

PERSPECTIVES ON FINANCIALISATION AND CRISES IN EUROPE

*PERSPECTIVAS SOBRE FINANCIZARIACIÓN Y CRISIS EN EUROPA*

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ABSTRACT

This editorial introduction highlights fundamental issues of financialisation in Europe, with particular focus on the interlinkages with recent and ongoing crises. Following an overview of core axes of current discussion in the literature, the editors present the contributions to the special section, and conclude with an outlook on the relevance of continued discussions of financialisation.

*Keywords:* Financialisation; European Union (EU); Financial Crisis; European Monetary Union (EMU); International Political Economy (IPE)

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## RESUMEN

En esta introducción para la Sección Especial (SE) presentamos y destacamos los aspectos fundamentales del proceso de financiarización en Europa, poniendo un acento especial en sus interconexiones con las crisis presentes y pasadas. Tras realizar un recorrido general de los ejes centrales sobre los que, en estos momentos, gira la discusión en la literatura, presentamos los artículos que componen la SE para, finalmente, concluir destacando los aspectos más relevantes sobre los que seguirá girando la discusión sobre el fenómeno de la financiarización.

*Palabras clave:* Financiarización; Unión Europea (UE); Crisis financieras; Unión Económica y Monetaria (UEM); Economía Política Internacional (EPI)



## 1. FINANCIALISATION AND CRISES IN EUROPE

The financial crisis that hit Europe in 2008, and the subsequent economic stagnation that has afflicted the continent, came after a period of extensive development of cross-border banking and financial markets. This development was noted even before the coming of the Economic and Monetary Union (EMU) (see Chick, 2000). Growing inequalities of income and wealth were exacerbated after 2008, and Greece, Ireland, Spain and Portugal succumbed to crises of government financing as fiscal deficits widened in all countries and successive governments found themselves with debt-to-Gross Domestic Product ratios in excess of the limits laid down by the Stability and Growth Agreements in Europe in 1997. Those agreements had themselves emerged from the discussions following the Maastricht Treaty in 1992. It is perhaps only with irony that one can refer to those agreements by their titles, as governments are forced into deflation and economic and financial instability, in the name of achieving Stability and Growth.

How can we understand these financial and economic crises in Europe in the broader context of financialisation, that is against the background of structural transformations of the global economy? A large part of the relevant literature focused on the crisis in Europe as essentially induced by incorrect monetary and fiscal policy, referring most often to the constraints imposed on government finances by the monetary and fiscal criteria for EMU and the macroeconomic coordination carried out by the European Commission (see for example Arestis and Sawyer, 2012). Another part of this literature has taken a broader view in recognizing that the crisis has been linked to structural changes in the private sector of the European economy, in particular in household and firm finances. A particular deflationary role has been attributed to the growth of financial liabilities that has broadly been referred to as "financialisation" (see, for example, Phillips, 2014, or Bellofiore, Garibaldi and Mortagua, 2015).

However, as more detailed studies have shown, the experience of financialisation has varied from country to country, and even from one social group to another (see Hein, Detzer and Dodig, 2016). This may be due to a structural international division of labour in a complex international financial system or capital flows, usually associated in this literature with speculation or interest arbitrage. But this does little to account for specific experiences by different social groups, and the relationship of financialisation to, for example, inequalities of income and wealth. Such differences in experience or attributes may be not so much "variegated finan-

cialisation" (e.g., Appleyard, Rowlingson and Gardner, 2016, Brown and Spencer, 2013, and Brown, Spencer and Veronese Passarella, 2017) as increased turnover in the financial due to innovation and extension of debt maturities.

However, the study of financial macroeconomics clearly points to an association of crisis and deflation with deficient cash flow through financing structures. If particular countries and social groups are characterised by different financing structures, it follows that any given deficiency (or excess) of cash or capital flow will affect those structures in different ways, whether through the extension of financing structures, in the case of excess, or the emergence of non-performing loans and falling asset prices in the case of deficient flows. In a Europe in which business and social groups engage with banking and finance in different ways, it follows that the experience of financialisation differs across the continent. The study of financialisation cannot show us the *origins* of deflation and inflation in successive phases of the business cycle. But the study of financing structures can tell us which business and social groups will be affected, and how they will be affected, by financial deflation and inflation. In the deflation that has affected Europe since 2010, the disabling of government financing in many parts of Southern Europe has been perhaps the most politically visible failure in financing structures with economy-wide impact. From a critical political economy perspective, it is also quite crucial here to see financialisation not only as a structural process, but also as a political process driven by concrete social actors and engendered by specific strategies.

