Financialisation Varied
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Abstract

The elaboration of theories of comparative capitalisms has occurred against a backdrop of ever-increasing financialisation. What does the spread of the latter phenomenon signify for the former's thesis of divergence between different capitalist models centred around the institutions of the nation-state? In the literature on financialisation, we find theoretical support for three distinct positions: divergence, bifurcation within convergence, and diversification within convergence. This paper provides original empirical analysis of the progress of financialisation in the advanced capitalist economies, finding support for the position of diversity within convergence. This means that rather than Varieties of Financialisation, we are witnessing Financialisation Varied.

Keywords: Financialisation, comparative capitalisms, varieties of capitalism
Conference themes addressed: accumulation regimes

I. Introduction

Over the last thirty years, the literature on comparative capitalisms has heavily influenced understandings of contemporary capitalism. While there are several key differences, common to the various approaches under this banner is the assertion, either tacit or explicit, that there is complementarity between the institutions of capitalism at the level of the nation-state. On the one side is bank-based/Rhineland/coordinated Germany, and on the other side is the market-based/Anglo-Saxon/liberal United Kingdom. This story of resilient, if not growing divergence between capitalisms contrasts sharply with the predictions of convergence emanating from neoclassical economics and of diversity within convergence coming from more radical traditions.

During the same period, there has been a secular rise in the relative size of the financial sector across the advanced capitalist economies (ACE). Where data is available, there is also evidence that both the profit share of the financial sector, and the financial profits of the non-financial sector are similarly rising. In short, ACEs have been financialising. What does this mean for the thesis of divergent capitalisms central to the comparative capitalisms literature?

From the growing body of work on financialisation, we can outline three possible responses. Firstly, Post-Keynesian narratives root financialisation in policy changes induced by the rise of the rentier class. This accords with the contention of divergence along the lines of the political settlement and therefore the policy stance adopted within each nation-state. Second, from within this tradition, Stockhammer has adopted a distinct position, arguing instead that under financialisation, export-oriented and credit-fuelled growth models rely on one another. That is, a bifurcation of capitalisms takes place within a broader convergence. Third, various strands within Marxian analysis of financialisation suggest that there will be an increasing diversity of responses but all within a broader convergence of the essential characteristics of the contemporary period of capitalism.

The original contribution of this paper is to provide empirical evidence of financialisation in the United States, the United Kingdom, France, Germany and Japan. Indicative ratios have been constructed which capture the financialisation of each of the corporate, bank, and household
sectors, based on an understanding of financialisation drawn from Post-Keynesian and Marxian analyses. The use of stylised data sources affords insight into intra-sectoral and intra-national differences.

The picture which emerges from this research is of convergence in both the trend and level of the balance sheets of banks and firms, especially large banks and firms. In contrast, there appears to be a divergence in the behaviour of the household sector between Germany and Japan on the one hand, and the US, UK and France on the other. This suggests that financialisation is a global process emerging especially from the changing behaviour of and relationship between transnational corporations and banks. The extent to which national economies are in turn financialised depends both on the predominance of these institutions, and the impact of domestic policies and institutions which either facilitate or restrain their behaviour. Critical in this latter respect appear to be the extent of liberalisation of pensions and housing.

This suggests that the world as understood through the lens of comparative capitalisms – that of competing capitalisms which exhibit complementarity between institutional domains at the level of the nation-state is increasingly anachronistic. Instead we are confronted with a phenomenon (or arguably ‘epoch’ of late capitalism) unfolding across ACEs, but whose reach into national economies depends on the degree and nature of hybridization and the institutional obstacles it encounters. This is not therefore Varieties of Financialisation, but Financialisation Varied.

In the following section we will briefly review the central tenets of the comparative capitalisms literature and the most common critiques of its assertions. Next, we try to pin down an understanding of financialisation, and examine how its conception in various schools of thought reflects on the question of comparative capitalisms. The third section provides original empirical evidence of the varied progress of financialisation in the advanced capitalist economies. The final section concludes.

II. A lot of variety, little about capitalism

In their survey of the vast literature on what they term ‘comparative capitalisms’, Jackson and Deeg (2008) draw out three uniting principles. The first is the grounding of the economic in the institutional settings of the social. Second is an understanding of the various institutions within an economy as complementary, and therefore as a potential source of comparative advantage. Finally, there is a certain institutional path dependence which prevents system convergence, that is “common pressures may be refracted through different sets of institutions, leading to different sorts of problems and calling forth distinct solutions” (2008).

What might be described as a strand within this broader literature is the ‘bank-based’ vs. ‘market-based’ framework (BB/MB). The typology was originally set out by Zysman (1983) who examined the changing relationship between governments and markets in bringing about industrial change. The distinction also plays a decisive role in Michel Albert’s (1991, 1993) influential depictions of Rhineland vs. Anglo-Saxon capitalism. While there are substantial literatures which debate both the understandings and the relative merits of bank-based vs. market-based systems for growth and development, what is important to draw out for our purposes is the portrayal of a mutually-supportive evolution of financial systems with systems of corporate governance, and a tacit

1 Thanks to Ben Fine for this pithy turn of phrase.
assumption that finance plays a central if not the central role in determining the nature of a capitalist system.

