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New Palgrave Dictionary

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June 2025

WORKINGPAPER SERIES

Number 628

POLITICAL ECONOMY RESEARCH INSTITUTE

REVISED: *June 12, 2025*

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Entry

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Abstract

"Financialization" is the latest, and probably most widely used term by analysts trying to "name" and understand the contemporary rise of finance and its powerful role in our economy, politics and society. The term had been developed long before the crisis of 2008 but, since the crisis hit, it has become even more popular. This vast and rapidly expanding literature on financialization has a number of important strands. Some of the literature focuses on clarifying the definition of financialization, and assessing whether it is a dominant cause of the ills confronting capitalism or is just a symptom of other, deeper causes; some asks whether financialization is a new "phase" of capitalist development, perhaps a new "mode of accumulation", or considers whether it is just one among a number of important developments along with "neo-liberalism", "digitization" and "globalization"; other literature tries to measure the nature and extent of financialization; and still other work attempts to analyze the impact of financialization on important phenomena such as financial crises, productive investment, productivity growth, wages and income distribution; and finally, other literature focuses on policies that can improve finance's role in the economy. In recent years, the term "financialization" has become popularized and has currency far outside of academia; it has also become less specific and less well defined and, for that reason, may have outlived its usefulness as an academically informative category.

Keywords: financialization, shareholder value, financial crises, too much finance

JEL Classification: B5: Current Heterodox Approaches; E Macroeconomics and Monetary Economics; G3: Corporate Finance and Governance

1. Introduction

"Financialization" is the latest, and probably most widely used term by analysts trying to "name" and understand the contemporary rise of finance and its powerful role in our economy, politics and society. The term had been developed long before the crisis of 2008 but, understandably, since the crisis hit, it has become even more popular. This vast and rapidly expanding literature on financialization has a number of important strands. Some of it focuses on clarifying the definition of financialization, and assessing whether it is a dominant cause of the ills confronting capitalism or is just a symptom of other, deeper causes; some asks whether financialization is a new "phase" of capitalist development, perhaps a new "mode of accumulation", or considers whether it is just one among a number of important developments along with "neo-liberalism", "digitization" and "globalization" in the contemporary world; other literature is focused on less theoretical and more empirical matters, trying to measure the nature and extent of financialization, however defined, and to describe its institutional and economic dimensions; still other work analyzes theoretically and empirically the impact of financialization on important phenomena such as financial crises, productive investment, productivity growth, wages and income distribution; and finally, some literature is policy-oriented, trying to grapple with rules, policies and structural changes than can improve the role that finance plays in the economy.

In recent years, the term "financialization" has become popularized and has currency far outside of academia; it has also become less specific and well defined and may have outlived its usefulness as an academically informative category.

2. Financialization: Definitions and Brief History of the Concept

The origins of the term “financialization” are shrouded in the mists of history, but Malcolm Sawyer (2014) suggests that the term goes back at least to the 1990’s and probably was originated by Republican political operative and iconoclastic writer Kevin Phillips, who first used the term in his book *Boiling Point* (Phillips 1993) and a year later, used the term extensively in his *Arrogant Capital* in a chapter entitled the “Financialization of America”. Phillips defined *financialization as* “a prolonged split between the divergent real and financial economies” (Phillips 1994; Sawyer 2014: 5-6).

Since that time, there has been an explosion in the number of articles, books, and working papers on the topic of financialization since the early 2000’s. Mader, et. al. and Stockhammer trace its origins, development and spread (Mader, et. al. Chapter 1; Stockhammer 2024). Stockhammer identifies the central role played by researchers at the Centre for Research on Socio-Cultural Change (CRESC) at the University of Manchester in initiating workshops, conferences and book project to initiate a “critical conversation across academic disciplines about the impact of finance.” Stockhammer identifies other important centers of early work on financialization, including the University of Massachusetts Amherst, especially under the strong influence of James Crotty’s work, and links to the French Regulation School and Marxist Debates (Stockhammer 2024; see Crotty 2017). While the early work by CRESC scholars might have emphasized cross disciplinary work, for reasons of space and focus, this essay will concentrate almost mostly on the concept of “financialization” through the lens of economics.

Numerous definitions of the term “financialization” have been proposed. (See (Mader, et. al. 2020: 6-8; Greta Krippner (2005, 2012), Natascha Van der Zwan (2014)). Some writers use the term “financialization” to mean the ascendancy of “shareholder value” as a mode of corporate governance; some use it to refer to the growing dominance of capital market financial systems over bank-based financial systems; some follow Hilferding’s lead and mean the increasing political and economic power of a particular class segment, the rentier class; for some, financialization represents the explosion of financial trading with myriad new financial instruments; finally, for Krippner herself, the term refers to a “pattern of accumulation in which profit making occurs increasingly through financial channels rather than through trade and commodity production”(Krippner, 2005:14).

