

THE EXTENT AND VARIATION OF FINANCIALISATION IN EUROPE:
A PRELIMINARY ANALYSIS

*LA EXTENSIÓN Y LA HETEROGENEIDAD DE LA FINANCIARIZACIÓN EN EUROPA:
UN ANÁLISIS PRELIMINAR*

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ABSTRACT

This paper provides a preliminary analysis of the variegated extent of financialisation of European economies since circa 1980. For this purpose, the broad characterisation of financialisation offered by Fine (2012) is adopted. This characterisation identifies eight features of the financialisation process. We focus in particular on the size of the financial sector within a selection of European economies. Data show that the financialisation process is not reflected in the share of employment in the financial sector. This is likely to be the result of the labour-saving nature of technological and organisational innovations introduced in the financial sector in the last two decades. By contrast, the increasing weight of finance in the economy is reflected in the ratio of the value added of the financial sector to total value added and by the ratio of the value of financial assets to GDP. Overall, we find that most European countries have undergone a process of financialisation in the last three decades. However, this process has been variegated, leading us to coin the term 'variegated financialisation'. The variegation of the financialisation process is likely to be explained by differences in economic and social structures between nations, regions and systems.

Keywords: Financial Crises; Government Policy and Regulation of Financial Markets; Financial Institutions; Varieties of Capitalism; Variegated Financialisation.

RESUMEN

Este artículo proporciona un análisis preliminar del heterogéneo proceso de financiarización acontecido en las economías europeas desde 1980. Para ello, se adopta el enfoque amplio de financiarización definido por Fine (2012) que identifica ocho elementos significativos en dicho proceso; más concretamente, nos centramos en el análisis del tamaño del sector financiero en una selección de países europeos. Los datos muestran que el proceso de financiarización no se manifiesta en términos del crecimiento del empleo en el sector financiero, probablemente como consecuencia de la naturaleza 'ahorradora de empleo' de las innovaciones organizativas y tecnológicas introducidas en el sector en las dos últimas décadas. Por contra, la creciente participación de lo financiero en la economía sí se hace patente en la ratio valor añadido del sector financiero sobre valor añadido total y en el cociente entre el valor de los activos financieros y el PIB. En términos generales, encontramos evidencia de que en la mayoría de las economías europeas estudiadas ha tenido lugar un proceso de financiarización a lo largo de las tres últimas décadas, pero que dicho proceso se ha desarrollado de manera muy diversa, lo que nos lleva a acuñar el término "financiarización heterogénea" (variegated financialisation). Este proceso de financiarización diferencial se explica por las diferencias en las estructuras económicas y sociales entre los diferentes países, regiones y sistemas.

Palabras clave: crisis financieras; política gubernamental y regulación de los mercados.

JEL-Classification: G01, G18, G21, N20.



1. INTRODUCTION

This paper provides a preliminary analysis of the variegated extent of financialisation focusing on European countries since circa 1980. It does so by drawing on and synthesising data contained mainly in the country reports produced as part of Work Package 2 in the FESSUD project.¹ OECD and Eurostat statistics are also used to facilitate cross-country comparison.

The term ‘financialisation’ originates in non-mainstream economics. That term aims to address in an interdisciplinary and open way important social and economic changes that have occurred in the last three decades. There are several features which distinguish the era of financialisation. While capitalist economies have always relied heavily on finance, what is distinctive about the present era is the deepening and broadening of financial motives, financial markets, and financial institutions within capitalist economies (for discussions on financialisation see, among others, Epstein 2005, Hein 2010, Fine 2009, and Erturk *et al.* 2008, IJPE 2013). These changes have occurred through the globalisation of capital flows, the shareholder value revolution, and the rise of incomes from financial investment (Stockhammer 2004).

The paper is organised as follows. First, a broad characterisation of financialisation is presented. Here we draw on the work of Fine (2012), and explain why our examination is preliminary but necessary in light of debates in the financialisation literature. Second, the cross-country trend in the employment share of the financial sector is discussed. We argue that usually financialisation does not involve an increase in the employment share of banks and other financial institutions, due to the increasing technology intensity of financial activities. Recent financial crises have also had a negative, but country-specific, impact on the employment level in the financial sector. Section 4 deals with the gross value added of the financial sector. We show that the latter has increased across EU countries in the last decades. However, differences between countries are at least as apparent as similarities. Whereas the UK is the financial core of Europe, the manufacturing sector is still somewhat dominant in Germany. Section 5 is devoted to the analysis of the cross-country trend in the value of financial assets. The latter has grown in most EU countries in the last

¹FESSUD stands for ‘Financialisation, Economy, Society, and Sustainable Development’. It is a multidisciplinary, pluralistic project which aims to forge alliances across the social sciences, so as to understand how finance can better serve economic, social and environmental needs. We refer the reader to FESSUD website: <http://fessud.eu/>

decades. This is the most eye-catching feature of financialisation. Finally, section 6 offers some broad conclusions and reflections. We argue that, while the increasing weight of financial motives, financial markets and financial institutions is apparent in most EU countries, financialisation should be regarded as a geographically and temporally variegated process.