In contrast, the ‘varieties of capitalism’ approach (VoC), so named after the pivotal book by Hall and Soskice (2001), places the firm, not finance, at the centre of its analysis. Following VoC analysis, four institutional domains define firms’ incentives and constraints: financial systems and corporate governance, industrial relations, education and training systems, and the inter-company system (Jackson and Deeg, 2008). Asserted strong complementarities between these four domains mean that any coherent system can confer on its firms an institutional comparative advantage.

From their analysis of these institutional domains across a range of national settings, Hall and Soskice draw out two ideal types: that of the liberal market economies (LMEs), represented by the US and the UK, marked by short-term capital, deregulated labour markets, general education and inter-firm competition; and that of coordinated market economies (CMEs), represented by Germany, characterised by long-term capital, regulated labour markets, vocational training and inter-firm coordination. In terms of the financial system domain, the VoC approach maintains a similar dichotomy to that of the BB/MB framework.

A number of critiques have been levelled at the VoC approach, of which only a few will be highlighted here. Firstly, the firm, according to some critics, should be given more agency and not simply viewed as an ‘institution-taker’ (Hancké et al., 2007). Power and politics must be brought into consideration to understand how firms attempt to build and link coalitions with political processes and institutions. Secondly, a number of authors caution against over-emphasizing national boundaries, suggesting that there is a much wider scope for ‘hybridization’ of different institutional configurations that change the complementarities and linkages within national boundaries, between different sectors and layers of the economy (Aoki and Jackson, 2008, Deeg, 2009).

But perhaps most important of the critiques is the charge that due to the assumption of strong institutional complementarity and path dependence, the approach is relatively static. There is no theory of when and how capitalist systems change from one configuration to another (Crouch, 2005, Hancké et al., 2007). There is in fact much evidence of institutional incoherence (Crouch et al., 2005), and that both incoherence and complementarity can either facilitate or hinder institutional change (Aoki, 2001, Amable, 2003).

Both the innovations of VoC analysis and a number of its critiques can be considered in relation to understanding financialisation. First, our understanding in what follows is not that the capitalist system which characterises a particular country is neither finance nor firm driven. Rather, we emphasize the interaction between the two and with households and the state. Secondly, we draw upon the meso-level insights of the more recent dynamic VoC literature which documents how material reality and policy have interacted resulting in institutional and system change. Thirdly, the analysis will look at the dimension of firm size to offer some initial indication of the presence and degree of intra-national (though not supra-national) institutional hybridization.
III. Financialisation, confused?

In the wake of the global financial crisis which erupted in 2007, use of the term financialisation has grown within academia, and has also begun to penetrate the popular media and policy circles. Its increasing ubiquity however threatens to render it unintelligible, a trajectory which will be familiar to researchers of globalisation.

Financialisation has been variously defined to include any of the following (Fine, 2010): "the phenomenal expansion of financial assets relative to real activity; the proliferation of different types of assets; the absolute and relative expansion of speculative as opposed to real investment; a shift in the balance of productive to financial imperatives within the private sector whether financial or not; increasing inequality in income arising out of the weight of financial rewards; consumer-led booms based on credit; the penetration of finance into ever more areas of economic and social life such as pensions, education, health and provision of economic and social infrastructure."

This paper rests upon a macroeconomic understanding of financialisation, one which is however grounded in theories of microeconomic change. One distinguishing characteristic of our understanding of financialisation is that it is neither a firm-led nor a bank-led process, but rather a process resulting from a transformation of the relationship between non-financial corporations and financial intermediaries.

The result of this transformation is that non-financial corporations turn away from financial intermediaries, and become more heavily invested in financial relative to fixed assets. Financial intermediaries, besides growing in relative size and profitability, lose their relationship with non-financial corporations, and turn instead towards speculative investment and the household. Overall, this results in a medium-term decline in the share of investment relative to (debt-fuelled) consumption in the share of accumulation. If this addresses the ‘what’, the question remains – why is this transformation set in motion?

Neoclassical analysis offers little insight. If financialisation were first acknowledged and then problematised within this framework, blame for any perversion of otherwise efficient markets would have to be placed squarely on the shoulders of government intervention. However, the simple fact that the phenomenon has flourished in those spaces where government regulation was at its lightest makes this story preposterous. Without its default bête noire, orthodox analysis is left with morality tales of ‘bad apple’ bankers and/or ‘deadbeat’ borrowers, but no systemic explanation.

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2 A joint search of Academic Search Premier, Business Search Premier and EconLit (using EBSCOhost, October 2010) finds 1301 results for financialisation in ‘all text’, or 229 results for it in abstracts, 165 of which have been published since the crisis start in 2007.