Epstein (2005) defined “financialization” broadly as: “the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies.” . This definition focuses on financialization as a process and is agnostic on whether the phenomenon constitutes a new mode of accumulation, broadly characterizes an entire new phase of capitalism, or represents a modest change in the structure of capitalism. Broad definitions like this have the advantage of incorporating many features but have the disadvantage of lacking specificity. Mader, et. al, in their survey, noted that: “…Epstein’s definition certainly facilitated the consolidation of the field (of financialization) by providing a definitional handle that suited a wide range of research endeavors”. (Mader, et. al.: 6). More specific definitions include that of Tom Palley who uses the term “neo-liberal financializaton” in his writings to emphasize the importance of neo-liberalism as part and parcel of the rise of financialization (Palley, 2013, p. 8) Some authors eschew the term “financialization” and use “finance-dominated capitalism”, stressing the power of finance. (Hein 2012; Palley 2013, chapter 1).

The common use of the term “neo-liberalism” signals a topic of much discussion and debate in this literature: what is the relationship between financialization, globalization and neo-liberalism -three forces that virtually all analysts in this area agree have had profound impacts on the evolution of our economy. (see Kotz, 2015, Lapavitsas, 2013) The main issue is determining the key driving force in contemporary capitalism, and distinguishing it from the subsidiary, or less important, forces. This literature, though interesting, is ultimately unresolved: since these phenomena have all arisen more or less together since the 1980’s, it might be impossible to settle this debate.

Another important debate is on the periodization of “financialization”. Is it only a recent phenomenon, say, important since the 1980’s? Or does it go back at least 5000 years, as Malcolm Sawyer has suggested? (Sawyer 2014: 6). If it goes back a long time, does it come in waves, perhaps linked with broader waves of production, commerce and technology or is it a relatively independent process driven by government policy such as the degree of financial regulation or liberalization (Vercelli 2014; Arrighi 1994, and Orhangazi, 2008a, 2008b). Arrighi famously argued that over the course of capitalist history, financialization tends to become a dominant force when the productive economy is in decline, and when the dominant global power (or “hegemon”) is in retreat. Think, for example the early 20th century when Great Britain was losing power relative to Germany and the US, and the UK economy was stagnating. This was a period also of a great increase in financial speculation and instability. (See also Orhangazi 2008a).

Causes of Financialization

This historical discussion has also melded into a discussion of the causes of financialization. There is a big debate about whether the current wave of financialization is due to the liberalization of financial markets starting in the 1980s, or whether it reflects the reduced profitability and stagnation in the non-financial (the so-called "real") economy. In the latter case, it is argued, capitalists tried to find alternative ways to make profits, and turned primarily to speculation in the financial sphere. In short, this question is whether financialization is due to changes in the nature and regulation of the financial sphere or is it primarily due to profound structural problems in the non-financial economy. Paul Sweezy and Harry Magdoff and the so-called *Monthly Review School* were important contributors to this perspective on financialization.[1] More recent analyses contend that financialization has become part and parcel of global, high tech industrial push for market power (monopolization) by major corporations using patents and intellectual property rights to gain market share and power (eg. Rabinovich and Reddy 2024 and more discussion below.)

An important but insufficiently discussed driver of financialization has been the role of government "bail-outs" and other state support for financial activities and the financial sector. One crucial policy action that the GF laid bare was massive government "bailouts" of the financial sector. Hyman Minsky had long identified "bailout" as a crucial component of the modern capitalist system, and Kindleberger extended Minsky's analysis to the global arena (Minsky 1986; Kindleberger 1992). But even these seminal analyses fail to emphasize sufficiently the role of these actions on the expansion of the financial sector and the growth,

[1] Paul Sweezy and Harry Magdoff and the so-called Monthly Review School, were important contributors to this perspective on financialization.

spread and sustainability of the process of financialization itself. (Pollin and Epstein 2021). It is hard to know, of course, what the world would look like today if the central banks and treasuries had not bailed out the financial sector in 2008-2009, and then again in 2020 and beyond, but one thing is pretty clear: the spread and influence of finance and financial markets would have been rather attenuated. Recent work associated with the so-called “money view” has identified the critical role of central bank bail-outs – which they call the “dealer of last resort” in underwriting the global financial system and have even argued for these bailouts to be sustained and even expanded if necessary (eg. Mehrling, 2009) While these might be necessary to keep the current system going, it raises the question of whether the current system is worth saving, much less promoting.

