The New Political Economy of Financialization

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1. Making Sense of Financialization Studies

Scholarship on financialization has unquestionably taken flight in recent years. The concept gained prominence in the social sciences with a special issue dedicated to the topic in the journal Economy & Society (2000). Its subsequent popularity was strengthened by the 2001 dot.com crisis and even more so by the Great Financial Crisis of 2008. If anything, those events convinced social scientists that financialization is an appropriate analytical lens through which to view ongoing developments in global capitalism. Through such a lens, scholars have connected increased financial market dependence to severe real-world consequences, including economic instability (Sotiropoulos, Milios and Lapatsioras, 2013), socio-economic inequalities (Godechot, 2016; Lin and Tomaskovic-Devey, 2013), and a growing lack of democratic accountability (Nölke, 2018). As of date, more than 460 academic journal articles with ‘financialization’ or ‘financialisation’ in the title have been published, and many hundreds more take financialization as their topic (Web of Science, 2018). Arguably, the scholarship has now grown to the extent that we can speak of a veritable field of financialization studies.

Socio-Economic Review has become one of the main journals for financialization scholarship. Curiously, however, financialization studies do not necessarily constitute a new approach to political economy. Financialization scholarship is not confined to the field of political economy. From heterodox economics and social accounting studies, the concept has travelled into various social-scientific (sub)disciplines, such as cultural studies (Langley, 2008), sociology (Krippner, 2011), and geography (Aalbers, 2016). Even within the field of political economy, financialization scholars do not take a singular approach to their object of research. Instead, they employ a range of methodological and epistemological approaches, including statistical analysis (Pagliari and Young, 2014), single and comparative case analysis (Mertens, 2017; Engelen, Konings, and Fernandez, 2010), historical analysis (Van der Zwan, 2017a), and discourse analysis (Gabor, 2010). Some scholars draw heavily on historical institutionalism (Trampusch, 2015), while others take on Callon’s notion of performativity (Braun, 2016; Besedovsky, 2018) or a Foucauldian emphasis on governmentality (Lagna, 2015; Mader, 2015). The popularity of the concept across disciplinary and methodological boundaries has therefore resulted in a highly pluriform field of scholarship, which for that very reason is difficult to define and delineate.

The concept’s application has also expanded in a geographical sense. The first generation of financialization scholarship was strongly rooted in the Anglo-American political economies. To political economists, the origins of the financialization process in this region made sense analytically. With their stock market-based financial systems, those political economies were considered particularly susceptible to financialization. Newer scholarship, then, began to identify variations of financialization, using the familiar language of the Varieties of Capitalism approach. This often entailed a focus on core political economies outside of the Anglo-American world, most notably the European CMEs (Belfrage, 2008; Kädtler, 2009; Engelen, Konings, and Fernandez, 2010). A further geographical broadening of the financialization literature has generated scholarship on the wealthy Asian political economies (Lechevalier, Debanes and Shin, 2017; Rethel, 2018), China (Wang, 2015), and the developing or emerging political economies (Bonizzi, 2013; Kaltenbrunner and Painceira, 2017). Although financialization studies are still heavily biased towards the core political economies,
the number of publications with other regional perspectives is growing, including within the main political economy journals.

Despite the pluriform nature of this scholarship, studies of financialization have a number of things in common. First, they identify a fundamental transformation in 20th century capitalism, through which finance has shed its subservient role vis-à-vis the productive forces and instead has adopted an autonomous – and in many cases, dominant – presence in the political economy. Understanding this transformation requires a broader conceptualization of finance beyond political economy’s traditional focus on stock markets and banks to include other financial actors, such as sovereign wealth funds, pension and welfare funds, consumer credit and mortgage providers, etc. Second, this broader notion of finance has in turn directed scholarly attention to the impact of these structural changes on the lived experience of citizens within their everyday existence. Consequently, the household has reemerged as an important unit of analysis, in addition to the corporation or the state. Finally, scholars emphasize the crisis tendencies inherent to financialized capitalism, rather than assuming finance’s contribution to productive growth. This often leads scholars of financialization to adopt an openly critical attitude towards the empirical developments they describe, with many proposing alternative futures of economic development. In short, financialization studies have both broadened and deepened scholarly understandings of what finance is and what it does, while problematizing its reach along the way.