5 Using an identical search as footnote 2 above, since 2007 over 12,000 results were found which used the term ‘globalisation’ in the abstract alone. Clearly financialisation has some catching up to do.
The Keynesian, and particularly Post-Keynesian camps, have provided much of the empirical analysis and formal modelling of financialisation. At the heart of their story is the rise of the rentier as a social class, in whose interest an agenda of financial liberalisation is advanced (Epstein and Jayadev, 2005). Stock-flow consistent modelling is used to illustrate macroeconomic effects and to argue the unsustainability of the financial turn (Hein and Van Treeck, 2010). In terms of policy recommendation, the preoccupation is with increasing regulation of the financial sector, effectively to ‘euthanize the rentier’. Most of the Post-Keynesian work is located in and focuses on financialisation in the United States, and therefore has little to say about the question of comparative capitalisms. At risk of misrepresentation, we might however extrapolate from this analysis the thesis that the market-based/Anglo-Saxon/LME economies create the conditions for the rise of the rentier and ensuing financialisation, while the bank-based/Rhineland/CME economies do not.

Within Post-Keynesian circles, Stockhammer has developed a distinctive narrative wherein the two ideal types of comparative capitalism make up opposite sides of the same financialisation coin (2010). Emphasis on shareholder value orientation and the increased uncertainty associated with financial deregulation has led to declining investment. This has combined with stagnant consumption driven by worsening income distribution, resulting in slow and fragile accumulation. In one group of countries, the response was a credit-fuelled consumption boom on the back of a similarly credit-fuelled property bubble. The resultant current account deficit came with capital inflows which helped to fuel the bubble. In the second group, equally beset by wage stagnation but where credit consumption and property booms were limited by institutional constraints, exports played the key role in maintaining accumulation. Stockhammer’s novel assertion is that the two growth models rely on each other.

Somewhat tellingly, Stockhammer does not make explicit his two groups of countries. Reading the outlines of the two stylized accounts, a reader might expect that the US and the UK are in the former, while Germany and Japan are in the latter, replicating the comparative capitalisms distinction. While the US and Germany play true to type, other countries are more complicated. Japan is second only to the US in the share of final demand coming from consumption, while the UK’s consumption share has been stable throughout the neoliberal period, below that of Japan. France, like Germany, has seen consumption fall as a share of total demand.

Toporowski avoids the term financialisation altogether. Instead he uses the concept of Capital Market Inflation (CMI) (2000, 2010). Central to Toporowski’s account is the ‘excess inflow’ into capital markets which has resulted from the rise of funded pension schemes. In a world of liberalised economies, the ‘excess inflow’ can equally be triggered by capital inflows from abroad. In the resultant boom, corporations’ interest and dividend obligations rise faster than their cash-generating capacity is expanding. For such ‘over-capitalized’ companies, it is safer to hold financial assets against liabilities, rather than tie up funds in plant and equipment (whose yields are subject to the caprice of the business cycle). With asset price inflation, the middle classes increasingly tend to rely on housing inflation rather than income for consumption. Toporowski’s policy recommendations focus on measures which restrict capital markets in ways which prevent corporations from becoming over-capitalized in the first place.

Marxian analysis of financialisation can be crudely broken in two: analyses which interpret financialisation as ‘functional for’ capitalist accumulation, and those which see it as ‘parasitic on’ the same (or as characterised by Bryan et al. (2009) ‘development within’ or ‘distortion of’ capitalist accumulation). The functional view in turn draws together at least two strands of
thinking. First are those who see financialisation as a response to an underlying crisis of overaccumulation. In this narrative, financialisation is a delaying tactic, though doomed itself to erupt in to crisis (Baran and Sweezy, 1968, Bello, 2009). The second strand, which does not require us to embrace the overaccumulation thesis, is of financialisation as an intensification of the extraction of surplus value through the creation of new forms of interest-bearing money capital; these serve to accelerate the turnover of capital and open up new areas for capital accumulation (Sweezy, 1981, Bryan et al., 2009, Milios and Sotiropoulos, 2009).

The parasitic view similarly incorporates multiple strands. That of the RMF school centres on the expropriation of surplus value by financial intermediaries from workers’ wages in the sphere of circulation (Lapavitsas, 2009). Erturk et al. (2010) describe a similar process whereby a general partner of a private equity firm “creates a political division of ownership from which he benefits by positioning himself at the apex of a pyramid of claims.” Added to this is a body of work which examines the ability of finance to position itself to extract surplus value from changes in global value chains, be those changes in production outsourcing (Serfati, 2008, Mohamed, 2009, Milberg and Winkler, 2010, Tavasci and Ventimiglia, 2010), the rising importance of intangibles (Serfati, 2008), or the increasing value of corporate brands (Willmott, 2010). Without taking a decisive view on the validity or relative importance of these different strands, seen as a group what they do is open up the possibility of a multiplicity of different configurations. These configurations vary according to economic structure and location within a global capitalist hierarchy, but nonetheless within a converging meta-framework.