2. DEFINING FINANCIALISATION²

Fine (2012) identifies eight features which mark the process of financialisation of capitalist economies in the last thirty years. First, financialisation refers to the worldwide expansion and proliferation of financial markets, institutions, and assets since the mid-1980s. As we will show, this is reflected in the rise of both the value added share of the financial sector and the ratio of financial assets to GDP (e.g. Blankenberg and Palma 2009). Financialisation has been driven by 'Anglo-Saxon' countries, with the United States having the predominant role, but European countries have also been affected by the increasing dominance of finance. The equity to GDP ratio for the Euro Area rose from 8% in 1980 to 82% in 2006.³ Similarly, private debt securities, government debt securities, and bank deposits ratios to GDP rose from 14% to 114%, from 13% to 61%, and from 43% to 99%, respectively over the same period (e.g. Frangakis 2009: 59). Second, financialisation has gone along with the deregulation (and re-regulation) of the financial system and the liberalisation of goods, capital and labour markets. Third, financialisation has been associated with the implementation of a multitude of new financial activities and products, including subprime mortgages, derivatives, and over-the-counter securities. Fourth, financialisation has been reflected in the progressive dominance of the finance sector over the manufacturing sector. The point is that large corporations, including non-financial ones, have increasingly derived profitability from financial (as opposed to productive) business, especially in the Anglo-Saxon countries. The pursuit of shareholder value in the short run has affected negatively long-run productive investment and the accumulation of fixed capital in early-industrialised economies. Fifth, financialisation is associated with the increasing reliance of governments, firms and households on market coordination mechanisms, as well as the rising inequality of incomes and wealth distribution (e.g. OECD 2008, 2011 a,b; Piketty and Saez 2003, 2006). The decline or stagnation of real wages, coupled with austere fiscal policies implemented by national governments, have ended up affecting aggregate demand. This, in turn, has led to an increasing demand for consumer credit to preserve real consumption levels. The sharp rise in household debt has been fostered also by a Veblenian 'conspicuous consumption' due to increasing inequality. Sixth, cred-

² This section is based on FESSUD Description of Work, Part B (see FESSUD 2011, pp. 3-4).

³ In this document, the official term 'Euro Area' is preferred to other informal definitions, such as 'Eurozone'.

it-led consumption has been fed further by the use of capital gains in housing as collateral. At the international level, the rising “twin deficits” of the United States (meaning the deficit in the US government budget coupled with the deficit in the current account of the balance of payments) has been matched by a corresponding rising holding of assets denominated in US dollars as reserves by other countries. It can be noted that the removal of capital controls has compelled developing countries to accumulate large amounts of foreign currency reserves to offset possible speculative attacks against their own currency and financial instability. However, this has reduced the capacity of their governments to pursue developmental policies. Seventh, finance has penetrated into a widening range of social spheres, including housing, pensions, health, and the environment – think, for example, of the trading of carbon permits and the privatisation of national pension systems. Finally, financialisation is associated with a specific culture, in particular, a culture of reliance upon the market and the use of the state merely as an agent of last resort (FESSUD 2011, p. 4).

All in all, Fine’s eight-fold characterisation stresses the co-development of different – though interconnected – aspects of financialisation.⁴ Financialisation spans the single global system but is highly variegated in nature, impact and response across regions and scales. Accordingly, nation states cannot be categorised into ‘types’ of capitalism nor into ‘types’ of financialisation (nor can Europe as a whole). Thus in what follows our sample of countries is not strictly fixed as would be required if we believed such types existed and our purpose were categorisation into types.⁵ Instead, the aim of the paper is to make a preliminary quantitative examination of the complex variegation of the financialisation of the capitalist system as manifest in Europe; ‘preliminary’ in the simple sense that the word limit allows us to cover only the first and fourth of Fine’s eight features of financialisation (sufficient to make clear the complexity and quantitative variegation of financialisation as regards these two features); also, ‘preliminary’ in being mainly quantitative and restricted to national level data. Though preliminary, the analysis provides a context and orientation for more detailed and multi-level analysis such as that found across the FESSUD project. Borrowing from FESSUD country reports, we examine three quantitative dimensions of the process of financialisation: employment, value added, and financial asset value. We begin with the consideration of the employment share accounted for by the financial sector.

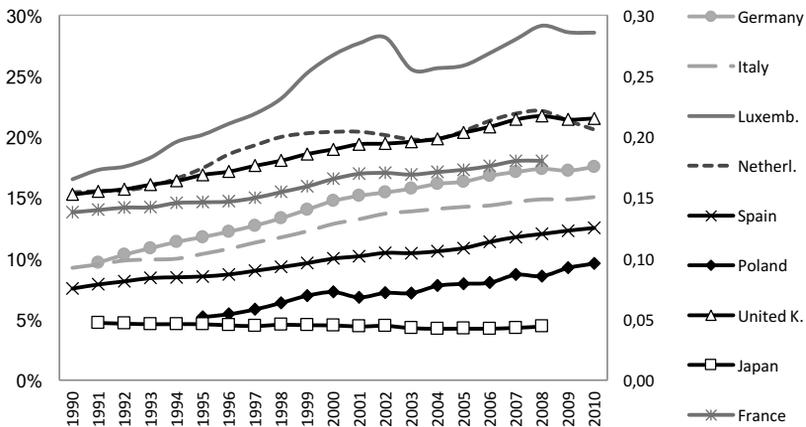
⁴ A concept which is strictly linked to that of financialisation is the concept of ‘financial integration’. This latter term refers to the increasing (asymmetrical) cross-border interconnection of banking systems and financial markets, involving the strengthening of debit/credit relationships among economic units which are located in different geographical areas (see Veronese Passarella, 2015).

⁵ Data unavailability in any case precludes a fixed sample of European countries. For comparison and context, the US and Japan are also included in the analysis.

3. EMPLOYMENT IN THE FINANCIAL SECTOR

Using a broad definition of finance (encompassing real estate, rental and business activity), the share of employment in the financial sector has grown in all the selected countries since the early-1990s.⁶ Not surprisingly, the ‘Benelux’ and the UK are the economies with the highest employment share in finance (all above 20% since the mid-2000s), followed by France and the US (see Figure 1 and Figure 2). Interestingly enough, Germany’s share of employees in the financial sector is rather high too. Italy represents a sort of middle-ground (around 15% in 2010), whereas the other Mediterranean countries and the Central and Eastern European countries (CEECs hereafter) still show a lower share of employment in the broadly-defined financial sector. The situation is reversed if we focus on recent years. Hungary, Estonia, Slovenia, Poland, and Slovakia are the countries in which employment in the financial sector has been growing rapidly since 1995.⁷ By contrast, early-financialised European economies (along with Portugal) are those in which that the employment share of finance has been growing slowly.