Another core interest of the financialisation debate has been the transformation of corporate finance, and the increasing relevance of the financial sector. Across the economies of EMU member states, the increased contribution of the so-called FIRE sector (i.e., finance, insurance and real estate) to gross value added by economic activity would be an illustration (Rossi 2013: 6). Non-financial corporations in Europe have reduced their spending on fixed capital while accumulating liquid assets, increasing their holdings of such assets by 69% between 2008 and 2015 (*Financial Times*, 6 July 2015). In 2010, the German company Siemens set up its own bank and deposited €12 bn. with the European Central Bank. Quantitative Easing (QE) and/or low interest rates have been a core policy response to the economic crisis in many economies, resulting in borrowing becoming significantly cheaper. Concomitantly, corporate bond financing has increased considerably. The ECB highlights a general shift away from equity towards debt in corporate finance (ECB, 2013: 15). In the euro area, the sharp increase in non-financial corporate debt, from a debt-to-GDP ratio of 57 per cent in 1999 to 81 per cent in 2009, reflects a build-up of corporate debt over different phases. However, the recent increase in corporate bond financing is significantly more pronounced and at the same time more precarious. Credit market liabilities in US nonfinancial corporations increased from \$6.1 trillion in 2009 to \$7.9 trillion in mid-2015 (Federal Reserve, 2015). In the same period in the euro area, debt securities of nonfinancial corporations increased from €598bn in early 2009 to €988bn in early 2017 (Eurostat, 2017).

The challenge of financialisation is therefore to distinguish a number of coincident factors in the expansion of financial balances. First of all, there is the impact of business recessions on households and the distribution of income, and the financial response of different social groups to stagnant or falling incomes. Second, there is non-financial firms' financial response to the business cycle. Thirdly there is the increased financial circulation of money and extensions of credit in the financial system, an endogenous process that occurs with financial innovation and changes in debt maturities. Finally, there are changes that arise with government policies that seek to regulate the public sector, public welfare provision, and banking, through the balance sheets of public and banking institutions. These changes have been proceeding for years and are now aspects of the profound crisis in Europe. The changes are reflected in the papers we present in this special issue.

## 2. INTRODUCING THE PAPERS OF THE SPECIAL SECTION

This Special Section of REM/JWE brings together five contributions (plus this Editorial piece) that are focused on different aspects of the nexus between financialisation and crises. The papers were specifically selected by the Section's co-editors with the aim of offering different but complementary perspectives and methodologies. They aim to understand better and more deeply the different and mutual interrelations between financialisation and (some of) the causes and consequences of current crises in Europe, in addition to their consequences for some of the key aspects of the European socio-economic and political model(s). Despite their thematic and methodological diversity (among other aspects), all papers have in common that they were developed within the common framework of International Political Economy (IPE); certainly a broad territory, with blurred borders and an object of discussion in itself, but undoubtedly established as an autonomous academic arena that demonstrates undeniable relevance.

In addition, providing the most multidisciplinary approach possible to the topic has been, from the very start, an ongoing concern of the co-editors of this Special Section to highlight not only the diversity but also the complementarity of the many disciplines and perspectives that may be contained under the generic heading of IPE. Thus, both the authors and the guest Editors (as well as referees, who were specifically selected for this special section and whom we take the opportunity to thank for their excellent work) belong to very different academic fields related to Political Economy, Political Science, Sociology, or Heterodox Economics. Additionally, the fact that both the authors and the co-editors perform their academic activities in different European countries (Denmark, Germany, Portugal, Spain, and the United Kingdom, among others) and that the geographic focus of the papers is also diverse (although primarily focused on Europe) shows, on the one hand, the expansion process and the strength of IPE in the European academic field and, on the other hand, the clear commitment of the *Revista de Economía Mundial/Journal of World Economy* to deepen its internationalisation process.

Regarding the two specific issues that underpin this Special Section, namely, the financialisation process and crises in Europe, in the first section of this editorial piece, we have already highlighted both their significance at the present time and their relevance in the research agenda, in addition to the interrelation between both phenomena. Therefore, the selection of papers which composes this Special Section is very briefly presented here.

The Special Section begins with an article by Andreas Nölke (*Goethe University Frankfurt*). Nölke (2017) critically engages with the notion of a "social Europe" in the context of structural and institutional dynamics of financialisation. Following a brief discussion of core aspects of financialisation, including an emphasis on the country-specific patterns of developments across Europe, he offers important arguments on the linkages between financialisation and crises. Here, particular focus is on the role of the European Union and relevant institutional mechanisms and political agency in strengthening, but possibly also overcoming, these financialisation processes. Nölke closes by putting forward a perspective on "de-financialisation" based on, amongst other points, strengthened control of cross-border financial flows and regulatory interventions in financial markets.

