequences for the low-skilled workforce in particular. This was accentuated by the introduction of measures to deregulate the labour market and the absence of a legal minimum wage. As a result, since the early 2000s, income dispersion has become very pronounced in Germany' (Detzer *et al.* 2013: 28-29).

(0.439) to the late-2000s (0.504). Gini coefficient after government redistribution shows that Germany became more unequal between the mid-1980s and the late 2000s: it was relatively stable until the second half of the 1990s and the increase occurred almost entirely between the late 1990s to the late 2000s. Nevertheless, despite this increase, inequality in the distribution of disposable income in Germany is still moderate by international comparison' (*Ibid.*). Overall, 'Germany moved from a country which, by international comparison, had a relatively equal distribution of income to one with a degree of inequality that is around the average for OECD countries (*Ibid.*). As for real and financial net wealth, this 'is extremely unequally distributed among households and individuals in Germany, and the degree of inequality had actually increased prior to the Great Recession' (Detzer *et al.* 2013: 246).⁵¹

Similarly, in France the 'personal income distribution has become increasingly unequal, and the increased skewness at the very top end of the income distribution may be attributed to financial service sector employees [...]. Indeed, France has seen a sharp increase in inequality over the last 12 years; half of the increase in the upper 1/1000th being due to an increase in salaries of executives in finance'. The boom in bonuses has played a major role in inequality, particularly in the banking sector'. The pace of inequality growth in France has been even 'stronger than in the US: the top 1% share grew from 6% to 10% in 12 years, whereas the US experienced this increase during 35 years'. It is interesting to notice that 'women are fairly numerous (around 55-59% in 2008-2011)' in financial sector, but gender 'income inequalities remain notable' (Blot *et al.* 2013: 263-275). Turning to Italy, this latter 'is characterized by wide differences between geographical area in terms of distribution of households income. [...] The households disposable income is higher in the Centre and the North than in the South and Islands. Between 1989 and 2010 the gap widened: in 2010 the median income of households in the North and Centre was 53 and 56% greater than that of households in the South and Islands, compared with a difference of 37 and 31% in 1989'. This regional difference is reflected in the Gini Index. If one looks at the average household disposable income, Italy as a whole 'recorded an increase of income inequality in the last

⁵¹ 'The Gini coefficient for net wealth distribution among adults rose from 0.777 in 2002 to 0.799 in 2007 . The wealthiest 10% held 61.1% of net wealth in 2007 (57.9% in 2002), while the bottom 50% had hardly any wealth (1.3% of total net wealth in 2002, 1.2% in 2007). Net wealth of the poorest decile was negative: -1.2% in 2002 and -1.6% in 2007' (Detzer *et al.* 2013: 246).

two decades, mostly concentrated during the severe economic recession of the early 1990s. From 1998 the Index recorded a weak decrease. At the end of 2010, the Gini concentration index for average household disposable incomes was 38.6%, slightly decreased compare to 2000 (39.4%)'. However, income concentration 'was higher in the South and Islands (41.6%) than in the Centre (34.8%) and the North (39 per cent)'.⁵² In 2010 the largest share of household income consisted of income from salaried employment (35.8%), while income from transfers, property, and self-employment and business activity accounted respectively for 26.2%, 22.4% and 15.6%. However, '[b]etween 1989 and 2010, the shares of income from salaried employment and self employment have decreased of 6.9% and 4% respectively while those from property and transfers have increased of 6.8 and 4.1%'. Notice that even 'the contribution of property inequalities has been originated by self-employment earnings and by property' (the real estate and financial assets returns), with some relevant regional differences though.⁵³ Turning to household net wealth,⁵⁴ at the end of 2010, the median wealth was higher in the Centre (€ 216.000) and in North (€ 189,800) than in the South and Islands (€ 119,750). The gap widened between 1987 and 2010.⁵⁵ Similarly, the wealth-income ratio increased sharply throughout the 1990s and 2000s: it turned from 4.4 times household income in 1986 to 8 times household income in 2010, reflecting 'appreciation of the housing stocks (about 75-80% of wealth is held in real estate)' and the 'higher rates of homeownership' (which increased of about 10 points between 1980 and 2010). In fact, net wealth is much more concentrated than income: in 2010 the richest 10% of households held 46% of Italian household total net wealth (compared to 45% in 1987 and to 48% in 2000). The

⁵² Notice, however, that 'during the last decade, Gini coefficient decreased by 4 percentage points in South of Italy (37.4% in 2010) and 2 percentage points in North of Italy while it increased in the Centre of Italy (36.9%)' (Consolandi *et al.* 2013: 195).

⁵³ In Southern Italy the decrease of share of household disposable income from payroll employment has been 3.6% during last two decade, while in Northern Italy and especially in Centre of Italy it has been stronger (-11 and -6% respectively). On the contrary, the increase of share of income from transfers has been much higher in South of Italy than in Centre and North of Italy (+9% and +5.7 and + 6.3% respectively). Income from self-employment account for 15.6% in Northern Italy and 13.1% in South of Italy at the end of 2010 recording, compared with 1989, a decrease of 3.8 and 7.6 per cent respectively. The share has basically held steady in Centre of Italy. Finally, income from property is higher of 6% in Centre, 4.2% in Northern Italy and only 1,8% in South of Italy.

⁵⁴ Household net wealth is the sum of real assets (property, businesses and valuable) and financial assets (deposits, governments securities, shares, etc.) net of financial liabilities (mortgages loans and other debts).

⁵⁵ In 2010 the median wealth of households in the North and Centre was 58,5% and 80% greater than that of households in the South of Italy and Islands, compared with a difference of 44 and 55% in 1987 (see Consolandi *et al.* 2013:195).

Gini Index on average household net wealth fluctuated around 66% between 1987 and 2010, increasing strongly throughout the 1990, stagnating in the 2000s and increasing again since 2008. Another interesting feature of the Italian case is that the Gini index is much higher for financial assets rather than real assets (equal to 94.5% of household wealth in 2010, i.e. 8 points more than in 1987). On the whole, real assets concentration recorded a decreasing long-term trend, with regional differences though.⁵⁶

It is generally recognized that the UK, along with the US, has been the main hub of the financialisation process. Statistics presented in previous sections apparently confirm this thesis. It is, therefore, rather remarkable that during the last decades, 'and particularly since 2000, the UK has experienced continually rising inequality' and that this latter 'has also further accelerated since the 2007 crisis'. More precisely, the Gini coefficient of market income 'has consistently risen since the early 1980s from 3.0 to 3.4 by 2005. By 2010 the average income of the richest 10% of the population was twelve times that of the poorest 10%. This disparity was even greater when examining the top 1% who, by 2010, earns 15% and the top 0.1%, 5% of total national income' (Shabani *et al.* 2015, p. 228). According to the OECD, increases 'in household income inequality have been largely driven by changes in the distribution of wages and salaries [...] Earners in the top 10% have been leaving the middle earners behind more rapidly than the lowest earners have been drifting away from the middle' (OECD 2011a, p. 22). Not only 'wages accelerated and provided high-skilled, high wage employment', but (real and financial) asset inflation further enhanced inequality, as it 'simply excluded the poorest' 'who both failed to acquire inflating assets and who incurred disproportional debt'. The labour income share on national income declined 'from an

⁵⁶ On the one hand, in the Southern Italy concentration has substantially remained stable. On the contrary, while Centre of Italy recorded an increase of inequality in the 2000s, in Northern Italy concentration has constantly grown during over the period. On the other hand, In 1987 wealth came from real assets was about 92.5% in Southern Italy, much higher than Centre (89%) and Northern Italy (82.4%); on the contrary, average household net financial wealth (the difference between financial asset and financial liabilities) was about 18% in North of Italy, 11% in Centre and only about 7% in South of Italy. During last two decade, the share of wealth from real assets dramatically increase in each region but the magnitude of changes was different. The most changes was recorded in North of Italy where the share of real assets increased of about 10 points and financial assets decreased of 7 points (share of financial liabilities grew of 3 points). Centre of Italy shows a similar pattern with a high growth of share of wealth from real assets (89% in 1987 and 96.6% in 2010) and a strongly decreased of share in net financial wealth (- 4 points in financial assets and + 4 points in financial liabilities). South of Italy shows a smoother changes: share of real assets come from 93% in 1987 to 97% in 2010 and financial assets decrease of 3 points in the same period. The share of financial liabilities only increase of about 1 point (see Consolandi *et al.* 2013: 195).