FIGURE 1: EMPLOYMENT IN FINANCIAL INTERMEDIATION, REAL ESTATE, RENTAL AND BUSINESS ACTIVITIES (% TO TOTAL)



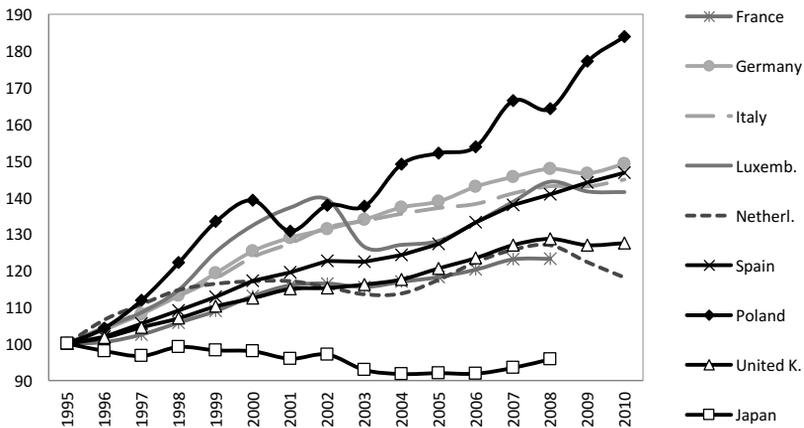
Source: Our elaboration on OECD statistics (February 2012).

⁶ Outside Europe, a major exception is Japan, which is the country with the lowest employment in the financial sector. The employment share is 4.73% in 1995 and decreases in the subsequent years, falling to 4.42% in 2008 (see Figure 1).

⁷ In some countries, this happens in spite of the negative trend in total employment. For instance, in Estonia total employment decreases by 16% over the period of 1989-2003 (-60% in manufacturing), whereas employment in financial intermediation doubles (see Juuse and Kattel 2013: 12).



FIGURE 2: EMPLOYMENT IN FINANCIAL INTERMEDIATION, REAL ESTATE, RENTAL AND BUSINESS ACTIVITIES (INDEX 1995 = 100)



Source: Our elaboration on OECD statistics (February 2012).

However, if one uses a narrower definition of 'financial sector', no clear trend in the employment share shows up. For instance, the broadly-defined financial sector is one of the largest employers in the French private sector (see Blot *et al.* 2013: 30-32). But if one excludes real estate, rental and business activity, the share of finance in total employment turns out to be rather low and stable (in the range of 1.6-1.8%) since the mid-1990s. Similarly, in Germany the share of employment in the narrowly-defined financial sector fluctuates in the range of 1.5%-2.2% since the 1990s and is even decreasing.⁸ In Italy, the maximum percentage of employees in the monetary and financial services sector reaches 2.78% in 1994 and decreases to 2.57% in 2010 (see Consolandi *et al.* 2013: 25-26).⁹ In Spain, the share of employment in the financial sector is rather stable (around the figure of 2.5% of total employment in the last decade). In Portugal, financial activities register a marginal decrease in importance in terms of employment (from 3.1% in 1995 to 3.0% in 2011), even though the employment share of the financial sector in the broad sense is relatively stable (Lagoa *et al.* 2013: 30-32). In Greece, the total number of employees in the financial sector increases until 2009 and then reverses, whereas the share

⁸ If one includes also insurance services, employment in German financial sector increases from about 2.6% in 1970 to almost 3.5% in the 1990s, and then decreases to 3% of total employment in 2008-2010 (see Detzer *et al.* 2013: 19). As for the absolute level of employment, it remains stable for the most part of 1990s and decreases during the 2000s (*Ibidem*: 56).

⁹ Overall, the employment in the Italian services sector has recorded a noteworthy growth since the 1980s: from 48% of total employment in 1980 to 68% in 2009, with a rate of growth of 41% (see Consolandi *et al.* 2013: 25-26).

of total employment starts to decline earlier (from 2.29% in 1995 to 2.53% in 2000 and then to 2.35% in 2009).¹⁰

Among the major EU economies, the UK is the only one in which the financial sector has kept on growing, though not dramatically.¹¹ It appears that Sweden has followed a similar trend.¹² There is some evidence of an increasing weight of the financial sector as employer in the CEECs as well. For instance, Hungary's and Poland's shares of employment in finance have expanded gradually even in recent years, despite rather unfavourable conditions in labour markets (see Alfred *et al.* 2013: 8, 26; and Szikszai *et al.* 2013: 46).¹³

Summing up, the process of financialisation of EU countries is not univocally reflected in their shares of employees in the financial sector. CEECs (Poland, Hungary and Estonia, in particular) are catching up with other European economies. CEECs share of employees in the financial sector is still comparatively low, but has grown faster in the last two decades. As one would expect, the UK is marked by a high share of employees in the financial sector. However, the recent trend is rather flat. France shows a similar pattern for the broadly-defined financial sector, but the narrowly-defined financial sector has remained relatively small. Similarly, the share of employees in the narrowly-defined financial sector has remained rather low in the Mediterranean countries (Greece, Italy, Spain and Portugal), with a predominance of employees in the banking sector. Northern European countries as a whole have not recorded significant increases in employment, but they usually started from very high initial absolute percentages of employment in financial activities. All in all, the trend in the number of employees in the financial sector to total employment ratio does not capture (entirely) the role and impact of financialisation in European economies. Leaving aside the effects of the crises of 2001 and 2007-2008, one reason for the above trends is that banking and financial sectors have experienced a switch of 'orientation from labour intensive to technology intensive driven by the introduction and development of automatic teller machines, cash dispensers, point of sales, phone banking, remote banking, TV banking, internet banking, where a large number of employees have been transferred from financial divisions to outsourcing and/or off-shoring companies' (Consolandi *et al.* 2013: 25-26). Jobs in the financial sector, in short, have been lost due to technological progress.