2. Financialization Studies and CPE

Comparative political economy is one of the main areas in which scholarship on financialization has been published. Financialization scholars have proposed new ideas on how political economies are constituted, operate, and change over time. Most importantly, studies of financialization challenge the distinction between bank-based and market-based financial systems, as found in Zysman (1983), Deeg (1999), and within the Varieties of Capitalism approach (Hall and Soskice, 2001). From the perspective of financialization, this dichotomy has lost some of its analytical strength: financialization seems to have affected political economies with much different institutional characteristics. To some extent, this is a matter of convergence: there is evidence, for instance, that non-financial corporations in CMEs have adopted pro-shareholder policies under pressure of Anglo-American investors (Alvarez, 2015; Fichtner, 2015), although the extent of convergence is debated (Maxfield, Winecoff, and Young, 2017). Here, financialization works like globalization or neoliberalization, an exogenous force of change which can easily be adopted within CPE’s historical institutionalist perspective.

Financialization studies have similarly pointed at endogenous sources of change. Hardie et al. (2013), for instance, introduce the notion of “market-based banking,” showing that even banks in CMEs have become reliant on capital markets for both the funding of loans as well as their subsequent securitization. However, the banking system is only one of the sites of change studied by financialization scholars. Home mortgages, welfare funds, consumer credit, public finance – all of these constitute alternative means through which the influence of finance has grown, even in those bank-based CMEs that from a traditional CPE perspective should have been resistant to it. The scholarship’s attentiveness to finance in its many incarnations has brought attention to those endogenous sites of change, such as the pension system (Trampusch, 2017; Van der Zwan 2017b) or the housing market (Fernandez and Aalbers, 2016), that are often historically intertwined within other institutions within the national political economy. According to Engelen and Konings (2010, p. 622), therefore, these financial configurations ‘are better seen as constituting a highly complex structure of interacting funds, cross-cutting networks, and overlapping credit relations than as consisting of discrete realms of financial action.’

Financialization also has implications for scholarly understandings of political preferences. The scholarship on financialization works from the assumption that the democratization of finance has created new dependencies of households on financial markets (Ertürk et al., 2007). The question for CPE is if and how such dependencies are translated into political preferences. CPE scholarship ties political preferences to citizens’ status in labor markets: wage-earner or employer, insider or
outsider, etc. Under financialization, however, citizens’ status in financial markets becomes equally important, whether as shareholders, mortgage owners, or pension plan participants. Financialization scholars recognize the tension that may exist between the two positions: in a highly financialized environment, one’s employment position might suffer from the same practices that one would welcome as a shareholder. Similar questions can be raised regarding the interest organizations traditionally representing wage-earners, such as labor unions. Unfortunately, little is known about citizens’ preference formation under financialization, although important advances are being made in this area of research (Bridgen and Naczýk, 2018; Pagliari, Philips and Young, 2018).

Financialization also extends to the state. To scholars of financialization, the state is an important engine behind the financialization process. From the 1970s onwards, states lifted important controls on capital mobility and thereby provided relatively free reign to financial actors (Krippner, 2011). The subsequent expansion of global financial markets coincided historically with rising public debt levels, which in turn led to the emergence of what Streeck (2014) has named the consolidation state. In its wake, governments have adopted innovative ways to make their public debt marketable through financial engineering (Lagna, 2015; Fastenrath, Schwan and Trampusch, 2017). There is an important multilevel component to these developments. Local governments have been at the forefront of financial engineering, in response to ongoing decentralization efforts of austerity-prone central states. Meanwhile, scholars have also linked financialization to the structural imbalance between debtor and creditor states within the European Monetary Union, couched in the lexicon of dependency theory (Gambarotto and Solari, 2015; Rodrigues, Santos, and Teles, 2016).