average of 60% in the 1970s to an average of 52% in the 2000s'. It is worth to be noticed that the period of accelerating inequality, according to the Gini coefficient, was 'concentrated in the 1980s and peaked in 1999'. After that, it 'declined slightly to 2004 before again increasing'. However, 'there has been a continual increase in the share of wages accruing to the top decile and a continual decline in that accruing to the bottom decile' since the 1970s.⁵⁷ Inequality trend was accentuated also by the bonuses policy in financial services,⁵⁸ as well as by asset ownership. In 2010, the Gini coefficient for household wealth was 0.61. The top decile of households held 44% of wealth, making them 4.3 times wealthier than the bottom 50% of households. An interesting feature is that the British 'middle classes have wealth concentrated in property with the middle four deciles holding an average of 45% of net wealth in property compared to 26% of the top decile. Similarly, private pension wealth makes the largest contribution to the top decile with 56% of total wealth being held in such funds compared to only 31% for the middle four deciles'. Notice, finally, that 'in the period of financialisation (from 1980 to 2010) taxation was broadly neutral in relation to redistribution, with direct taxes reducing inequality, as measured by the Gini coefficient, by an average of 3 percentage points and indirect taxes increasing inequality by an average of 4 percentage points during the period. There was a positive impact caused by the effects of cash benefits which reduced inequality [...] by an average of 15 percentage points over the period'. Nonetheless, 'the reduction in inequality was highly concentrated in the retired' (Shabani *et al.* 2015: 242).

In Spain, as in the other countries considered, inequality has increased in the last years, particularly after the outbreak of the Sovereign Debt crisis. This is reflected not only in

⁵⁷ In 1970 the top received 22.4% of labour income and this then rose consistently throughout the period, reaching 29.6% by 2008. For the bottom decile, however, its share of labour income consistently fell from 3.4% in 1970 to 2.5% by 1990 before becoming broadly stable for the remaining years to 2008.

⁵⁸ Bonuses are made across the wage distribution, with on average 38% of workers receiving one in 2008. However in the top of the distribution 63% of workers received a bonus in 2008 and a huge 82% for the top percentile. Of this, 25% of all earning to top decile finance workers was in the form of a bonus but 51% of earnings of top 1% finance workers was received as bonuses. By the end of the decade to 2008, the top decile received £20 billion more over and above a proportional increase of the total wages and, of this £12bn was received by financial sector workers. The vast majority of this was received as bonus payments. Almost the entire increase in wage inequality over the last decade is a result of increased bonuses going to workers at the top of the wage distribution and large bonus payments are almost the exclusive preserve of the financial sector. In fact they found 60% of the rise in the income share of the top decile was received by finance workers who represented 12% of the workforce numerically (see Shabani *et al.* 2015: 236-237).

overall income inequality, but also in the degree of indebtedness (with poor households having a debt much higher than rich households) and in wage inequalities by gender, ethnic and age.⁵⁹ The inequality level, measured by Gini coefficient for market income, is higher in Spain than in the EU27 and it has increased since 2009. More precisely, that index remained constant in Spain between 2002 and 2003, recording around 31 points. It slightly diminished to 30.7 in 2004, but it increased to 31.8 points in 2005. From 2006 to 2008 the Gini index remained quite constant (around 31.3 points). However, inequality started an increasing trend since 2009, with the Gini index recording 34 points in 2011 (see Amaya *et al.* 2013: 79-87). Like Italy, Spain and Greece, Portugal has one of the highest percentage (17.9%) of population 'at risk of poverty' in the EU. Yet, the dynamics of inequality appears rather different compared to those of the other 'olive oil' countries. However, 'between 2000 and 2010, Portugal has made one of the strongest efforts to reduce poverty in the EU15. In that period, poverty declined 3.1 percentage points in Portugal and increased 1.3 percentage points in EU15'. Similar considerations hold for income distribution. On the one hand, 'Portugal is the second most unequal country of the EU15, only bettered than Spain'; on the other hand, 'the evolution between 2000 and 2010 was very positive in Portugal, since it was the country where the inequality indicator has decreased most' (Lagoa *et al.* 2013: 185-189). It is worth to be noticed that, before the Sovereign Debt Crisis, the Greek situation was similar to the Portuguese one. The Gini coefficient (and also the Atkinson index) shows that inequality in Greece has decreased considerably over the period 1974-2008. Yet, in comparative terms, Greece was already characterized by the third largest income inequality among the EU-15, following Portugal and the United Kingdom. Large banks' profits increased sharply since the late 1980s and the same occurred for wages and salaries of banking sector compared to those paid in other sectors. Like the Spanish one, the Greek banking sector recorded a remarkable, though volatile, gender gap in remuneration (see Argitis and Michopoulou 2013: 250-260).⁶⁰

⁵⁹ Women wage was 22.7 % lower than the average wage in 2000. In 2010 this value was fallen to 31.5 %. Immigrants' wages are 49.2% lower than natives' wages. Finally, outstanding debt accounts for 87.5% of wealth of poor households, whereas it represents just a 6 % of wealth of richest households (see Amaya *et al.* 2013: 79-87).

⁶⁰ The average remuneration for men was 12.6 euro in 2006, while for the women was 10.9 euro. The remuneration gap was 13.6% in 2006 compared with 18.5% in 2002. The remuneration gap was very small in the ages below 40, while it was about 10% in the ages 45-50. The gap is bigger for the employees with age

If we look at the EU-27, Romania (along with Lithuania, Latvia and Bulgaria) was one of the few countries recording a higher income inequality compared to Greece. 'In 2008, Romania had the lowest GDP per capita in the European Union. At the end of the first post-socialist decade, almost half of the Romanian population lived under the poverty line (EIU, 2001). Although disposable income increased rapidly after 2000, growth was not spread evenly. Pay outpaced inflation in the highest-paid sectors (including air transport and financial services), but fell behind in the worst-paid sectors, especially education, health and public administration (which also have the highest proportion of female employees). Raising inequality accompanied the improvement in income levels. Thus, the distribution of national income by quintiles shows a progressive deterioration in the share of income for all but the richest quintile. Since the fall of communism, the richest 20% of the population saw its share in national income increase systematically to over 40%'. This resulted from a number of factors, such as the de-industrialization of the economy, 'regressive' tax reforms,⁶¹ tax loopholes for high-income professions, government sector cuts, and increasing dividends and asset returns to labour income ratios. By contrast, the absolute poverty level reduced from 32% to 6% between 2000 and 2008. Yet, 'in terms of household monetary income, Romania's average poverty rate affected a third of the population, the highest level in the EU'. Moreover, relative poverty increased as well: the 'incomes of the wealthiest 20% rose a lot more (120%) and their absolute gains from growth were six times greater'.⁶² The Gini index reduced from 35 points in 1997 to 27.7 in 2006. However, if one includes also income generated within the households themselves, the 'real' Gini index increased from 30 to 32.6 points. Income inequality was also enlarged by 'inequality of access to finance. Romania, on par with Bulgaria, has the highest levels of financial exclusion in the European Union. Data for 2008 suggest that nearly three in four individuals

above 50 and for unskilled workers with elementary education. The average gross remuneration for the managers was 17.1 euro for the men in 2006 (compared with 12.8 euro in 2002), while for the women it was 14.9 euro in 2006 and 11.5 euro in 2002. The average gross hourly remuneration increased 34% for the men and 30% for the women. On the other hand, for office clerks, the average gross hourly remuneration was 12 euro for men in 2006 (9.9 euro in 2002), and 10.8 euro for women (7.9 euro in 2002). For men the average gross hourly remuneration increased 25% and for the women 37% (see Argitis and Michopoulou 2013: 250-260).

⁶¹ After 2005, upper income groups benefited disproportionately from a regressive and pro-cyclical 'flat' tax policy adopted by the government.