¹⁰ According to Argitis and Michopoulou (2013: 29-32), 'the fall in employment after the onset of the sovereign debt crisis is due [also] to the will of some employees to be retired before the materialization of significant reforms to country's pension system'.

¹¹ Employment in FIRE sector (i.e. broadly-defined financial sector *minus* rental and business activities) grows from 1.0 million in 1980 to 1.6 million in 2010, and from 3.9% of UK employees to 5.0% of employees in the same period (see Shabani *et al.* 2015: 40).

¹² The share of employment in financial sector to total employment grows from around 6.5% in 1980 to almost 16% in 2010 (see Stenfors *et al.* 2014: 47; see also Stenfors 2014).

¹³ Interestingly enough, Poland's employment in financial sector increases even during the global financial crisis of 2008-2010, whereas in the overall economy the unemployment rate rises by about 3 percentage points (see Alfred *et al.* 2013: 8, 26).

Notice that banks are usually the main job provider within the narrowly-defined financial sector. For instance, banks currently provide 70% of total employment in Greece and 90% in France (where this percentage has increased in the last two decades, see Blot *et al.* 2013: 30-32). By contrast, in other countries there has been a different re-composition among the financial sub-sectors. For example, in Spain the banking sub-sector has lost relative size in the last decades, whereas both the insurance and pension funds and the auxiliary activities have gained in size, 'although in both sub-sectors their shares in total employment remain below the figure of 1 percent' (Altuzarra *et al.* 2013: 61-62).¹⁴ In many countries, such as the UK, the rise in employment within the financial sector has not been as dramatic as the relative growth of this sector's balance sheet. The point is that what matters (to measure the degree of financialisation) is 'not just the number of employees but their remuneration, the relative worth of the work done in this sector and its relationship to inequality within the economy' (Shabani *et al.* 2015: 40-41). In other words, the dramatic growth in the financial sector is mainly reflected in the value of financial assets and liabilities relative to GDP, whose creation and trading is not labour intensive.

4. VALUE ADDED OF THE FINANCIAL SECTOR

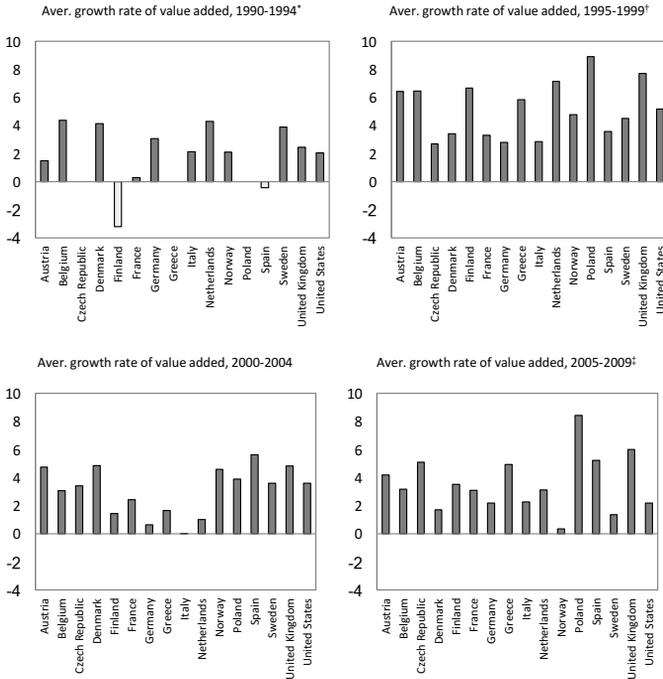
In spite of the flat trend in the employment share, the increase in the share of value added of the financial sector (to the economy-wide value added) has generally been quite remarkable¹⁵. This *inter alia* suggests that the labour productivity of employees in the financial sector 'has grown faster than the average' (Lagoa *et al.* 2013: 31), in most of the considered countries. National growth rates of financial sector's value added have been rather variegated though, both across countries and across periods. This uneven trend can be seen by splitting the last two decades into four subsets.

First period (1990-1994). Northern European countries (such as 'Benelux', Denmark, Sweden, and Germany) are those in which the value added of finance, insurance and business services grew more rapidly in the early 1990s, with an average growth rate of between 3.07% in Germany and 4.36% in Belgium (see Figure 3.A). The UK and the US, along with Norway and Italy, record positive growth rates (higher than 2% on average), whereas France and Spain record null and negative growth rates, respectively.

¹⁴ This re-composition process becomes clearer insofar as one looks 'at the share of the three financial sub-sectors in the total employment of the financial sector. Since the late eighties, the financial services sub-sector is losing weight (-17.2 percentage points between 1987Q2 and 2012Q1) in favour of employment in the insurance and pension funds (+10.4 percentage points) and the auxiliary activities (+ 6.8 percentage points)' (see Altuzarra *et al.* 2013: 61-62).

¹⁵ Notice that this is 'value added' in the national accounts sense, i.e. as a contribution to GDP. However, it should neither be inferred that the financial sector is 'valuable' nor that it creates (macroeconomic) value.

FIGURE 3.A: NATIONAL GROWTH RATES IN FINANCIAL SECTOR'S VALUE ADDED ACROSS COUNTRIES AND PERIODS (%)



Source: Our elaboration on OECD statistics (September 2013).
 Notes: Finance, insurance and business services; Germany from 1992; Sweden only 1994; Czech Republic, Greece and Poland from 1996; France, Poland and the UK until 2009.

