FINANCIALIZATION: A NEW CHAPTER IN THE HISTORY OF CAPITALISM?

Conference at the GHI Washington. Co-sponsored by the Volkswagen Foundation. Conveners: Hartmut Berghoff (GHI), Kenneth Lipartito (Florida International University), Moritz Schularick (University of Bonn), Laura Rischbieter (Humboldt University, Berlin). Participants: Guillaume Bazot (Paris School of Economics), Gavin Benke (Southern Methodist University), Samuel Beroud (University of Geneva), Ian Clark (University of Leicester), Alexander Engel (University of Göttingen), Eric Hilt (Wellesley College), Erik Erlandson (University of Virginia), Kieran Heinemann (Emmanuel College), Louis Hyman (Cornell University), Samuel Knafo (University of Sussex), Katharina Knoll (University of Bonn), Daniel Mertens (University of Frankfurt), Benjamin Schwantes (GHI), Laure Quennouéle-Corre (Centre de recherches historiques, EHESS), Ariell Reshef (University of Virginia, CNRS and Paris School of Economics), Kaspar Zimmermann (University of Bonn).

The term “financialization” is understood by most authors to refer to the shift from industrial to finance capitalism that has taken place since 1970 and has had profound social and political repercussions. Even though the same word “financialization” appears across various disciplines today, it can cover very different empirical phenomena, depending on the author. Therefore, the conveners of this conference added a question mark to the workshop title and raised the question of whether the concept of financialization might be a suitable analytical category for the history of capitalism since the 1970s.

To stimulate further debate, Laura Rischbieter offered a rough sketch of the problems and gaps in current research in her preliminary lecture, “Old Wine in New Bottles? Capitalism and Financialization.” Theoreticians and empiricists have usually focused on different aspects in analyzing the development of capitalism. But in all these analyses, capital and its accumulation have always played a decisive role. Therefore, in investigating the overall developmental patterns of the process, the mere existence of the finance market is not enough to characterize financialization. Consequently, Rischbieter argued, it might still make sense to continue using the term “capitalism” as an analytical reference, so that we can clearly distinguish how much the financialization of recent decades truly differs from previous developments. On the other hand, she noted, future research might
also discover enough indications that financialization is actually in a
class of its own, and that it forms an analytical tool in its own right.

The first panel, entitled “Making Sense of Financialization,” analyzed
the longue durée of changing social patterns regarding the growing
reliance of social actors on financial strategies. In his presentation,
“Reconceptualizing the Social Lineages of Financialization,” Samuel
Knafo argued that the process under investigation was the product of
defensive reactions to the newfound power that came with securitiza-
tion and must be analyzed as an outcome of power struggles rather
than economic opportunity. As securitization is widely recognized as
an important component of financialization, Knafo placed it at the
center of his account and showed that securitization led to a grow-
ing dominance of these institutions over financial markets and to
new forms of power. Ian Clark’s paper “The Challenge of In-Country
Developments? When Varieties of Capitalism Meets Financializa-
tion: Theoretical and Empirical Evidence from the UK” continued
seamlessly from Knafo’s analyses. Based on empirical material on
the existence of hyperactivity in the top twenty listed American and
British firms, Clark discussed the contagion effects within and beyond
the financial sector, whereby non-financial firms, that is, producers of
goods or suppliers of services, may be as financialized as the finan-
cial sector. Contagion effects are evident in the impact of ownership
intermediaries on disseminating and imposing “hyperactivity” and
other forms of rent-seeking behavior on firms, instead of a preference
for productive investment.

In contrast, the second panel focused on macroeconomic frameworks
to shed light on the “The Financial Sector in Long Time Perspective.”
Ariell Reshef’s presentation “Dimensions of the Long Run Evolution
of the Financial Sector” scrutinized common predictions seen in re-
cent research. On the basis of long-term data concerning the financial
sector in a select group of industrial economies, Reshef argued that
the size of finance has indeed increased, but that no relationship
can be found between the size of the financial sector and growth in
the period from 1870 to 2008. Most of the increase in real GDP per
capita after 1870 occurred while the financial sector was smaller
than its size in 1980. Another popular prediction was examined by
Guillaume Bazot in the second paper, “Counting the Cost of Finance.”
Bazot looked at financial intermediation efficiency over the past
sixty years in Germany, France, the United Kingdom, and Europe
in general. In contrast to general assumptions, his analysis showed
that the increasing size of the financial industry has coincided with increasing financial costs. Putting the two papers together, one must conclude that a growing financial sector cannot be correlated with growth but instead with increasing costs.

If it is not efficiency or growth that can be correlated to financialization in the long run, might it be innovation instead? The role of innovation as a catalyst for the process of financialization was the question examined by the three presentations of the third panel, “Financial Innovation.” The importance of innovations in overcoming financial crisis was highlighted by Eric Hilt’s paper “Financial Innovation, Crisis, and Reform: Lessons from the Panic of 1907.” He showed that shadow banking is not at all a new phenomenon, and that ties between shadow banks and the traditional banking system mattered; but it was the growing size of the shadow banking sector which coincided with systemic risk, and it was a number of regulatory changes that helped to overcome the Panic of 1907. Meanwhile, in his presentation on “Financial Futures and the Firm: The Marketization of Risk, the Shareholder Value Concept, and the Emergence of Corporate Financial Risk Management,” Alexander Engel argued that the development of financial derivatives played a key role in the process of financialization because derivatives are extremely efficient and powerful tools for firms and investors to modify their exposure to different market risks. In contrast, Gavin Benke’s talk on “Wall Street’s Pernicious Braid: Mutually Reinforcing Strands of Financialization at Enron” focused on how the shareholder revolution of the 1980s provided the context for Enron’s development, and how regulatory changes that created a spot market for natural gas led the company to adopt business practices that were first pioneered in the financial services sector. Both developments fostered a dynamic that ultimately bred instability at the firm.