Another issue concerns the role of the massive increases in income and wealth inequality in driving financialization. A common argument is that this inequality has led middle- and lower-income households to over-borrow to sustain their livelihoods, leading to vast increases in consumer debt. As for the rich, their vast increase in income and wealth shares has led to the accumulation of large amounts of financial assets and the purchase of significant amounts of financial services, thereby promoting financialization in a self-perpetuating loop. (Van Treek and Sturn 2012; Stockhammer 2013)

Understanding the root causes of financialization is important in its own right, but it is also important for sorting out plausible policy responses to the negative impacts of financialization. One policy implication of this debate is that if financialization is a purely financial problem, it might be easier to “fix” “simply” through financial regulation and financial restructuring; if the problems stem from the “real” economy, wealth distribution and the global distribution of power, then “fixes” might not be so easy, and in particular, might require dramatic changes in the very structure of contemporary capitalism and global political economy.

3. Dimensions of Financialization

If one takes a broad perspective on financialization, one can identify many dimensions of it. One is the sheer size and scale of financial markets and can be seen quite clearly in the large growth in the size of the financial sector relative to the rest of the economy over the last several decades. This growth in finance has been a quite general phenomenon in many parts of the world. It has been most dramatic in the U.S. and U.K.

The growth of finance relative to the size of the economy since 1980 or so has been nothing short of spectacular. A few pieces of data illustrate this point well. Start with profits of financial institutions. In the United States, financial profits as a share of GDP were around 10% in the 1950’s. By the early 2000’s, financial profits constituted about 40% of total profits in the US, a historical high. After a sharp decline during the Great Financial Crisis of 2008, financial profits have recovered to above 30% of profits, well above the average for the post-war period.

Naturally, with profits having grown so significantly, the size of the financial sector is likely to have been growing as well. Financial sector assets relative to GDP was less than 200% from 1950 to 1985. By 2008, they had more than doubled to well over 4 times the size of the economy. After a short dip following the GFC, financial sector assets had grown to be almost 500% of GDP by 2015 (Epstein and Montecino, 2015).

Trends in the UK are similar to those in the US, with both the size and the profitability of the financial sector and its profitability growing substantially in the post-war period until the great financial crisis, and resumed growth since that time. Indeed, since the crisis, growth of financial assets in the UK have outpaced those in the US, Germany and Japan, relative to GDP (Lapavitsas 2013: 205 – 2011).

More generally, the size of the financial sector and financial profits relative to the size of the economy has grown substantially in most European countries over this period. (FESSUD, various).

Another dimension that characterizes financialization in many countries has been an increase in the financial activities and financial orientation of non-financial corporations. De Souza and Epstein (2014) present data on the financial activities of non-financial corporations in six financial centers, the US, UK, France, the Netherlands Germany and Switzerland. They show that in all the six countries – with the possible exception of France – non-financial corporations significantly reduced their dependence of external borrowing for capital investment. And, indeed, in three of the countries – the UK, Germany and Switzerland – non-financial corporations became net lenders, rather than net borrowers, indicating an increasing role for financial lending as a profit center for non-financial corporations in these countries. Lapavitsas (2013) showed similar trends for the US, UK, Germany and Japan. However, as is discussed later, recent research has raised doubts about this corporate financialization narrative.

A key aspect of financialization that analysts agree has been particularly pernicious has been the vast increase of debt levels in many countries and many sectors (Admati and Hellwig, 2024). Debt, or leverage, is an accelerator that enables the financial system to generate a credit bubble, that allows some actors, such as private equity and hedge funds to extract wealth from companies, and that can quicken the pace of economic activity more generally, and it is the accelerator on the way down after the bubble bursts, leading to distress, deflation and bankruptcy. (Minsky 2008).

4. Sites of Financialization

Corporate Financialization (CF) as a Centerpiece

The financialization of the non-financial corporation has been a central theme of the financialization literature virtually from its inception. (Stockhammer 2024; Mader, et. al. 2020). James Crotty (2005) and scholars at Centre for Research on Socio-Cultural Change (CRESC) at the University of Manchester (Froud, et. al. 2006, Stockhammer 2024) and William Lazonick and Mary O'Sullivan (2000) were among the first to emphasize the importance of these significant changes in the management and orientation of non-financial corporate behavior. In a nutshell, these analysts argued that financial interests and markets began to dominate the goals and behaviors of non-financial firms in the 1990's, leading these firms to invest less in their workers, their corporations and other stakeholders, while returning more income to shareholders and other financial market actors. This shareholder value orientation (SVO) is also argued to have led these companies to begin adopting more shorttermist and speculative corporate strategies, all to the detriment of the long-term welfare of their stakeholders, and the economy as a whole. (Palladino 2025).

The impacts of corporate financialization (CF) are said to be many and widespread. These include the increased role of financial activities as a determinant of the pay packages of top management of non-financial corporations, including, most importantly, the corporate CEO. Key here is the role played by stock options and other equity related pay for non-financial corporate management. In the US, where this is especially prevalent CEO's on average receive 72 % of their compensation in the form of stock options and other stock related pay (Lazonick 2013).