To sum up thus far, the orthodoxy has little or nothing to say about financialisation, or for that matter about comparative capitalisms. Post-Keynesians root financialisation in policy changes induced by the rise of the rentier. This implies that there may be continued divergence as national capitalisms pursue different policies according to distinctive political settlements. However, Stockhammer’s account suggests bifurcation within broader convergence, that is both credit-consumption-led and export-led strategies coming both as responses to financialisation. Finally, Marxian analysis incorporates tensions over the role and place of financialisation in relation to capitalist accumulation, the resolution of which in a specific context points towards divergence within convergence.

IV. Financialisation Varied: the empirical evidence

Using national flow of funds data, we have constructed indicators which capture the degree of financialisation in each of the corporate, bank and household sectors. Beginning first with the non-financial corporate sector (hereafter ‘corporates’), it has been argued that increasing financialisation should be associated with a turn away from bank loans and towards capital markets, and an accumulation of financial relative to fixed assets. According to Toporowski, this is a natural outcome of capital market inflation driven by capital inflows. Marxian analyses add that it may be linked to increased opportunities to extract surplus value from structural changes in global value chains.

a. The corporate story

Examining loans as a share of liabilities (figure 16) suggests that overall there has been a secular decline in the use of loans as corporations turn to self-finance and/or capital markets. Two distinct

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6 For length reasons, source notes are available on request from the author.
levels persist. Germany and Japan on the one hand, and the US and UK on the other, with France moving from the former towards the latter.

[Fig.1]

The impact of financialisation comes out more starkly when we examine the uses side of the balance sheet (figure 2). For France, the US and the UK, there is a marked secular rise in the ratio of financial assets to fixed assets, reflecting the shift in corporate holdings of financial versus ‘productive’ assets. Once again, Japan and Germany appear to be marching to a different tune, in trend if not in the level of this ratio. All five countries exhibit cyclical fluctuation, however finer analysis would be required to disentangle asset price inflation from the net acquisition of financial assets.

[Fig. 2]

Looking at Japan, the ratio rises spectacularly during the bubble decade of the 80s, reaching 240 per cent. It falls back to hover around 150 per cent for the next two decades, with a second smaller period of inflation between 2002 and 2006. This flattening out of the trend post-1990 suggests that Japanese corporations, due to their earlier experience, have become reluctant to or are unable to re-engage in financialised behaviour.

Examining the historical change in the aggregate balance sheet of Japanese corporations, holdings of shares and equity increase dramatically in both periods. In the earlier boom, a doubling of bond issuance and a 50 per cent increase in loans (on the asset side) suggests that corporations were ‘in on the party’. Industrial firms reduced their own borrowings, and began lending their surpluses to others, leading to a rise in financial assets to liabilities and an increase in financial profits (Calder, 1997). Financial manipulations, known as zaitech (‘financial technology’) become a key source of profitability. In contrast, during the 2002 to 2006 period, there was a modest decline in absolute holdings of securities and loans, pointing to a more conservative corporate response.

In France, the financial-to-fixed asset ratio explodes in the period 1982 to 2000, from about 70 to 270 per cent, far exceeding the levels of both the Anglo-American economies and Japan. This is particularly notable in that it occurred during a period of the so-called “unravelling” of the French system of cross-shareholding (Morin, 2000). In the first round of privatizations of state-owned enterprises in the 80s, French businesses were sold to only certain categories of investors, including a core of stable shareholders (‘noyau dur’) made up of French financial and industrial companies (Hancké, 2001). This explains the relatively high level of corporate holdings of financial assets from the outset of figure 2. Then in 1993, the French government resumed those privatizations which had been earlier postponed and allowed sales of the core shareholdings which had been meant to protect the newly privatized companies. In late 1996, one of the two major cross-shareholding structures collapsed. This led to a wave of merger activity, with the amount of

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7 It would have been desirable to only include what might be termed ‘tradeable’ or ‘portfolio’ assets in the numerator, however, at the national flow of funds level, differences between countries’ categorisation makes interpretation of such a ratio difficult. By using ‘total financial assets’, we can be sure that we are not missing part of the story due to different classification systems. Fixed assets was used to avoid volatility in land prices (included in tangible assets) and cyclical inventory stocks (included in produced assets).

8 Again for reasons of length, original work depicting the change in the sectoral balance sheets of the five countries in question has been excluded, but is available from the author.
equity raised by French corporations increasing by 38 per cent (Culpepper et al., 2006). French companies during this period also looked abroad for acquisitions and joint ventures.

**Corporate size matters: France**

Intuitively, due to their degree of integration in to global financial flows and greater access to market-based finance more generally, we would expect large corporations to exhibit more financialised behaviour than small corporations. The European Commission's Bank for the Accounts of Companies Harmonised (BACH) database provides a unique way to test this hypothesis. BACH contains the harmonised annual accounts of non-financial enterprises for 11 European countries (not including the UK), Japan and the United States. Importantly, BACH provides aggregated accounts of non-financial enterprises divided by size\(^9\).