In their article, Andrew Brown, David Spencer and Marco Veronese Passarella, from the *Leeds University Business School (LUBS)* (Brown, Spencer and Veronese Passarella, 2017), study the degree of diversity within some common roots that the financialisation process has reached in different developed economies, mainly in Europe. To that end, they analyse three different indicators (employment in the financial sector, the value added of the financial sector, and the ratio of financial assets to GDP) whose behaviour leads to the conclusion that although financialisation has occurred in all of the countries analysed, both the specific patterns of its generation and its intensity show very significant differences, which allows the authors to establish the existence of an unequivocal variegated financialisation process in the EU.

Bruno Bonizzi (*University of Winchester*) and Jennifer Churchill (*SOAS, University of London*) (Bonizzi and Churchill, 2017), explore the connection between pension systems and the financialisation process in the EU. In their work they analyse the European pension fund managers' attempt to combine a reduction of their investments risk with an increase of profitability (the latter by the means of diversifying their investments towards "alternative" mechanisms such as hedge funds, private equity funds, commodities and others), and they show how this management model, in addition to having an obvious impact on the stimulation of the so-called "shadow banking", has not generated any significant impact on a long-term productive investment in the EU. However, this model has stimulated the process of financialisation of the European economy through the promotion of financial innovation and the extension of debt maturities.

The article by Ana Cordeiro Santos (*Centre for Social Studies (CES), University of Coimbra*), Claudia Abreu Lopes (*University of Cambridge, and Institute of Social Sciences, University of Lisbon*) and Sigrid Betzelt (*Institute for*

*International Political Economy (IPE), Berlin School of Economics & Law* (Santos, Lopes and Betzelt, 2017) is an excellent example of research related to the analysis of the consequences of financialisation processes. The authors perform an empirical comparison among five EU countries that are selected to represent different types of combinations of the dual financial system/welfare state model and the relevance of four major hypotheses related to the financialisation process that have been developed by the academic literature. A micro-level analysis of finance-work relations reveals some very interesting facts that would otherwise tend to remain concealed when only resorting to a macro-level analysis. To cite only one, some countries that are theoretically less affected in macroeconomic terms (drop in production, increase in unemployment, etc.) by the combined process of financialisation and crises in the EU area show how, when resorting to a micro analysis of their domestic economies (households), the processes of financialisation/crises have generated a significant deterioration in the living conditions of workers. This process not only occurs now (in terms of lower wages, worse recruitment conditions, increased risk of job loss, etc.) but also may potentially be a concern for the future. Indeed, the changing welfare state legislation makes the quantity and quality of the future protection of the (poor) labour markets" conditions increasingly and intensely more precarious (regarding old age, sickness, or unemployment) because of the dual financialisation/crises.

Finally, combining post-Keynesian postulates with elements of the Marx's monetary theory of credit, Andreja Živković (*independent researcher*) (Živković, 2017) analyses the process of first dollarisation and then euroisation, of the ex- and post-Yugoslavia economies, as well as the peculiar (in both its origin and development) process of financialisation that occurred in them. And it shows how all these processes are actually the result of the monetary policy design carried out by central banks and of the establishment of an exchange rate peg whose only objective was to facilitate the import of foreign currency to function as domestic credit money. In addition, from a more profound conceptual perspective, the author shows us how an incorrect identification between money and credit as well as the difficulties to coordinate the world money, the central bank money and the private bank money coherently, have been the fundamental causes of the problems studied in the article.

### 3. CONTINUING THE DISCUSSIONS ON FINANCIALISATION

The co-editors of this Special Section are very pleased to present such a significant selection of papers by some of the most relevant authors currently researching the connections between financialisation and crises in Europe. The range of perspectives covered in the papers also offers a welcome and important opportunity for critical dialogue between macroeconomic perspectives and studies highlighting the political economy of institutional mechanisms and concrete political agency.

What these contributions show is that financialisation as core concept for the analysis of contemporary capitalism provides a fruitful starting point, but that the debates have by now matured to an extent that differentiation, variegation and attention to specific manifestations of financialised capitalism have become key concerns for analytical discussions. One of the core contributions of the literature of financialisation, and at the same time a task that requires further attention, is to map out historically and empirically the consequences of these changes, and position them within a broader, theoretical understanding. As e.g. Tomaskovic-Devey, Lin, and Meyer (2015: 17) have shown in a broad and accessible study, financialisation leads to inequality through lost employment, stagnating wages and lost taxes; hence it benefits capital at the expense of labour and the state. The papers in this Special Section have addressed this underlying theoretical, and ultimately political, commitment in their own ways. We hope that this collection of articles will contribute to a better understanding of these phenomena and their interrelations, in addition to the capacity to have an impact, from a critical political economy perspective, on the development and implementation of economic, social, and public policies that are able to meet the enormous future challenges that both processes pose for the model of European construction, on the part of both European institutions and the various nation-states within Europe.

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