Second period (1995-1999). This period approximately corresponds to the so-called ‘New Economy’ era and is marked by an overall and remarkable increase in the value added of the financial sector. Each and every country considered records an average growth rate in the financial sector’s value added that was higher than 2%, and the overall average was above 5%. Once again, the Benelux countries and the UK, along with Austria, show very high growth rates. Finland, Greece, and Poland also record high growth rates. Interestingly enough, the three major Continental European economies (notably Germany, France and Italy) show, in contrast, quite flat growth rates in the value added of the financial sector across this period.

Third period (2000-2004). This period roughly covers the crisis of the New Economy. This is reflected in the overall average rate of growth of the financial sector value added, which is two points below that of the previous 5-year pe-

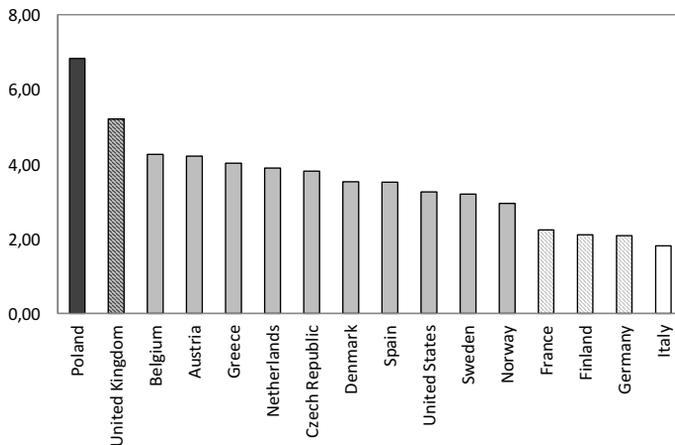


riod (though one point above that of 1990-1994). Spain is the only country in which value added increases in 2000-2004 (5.64% compared to 3.58% in 1995-1999 and -0.42% in 1990-1994). The UK, Austria, and Denmark record the highest growth rates after Spain. No country records negative average growth rates in 2000-2004, even though Italy's and Germany's growth rates of the financial sector's value added are close to zero.

Fourth period (2005-2009). The first part of this period (2005-2007) is marked by a generalised boom in financial activities, but the boom is followed by a sharp fall in 2008-2009, affecting in particular Northern European economies.

Looking at the whole 20-year period, Italy turns out to be the country with the lowest growth rate in the financial sector's value added, and it is closely followed by the other two major economies of Continental Europe (Germany and France) and by Finland. By contrast, Poland is the country in which the growth of the financial sector's value added has been the most rapid.¹⁶ The UK and Benelux, along with Greece, record high growth rates as well (see Figure 3.B).

FIGURE 3.B: AVERAGE GROWTH RATES OF FINANCIAL SECTOR'S VALUE ADDED IN A NUMBER OF SELECTED COUNTRIES, 1990-2009 (%).



Source: Our elaboration on OECD statistics (September 2013).

Notes: Finance, insurance and business services; Germany from 1992; Sweden only 1994; Czech Republic, Greece and Poland from 1996; France, Poland and the UK until 2009.

¹⁶ Notice that this impetuous growth did not involve each and every CAEE economy. For instance, 'the contribution of financial intermediation to the Estonian economy in relative terms has been stable throughout the years. Even during the boom period between 2004 and 2008, financial services contributed around 4% to Estonia's gross value added' (see Juuse and Kattel 2013).

Notice that the share of 'financial' value added remains almost unchanged (though with quite large short-term fluctuations) in two major economies of the EU, namely Germany and France, since the 1980s. More precisely, the value added of French financial and insurance companies represents almost 5% of French GDP in 2011. This value corresponds to the peak of the late 1980s, when it shifts upwards because of the deregulation impetus. However, it declines 'after each economic and/or financial crisis: 1993, 2001 and 2008'. As a result, it remains 'between 4 and 5% from the 1980s onwards' (Blot *et al.* 2013: 30-31). Similarly, in Germany the financial sector's share in value added registers 'modest increases' from 1970 to 1980, whereas it remains 'relatively stable' from 1980 until 2012 (Detzer *et al.* 2013: 19).¹⁷ As for the other major EU countries, Italy is marked by a similar trend compared to Germany, whereas the growth in value added of finance in the UK is much more apparent. More precisely, the Italian financial sector's average share of value added (to total value added) is 4.47% until the early 2000s.¹⁸ By contrast, the UK is the country in which the value added of the financial sector has grown faster in the last thirty years. Indeed it grows 'at more than twice the rate of the economy as a whole' (see Shabani *et al.* 2015: 177). Notice, however, that the US and the Netherlands record even higher growth rates in the financial sector's share of value added (see Philippon and Reshef 2013: 80).

Turning to late-industrialized European economies, both Greece and Portugal have faced a rapid catching-up process, and the same is the case for a number of CEECs. The Spanish case is less clear, however.¹⁹ The financial sector in Greece is dominated by banks.²⁰ The Greek financial sector expands 'from 3.8% of GDP in 1995 to 4.9% of GDP in 2009' (Argitis and Michopoulou 2013: 27), thereby recording an increase of almost 29%. In Portugal, the value added of the financial sector (including the real estate sector) relative to total value added grew from 10% in 1986 to 15% in 2010. Notice that 'in 1995 the Portuguese financial sector was one of the smallest. However, from 1995 to 2011 the relevance of the financial sector in the overall GDP has grown faster in Portugal than in the Euro Area, with its pace of growth being only supplanted by Ireland's'. However, when the narrowly-defined financial sector is taken into

¹⁷ More precisely, '[s]tarting with a share of 3.5% in 1970, the contribution of the financial sector (i.e. financial and insurance services) increased to 4.5% by 1980. Thereafter, a structural shift is not apparent, even though the financial sector's contribution increased to about 5.5% during the years of the stock market boom' (Detzer *et al.* 2013: 56).