[Fig. 3]

Despite heroic attempts to harmonise diverse national accounting standards, the authors emphasise that while trend comparisons can be made, comparisons in terms of level should be done with considerable caution (ECFIN, 2006). A preliminary investigation was conducted using the data for non-financial companies in France\(^10\). Figure 3 provides support for the hypothesis that large corporations are leading the turn away from bank-based finance, though corporations of all sizes appear to be returning to bank loans in the two years before the current crisis. Figure 4 shows large corporations leading a general trend towards increased reliance on financial relative to productive income. Figures 5 and 6 show the ratio of financial assets\(^11\) to tangible fixed assets\(^12\). In both cases, the upward trend is clear across the three size categories. The lower-than-expected level in the ratio of stocks of financial assets relative to tangible fixed assets for large enterprise could reflect differences in sectoral composition or business model, but would require further investigation. Pending further analysis, these data provide some support for Deeg's (2009) theory of the "rise of internal capitalist diversity", which highlights the differentiation between 'traditional' SMEs versus highly-financialised international firms.

[Figs. 4-6]

To recap then, corporations across the survey are moving away from bank borrowing and acquiring more significant portfolios of financial assets. However, resistance to both trends is more marked in Japan and Germany. French firms appear to have become heavily financialised, though qualitative analysis reveals that the purely macroeconomic picture may overstate the case. There is some preliminary evidence to suggest that the role of large corporations needs to be carefully assessed.

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\(^9\) Small enterprises are those with turnover less than 10 million euros; medium enterprises between 10 and 50 million euro; and large enterprises those with turnovers exceeding 50 million euro.

\(^10\) Data for non-financial companies categories A to N (category K - real estate – was subtracted) of the Classification of Economic Activities in the European Community (NACE rev 1.1)

\(^11\) 'Fixed financial assets' includes holdings of stocks and bonds, but does not include 'current financial assets' of trade credit and cash in hand. The latter are included in 'total financial assets'.

\(^12\) 'Tangible fixed assets' refers to land and buildings, plant and machinery, other fixtures, and assets in construction.
b. The bank story

Turning to the banking sector, both Post-Keynesian and Marxian theories of financialisation suggest that there should be a rise in lending to finance, insurance and real estate as well as lending to the household. Post-Keynesian analysis puts this down to policy change (financial liberalisation) and the ensuing capital market inflation. Marxian analysis enriches this picture by suggesting that financial corporations are increasingly able to extract surplus value by expanding accumulation into new areas; by positioning themselves to extract value from new configurations of accumulation; and by extracting surplus from workers’ wages in the sphere of circulation.

[Fig. 7]

On the uses side of the balance sheet\textsuperscript{13}, we examine the ratio of non-FIRE (Finance, Insurance and Real Estate) corporate lending to total financial assets (figure 7)\textsuperscript{14}. Overall, we see a clear secular decline in the ratio. Japanese banks start from a radically higher level, reflecting the integrated position of banks within industrial \textit{keiretsu}. However, the ratio falls from 60 to below 30 per cent during the 80s bubble, recovers to 40 per cent by 1993, and then plummets to much more similar levels as the other advanced capitalist economies in recent years. Germany also starts from a much higher level, but falls steadily to reach similar levels as France and the US\textsuperscript{15}.

Banks’ non-FIRE loans to assets ratio is in some ways the mirror image of the loans to liabilities ratio constructed for corporations in the previous section. Comparison between the two ratios (figures 7 and 2) is instructive. In the 80s, the banks are following the corporations, that is both ratios are declining in Japan, both are flat in the US. In the early 90s recession, they continue to run in parallel, rising in Japan and the UK and flat in the US. For the most part this carries on with growth in the 90s (except in France where loan share falls for corporations but rises for banks), but then the parallel movement falls apart after the crash of the dot-com bubble. Across the five countries, corporations’ loan share rises after the bubble bursts, falls during the subsequent four year expansion, and then rises with the onset of the current crisis. However, on the bank side, non-FIRE loan share falls throughout. This suggests that in the last decade, rises in finance, real estate

\textsuperscript{13} For reasons of length, analysis of the sources side of the balance sheet has not been included here. We expected deposits to make up a greater share of bank liabilities in those countries conventionally understood to be ‘bank-based’. However, while the ratio shows a declining trend in all countries (except Japan after 1987), there is little difference in the countries. More detailed examination of balance sheet data suggests that this may be telling us more about the difficulty in disentangling increasing short-term and market-based deposits, than it is about structural changes (or the lack of them).