⁶² But notice that '[t]hese remarks on Romanian social inequality have to be moderated by the importance of the informal economy in Romania, a sector that accounted for nearly 38 percent of GDP in the late 2000s, a level second only to Bulgaria by World Bank estimates' (Gabor 2013: 257).

did not have a bank account (compared to 88% of average Europeans), and only 12% had a credit or store card (compared to 48% of average Europeans). Only 8% of poor individuals had access to a bank account, and only 3% to a credit card or store card'. On the other hand, Romanian households 'enjoyed the temporary benefits of the real estate boom, with an apparent increase in net wealth driven by rapidly rising real estate prices in both rural and urban areas. Indeed, the ratio of net wealth to disposable income increased by two and a half times between 2002 and 2007, to fall by a third by the end of 2008, once global deleveraging affected Romania' (see Gabor 2013: 254-259).

If Romania records very high levels of inequality, the situation of the other CEECs is not that dissimilar. Within the Euro Area, in the last two decades Estonia recorded 'social inequalities and marginalization of weaker members of society [...] as a natural co-product of market economy reforms' (Juuse and Kattel 2013: 154-157). High income inequality is also the result of the adoption of a neo-liberal welfare state model. Relative inequality (in income distribution) that was established after independence in 1991 persisted until the late 1990s (see Juuse and Kattel 2013: 154-157). In 2002 the poorest 40% of the population received 20% of total income, while the richest 20% received around 40%. The average Gini coefficient for the period of 1996–2002 was 0.356, which was one of the highest in Europe. However, since the early 2000s, the Gini coefficient has improved, reaching 0.307 in 2005 and 0.279 in 2010. On the other hand, disparities have emerged also in relation to gender, region, sector,⁶³ and ownership structure⁶⁴ (see Juuse and Kattel 2013: 154-157). Outside the Euro Area, the situation is varied. Some countries recorded Gini indices of market income lower than those of advanced economies. For instance, in 2011 the Gini index was 62.6 points in Slovakia, 64.2 in Hungary, 74.7 in Czech Republic, and 74.9 in Poland, i.e. not only below the US (82.4), but also slightly below Germany (75.0) (see Szikszai *et al.* 2013: 276).

⁶³ As usual, wages have been higher in financial intermediation and real estate sector, compared to other private sectors.

⁶⁴ The privatization process led to a concentration of assets into the hands of few people.

4. Has there been a process of financialisation of EU economies? Introducing the notion of 'variegated financialisation'

According to the well-known definition of Epstein (2001), the term 'financialisation' refers to 'the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operations of the economy and its governing institutions, both at the national and international levels'. It goes along with the removal of national barriers to capital movements, the deregulation (or re-regulation) of financial markets and the creation of new financial instruments. Plainly, the increase in financial flows *per se* does not entail a qualitative change in the role of finance in the economy. For instance, the increase in financial turnover 'may arise simply because transactions in the real or non-financial sector entail more credit operations than in the past' (Toporowski 2012: 2; quoted in Shabani *et al.* 2015: 26). Yet, figures and analyses provided by FESSUD country reports seem to suggest that in most of the economies considered there has been a deep penetration of finance into a wide range of both economic and social reproduction spheres. The increasing dominance of finance over industry (in terms of both value added share and dominant culture – here the dominance of the shareholder value maximisation model is key), the booming of the value of financial assets, the multiplication of financial instruments and financial operators, the increasing weight of credit- and asset-led consumption, and the growing reliance of real economies on the growth of financial market, are clear signs of this process. On the whole, the quantitative indexes considered confirm the growing weight of the financial sector in the nation considered since the 1980s, even though the recent global financial crisis has heavily affected financial profitability. In the aftermath of crisis, there is no sign that the importance of finance has been diminished – indeed recovery in many countries has relied on some form of finance-led growth.

If Anglo-Saxon countries, primarily the UK, can be regarded as the strongholds of finance, the most notable (although partial) exception is Germany. In spite of the noteworthy change in the structure of its banking sector, Germany can be still regarded as a manufacturing hub, pursuing an export-led industrial growth strategy.⁶⁵ This is reflected,

⁶⁵ Notice that this is reflected in the balance of payments of the two countries: the UK has run a current account balance of payment deficit in every year since 1984 to 2011, therefore issuing financial liabilities to the rest of

inter alia, in the strength of the gross value added of the German manufacturing sector as compared to the gross value added of the German financial sector (see Figure 5). As for the other two main economies of the EU - France and Italy - they have followed a 'middle ground' pattern. The same goes for the other early-members of EU. For instance, in the decade preceding the Sovereign Debt crisis, Spain has been marked by a sharp increase in the value of financial assets and in the indebtedness of private agents, coupled with high financial profitability. At the same time, the financialisation process in Spain has come with the maintenance of the traditional structure of the banking sector, as well as with a quite stable share in total Spanish employment and in total gross value added. Finally, new member-States located in the CEEC area have gone through a pronounced process of financialisation. This dynamic might prefigure a catching-up process with developed economies. However, the absolute degree of financialisation of CEECs is still low compared to that of the early-members of the EU (and the same goes for a possible future member, Turkey). On the whole, the financialisation process is acting more through a progressive re-definition of the international chain of value than through a simple (linear and irreversible) replacement of the 'old' manufacturing sector with financial and service activities as the core business. In this sense, financialisation should be considered as the other side of the process of capital accumulation under the 'Neo-Liberal' regime prevailed since the end of the 1970s. The abrupt and harsh reversal of capital flows within the EU, after the collapse of Lehman Brothers and the outbreak of the Sovereign Debt Crisis, seems to confirm the open-ended nature of this process.

Based on the above, we would seek to introduce the idea of 'variegated financialisation'. This is a specific application of the idea of variegated capitalism. Variegated financialisation captures two key things. One is the idea of financialisation as a systemic process operating across nations. The other is the idea of financialisation as a variegated process – how it unfolds within and impacts upon particular nations is mediated by the institutions, politics, culture etc. of those nations. It captures, in other words, the differences in the process of financialisation as it plays out in nation states, while recognising at the same time that there

the world; by contrast, Germany has run a current account surplus since the mid 1980s (except for the 'unification' period), therefore absorbing financial assets from the rest of the world (see Shabani *et al.* 2015, and Detzer *et al.* 2013)

is a common process of financialisation at a system-wide level. The idea of variegated financialisation is in our view supported by the data contained in the country reports. As mentioned above, while there are differences between nations in term of the nature, extent and depth of the financialisation process there are some clear common features to the above process across nations. That is, there is variegation in the financialisation process which the country reports have been able to draw out.

-

Final remarks

The aim of this paper was to provide an analysis of the nature, processes and stages of financialisation of EU economies and other selected countries over the last three decades. To this end, we adopted the definition of Fine (2012), who identifies eight features which mark the process of financialisation of developed countries in the last thirty years (notably, the expansion of financial assets and activities; the proliferation of derivative products; the rise of speculative investment, coupled with the maximization of shareholder value; the increasing dominance of finance over industry; the increasing weight of credit- and asset-inflation-led consumption; the penetration of finance into all areas of economic and social life; and the re-definition of the role of the state). Such an approach, stressing the cohabitation of different but interconnected forms of financialisation, and labelled the 'varieties of financialisation' approach, is the logical complement of the 'variegated capitalism' line of studies (see Fine 2011). On this basis, in Section 2 an analysis of the size and structure of the financial sector in a number of selected countries has been provided. It turns out that the financialisation process is not clearly reflected in the employment share of the financial sector. This is likely to be the result of the labour-saving nature of technological and organisational innovations introduced in this sector in the last two decades. The two financial crises of the 2000s are another cause of job losses in the strictly-defined financial sector. By contrast, the increasing weight of finance is reflected in the trend in the ratio of the value added of the financial sector to total value added (with some relevant exceptions among major EU economies though – see Table 2) and, especially, in the trend in the ratio of the value of financial assets to GDP. On the other hand, a clear

dynamic in the profitability of the banking sector does not emerge, due to the high volatility of all measures considered. This is, in turn, the result of the dot.com crisis of the early 2000s and, above all, of the recent global financial crisis, which have heavily affected rates of return of both equity and total assets of the banking sector. By contrast, the process of financialisation is evident in the increasing indebtedness of households and in increasing income and wealth inequality. In summary, the answer to the question raised in the introduction to this paper is certainly positive: EU member-States and the other economies considered have gone through a process of financialisation in the last three decades, and this process has affected their economic and social structures, materialising in a varieties of different historically- and geographically-related forms. However, relevant time-series are not always available and, when available, are not easy to interpret (and to compare). Additional work is, therefore, necessary in order to exactly define the quantitative impact of financialisation, as well as to thoroughly analyse its relationship with the 'seesawing' process of financial integration of the EU economies. Generally, we would proffer the idea of variegated financialisation as a way to capture and analyse the increasing dominance and influence of finance within and across countries.

