



# Understanding finance and financialisation

Malcolm Sawyer  
University of Leeds, UK and  
FESSUD



# Introduction

- The economic, social and political roles of the *financial sector* have expanded greatly in the past decades and centuries.
- Has *finance* similarly expanded?
- The distinction to be drawn between finance and the financial sector.



## What is financialisation?

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



# What is financialisation?

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

## Features of present era of financialisation

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

## Features of present era of financialisation

- Financial crises (especially as compared with 'golden age'): circa 400 since 1970 (Laeven and Valencia)
- Household debt: causes of tendency to rise?
- (Santos and Teles on the general tendencies and variegated nature)

# Features of present era of financialisation

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



# Features of present era of financialisation

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





# Features of present era of financialisation

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



# Variegated financialisation

- Our studies have illustrated financialisation in the present era as a widespread near global phenomenon with different initial positions (circa 1980), proceeding at different speeds and taking different forms.



# Financialisation and the mainstream

- Mainstream economics handicapped in their analysis of financialisation by the nature of the models used – equilibrium, efficient markets, nature of money etc.

## Financialisation and the mainstream

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



## Financial deepening and economic performance

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



## Financial deepening and economic performance

- Work within FESSUD on these lines and the surveys written confirm these generally negative relationships between financial sector size, financial liberalisation and economic performance.



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



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





# Can financialisation continue?

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



# De-financialisation?

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