\textsuperscript{14} This is meant to capture the change in banks’ attitudes towards holding productive loans as against lending to finance and real estate. This has the advantage of being the only item that is ‘clean’ in terms of being solely for productive purposes, and is less likely to have been securitised (though even here increasingly these loans are sold, see below for US) and taken off the balance sheet. Attempting to capture ‘portfolio’ assets inevitably introduces definitional confusion and issues of data availability. Once again, some care should be taken with cross-country comparisons. We were able to use a category for commercial banks for the United States, the UK and Japan, however data limitations forced the usage of the broader ‘monetary financial institutions’ in the case of France and Germany. Despite the above concerns, the universal trend emerges clearly.

and household lending have replaced corporate lending as the driving factor in banks’ loan portfolio. This will be reinforced by more detailed examination of household balance sheets in the next section.

Looking at the historical evolution of the composition of bank balance sheets\textsuperscript{16} yields a number of further insights. Most importantly on the asset side, a finer picture emerges in the shifting nature of banks’ loan portfolios. While the data does not provide comparable sectoral disaggregation across all countries, the flavour of the results is clear. Over the past three decades, there have been significant increases in lending to real estate (for example, in the US from 14 to 35 per cent); to financial intermediaries (for example, in Germany from 15 to 40 per cent); and to individuals, especially for housing (for example, in Japan from 10 to 23 per cent). It is important however not to overstate the uniformity of the changes. While the trends are the same across the sample, increases in lending to individuals in Germany and Japan represent a notably smaller share of lending. Bank holdings of both securities and equity are increasing across the sample. In France, rising securities holdings are increasingly made up of derivatives; in the US mortgage-backed securities; and in Japan Treasury bills. French banks hold the largest share of equity.

**Bank size matters: Germany**

One of the more interesting questions in relation to the changing composition of banks’ balance sheets is whether observed changes are consistent across the banking sector. The availability of Bundesbank data disaggregated by bank type allows for preliminary investigation of the question in the German case.

There is a lively debate about whether the German economy is, or indeed ever was, a bank-based system (Corbett and Jenkinson, 1997, Hackethal and Schmidt, 1999, Hackethal et al., 2005). Goyer (2007) argues that the bank-based system of German corporate finance has “crumbled” due to deregulation and capital account liberalization which has allowed the entry of foreign investors and the rise of shareholder value. According to Deeg (2005), this process was facilitated by a domestic reform coalition of big banks allied with external investors. The German government responded to this pressure with the Second and Third Laws for the Promotion of Financial Markets in the 90s (Vitols, 2004). In 1999, the capital gains tax was abolished on the sale of inter-corporate shareholdings to allow large German banks to reduce their involvement in the management of domestic enterprises in order to focus on global markets (Hall, 2007).

While acknowledging the far-reaching impact of these changes, Vitols responds that the bank-based nature of the German financial system is driven by “complementarities and continuities in household savings and investment behaviour and in patterns of company sector demand for finance.” (Vitols, 2004) Change could occur if income inequality were to increase and pensions reform were to allow more private retirement savings. Also key is the publicly-owned municipal savings bank sector (Sparkassen) which lends to the vast Mittelstand (SMEs). A recent survey of German SMEs by Bluhm and Martens (2009) find that, despite the increasing adoption of shareholder-value oriented management and transaction-based lending techniques, bank loans remain their most important external source.

[Fig. 8]

\textsuperscript{16} Again, not shown here, but available from the author.
However, in the last decade, market share has shifted towards the big banks. Savings banks’ assets as a share of total MFI assets have fallen from 17 to 13 per cent, while big banks’ assets have risen from 15 to nearly 20 per cent (while Landesbanken have stayed fairly consistent at 20 per cent). Indicative is the changing behaviour of these banks. Figure 8 shows the change in the levels of non-bank loans as a share of total assets by bank type. While savings banks consistently hold about 65 per cent of their assets in the form of non-bank loans, both the big banks and Landesbanken have seen a marked decline in the ratio.

Like other countries Germany has seen a decline in bank lending to non-FIRE corporations, and a marked rise in lending to other banks, foreign enterprises and households. The flipside has been the growth in bank holdings of securities and equity: “Although not as extensive as the Japanese keiretsu, the core shareholders of the large German banks include other banks (through cross-shareholdings) as well as insurance companies.” (Vitols, 2001). For all MFIs (including big banks), lending to other financial institutions peaks at just under 40 per cent in 2007. For big banks alone, this figure reaches 44 per cent by 2008.

To sum up the argument for the banks, across the sample, lending to non-FIRE corporations is falling, though once again Japan stands out for the continued relatively high level of such loans. Universally, there has been an increase in lending to finance, real estate and households, though the shift is less marked for both Japanese and German banks. Preliminary evidence in the German case suggests that these trends are more accentuated in the big banks, though the behaviour of the Landesbank complicates any simply-drawn conclusions.

c. The household story

Perhaps the most simple and telling measure of the financialisation of the household\textsuperscript{17} is the level of household total financial liabilities as a share of gross national disposable income (figure 9). This ratio illustrates the increasing assumption of financial liabilities relative to the ability to pay.