References

- Alfred J., Jurek M. and Marszatek P. (2013), *Financial System in Poland*, FESSUD Studies in Financial Systems, No. 7.
- Amaya A., Jesús F., Catalina G., Carmen G., Ana G., Patricia P., Carlos R. and Felipe S. (2013), *Report on the Spanish financial system*, FESSUD Studies in Financial Systems, No. 6.
- Argitis G. and Michopoulou S. (2013), *Financialisation and the Greek Financial System*, FESSUD Studies in Financial Systems, No. 4.
- Bedirhanoglu P., Cömert H., Eren I., Erol I., Demiroz D., Erdem N., Gungen A., Marois Th., Topal A., Türel O., Yalman G., Yeldan E. and Voyoda E. (2013), *Comparative Perspective on Financial System in the EU: Country Report on Turkey*, FESSUD Studies in Financial Systems, No. 11.
- Blankenburg S. and Palma J.G. (2009), Introduction: the Global Financial Crisis, *Cambridge Journal of Economics*, 33(4): 531-538.
- Blot C., Creel J., Delatte A.-L., Durand K., Gallois A., Hubert P., Le Cacheux J., Levasseur S. and Viennot M. (2013), *The French financial system: from past to present*, FESSUD Studies in Financial Systems, No. 2.
- Cardarelli R., Igan D. and Rebucci A. (2008), 'The changing housing cycle and the implications for monetary policy', *IMF World Economic Outlook*, Washington D.C.: International Monetary Fund.
- Consolandi C., Gabbi G., Matthias M. and Vozzella P. (2013), *The Italian financial system*, FESSUD Studies in Financial Systems, No. 12.
- Detzer D., Dodig N., Evans T., Hein E. and Herr H. (2013), *The German Financial System*, FESSUD Studies in Financial Systems, No. 3.
- ECB (2012), *European Financial Stability and Integration. Report 2011*, Frankfurt: European Central Bank.
- ECB (2013), *The international role of Euro*, Frankfurt: European Central Bank.

- Epstein G. (2001), 'Financialisation, rentier interests, and central bank policy', University of Massachusetts, Department of Economics and Political Economy Research Institute, available at: http://www.peri.umass.edu/fileadmin/pdf/financial/fin_Epstein.pdf.
- Epstein G.A. (Ed.) (2005), *Financialization and the World Economy*, Cheltenham: Edward Elgar.
- Erturk I., Froud J., Leaver A. and Williams K. (2008), *Financialization at Work*, London: Routledge
- Fine B. (2007), 'Financialisation, Poverty, and Marxist Political Economy', working paper presented in 'Poverty and Capital Conference', 2-4 July 2007, University of Manchester.
- Fine B. (2009), 'Financialisation and Social Policy', working paper prepared for Conference on Social and Political Dimensions of the Global Crisis: Implications for Developing Countries, 12-13 November 2009, UNRISD, Geneva, <https://eprints.soas.ac.uk/7984>.
- Fine B. (2012), 'Financialisation on the Rebound?', *Actuel Marx*, 51(1): 73-85.
- Frangakis M. (2009), 'Europe's financial systems under pressure' in J. Grahl (Ed.), *Global Finance and Social Europe*, Aldershot: Edward Elgar.
- Gabor D. (2013), *The Romanian financial system: from central bank-led to dependent financialisation*, FESSUD Studies in Financial Systems, No. 5.
- Galbraith J.K. (2012), *Inequality and instability*, Oxford University Press.
- Goldsmith R.W. (1955), 'Financial Structure and Economic Growth in Advanced Countries: An Experiment in Comparative Financial Morphology', in M. Abramowitz (Ed.), *Capital Formation and Economic Growth*, Princeton University Press: National Bureau of Economic Research, pp. 111-168.
- Hackethal A. (2004), 'German banks and banking structure', in J. P. Krahen and R. H. Schmidt (Eds.), *The German Financial System*, Oxford: Oxford University Press.
- Hein E. (2010), 'A Keynesian Perspective on Financialisation', in P. Arestis and M. Sawyer (Eds.), *21st Century Keynesian Economics*, Basingstoke: Palgrave-Macmillan.

- Higson C., Holly S. and Petrella I. (2013), 'Is there financial integration in the equity markets of the European Union?', *Economics & Finance Research: An Open Access Journal*, 1: 31-41.
- IJPE (2013), 'Understanding Financialization: History, Theory and Institutional Analysis', Special Issue, *International Journal of Political Economy*, 42(4).
- ILO (2008). *World of Work Report 2008*, Geneva: International Labour Organization.
- Juuse E. and Kattel R. (2013), *The Estonian Financial System*, FESSUD Studies in Financial Systems, No. 1.
- Kose M.A., Prasad E., Rogoff K. and Wei S.-J. (2006), 'Financial Globalization: A Reappraisal', IMF Working Paper No. 06/189, Washington: International Monetary Fund.
- Lagoa S., Leão E., Paes Mamede R. and Barradas R. (2013), *Report on the financial system in Portugal*, FESSUD Studies in Financial Systems, No. 9.
- Lane P.R. and Milesi-Ferretti G.M. (2006), 'The External Wealth of Nations Mark II: Revised and Extended Estimates of Foreign Assets and Liabilities, 1970–2004', IMF Working Paper No. 06/69, Washington: International Monetary Fund.
- Mohamed S., McKenzie R.A., Mfongeh G.N., Ncube P. and Strauss I., (2015), *The South-African Financial System*, FESSUD Studies in Financial Systems, forthcoming.
- Moro B. (2013), 'Lessons from the European Economic and Financial Great Crisis: a survey', *European Journal of Political Economy*, DOI: 10.1016/j.ejpoleco.2013.08.005.
- OECD (2008), *Growing Unequal? Income Distribution and Poverty in OECD Countries*, Paris: Organization for Economic Co-operation and Development.
- OECD (2011a), *Divided we Stand: Why Inequality Keep Rising - An Overview of Growing Income Inequalities in OECD Countries: Main Findings*, Paris: Organization for Economic Co-operation and Development.
- OECD (2011b), *Growing Income Inequality in OECD Countries: What Drives it and How Can Policy Tackle it?*, Paris: Organization for Economic Co-operation and Development.

- Onaran O., Stockhammer E. and Grafl L. (2011), 'Financialisation, income distribution and aggregate demand in the USA', *Cambridge Journal of Economics*, 35: 637–661.
- Papatheodorou C. and Dafermos Y. (2010), 'Structure and Trends of the Economic Inequality and the Poverty in Greece and the EU, 1995-2008', *Observatory of Economic and Social Changes*, Report 2, Labour Institute, GSEE.
- Piketty T. and Saez E. (2003), 'Income inequality in the United States, 1913-1998', *The Quarterly Journal of Economics*, 143(1):1-39.
- Piketty T. and Saez E. (2006), 'The evolution of top incomes: a historical and international perspective', *American Economic Review. Papers and Proceedings*, 96(2): 200-205.
- Pollin R. and Heintz J. (2013), *Study of U.S. Financial System*, FESSUD Studies in Financial Systems, No. 10.
- Shabani M., Tyson J., Toporowski J. and McKinley T. (2015), *The Financial System in the UK*, FESSUD Studies in Financial Systems, No. 13.
- Stenfors A. (2014), *Financialisation and the Financial and Economic Crises: The Case of Sweden*, FESSUD Studies in Financial Systems, No. 27.
- Stenfors A., Clark E., Farahani I., Hansen A.L. and [Veronese] Passarella M. (2014), *The Swedish financial system*, FESSUD Studies in Financial Systems, No. 13.
- Stockhammer E. (2004), 'Financialisation and the Slowdown of Accumulation', *Cambridge Journal of Economics*, 28(5): 719-41.
- Stockhammer E. (2010), 'Financialisation and the Global Economy', Political Economy Research Institute, Working Paper Series, No. 240.
- Szikszai S., Badics T., Raffai C., Stenger Z. and Tóthmihály A. (2013), *The Hungarian Financial System*, FESSUD Studies in Financial Systems, No. 8.
- [Veronese] Passarella M. (2013), 'Financial Integration in the European Union: an Analysis of the ECB's role', *FESSUD Working Paper Series*, No. 4.
- Veronese Passarella M. (2014), 'The process of financial integration of EU economies', *FESSUD Working Paper Series*, No. 30.