This focus on stock price leads non-financial corporations to use their revenue to buy back stocks in order to raise the stock prices and increase their compensation. Lazonick refers to this pressure as leading to management policies of "downsize and distribute" a dramatic shift from an earlier strategy or "retain and reinvest", by which management would retain profits and re-invest back into the human and technological capital of the firm. (Lazonick 2013, Palladino 2025). The numbers in the case of the US are staggering. Using a sample of 248 companies that have been listed on the S&P 500 since 1981, Lazonick reports that: in 1981, firms use 2 percent of net income for stock buybacks. Between 1984 and 1993, such purchases averaged 25 percent of net income, from 1994-2003, 37%; from 2004 – 2013, they used a full 47% of net income for stock buybacks. (Lazonick, 2015). Some large, well-known corporations used even a higher percent of their income for buybacks.

This focus on stock price is often seen as a prime example of "share-holder value orientation" (SVO) seen by some as the very essence of "financialization". (Froud, et. al., 2008). Share-holder value orientation (SVO), promoted in the mainstream of the economics profession by Michael Jensen, among others, argues that since shareholders own the corporations (are the riskbearing residual claimants"), that the goal of the corporation management should be to maximize the corporate value for shareholders. Since, they argue, shareholders bear all the risk in the corporation, then this maximization is the most efficient corporate outcome. Lazonick shows that other stakeholders, like workers and taxpayers, bear as much if not more risk than shareholders (Lazonick, 2013). And Stout shows that shareholders do not really own the corporations, nor do they all share the same values as embodied in the Jensen ideal. (Stout, 2012). Hence, "maximizing shareholder value" does not mean maximizing share price. But, according to these analysts, it does often lead to short-term, destructive orientation by management.

According to this and other financialization strands, "short-termism" is a major component of "financialization" (Rabinovitz and Reddy 2024). By 'short-termism" is meant a short time horizon held by CEOs and other economic leaders in making production, investment and financing decisions. This short-termism might lead to under-investment in long gestation but highly productive and profitable (in the long-run) investments, under-investment in labor development, under-investment in research and development activities, and over-investment in activities that generate short run profits but that might generate long-run risks and/or losses. Evidence of short-termism include the reduced holding period of equities in financial markets, survey evidence that managers will cut profitable long-term investments to reach short-term profit goals, and that investors have higher rates of required returns for longer term investments than is necessary (see Haldane and Davis 2011).

This short – term-oriented behavior is alleged to affect non-financial corporation management not simply because of the direct incentives facing corporate CEOs, but also because of the pressure from outside investors and financial institutions. These include pension funds and related institutional investors (Parenteau, 2005) and also private equity firms (Appelbaum and Batt, 2015) and hedge funds (Dallas, 2011). These financial institutions use access to debt and financial engineering to extract value in the short run from non-financial corporations, possibly at the expense of investment, taxpayers and labor.

In recent years, CF research has come under close scrutiny and criticism from some heterodox economists who argue that the overall theory lacks coherence, and is often unsupported by the empirical evidence (See Rabinovich and Reddy, 2024, for a critical survey). Among other issues, these critiques argue that many of these corporations have adopted strategies focused on intellectual property rights and intangibles in order to monopolize and expand, rather to hollow out and shrink, as some of the CF literature claimed. (Orhangazi 2018; Rabinovich and Reddy, 2024). This analysis also dovetails with the important work on multinational corporations, supply chains and financialization (Milberg and Winkler 2013). Understanding the relative insights of these literatures is one of the more promising areas of research in financialization studies.

The Financialization of Households and Everyday Life

As the Great Financial Crisis of 2008 clearly demonstrated, the process of financialization has not only captured financial and non-financial institutions into its orbit, but also households as well. After all, the epicenter of the financial crisis in the United Sates was in the home mortgage market and to some extent one segment of that market, the so-called “sub-prime mortgage market”. Costas Lapavitsas (2013) and others have argued that process of financial incorporation of households led to the “financial expropriation” of these households by financial businesses, and expropriation most clearly and obviously expressed by the massive loss in housing wealth experienced by poor people and minorities in the US as a result of the crisis. (See Taub 2012).

The incorporation of households into the "circuits" of financialization goes beyond the intensive use of mortgages to buy homes, sometimes, as we saw in 2008, with catastrophic consequences. The use of credit cards and other forms of consumer credit, and the widespread indebtedness of students through student loans, also comprise the webs of connections that households have come to have with the financial markets (Kuttner, 2013).