Clearly, the data indicate two distinct trends. US household indebtedness rises steadily from 1955 until 1991, but then accelerates markedly from the late 90s until 2007\textsuperscript{18}. UK household indebtedness rises rapidly from 1997, accelerates through the housing price bubble, and crests at 175 per cent of disposable income in 2007. French household indebtedness has historically been quite low, however in the last ten years it has started to grow at Anglo-Saxon rates, surpassing indebtedness levels of German households\textsuperscript{19}.

The other pattern is that of the Japanese and Germans. Japanese levels rise during the 80s, flatten out in the 90s, and then start to fall in the 00s. Levels never exceed 90 per cent of disposable income, half the level reached by the UK. The levels of liabilities of German households grow from 1991 to 2001. Like Japan, these liabilities have fallen off as a share of disposable income in the past

\footnotesize{\textsuperscript{17} For statistical purposes, this refers to households and private non-profit institutions’ serving households.}
\footnotesize{\textsuperscript{18} Note that these figures underestimate US household indebtedness relative to the other countries, due to the US custom of excluding sole proprietorships from the household category. Inclusion of non-farm non-corporate data in the calculation, which takes US indebtedness above that of the UK, equally overestimates the level.}
\footnotesize{\textsuperscript{19} Banque de France flow of funds data suggests extraordinarily high levels of French household endebtedness. However, INSEE data is what has been adopted by both Eurostat and OECD.}
decade. It is interesting to note that the counter-movement in German and French levels coincides with both the introduction of the euro and the response to the collapse of the dot-com bubble.

On the asset side there are two distinct patterns at work through the 80s and 90s. Households in the US and the UK hold relatively lower levels of deposits and higher holdings of market-based assets (either direct holdings of shares and other equities, or life insurance and pension fund reserves invested in the stock market). Even within deposits, this is increasingly made up of money market mutual fund share holdings. In both the US and the UK, securities holdings shift away from government securities and towards corporate and foreign bonds, though from a lower level in the UK.

The others hold higher deposits and lower market-based assets. Japan is unique in several respects. In terms of deposits, Japanese households have been increasing their share of assets held in deposits while households in all the other countries have moved in the opposite direction. In terms of securities, they have been increasing their holdings of government rather than private securities. In the equities category, Japanese households hold more in insurance than pension reserves; public pension funds are heavily invested in government-sponsored securities, and even private insurance and pension fund holdings of equities have actually fallen, while holdings of government securities have risen significantly.

However, from the crash of the dot com bubble, household balance sheets in all countries start to move in unison: an increasing share of deposits in the wake of the crash, then falling in the subsequent mini-boom, then rising once again as we enter the current crisis. There is now an interesting change in levels. From ‘Anglo-saxons and the rest’ at the start of the 90s, there now appears to be the Americans at one extreme, the Japanese at the other, and a convergence of the Europeans in the middle.

One of the most dramatic transformations revealed by this mode of analysis is that of French households. Deposits have fallen by half. Holdings of shares and equities grew significantly in the 80s after reforms which made investing in stocks more appealing to households. Most dramatic however has been the growth in life insurance and pension fund premiums, claims and reserves from 7 per cent in the late 70s to 40 per cent last year. These funds went from 30 to 50 per cent invested in equities during the 90s, with the rest in securities. A back-of-the-envelope calculation suggests that within a generation French households have moved from a situation where only approximately 5 per cent of their financial assets were subject to capital risk to one where 20 to 25 per cent are so subjected today.

On the liability side, one important trend jumps out. Across the five countries mortgages make up an increasing share of household liabilities. However, there are two distinct levels. On the one hand the US, UK and France; on the other, Japan and Germany (US – 65 to 75; UK – 65 to 80; FRA –

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20 In 1980, ten per cent of household assets were in shares and equity, of which about a third were in quoted shares and general investment mutual funds. Less than ten per cent was in pension funds, of which 25 per cent was in equities, about half of which was subject to capital risk. In 2008, 25 per cent of household assets were in shares and equity, of which about 40 per cent were subject to capital risk. A further 40 per cent of assets were in pension funds, of which about 40 per cent were in equities, over 60 per cent of which are invested in either quoted shares or general investment mutual fund shares. Note that Charlemagne, in 6 Mar 2010 *Economist* says: “three-quarters of all French household financial assets are free from capital risk” – while this is true, the change in risk profile over time is nonetheless significant.
62 to 75; JPN – 30 to 47; DEU – 30 to 52). Contrary to what might be considered ‘common knowledge’, there is no clear trend in levels of consumer credit.

The overall picture of household financialisation is reinforced by a partial view of the household income statement. Duménil and Levy (2006) calculate total financial incomes plus a measure of capital gains corrected for inflation. As a share of total income in the US, this total oscillates around 10 per cent through the 50s, 60s and 70s, before beginning an ascent to 40 per cent before the collapse of the dot-com bubble. Their data show a similar trend for France. On the expenditure side, US household outlay on financial services and insurance rises from 4 per cent in the early 60s to nearly 10 per cent recently\(^{21}\). Meanwhile, the household debt service ratio has crept up from 11 per cent in 1980 to 14 per cent in 2008\(^{22}\).