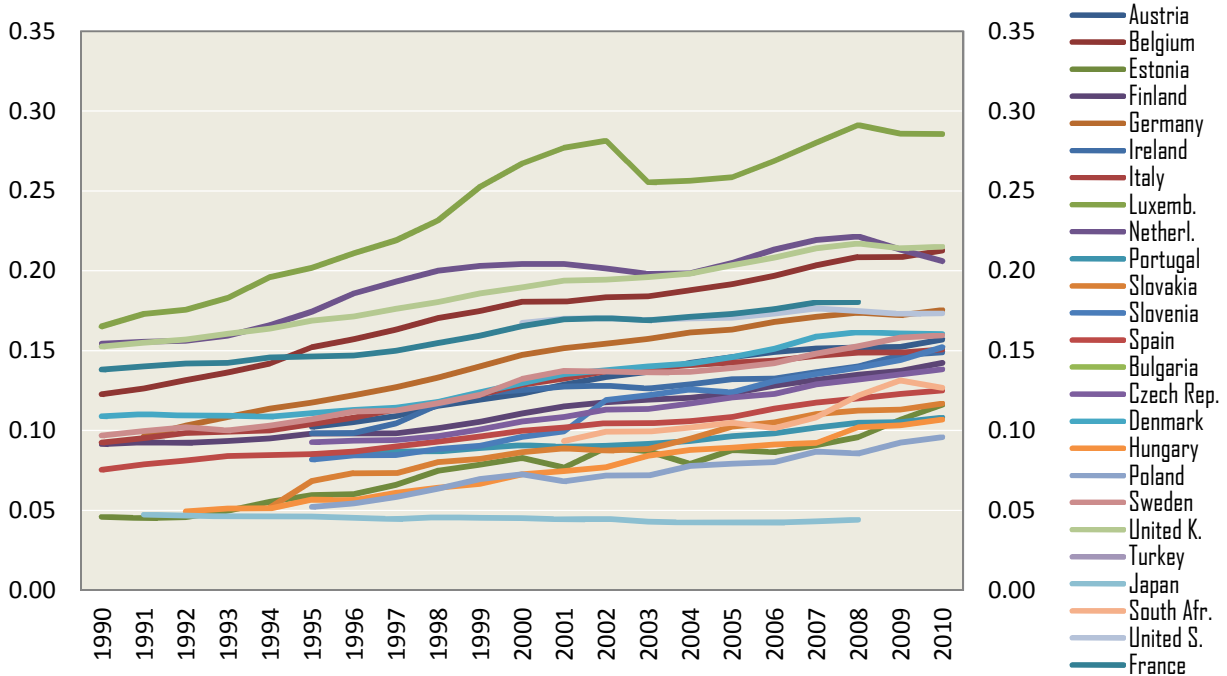
This project has received funding from the European Union's Seventh Framework Programme for research, technological development and demonstration under grant agreement no 266800



Veronese Passarella M. (2015) 'Financial integration', in L.-P. Rochon and S. Rossi (Eds.), *The Encyclopedia on Central Banking*, Northampton: Edward Elgar, pp. 195-197.

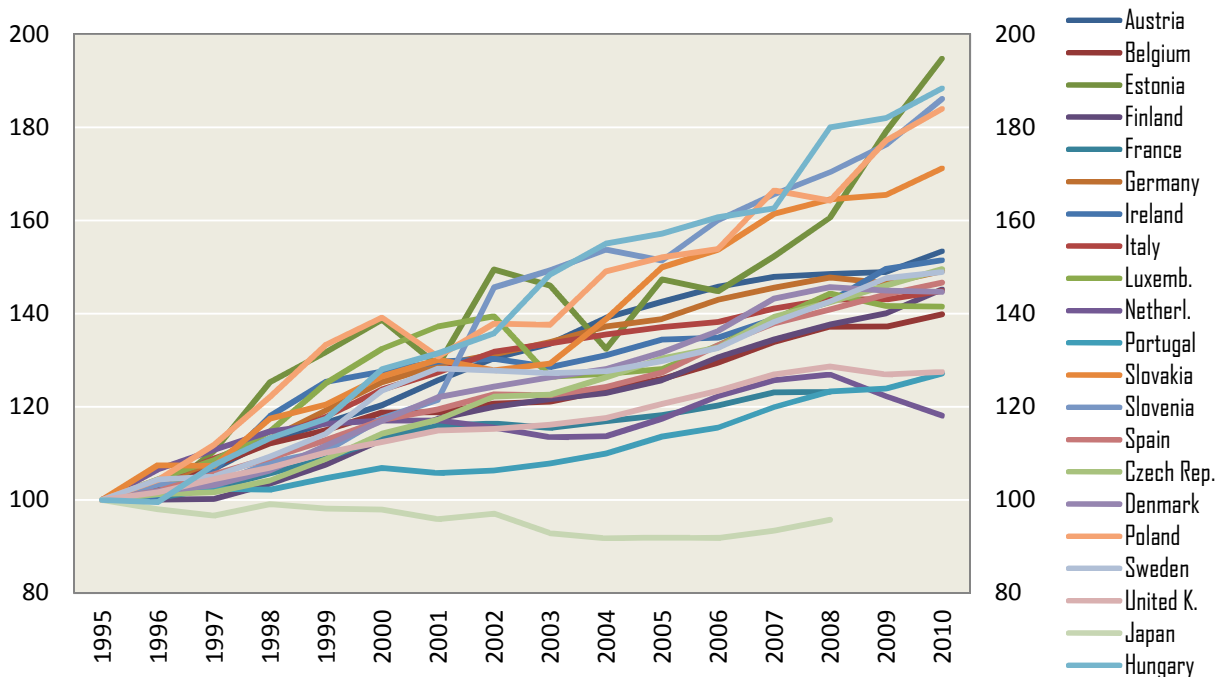
Tables and figures

Figure 1. Employment in financial intermediation, real estate, rental and business activities (% to total).