An important branch of literature on households and financialization identifies close and dynamic connections between neoliberalism and financialization via privatization and cut backs in the "welfare state" including through austerity measures. An important lens through which to analyze these processes is through the concepts of "provisioning", the "financialization of everyday life", and more broadly, "material cultures of financialization". Among other contributions these link the household with financialization through channels addition to simply the household accumulation of debt. (Fine 2017; Bayliss, Fine and Robertson 2017; Langley 2020)

Financialization of the Government: Financialization as Infrastructural Power

A recent strand of literature identifies tendencies toward the "financialization of the government and international organizations. (Walter and Wansleben 2020; Gabor 2021). This literature argues that central banks and other state actors promote financialization to facilitate their economic policies. For example, central banks and fiscal authorities promote bond markets and other securities markets infrastructure to facilitate the effective management of public debt. The ability to sell government debt facilitates fiscal policy, of course, so, by this analysis, financial infrastructure associated with financialization can be a productive phenomenon. (See, for example, Walter and Wansleben 2020). Gabor is more critical of the ways in which the World Bank and other international organizations use financial products such as derivatives to implement development and environmental programs. (Gabor 2021)

Financialization of the Financial Sector

Strangely enough, little discussed explicitly in the financialization literature-perhaps because it is seen as too obvious-is the "financialization" of the financial sector itself. But ignoring the radical transformation of the financial sector is a big oversight. Take, for example, the massive innovations produced in the financial sector and markets from the 1990's onwards, including structured products such as asset backed securities (ABS), derivatives such as credit default swaps (CDS), collateralized debt obligations (CDOs) and their variations ($CDOs^2$).[2] Of course, these have been investigated extensively, but their contribution to the financialization of the financial sector – including the leverage, short-termism, and instability created – all hallmarks of financialization more generally – is little remarked upon in the financialization literature. (an exception is Crotty 2009). But understanding the behavior of this sector is critical for understanding the impacts it can have on other aspects of the economy, including households and non-financial corporations.

[2] Epstein (2024) refers to this evolution as one from "boring banking" to "roaring banking".

The most obvious impact of the "financialization of finance" on the economy, was the great financial crisis of 2009. This international phenomenon had widespread economic and political costs and is still reverberating through the global political economy. (Crotty 2009; Wilmarth, Jr. 2020.) But there are longer term impacts of the "financialization of finance" on the economy, captured among other places, in the literature on "too much finance" (see below).

Evolution of Key Institutions: Private Equity, Hedge Funds, Asset Managers, Private Markets

The financial markets and institutions, both domestic and global, are highly dynamic, responding to changes in technology, regulations, competition and demand among other factors. Research has identified major changes in financial markets since the Great Financial Crisis (GFC) of 2008-2009 and the regulatory response to the crisis in the US and elsewhere since then. Among the most important identified in the financialization literature has been the rise of private markets – including hedge funds and private equity funds – and the rise of the reach and power of large-scale asset managers. (Aramonte and Avalos 2021; Musthaq 2020). Some have identified this with the rise of the so-called "shadow financial system" (eg. Mehrling 2011). Some have seen this as part and parcel as a shift from bank-based financial systems to a capital market-based system as the large banks have tried to reduce their footprint in response to the GFC and subsequent regulations. Some have even suggested that the rise of the big 3 asset managers (Vanguard, BlackRock and State Street Global Advisers) has led to a whole new epoch of financialization (Benjamin Braun, "Asset Manager Capitalism as a Corporate Governance Regime", 2021). Others have argued that the mega banks are still integrally connected to these markets and institutions and the changes mark more of an evolution than a revolution in financialization structure.

Financialization in Developing Countries

Financialization started first and initially grew rapidly in the rich countries, especially in the US and UK before spreading to other countries in Europe. An important issue is whether financialization has spread to developing and emerging market economies and if so, in what form? More specifically, how is it similar or different from financialization in the rich countries? (Karwowski 2020). An important strand of literature identifies "subordinate financialization" in developing countries (Bonizzi, et. al. 2020). According to these authors, "..finance plays a catalytic role in the extension, expansion and internationalization of capitalist accumulation…Theorizing financialized capitalism as a global phenomenon in this way, requires us to confront how it emerges from and plays out across a hierarchical and uneven global landscape." (Bonizzi, et. al., p. 177). This process leads, the authors argue for the existence of a subordinated form of financialization in emerging market economies. (See also Milberg and Winkler, 2010). Considering that the world is a vast and dynamic space, these questions and conjectures lay the groundwork for much more fruitful future research in this area. (see Alami, et. al. 2023)

Capital Flight and the Secrecy Haven Industry

Financialization impacts both rich and developing countries via the "Haven" industry: the network banks and other financial institutions, accountants, lawyers and real estate agents that enable vast flows to and accumulation of funds in "tax havens", "secrecy havens" and "laundromats" (cleaning and washing ill-gotten gains) (Shaxson 2011; Collins 2021; Zucman 2019; Henry 2012, 2016). Zucman estimates that hidden wealth amounts to between 8% and 11% of total personal wealth worldwide, amounting to some $10 trillion (in 2015). (Zucman, 2015). Henry and others estimate that the total is much higher (Henry 2016). Some of the most startling analyses and evidence comes from the seminal work of James Boyce and Leonce Ndikumana on capital flight from Africa. They show that a number of African *countries* that are formally net debtors are actually net creditors if one includes the wealth that *rich African citizens* hold abroad. (Ndikumana and Boyce 2022). These country debts have highly negative impacts on these societies, starving them of desperately needed foreign exchange.