In a nutshell, the household sector is clearly divided between the ‘eager financialisers’ and the ‘reluctant financialisers’. For the former, economic growth over the last decade or more is being driven by consumption associated with rising household indebtedness. For the latter, growth (if there is any) has had to be found elsewhere. This sector reflects Stockhammer’s notion, as earlier discussed, of two groups of countries making up both sides of the same financialisation coin. The composition of pensions appears critical to the advance of financialisation, as does the financing of home ownership. On both counts, Japan and Germany stand apart.

V. Conclusion

In this paper we have understood financialisation as a specific transformation in the relations between financial and non-financial corporations with an attendant shift in accumulation from investment to credit-fuelled consumption. We have refrained from locating this transformation in a single agent or event. Instead we have drawn from Post-Keynesian and Marxian analyses to build a complex picture of both productive and parasitic financial innovations emanating from conjunctural changes.

The empirical analysis found that corporations are indeed moving away from bank-based borrowing and acquiring financial assets in all countries. However, resistance to both trends is more marked in the traditionally BB/Rhineland/CME countries of Japan and Germany. French firms appear to have joined the other group, and their move appears to be led by the large corporations. For banks, lending to corporations is universally falling while that to finance, real estate and households is on the rise. The shift is less marked for both Japanese and German banks, though preliminary evidence in the German case suggests that the behaviour of the big banks is more in line with the broader trend.

The corporate turn to self-finance is universal. But should this imply a universal turn to investment in financial assets? Not necessarily so. But if, at the same time, we see household assets shifted out of deposits and into market-based pensions or direct equities, we see the pressure on the corporate sector for higher, short-term returns (exemplified by the twin movement of French household and corporate assets). This move away from holding assets in deposit form – facilitated by policy change – in turn also puts pressure on the liability side of the bank balance sheet. Banks replace these funds with those raised via the repo-securitisation complex. On the uses side, banks shift away from long-term relationship lending to corporations and towards lending to individuals, real

\(^{21}\) Source is NIPA table 2.3.4 personal consumption expenditures.

\(^{22}\) Source is Federal Reserve household debt service ratio.
estate and other financial institutions. Not surprisingly, though certainly not unavoidably, this leads to increased household indebtedness.

This inter-related web of transformations can of course be altered or broken. We have seen, for example, that policy and culture in Japan mean household assets have stayed within bank deposits or with pension funds which invest in state bonds. This puts less pressure on the liability side of the bank sector balance sheet, at the same time as it may reduce the pressure for non-financial corporations to invest in financial as opposed to fixed assets. Similarly, cultural norms and institutional history in Germany and Japan mitigate against households assuming high levels of mortgage debt, meaning overall indebtedness is more manageable. However, it would be disingenuous to suggest that German and Japanese corporations do not feel the pressures of financialisation via international market competition. Indeed, large banks and firms must either play the game, or find other ways to squeeze costs and force profits up.

This theorisation sits at odds with a comparative capitalisms literature which is based on mutually-complementary institutions ensuring distinct, even divergent, forms of capitalism. It also argues against a depiction of a bifurcated response to financialisation. Instead, it suggests that the progress of financialisation reflects a broader convergence which will be variously facilitated, restrained or blocked by regulatory, cultural and technological institutions. Rather than Varieties of Financialisation, it is Financialisation Varied.
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Figure 1: Non-financial corporations’ loans as a share of total liabilities

Source: Z1 (US), ONS UK EA, Bank of Japan, Bundesbank, INSEE

Figure 2: Non-financial corporations’ total financial assets as a share of fixed assets

Source: Z1 (US), ONS UK EA, Bank of Japan, Bundesbank, INSEE
**Figure 3:** French non-financial corporations’ loans (short and long-term) to total liabilities (stocks)

![Graph showing loans to liabilities over time for different categories: SM, MED, LG.](image)

Source: BACH database (figures 3 – 6)

**Figure 4:** French non-financial corporations’ financial to total income (flows)

![Graph showing financial to income over time for different categories: SM, MED, LG.](image)
**Figure 5:** French non-financial corporations’ acquisition of financial assets to tangible fixed assets (flows)

**Figure 6:** French non-financial corporations’ fixed financial assets to tangible fixed assets (stocks)
Figure 7: Banks’ non-FIRE loans as a share of total assets

Source: H8 tables (US), Bank of England, Bank of Japan, Bundesbank, Banque de France

Figure 8: Non-bank loans as a share of total assets by bank type, Germany

Source: Bundesbank
Figure 9: Household financial liabilities to gross disposable income

Source: Z1 (US), ONS UKEA, Bank of Japan, Bundesbank, INSEE