In these explorations, financialization studies complement CPE scholarship on business power. Recent years have seen a rediscovery of Charles Lindblom’s work on the structural power of business, now adjusted to the historical conditions of financialized capitalism (Culpepper and Reinke, 2014; Pagliari and Young, 2014). Whether attributed to political actors’ fear of capital flight or to the financial sector’s significant power resources, financial interests have occupied a privileged position in the policy process. The political ramifications are vast. The highly technocratic nature of financial policy-making has elevated financial professionals to policy experts and has given them unprecedented access to the policy process (Engelen et al., 2011). Under the guise of technocratic problem-solving, policies are implemented that continue to shield the financial sector from democratic accountability (Nölke, 2018). The question of financial power thus goes to the very core of political economy, as it pertains the future of democratic capitalism.

3. The Future of Financialization

Two decades of scholarship have also revealed some of the weak spots of financialization studies. As with any academic buzzword, financialization has been subjected to conceptual stretching. The broad scope of this scholarship reflects the pervasiveness of the financialization process only partially. It also signifies a related development: that financialization is increasingly becoming a stand-in term for other –izations and –isms, such as globalization, neoliberalism or marketization. The lack of conceptual clarity that permeates the scholarship has certainly contributed to this. Epstein’s (2005: 3) commonly used definition (“the increasing role of financial motives, financial markets, financial actors and financial institutions”) served the first generation of financialization scholars well, as they were bringing a new topic of research under the attention of the broader academic community. Few scholars today, however, would question the structural transformation of contemporary capitalism, whatever concept is attached to it. A critical assessment of whether such a broad definition still serves its original purpose is therefore warranted.

Arguably, the concept’s current status as academic buzzword is diminishing the continued usefulness of financialization as heuristic device to study contemporary capitalism (Christophers, 2015). This is particularly the case when studies posit another ‘financialization of...’ rather than interrogating the materiality of the process as well as its historical causes. There is a danger that the very appeal of the concept crowds out other equally, if not more, convincing explanations. Take, for instance, the burgeoning scholarship on the financialization of pensions (cf. Van der Zwan 2017b; Natali, 2018; Wiß, 2018). Here, at least three historical developments seem to coincide: capitalization
a shift from PAYG to capital-funded pensions), privatization (a shift from state pensions to private pensions), and individualization (a shift from collective DB to individual DC) – all symptomatic of a underlying risk shift from state or employer to the employee (Hacker, 2008). Questions that help tease out these different historical processes include: what makes the phenomenon being studied a manifestation of financialization and not of finance simpliciter? Is financialization a driving force or does it amplify other historical processes? And would a similar historical outcome have occurred without financialization?

Financialization studies should also address the historical alternative to financialized capitalism. As noted, financialization scholars approach the status quo critically, questioning the inherent instabilities of financialized capitalism as well as the inequalities that it breeds. However, their pessimistic diagnosis of our contemporary state of affairs often offers no way out: with almost everyone subsumed under this new ‘financial logic’, there is limited room for individual agency, let alone for a mass political movement for a more equitable future. Notable exceptions exist, which center on three broad ideas: a dismantlement of the financial sector as we know it, a reinstatement of social safety nets, and the introduction of sustainable finance (cf. Engelen et al, 2011; Nölke, 2018). Yet, it remains unclear how these should emerge out of the contemporary political moment, in which the post-war welfare state has been set aside for neoliberal austerity and xenophobic populism has moved from the political fringes to the mainstream. As political economists’ interest in financialization is unlikely to wane soon, they will therefore still have some big questions left to answer.

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References


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Web of Science (2018) *Social Science Citation Index*, accessed on July 31, 2018.