In a wider analysis of what they call the "transnational plunder network", they describe the network of capital flight enablers, including financial institutions, from the rich countries, which could reasonably be called a "financialized" network (Ndikumana and Boyce 2022, p.239).

Conclusion

As this section has shown, financialization has numerous dimensions, and has moved in some countries way beyond the "financial sector" itself. Financial returns, financial motives, widespread use of debt and short-termism, among other aspects, have become crucial, if not dominant, for financial firms, non-financial firms, and households. This growth in finance, which accelerated around 1980 in a number of countries, has taken on significant global dimensions as well. Extended to developing countries more recently, it is argued that financialization has taken a "subordinated" role to the richer economies.

The question naturally arises, what is the impact of financialization on the economy and on society?

5. Impacts of Financialization

Heterodox economist and sociologist analysts of "financialization" have generally taken a quite critical view of the impact of financialization on the economy. There are some exceptions. Prior to the Great Financial Crisis (GFC), some suggested that financialization might provide a viable system of regulation and growth (Boyer 2002). But most of these analysts have identified a number of key problems associated with financialization including increases in economic instability, increased short term orientation, reduced long-term investment in equipment, innovation, infrastructure and human capital and an increase in income and wealth inequality. Still, there is no consensus on the precise dimensions of these problems and to what extent they should be attributed to financialization or other factors such as neo-liberalism, digitization or globalization.

These broad issues and debates are fascinating and provide frameworks and agendas for investigating key questions with respect to the dynamics and impacts of financialization. Among the most important contributions made in this literature are in the empirical realm, that is, empirical and historical studies that have looked at the dimensions of financialization, its key institutional embodiments and dynamics, and at its impacts on key economic, political and social outcomes.

Macroeconomic Models and Financialization

Before discussing particular impacts of financialization, it will be helpful to present a broad framework that can help us understand the impact of financialization on macroeconomics. (see Palley (2012); Hein and Van Treeck (2010), Skott and Ryoo (2009)).

Because of space limitations, I will very briefly discuss only one framework here, that of Eckhard Hein. Hein utilizes a Kaleckian model, in which aggregate demand plays a key role in determining investment and output and income distribution of income between profits, wages and "rentier" or "financial incomes" have a big impact on aggregate demand. Eckhard and van Treeck, for example, identify three key channels through which financialization can affect macro variables and outcomes: 1) The objectives of firms and the restrictions that finance places on firm behavior 2) New opportunities for households' wealth-based and debt-financed consumption, and 3) The distribution of income and wealth between capital and labour, on the one hand, and between management and workers on the other hand.

Hein shows that within the Kaleckian framework, that expansive effects may arise under certain conditions, in particular when there are strong wealth effects in firms' investment decisions and in households' consumption decisions. However, they show that even an expansive finance-led economy may build up major financial imbalances, i.e. increasing debt-capital or debt-income ratios, which make such economies prone to financial instability.

Financialization and Investment

Among the most studied macroeconomic connection is that between financialization and investment. Stockhammer (2004) pioneered the theoretical analysis of the impact of financialized manager motives on investment. He showed that finance-oriented management might choose to undertake lower investment levels than managers with less financialized orientations. He presented macro-level econometric investment equations that were consistent with this impact in several OECD countries.

Orhangazi (2008) uses firm level data to study the impact of financialization on real capital accumulation in the United States. He used data from a sample of non-financial corporations from 1973 to 2003, and finds a negative relationship between real investment and financialization. Orhangazi explained his results by exploring two channels of influence of financialization on real investment: first, increased financial investment and increased financial profit opportunities may have crowded out real investment by changing the incentives of firm managers and directing funds away from real investment. Second, increased payments to the financial markets may have impeded real investment by decreasing available internal funds, shortening the planning horizons of the firm management and increasing uncertainty.

Davis (2017) provided further evidence of negative impact of financialization on real investment. She also studied a sample of non-financial firms, showing a significant difference between large and smaller firms in the degree to which they receive financial income as a share of total income. Larger firms appear to be more financialized in this sense. Using a firm-level panel, she investigated econometrically the relationship between financialization and investment, exploring focusing on the implications of changes in financing behavior, increasingly entrenched shareholder value norms, and rising firm-level demand volatility for investment by NFCs in the U.S. between 1971 and 2011. Importantly, Davis found that shareholder value norms were associated with lower investment, though this relationship tended be true primarily of larger firms.

These results are consistent with the concerns expressed by heterodox analysts and others that financialization will tend to reduce real investment. Note that some other analysts have now cast some doubt on these relationships (see below).