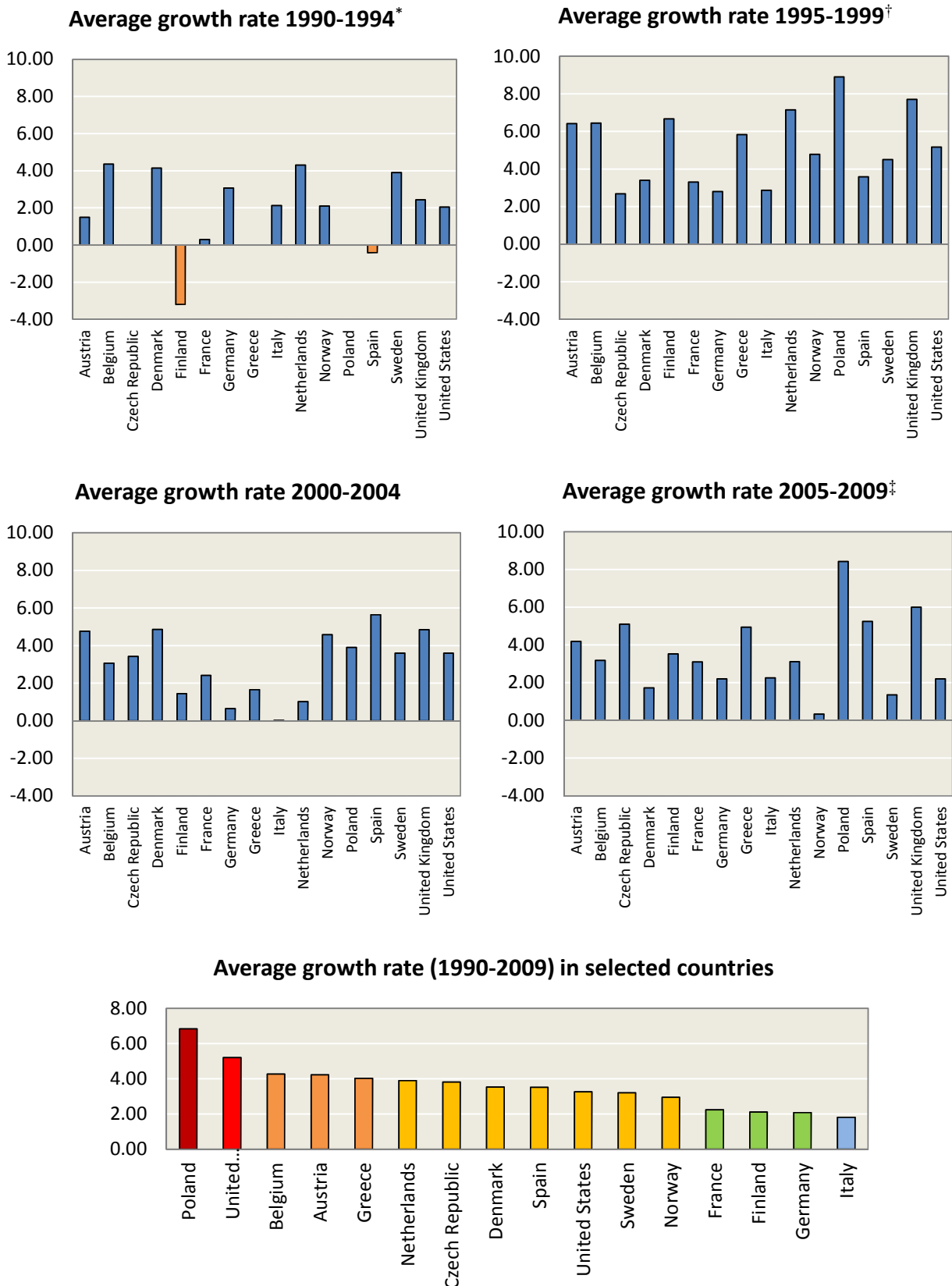
Source: our elaboration on OECD statistics (February 2012).

Figure 2. Employment in financial intermediation, real estate, rental and business activities (Index 1995=100).



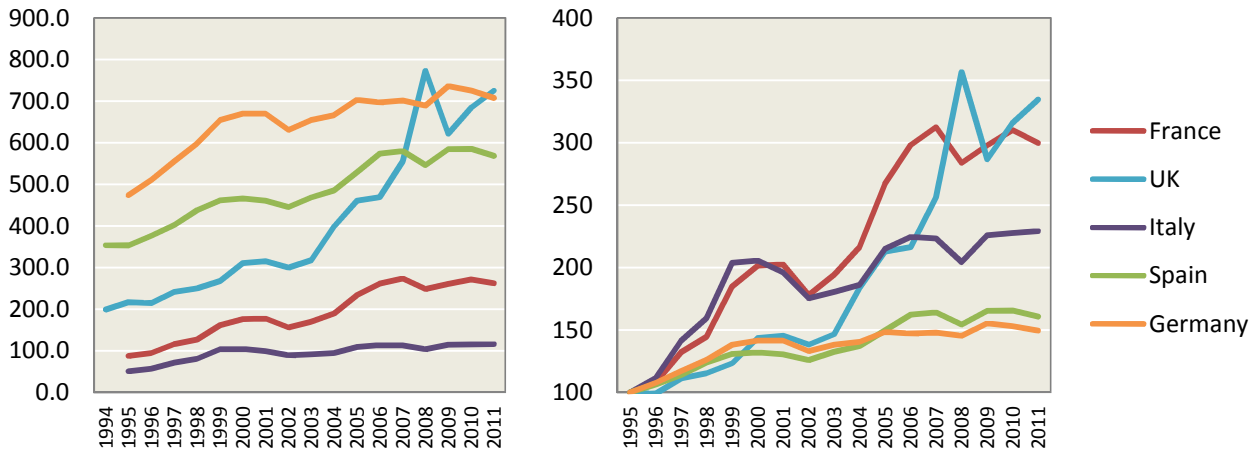
Source: our elaboration on OECD statistics (February 2012).

Figure 3. Growth rate in value added of financial sector (finance, insurance and business services) to total value added in a number of selected countries.



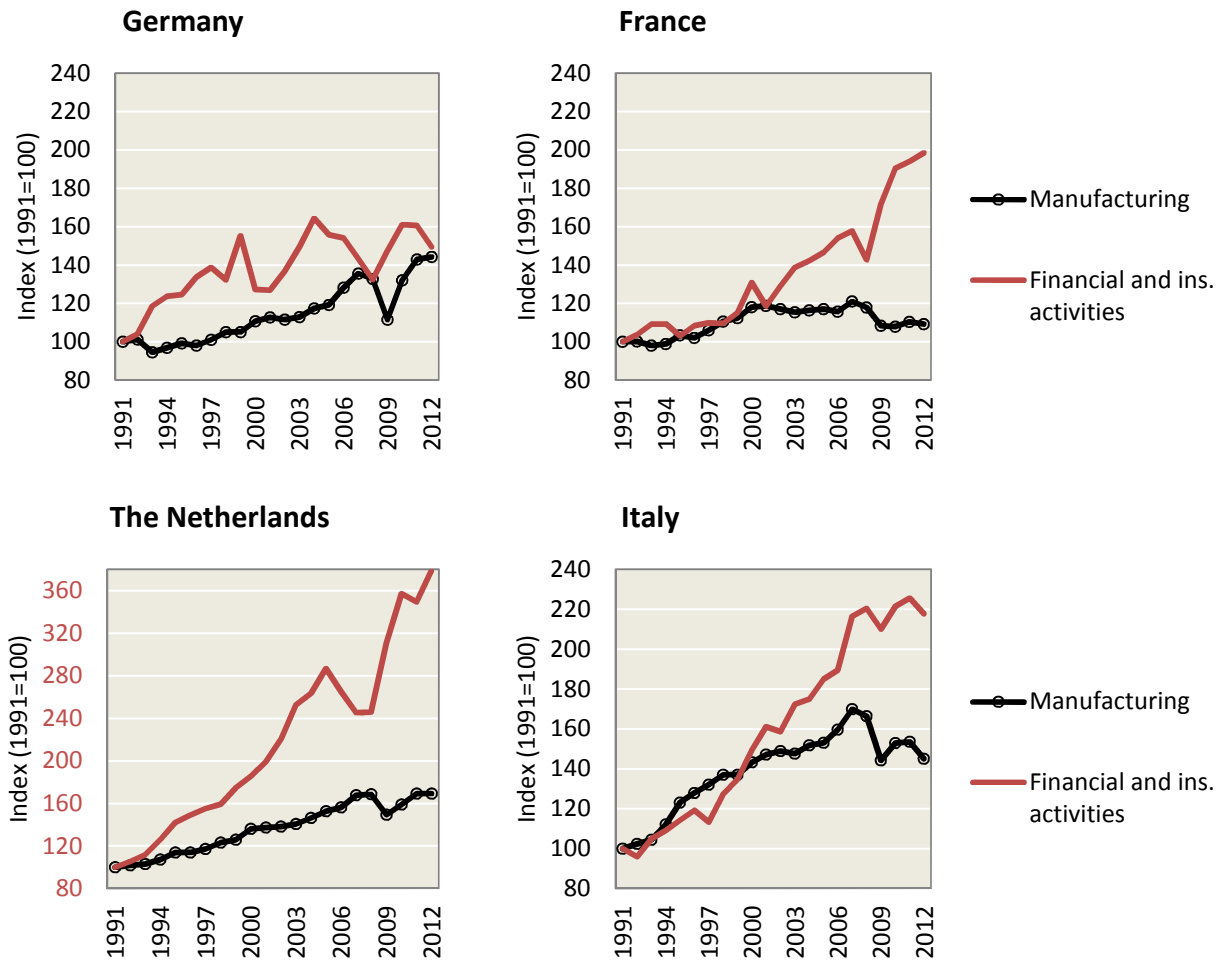
Source: our elaboration on OECD statistics (September 2013). Notes: * Germany from 1992; Sweden only 1994; † Czech Republic, Greece and Poland from 1996; ‡ France, Poland and the UK until 2009.