¹⁸ Notice that 'in 2010, albeit the experience of more than 3 years of financial crisis, the sector raised to 5.75%'. Furthermore, output of monetary and financial services (to GDP) increased quite sharply, as it 'grew from around 5% in 1980 to around 9% in 2009' (Consolandi *et al.* 2013: 26).

¹⁹ At first sight, the share of the financial sector in gross value added shows a declining trend since mid-eighties. However, that figure could be misleading. The reason is 'the methodological breaks that the series of the Spanish National Accounts, on which the figure is based, have suffered in the period analysed. However, data starting in the year 2000 have the same methodological basis and this is the most relevant period for Spain's financialisation' (Altuzarra *et al.* 2013: 57-59).

²⁰ 'Greek banks contribute to GDP more than the 85% of the whole sector's value added' (Argitis and Michopoulou 2013: 28).

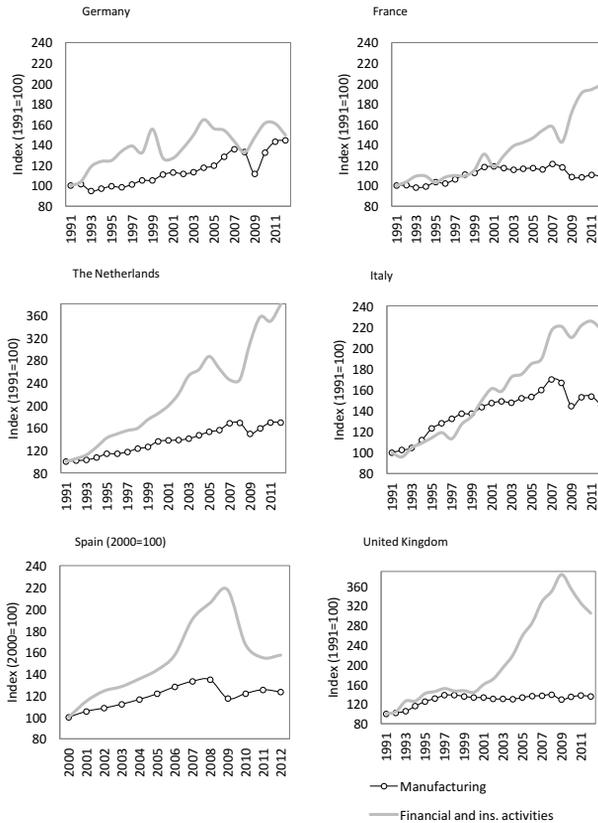
account 'the weight of financial activities in total value added in Portugal was among the highest in the Euro Area in 2011, and its growth between 1995 and 2011 was outstanding' (Lagoa *et al.* 2013: 30-32). As we have mentioned already, the financial sector has grown sharply also in CEECs. For instance, 'value added in the financial sector almost doubled in Hungary relative to GDP after the fall of communism. The statistic as a proportion of GDP stands at 23 percent in Hungary' (see Szikszai *et al.* 2013: 46). As for Spain, the weight of the Spanish financial sector in the economy is still 'somewhat less than the European average': In 2007 'financial brokerage represented 5.3% of Gross Value Added in Spain (compared to 5.6% in EU)' (Altuzarra *et al.* 2013: 23). However, from 2000 to 2009, 'the share of the financial sector as a percentage of GDP increased by 41%, rising from 4.17% of GDP to 5.88% of GDP'. Noteworthy though it is, such an increase 'is far from the increase registered in the size of the credit institutions systems, measured by the size of the assets and the liabilities as a percentage of the GDP' (Altuzarra *et al.* 2013: 57-59).

All in all, the data show a generalised increase in the share of value added of the financial sector to total value added in the last four decades. This is consistent with the findings of Philippon and Reshef (2013) who argue that: first, 'finance's share of income today is significantly higher than it has been during the last 150 years'; second, the overall trend is upward; third, while in Anglo-Saxon countries and the Netherlands 'finance continues to increase after the 1980 [...] it seems that in other economies the financial sector's income share reaches a plateau, and even declines somewhat' (Philippon and Reshef 2013: 74-75). In other words, financialisation has affected the process of creation and distribution of value added in each and every country, but it has been doing so in different socially- and geographically-related forms.

Differences in cross-country levels and growth rates (of financial value added) highlight the variegated impact of financialisation on national economic structures. However, this does not necessarily entail a growing weight of finance relative to other sectors. The increasing dominance of finance over the 'real economy' can be seen by comparing the gross value added of each national financial sector with the gross value added of the corresponding manufacturing sector. Once again, both a general trend towards financialisation and cross-country variegation are apparent. Figure 4 focuses on the six largest European economies by GDP. It shows that France, Italy and Spain are characterized by a remarkable increase in the relative weight of financial and insurance activities along with a small increase (or even a decrease, as in the case of France) of the value added of manufacturing sector. In both the UK and the Netherlands, the value added of the financial sector grows significantly. By contrast, the growth in Germany's manufacturing sector is the same as the growth in financial and insurance activities in 1991-2012. In fact, if one restricts the analysis to the last fifteen years (and uses 1999 as the basis for index numbers), the rate of growth of the manufacturing sector turns out to be even higher than the growth rate of the financial sector. Finally, if we compare the gross value added of financial service activities with the gross value added of the manufacturing

sector, Spain, the UK and the Netherlands are the countries which have been most affected by financialisation. Not surprisingly, Germany is confirmed to be the least ‘financialised’ (or the most ‘industrialised’) economy. France and Italy represent a sort of middle ground, even though the increase in the value added of the financial sector is apparent in both countries.

FIGURE 4: GROSS VALUE ADDED OF FINANCIAL SERVICE ACTIVITIES AND MANUFACTURING SECTOR, RESPECTIVELY.