Employment, Human Capital, R&D and Wages

An increasing chorus of analysts among heterodox economists including William Lazonick (2009), Eileen Appelbaum and Rosemary Batt (2014) and iconoclast Andrew Haldane (2011), have expressed concerns that "short-termism" associated with financialization may be coming at the expense of investments in human capital, research and development, employment and productivity growth. There is some empirical work that is supportive of these fears. In a set of surveys of corporate managers, Graham, et. al (2006) show that *many* chief financial officers are willing to sacrifice longer term investments in research and development and hold on to value employees in order to meet short-term earnings per share targets. In a panel econometric study, Almeida, et. al. (2014) similarly find using firm level data that managers are willing to trade-off investments and employment for stock repurchases that allow them to meet earnings per share forecasts. Appelbaum and Batt (2014) in a survey of econometric studies of private equity firms find that especially large firms that use financial engineering to extract value from target companies, have a negative impact on investment, employment and research and development in these companies. In short, there is significant empirical evidence that "short-termism" and other aspects of financial orientation have negative impacts on workers well being, productivity and longer-term growth.

An important point, as many of these studies emphasize, is that these activities do NOT maximize share-holder value, but often increase incomes for some managers and shareholders, partly at the expense of other shareholders of the firms not to mention stakeholders, such as workers and taxpayers.

Income Distribution

There has been some empirical work to look at the impact of financialization on income and wealth distribution. Descriptive analysis in the U.S. indicates that the top earners, the 1% or even .01% of the income distribution get the bulk of their incomes from CEO pay or from finance (Bakija, et. al. 2012). Econometric work looking at the relationship between financialization and inequality is also growing. Tomaskovic-Devey and Lin (2011) present an econometric model indicating that since the 1970's, between 5.8 and 6.6 trillion dollars were transferred to the finance sector from other sectors in the economy, including labor and taxpayers.

Lin and Tomaskovic-Devey (2013), using a sectoral econometric analysis for the US, find that in time-series cross-section data at the industry level, an increasing dependence on financial income, in the long run, is associated with reducing labor's share of income, increasing top executives' share of compensation, and increasing earnings dispersion among workers. They do a counterfactual analysis that suggests that financialization could account for more than half of the decline in labor's share of income, 9.6% of the growth in officers' share of compensation, and 10.2% of the growth in earnings dispersion between 1970 and 2008.

Dunhaupt (2013) finds a negative relationship between financialization and labor share in a larger set of countries. She uses a time-series cross-section data set of 13 countries over the time period from 1986 until 2007. The results suggest that there is indeed a relationship between increasing dividend and interest payments of non-financial corporations and the decline of the share of wages in national income. Other factors that can be accounted for the decline relate to globalization and a decrease in the bargaining power of labor.

Financialization and Economic Growth

Too Much Finance?

What is the impact of financialization on economic growth? A small literature has analyzed the impact of finance on economic growth. A provocative line of empirical work has gone under the rubric of "Too Much Finance" (Arcan, et. al., 2015; Cecchetti and Kharroubi 2012). These authors from the IMF and the BIS estimated the relationship between the size of the financial sector, (as measured by the ratio of private credit to GDP) and the rate of economic growth in a group of countries. Contrary to much previous work in this area, they found an inverted U-shaped relationship: up to a point, more finance was associated with higher economic growth, but beyond that point, the relationship turned negative, with more private credit (relative to GDP) being associated with lower economic growth. A cottage industry of papers has investigated the explanations for the finding and most have suggested that one of the keys is that a large financial sector draws away skilled labor from other more productive sectors. Others have suggested that the main problem is not the size of the financial sector per se, but how larger financial sectors behave in practice: these argue that financial crises, excessive speculation and short-termism, and mis-allocation of capital resources as well as labor resources – in other words, the financialization of the financial sector - are the root of the problem.

A few studies have adopted this overall perspective and tried to estimate at a broad macro level the cost to the economy of these financialized systems. Gerald Epstein and Juan Antonio Montecino analyzed the case of the United States from 1990 -2023. They grouped the costs of the "financialized" financial sector into three components: 1) Excess profits and rents accruing to owners and top-level financiers in finance 2) misallocation of resources (i.e. "too much finance") and 3) the costs of financial crises (using the case of the 2007-2008 crisis). They found these costs amounted to between 75% and 125% of a year's GDP. (Epstein and Montecino 2016; updated in Epstein 2024, p. 89). Baker, Epstein and Montecino did a similar study for the UK over the period 1995-2015 and found that the "financialized" financial sector there cost the UK economy more than 280% of a year's GDP.

These estimates are broad based and rather crude. But they point to a number of key channels through which a bloated and misaligned financial sector can actually cost an economy on a net basis.