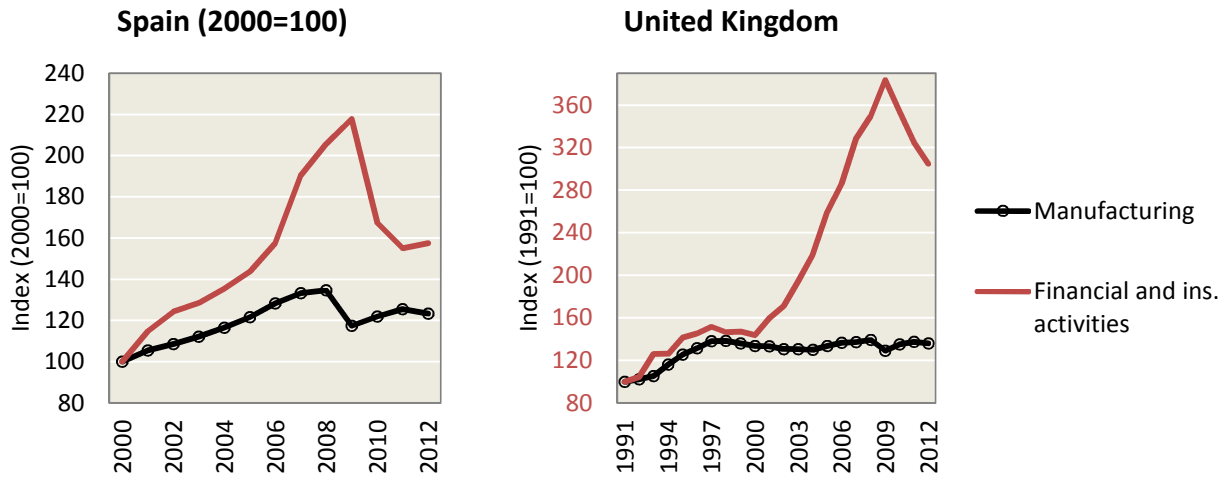
Figure 4. Financial assets to GDP ratios in top-5 European economies (left-hand chart) and its trend since 1995 (right-hand chart, Index 1995 = 100).



Source: our elaboration on OECD statistics (September 2013).

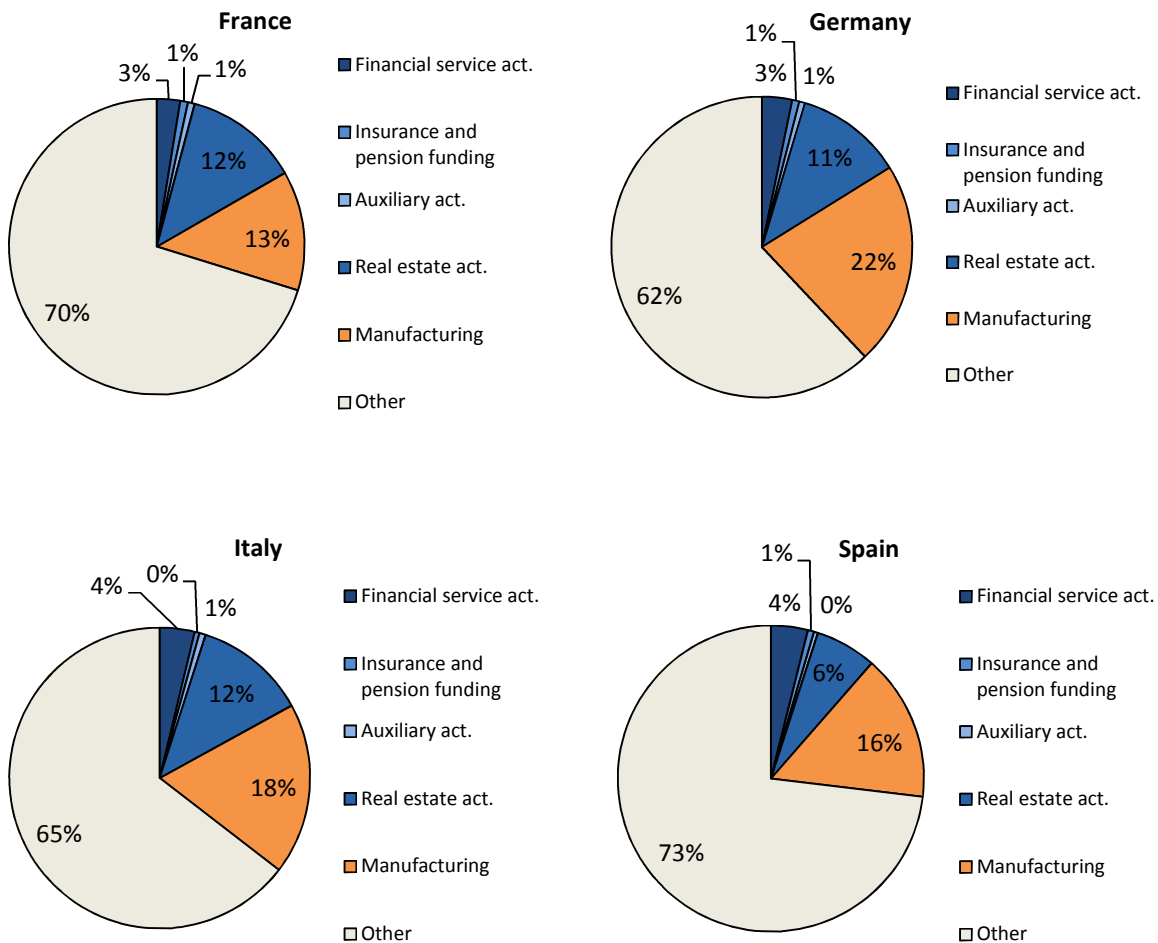
Figure 5. Gross value added of financial service activities and manufacturing sector, respectively.





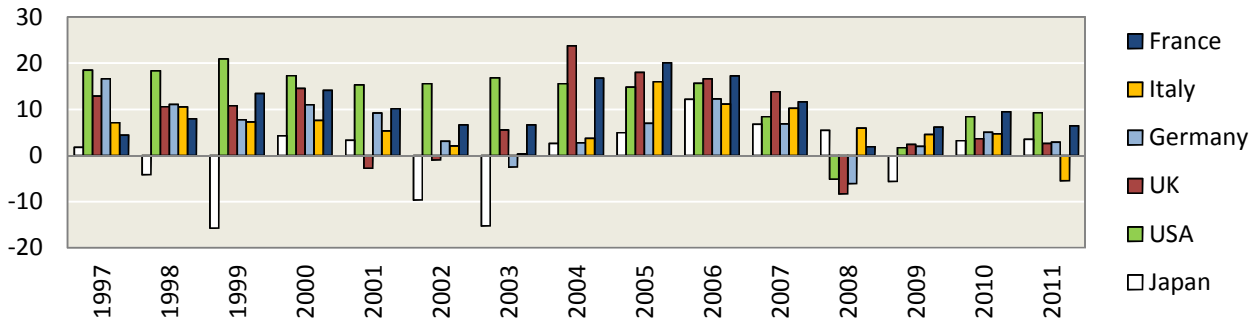
Source: our elaboration on Eurostat statistics (October 2013).

Figure 6. Average composition of gross value added (by subsector) of major EU economies during decade 1999-2009.



