Financialisation

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Usages of financialisation

Financialisation refers to:

- structural changes in the global economy (in particular, the growing size of the financial sector);
- functional changes in the dynamics of capital flows (from investment to speculation); and
- a redistribution of commercial power (from industrial capital/ists to financial capital/ists).

The term assumes a distinction between the 'real economy' and the 'financial sector'. In the real economy goods and services are made and sold, profits are made, and capital is invested in productive capacity. In the financial sector financial 'assets' are created, sweated, and sold; funds are loaned to households, businesses and government; 'wealth' is created (or destroyed) through speculation on asset values.

The distinction between industry and finance is not new (Lenin 1973 [1916]) but the growth of the financial sector (in absolute and relative terms) over the last 50 years has dramatically reshaped the relationships between the two domains.

The growth of the financial sector has been driven by the slowing of growth in the real economy and the redirection of profit from the real economy into the financial sector. This is commonly treated as 'investment' in financial (as distinct from productive) assets. It might be better referred to as speculation in asset values to distinguish it from investment in building productive capacity. Stagnation in the real economy (see overproduction) drives capital into speculative investment in the financial sector (Bello 2009).

Financial 'assets' (promises and bets) take many different forms, including bank deposits, shares, bonds, mortgages, and derivatives.

The growth of the financial sector has been accompanied by increasing debt; households, governments and corporations borrowing from financial institutions via the financial markets. These financial institutions (the lenders) include banks, wealth funds, managed funds, pension funds, insurance companies. These institutions mediate the lending of individual wealth as well as lending from the reserves of pension funds and insurance companies. The financial institutions profit from fees and charges levied for these transactions as well as the speculative opportunities they provide.

The ideological ascendancy of neoliberalism over the last 40 years has contributed to increasing pressure on households and government to borrow. Stagnant wages and unemployment drive borrowing for living expenses; speculation in housing drives up housing prices and indebtedness; the cutting back of the welfare state forces borrowing for education. A parallel set of pressures force industrial corporations to borrow for their operational needs and for new investment (in productive capacity). These pressures include the demands of investors for rising stock prices and for the payment of dividends.

Increasing debt gives power to the lender in individual cases, in particular, for low-income households, vulnerable governments and small businesses. However, of comparable importance is the commercial and political power of finance capital as a sector of the economy.

The commercial and political power of finance capital stems in large part from disruptive impact of sudden shifts in 'market sentiment'. In the case of individual companies who incur the displeasure of the market, a sell off of shares will reduce market capitalisation and for companies who have borrowed heavily (against their market value) may precipitate demands from their lenders for repayment of some of their debt (Kalaitzake 2015).

Likewise, government decisions which incur the displeasure of the markets may face a sudden outflow of private capital with an impact on exchange rates, increased export competition and increased domestic prices (for increasingly expensive imports). Market sentiment is largely an expression of fear and greed and as such can be powerfully influenced by mass media coverage and social media campaigning.

It is important to note that increasing debt may help to sustain economic activity (notwithstanding the trend towards stagnation) through debt funded consumer demand and debt-funded government expenditure. However, the price which is paid for such economic activity is a progressive transfer of title to the national estate from households and governments to the financial institutions and their wealthy constituencies (literally, entitlement).

The increasing power of the financial sector has other consequences.

Financial institutions sitting astride incoming financial flows need to find new markets both for debt and for real goods and services. Replacing publicly (tax) funded education with debt funded privatised education illustrates the kind of market opportunities which the financial sector is looking for. Likewise, the replacement of tax funded pensions with contributory pension schemes and the replacement of public (tax funded) health care with private health insurance.

These forms of market shaping take place within the domestic polity and internationally through the liberalisation of trade and investment. The financial sector is also keen to promote new markets for goods and services, for industries in which they have financial interests (as investors or lenders). Here again the use of political power to encourage the liberalisation of trade and investment plays an important role.

The financial institutions also have a powerful influence over the shape of the economy through their role in the buying and selling of companies. In the pharmaceutical sector, commercial opportunities which emerge in academic research lead to local start-ups with various forms of venture capital support. When one of these start-ups shows promise the global pharma giants, with their partners in the financial sector, will buy them up with a view to exploiting new markets (or possibly closing down such opportunities). Over the last 30 years the large pharmaceutical companies have moved from being integrated innovators and producers of a range of product to being the mothership of a portfolio of companies.

The financial institutions have a strong incentive to promote monopoly control of the sectors of the real economy where they have an interest (as investors or lenders) in the corporations who gain such status. Monopoly status in particular markets provides greater pricing power and protects profits from market competition.

Implications for health care and population health

The role of the financial sector in shaping the development of the pharmaceutical sector (including promoting pharmaceutical monopolies) has been noted above. These dynamics impact on the prices of medicines, vaccines and other medical products. They impact also on the pharma market more generally through directing investment funds into products with high profit expectations rather than

high priorities with respect to needs. The political support provide by the financial sector to the pharmaceutical industry has contributed to the high standards of intellectual property protection provided to the industry and to its power to refuse to share its technologies, even in the context of a global pandemic.

These patterns of influence are also evident in relation to other health care supply industries including various branches of the electronics industries.

The financial sector has a direct interest in promoting competitive private health insurance markets and privatised health care provision. The World Bank and IMF have been promoting such arrangements for decades, joined by WHO in the campaign for 'universal health cover' over the last two decades.

The pathways which mediate the influence of the financial sector on population health include:

- barriers to economic development facing L&MICs (Musthaq 2021)
- the drive to liberalise trade and investment in order to access new markets for transnational corporations and financial institutions and extend the reach of their global value chains (driving the global dynamic of overproduction);
- the continuing global crisis of overproduction with wage stagnation and unemployment (Gouzoulis and Galanis 2021);
- policies of austerity and the wind back of the welfare state (where it had been established) with consequences for health care and education;
- the widening of economic inequality with increasing numbers of wage earners reduced to precarious employment while billionaires proliferate, followed and protected by the coupon clippers from the wealthy suburbs.

Further reading

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