The Politics of Financialization

Financialization of the CEO

With a focus on political economy, a small portion of the financialization literature investigates the political dynamics and coalitions that promote financialization and benefit from it. (eg. Pagliari and Young 2020). Epstein identifies what he calls *The Bankers' Club*, including financiers, some politicians, central bankers, lawyers and economists who defend and promote the financial sector and financialization more generally. (Epstein 2024). One enduring question concerns the political attitudes of financial vs. non-financial CEOs and corporate boards with respect to government policies that regulate finance. Keynes, for example, identified significant political conflict in the UK between "finance" and "industry" in the early 20th century UK. Similar conflicts were identified in the US. But in recent years, financial and non-financial corporations usually seem to be on the same page politically when it comes to financial and macroeconomic issues. Why? One explanation is that "financialization of non-financial corporations" has unified the interests of these two types of firms. But critiques of Corporate Financialization, such as those of Rabinovitz, cast doubt on the degree to which non-financial firms have become financialized. An alternative explanation for non-financial corporations' support for financialization is what Epstein calls the "financialization of the CEOs". (Epstein 2024, chapter 9). CEO's of major non-financial corporations have become enormously wealthy and need financiers, lawyers, accountants to manage, hide and maximize returns on their large asset portfolios. Even if more financial regulation might benefit their corporations, individually they want maximum leeway to allocate their wealth. Hence, politically, they align their corporations with the financiers on such issues. (See also Pagliari and Young 2020).

6. Emerging Issues

Digitalization, Crypto Assets and Artificial Intelligence

While there has been much discussion in the financialization literature about the relationship between neo-liberalism and financialization, there has been much less about the relationship between financialization and digitization. Of course, there has been a good deal of discussion over the years of the relationship between "financial innovation" and financial development and even financialization. (Vercelli 2013; Comert et. al 2019). But the digital revolution, and the emergence of crypto assets and artificial intelligence may have significant implications for financial markets and for financialization more generally (Gabor and Brooks 2017; Epstein and Solipa 2025). Klinge, et. al. analyze digital monopolies, such as Google and Microsoft and argue that tools of financialization are being used to enhance their profitability and monopolization in a somewhat dangerous synergy. (Klinge, et. al. 2023). One conjecture is that crypto which, in particular, is getting a second or third wind from the alignment of political forces in the United States will have significant negative implications on financial instability, financial inequality, and climate change (given the massive carbon footprint of current crypto mining techniques). This issue will require further inquiry.

Is the Term "Financialization" Useful or Has it Become too Diverse and Vague?

There is an open question that has nagged discussions of the concept of financialization almost from its inception. Is "financialization" a useful concept? (Mader et. al, 2020 Chapter 1; Stockhammer 2024). This question has particularly hounded broad definitions such as Epstein's (2005) but continues to cast doubts even when more focused definitions, such as "the emphasis on shareholder value" are employed. There are several reasons for this. First, paradoxically, the sheer diversity in the types of definitions used means, by definition, that the term has no commonly agreed upon meaning. Second, and as a related manner, since the term "financialization" has come to be used in a number of different disciplines in various incarnations, the specialized and diverse uses render the term less coherent overall (Stockhammer 2024). Third, the lack of consensus on the dividing lines and connections between "financialization", "neoliberalism", "globalization" and "digitization" further dulls the concept's incisiveness.

Having said all this, the term "financialization" still lives on and indeed has spread widely, not only into multiple disciplines but also into popular writings (eg. Foorohar 2016) Perhaps it should be treated like the term "capitalism" whose precise meaning has been in dispute for decades if not centuries, especially as it evolves. Yet, it lives on because it is an obvious shorthand for this economic system we know we all live in and, for which there is no other more obvious name. The same may go for "financialization": we know that finance has become more important and more problematic even if we don't understand exactly how or in what ways.

6. Conclusion

There is little doubt that the size and reach of financial activities, markets, motives and institutions has grown enormously in the last thirty years, relative to other aspects of the economy. There is a great deal of historical and empirical evidence that, at least to some extent, this growth has contributed to economic instability, an increase in inequality, and perhaps to a decline in productive investment and employment relative to what might have occurred otherwise. There is less consensus on whether this constitutes a new epoch, phase, or mode of accumulation or what exactly is causing this shift: is it underlying problems in the "productive core" of the economy, a reaction to broader shifts in the global economy associated with globalization, technological changes associated with digitization, or primarily due to financial de-regulation as being part and parcel of neo-liberalism.

Still, it is important to keep in mind that other major global trends are now interacting with financialization in complex ways. These involve increasingly powerful trends in high tech (such as artificial intelligence (AI)), increasing corporate uses of intellectual property rights and intangible assets for monopolization of industries, the increasing roles of tax (and secrecy) havens, and the push to use more financial tools to deal with complex problems, such as climate change. These complexities, among other factors, drive the calls for more government and central bank support for financial markets (bailouts) while blurring the lines between finance, technological innovation, monopolization, globalization and state underwriting. In this emerging complex-interconnected world, the concept of "financialization" as a driving force may need to give way to a more multi-faceted conceptualization that encompasses more of these interlaced forces.

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