Source: Our elaboration on Eurostat statistics (October 2013).

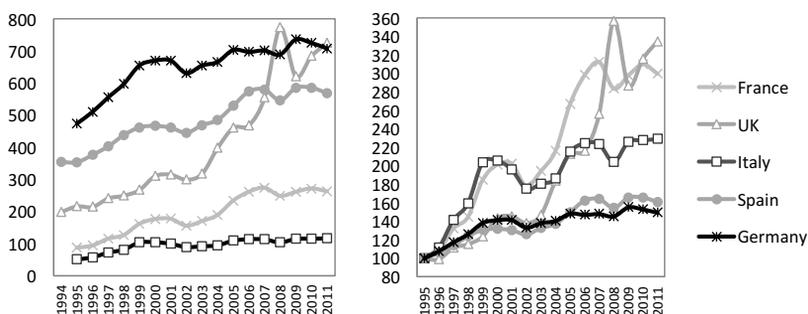
5. FINANCIAL ASSETS TO GDP RATIO

The trend in (gross) financial assets to GDP ratio is usually considered one of the key indicators of the process of financialisation. In some economies, such as Luxemburg, the Netherlands and Ireland, the financial assets to GDP ratio has recorded astronomical values in the last decade. Looking at major Eu-



ropean economies, Germany is the one in which this ratio has historically been the highest, being around 7 times higher than GDP since the early 2000s (see Figure 5). In fact, the value of financial assets in the German economy ‘grew rapidly in the 1990s, both in absolute terms as well as relative to GDP. While in the 1980s the ratio of financial assets to GDP grew on average by 1.6% a year, this increased in the period from 1991 – 2000 to 6% a year’ (see Detzer *et al.* 2013: 19). However, the growth in the value of Germany’s financial assets has been slower compared to those of other major economies and the UK’s ratio of financial assets to GDP has caught up (and overtaken) the German one since the mid-2000s.

FIGURE 5: FINANCIAL ASSETS TO GDP RATIOS IN TOP-5 EUROPEAN ECONOMIES (LEFT-HAND CHART, %) AND ITS TREND SINCE 1995 (RIGHT-HAND CHART, INDEX 1995 = 100).



Source: Our elaboration on OECD statistics (September 2013).

Notice also that the bulk of financial assets are owned by banks. Even in the case of the UK, bank assets alone ‘have grown fivefold (relative to GDP) since the 1970s; they were about 100% of GDP in the late 1970s, amounting to 520% of GDP in 2010’ (Shabani *et al.* 2015: 117). In 2007, financial institutions as a whole controlled around 60% of financial assets in the Euro Area, compared to less than 20% in the US (see Altuzarra *et al.* 2013: 23).²¹ Among major European economies, France and Italy are those with the lowest financial assets to GDP ratios, even though the French ratio has been booming in the last two decades. Besides, if one looks at the financial interrelations ratio,²² ‘in 1980 the Italian financial sector was not significantly different from the German and the Japanese cases’ (Consolandi *et al.* 2013: 24). This ratio

²¹ In some countries that percentage was even higher (for instance, it amounted to 80% of financial assets in Spain, see Altuzarra *et al.* 2013: 23).

²² This ratio has been suggested by Goldsmith (1955). It is defined as the ratio of gross financial assets to real wealth.

was 0.87 in Italy, 0.80 in Japan and 0.81 in Germany, whereas it was 1.35 in the UK, and 1.05 in both France and the US. Two decades later, 'the values were 1.34 in Italy, 1.31 in Japan, 1.39 in Germany, 2.09 in the US and 2.86 in the UK' (*ibid.*), thereby confirming the last place of Italy in this ranking. As for Spain, the balance sheet of credit institutions (measured by the value of assets as a percentage of GDP) increased by 64.7% (Altuzarra *et al.* 2013: 57-59) between 2000 and 2008. The total value of financial assets accounted for 413%²³ of GDP in 2007 and it remained rather high in the subsequent years as well (Altuzarra *et al.* 2013: 23).

Turning to the other economies of the Euro Area, the ratio of financial assets to GDP was around 700 per cent in 2011 in Portugal. This was one of the highest percentages among European countries. The growth of financial assets in the period 1995-2010 was massive (around 140 percentage points) and similar to that of the EA17 (see Lagoa *et al.* 2013: 36-37). The Greek case is not that clear. It has been argued that '[m]onetary stability and banking liberalization made possible the rapid growth of capital and money markets in the 1990s and the private non-banking financial assets were rapidly expanded during this period (from around 100% in 1987 to 300% in 1999)' (Argitis and Michopoulou 2013: 135). Yet, OECD statistics reveal that Greece, along with Italy, is the European country with the lowest financial assets to GDP ratio (113% in 2011). Finally, CEECs represent a middle ground. In particular, Estonia has been 'one of the leaders [in terms of financial assets to GDP ratios] among Baltic and CEE countries' (Juuse and Kattel 2013: 26). In Estonia, the ratio of the banking system's assets to GDP 'doubled in eight years and reached 132% at the beginning of 2008 (whereas the ratio of financial sector as a whole exceeded 150%)', mostly driven by 'the expansion of the banks' loan and leasing portfolio, which has led to a consistently increasing share of the loan portfolio in the structure of assets' (Juuse and Kattel 2013: 35). In Poland '[t]he assets of the financial sector amounted to about 20% of GDP in 1991, to about 50% in 1995, whereas in 2011 it already exceeded 120% of GDP' (see Alfred *et al.* 2013: 8). To sum up, the financial assets to GDP ratio has increased remarkably in most European countries since the 1980s, though with some differences across countries.