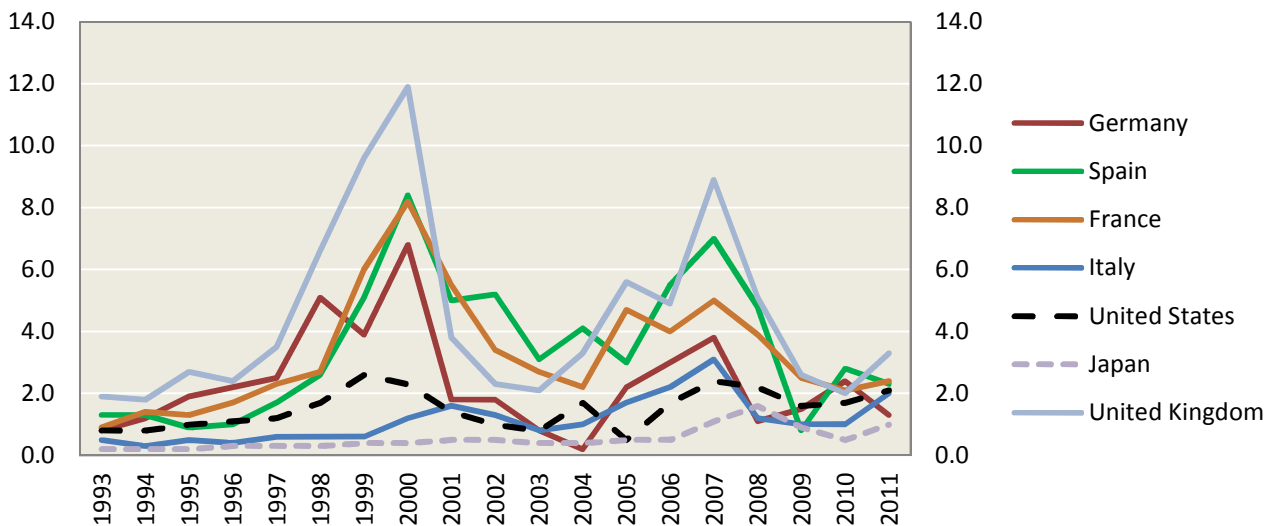
Source: our elaboration on Eurostat statistics (October 2012).

Figure 7. Return on (average) equity of banking sector as a whole in some selected economies.



Source: our elaboration on Bankscope statistics (July 2012). Notes: total values are calculated on statistics available for top 500 banks (by asset value).

Figure 8. Foreign direct investment intensity (i.e. the average value of inward and outward FDI flows divided by GDP, multiplied by 100) in a number of selected countries.



Source: our elaboration on Eurostat statistics (September 2013).

Table 1. Bank profitability in a number of countries. Average values 1997-2011.

	NIM	ROAA	ROAE	LEV		NIM	ROAA	ROAE	LEV
Euro Area					Rest of EU				
Slovakia	2,41	0	-2,06	-2,06	Bulgaria	2,67	-0,19	-2,58	-2,39
Greece [†]	2,83	0,39	1,3	0,91	Czech Rep.	5,42	0,49	5,09	4,6
Ireland [‡]	0,92	0,33	2,79	2,46	Denmark	1,48	0,61	7,64	7,03
Germany*	1,31	0,23	5,93	5,69	Hungary	1,16	0,42	8,21	7,79
Belgium	1,52	0,58	6,02	5,45	Latvia	3,46	0,79	9,66	8,87
Italy*	2,2	0,48	6,06	5,58	Lithuania	3,49	0,97	10,63	9,66
Slovenia	2,95	0,88	8,68	7,8	Poland	3,69	0,81	12,17	11,37
Portugal	1,92	0,55	8,91	8,37	Romania	4,01	1,74	12,32	10,58
Cyprus [†]	1,82	0,67	9,18	8,51	Sweden	1,83	1,08	12,48	11,4
Austria	1,98	0,6	10,07	9,47	UK*	4,57	1,63	19,57	17,95
France*	0,99	0,41	10,2	9,79	Turkey	4,27	2,66	22,65	19,98
Netherlands	1,53	0,86	10,74	9,87	Others				
Malta	2,27	1,22	11,42	10,2	Japan*	1,23	0,01	-0,15	-0,16
Luxembourg	0,87	0,56	12,15	11,59	USA*	2,79	0,94	12,77	11,82
Estonia	3,51	1,42	12,45	11,03	South Africa	3,47	2,09	22,85	20,76
Finland	1,57	1,13	14,2	13,08					
Spain	2,38	1,54	28,67	27,14					

Source: our elaboration on Bankscope statistics (July 2012).

Notes: Net interest margin (NIM), return on average assets (ROAA), return on average equity (RAE) and leverage effect (LEV). Countries are ordered by ROAE; * aggregate values are calculated on statistics available for top 500 banks (by asset value); [†] notice that, if we drop 2011 values, Greece records very different results (notably, ROAE = 13.36 and LEV = 12.50) and the same goes for Cyprus (ROAE = 13.64 and LEV = 12.67); [‡] average Irish banks' ROAE = 11.55 and LEV = 10.83 until 2008.

Table 2. Relative trends in a number of financial dimensions since the early 1990s.

Variable	Trend			
	<i>Decrease</i>	<i>Stable or variable</i>	<i>Moderate increase</i>	<i>Boom</i>
Employment in Financial Sector to Total	Germany, Romania	Greece*, Portugal*, Spain, Italy, France	Turkey, UK, US, Sweden, SA	CEECs (except for Romania)
Value Added of Financial Sector to Total		Germany, Italy, Spain, Finland, France	Spain, Portugal, Greece	UK, Netherlands, Poland, Ireland; CAEE, SA, Turkey
Value of Financial Assets to GDP			Germany, Italy, France, US, Greece, CAEE	Luxemburg, Netherlands, Ireland, UK, Portugal
Bank profitability (ROE and ROA)*	Netherlands, Spain, Ireland, Greece, Hungary, Denmark	Rest of countries		
Household debt (consumer credit & house mortgages)		France, Germany, Italy	Portugal, Spain, Greece	UK, US, CAEE

Source: OECD, Eurostat and FESSUD country reports (2013). Notes: * data start from 1997.

INFORMATION ON FESSUD

Financialisation, Economy, Society and Sustainable Development (FESSUD) is a 10 million euro project largely funded by a near 8 million euro grant from the European Commission under Framework Programme 7 (contract number : 266800). The University of Leeds is the lead co-ordinator for the research project with a budget of over 2 million euros.

THE ABSTRACT OF THE PROJECT IS:

The research programme will integrate diverse levels, methods and disciplinary traditions with the aim of developing a comprehensive policy agenda for changing the role of the financial system to help achieve a future which is sustainable in environmental, social and economic terms. The programme involves an integrated and balanced consortium involving partners from 14 countries that has unsurpassed experience of deploying diverse perspectives both within economics and across disciplines inclusive of economics. The programme is distinctively pluralistic, and aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. The central issues addressed are the ways in which the growth and performance of economies in the last 30 years have been dependent on the characteristics of the processes of financialisation; how has financialisation impacted on the achievement of specific economic, social, and environmental objectives?; the nature of the relationship between financialisation and the sustainability of the financial system, economic development and the environment?; the lessons to be drawn from the crisis about the nature and impacts of financialisation? ; what are the requisites of a financial system able to support a process of sustainable development, broadly conceived?'

THE PARTNERS IN THE CONSORTIUM ARE:

Participant Number	Participant organisation name	Country
1 (Coordinator)	University of Leeds	UK
2	University of Siena	Italy
3	School of Oriental and African Studies	UK
4	Fondation Nationale des Sciences Politiques	France
5	Pour la Solidarite, Brussels	Belgium
6	Poznan University of Economics	Poland
7	Tallin University of Technology	Estonia
8	Berlin School of Economics and Law	Germany
9	Centre for Social Studies, University of Coimbra	Portugal
10	University of Pannonia, Veszprem	Hungary
11	National and Kapodistrian University of Athens	Greece
12	Middle East Technical University, Ankara	Turkey
13	Lund University	Sweden
14	University of Witwatersrand	South Africa
15	University of the Basque Country, Bilbao	Spain

The views expressed during the execution of the FESSUD project, in whatever form and or by whatever medium, are the sole responsibility of the authors. The European Union is not liable for any use that may be made of the information contained therein.

Published in Leeds, U.K. on behalf of the FESSUD project.