The fourth panel, entitled “Financialization outside Finance: The Impact on Industry,” focused on the entanglement of business enterprise activities and financial sector strategies, concentrating on companies and the ways that their strategies fueled financial market developments and vice versa. In his presentation “Varieties of Financialization? Evidence from German Industry in the 1990s,” Hartmut Berghoff examined the differences and similarities between the United States and Germany in terms of the rise of finance and its main consequences, especially for industry. Using the example of Siemens, Berghoff showed that there are no nationally distinct
variations of financialization; instead, it was the divergence in legal, political, and cultural frameworks that explained the differences in degree and timing as certain firms began to follow primarily financial parameters. Eric Erlandson offered another revealing case study showing the impact of legal and cultural frameworks on the realignment of companies in the last quarter of the twentieth century. In his talk on “Cracks in the Glass-Steagall Wall: Chevron Deference and the Administrative Origins of the Financial Supermarket, 1977-1988,” Erlandson used the example of Chevron U.S.A, Inc. to elucidate the behind-the-scenes role of legal and administrative processes that long preceded major statutory reform. The panel’s last paper, “General Electric: How Industrial Became Financial (and Back Again?),” presented by Louis Hyman, looked at the internal histories of industrial corporations that transitioned from an industrial focus to a financial one. Hyman highlighted the crucial role of consumer credit as part of the financialization of the firm, so that consumer investment eventually crowded out other forms of business investment such as R&D or production, as seen at General Electric.

The fifth panel, “Policy Regimes and Institutional Change,” turned to the vital role of national and international policies in the regulation and functioning of the process under question. In his paper on “The Geopolitics of Financialization: The Group of Five and Its Reaction to the 1970s Economic Crisis,” Samuel Beroud highlighted the contribution of multilateral and international organizations to the rise of financialization in the 1970s. Using the G5 as an example, Beroud argued that Western political leaders and policymakers enabled the rise of financialization out of the belief that private market mechanisms could prevent a financial crisis like the Great Depression from happening in the future. The topic of international governance was revisited in the second talk, “Politicians, Financial Elites and the French Big Bang in the 1980s: A Great Leap Towards Competition and the Market?,” in which Laure Quennouëlle-Corre argued that it was not the lobbying of public and/or private financiers that played the most important role in France, but rather international pressure, which ultimately resulted in the deregulation of France’s finance sector but not of (for example) its labor market. Whether this development can be seen as a model specifically of capitalism or of financialization is a question to be answered by future research.

The sixth and final panel, “Financialization Meets Main Street,” turned to the impact of finance on everyday life, focusing on private
households as investors and debtors. Kieran Heinemann placed the case of Margaret Thatcher’s “popular capitalism” — the widely publicized flotation of state assets in the 1980s — within a wider historical context by asking how ordinary people engaged in the stock market in modern Britain. In his presentation entitled “Small Investors and Popular Stock Market Engagement in Margaret Thatcher’s ‘People’s Capitalism’” he analyzed the discursive struggles over interpretations of the private investor, as seen in investor guides, popular stock-exchange literature and “money pages” in the popular press, and showed the stark contrast between Thatcher’s ideal of capitalism based on “Victorian values” of thrift, sound money, and hard work, and a self-referential financial capitalism based on credit. The second paper, “Why is There No Household Debt in Germany . . . or is There?,” delivered by Daniel Mertens, turned to a different example of private investment, the unprecedented rise in household indebtedness over the past decades. By the end of the 1990s, the debt-to-GDP ratio of German households had grown to levels as high as those seen in the United States and the United Kingdom, but has decreased since then. Mertens argued that, on the one hand, institutional changes and liberalization trends contributed greatly to the expansion of financial practices in ever more areas of everyday life, while on the other hand, the persistence of the institutional arrangements of an export-led growth model acted as powerful constraints on the financialization of households.

By combining various areas of research on different empirical phenomena and thus facilitating the analysis of financialization as a historical process, the conference revealed the complexity of the process. While there was general agreement that we have seen a structural shift from a Fordist production regime to global finance capitalism, the precise dynamics of this change are yet to be fully researched. The lively and fruitful discussions clearly indicated that further research needs to look at the individual actions of clearly identified actors, be they companies, governments or lobby groups, as well as the macro-economic structures that shaped their decisions, in order to analyze them and relate them to one another. The question mark appended to the workshop title thus proved to be inspiring for further research. It can certainly be said that the second half of the twentieth century saw striking new developments in terms of economic activities, structures of wealth creation, patterns of accumulation, and ultimately of social relationships, due to the new global dominance of one key sector: the finance market. At the same time, it still makes sense to
continue using the term “capitalism” as an analytical reference point: on the one hand, there were differing responses to the question of whether financialization is just a structural transformation of modern capitalism or a truly new regime of accumulation; on the other hand, the participants agreed that the question itself proved to be a useful stimulus to expanding our understanding of the past as well as the lineages underlying today’s social and economic conditions.

Hartmut Berghoff (GHI / University of Göttingen) and Laura Rischbieter (Humboldt University Berlin)