6. FINAL REMARKS

Financialisation is a complex term, containing several different aspects. It may be seen as a phenomenon that has been more apparent in Anglo-Saxon countries, where the US and the UK are the most representative cases. But equally other nations and regions have been subject to processes of financialisation. This can be seen in the context of the recent global crisis, as countries

²³ According to both OECD and Eurostat statistics, this percentage would be even higher (reaching almost 580% in 2007, and reducing to a slightly lower value in 2011).

as diverse as Germany and the Baltic States have faced contagion from the upheaval in finance. The finance sectors in most EU countries more generally have become integrated, if unevenly in depth and breadth, into the global financial system, and they have experienced major changes in economic and social functioning as a result. The point is that financialisation is a systemic process, though one that is highly variegated across (and within) nations. The data reviewed in this paper seem to confirm this fact, as both average values of finance-related variables and their standard deviations have increased over time (see Table 1).

TABLE 1: CROSS-COUNTRY SAMPLE STANDARD DEVIATIONS OVER TIME.

Variable	Sup-periods			
	1990-1994	1995-1999	2000-2004	2005-2009
Employment in Financial Sector to Total Empl. (%)*	-	3.74 [12.39]	3.76 [14.22]	3.81 [15.66]
Growth in Value Added of Financial Sector (%)	1.53 [2.05]	2.05 [5.13]	1.86 [3.09]	2.35 [3.56]
Value of Financial Assets to GDP (%)**	-	241.22 [323.61]	271.94 [384.49]	317.98 [482.23]

Source: Our elaboration on OECD statistics (September 2013).

Notes: Standard deviations calculated by using national (average) values for each sub-period; cross-country average values are shown within square brackets; sample: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Italy, Netherlands, Norway, Poland, Spain, Sweden, United Kingdom, United States; * excluding Greece, Norway and US; ** excluding Norway and US.

The FESSUD country reports, on which this paper draws, suggest that there has been a deep penetration of finance into a wide range of economic and social aspects in most European countries. The increasing dominance of finance over industry (reflected in the increasing value added of the financial sector to total value added) and the booming of the value of financial assets (linked to the multiplication of financial instruments) are clear signs of the process of financialisation. All in all, the data show a growing weight of the financial sector across countries since the 1980s, the only exception being the share of employment in the financial sector. In the aftermath of crisis, there is no sign that the importance of finance has been diminished. In fact, recovery in many

countries has relied on some form of finance-led growth, suggesting that financialisation is a resilient process.

The UK, Ireland and the Benelux countries can be regarded as the strongholds of financialisation in the EU. The most notable exception is Germany. In spite of the noteworthy change in the structure of its banking sector, Germany can be still regarded as a manufacturing hub.²⁴ This is reflected in the strength of Germany's gross value added of the manufacturing sector as compared to the gross value added of the financial sector. France and Italy have followed a 'middle ground' pattern (meaning that the increase in financial value added and financial assets is apparent there, but it has not been as sharp as the one registered in Anglo-Saxon Benelux countries). The same goes for the other early-members of the EU. For instance, in the decade preceding the European sovereign debt crisis, Spain has been marked by a sharp increase in the value of financial assets in the economy. At the same time, the financialisation process in Spain has come with the maintenance of the traditional structure of the banking sector, as well as with a quite stable share in total employment and in total gross value added. CEECs, in contrast, have gone through a pronounced financialisation process. This dynamic might well prefigure a catching-up process with developed economies. However, the absolute degree of financialisation of CEECs is still low compared to that of the early-members of the EU.

TABLE 2: RELATIVE TRENDS IN THE EXTENT OF FINANCIAL SECTOR SINCE THE EARLY 1990s.

Variable	Trend			
	Decrease	Stable or variable	Moderate increase	Boom
Employment in Financial Sector to Total Empl.	Germany, Romania	Greece*, Portugal*, Spain, Italy, France	UK, Sweden	CEECs (except for Romania)
Growth in value Added of Financial Sector		Germany, Italy, Spain, Finland, France	Spain, Portugal, Greece	UK, Netherlands, Poland, Ireland; CEECs
Value of Financial Assets to GDP			Germany, Italy, France, Greece, CEECs	Luxemburg, Netherlands, Ireland, UK, Portugal

Source: OECD, Eurostat and FESSUD country reports (2013).

Notes: * data start from 1997.

²⁴ This is reflected in the balance of payments of the two countries. The UK runs deficits in the current account of the balance of payment since 1984. By contrast, Germany runs current account surpluses since the mid-1980s, except for the 'unification' period (see Shabani *et al.* 2015, and Detzer *et al.* 2013)

These findings are summarised in Table 2 and are consistent with the idea that an uneven and variegated (as opposed to smooth and uniform) financialisation process has been taking place. This is a specific application of the idea of 'variegated capitalism' (Peck and Theodore, 2007). Variegated financialisation captures two key things. One is the idea of financialisation as a systemic process operating within and across nations. The other is the idea of financialisation as a variegated process – how it unfolds within and impacts upon particular nations and regions is mediated by the institutions, politics, and culture of those nations and regions. It captures, in other words, the differences in the process of financialisation as it develops and is developed across diverse nation states and regions, and across diverse systems of provision, while recognising at the same time that there is a common process of financialisation connecting this diversity at a global level. The idea of variegated financialisation is in our view supported by the data reviewed in this paper (for a range of views including opposition to that presented here see IJPE 2013).

As mentioned above, while there are differences between countries in terms of the nature, extent and depth of the financialisation process, there are some clear common features to the above process across nations. That is, there is variegation in the financialisation process which data are able to draw out. To sum up, EU countries have gone through a process of financialisation in the last three decades. This process has affected their economic and social structures, materialising in different historically- and geographically-related forms. The task for future research (and one undertaken by the FESSUD project) is to develop and substantiate conceptually as well as empirically and methodologically the notion of *variegated financialisation*. This entails, for example, examining the diverse ways in which specific systems of provision (e.g. of water, of housing, etc.) are being financialised across the globe.

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