

The Potential for Financialization

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Abstract

The financialization literature tries to make sense of how the world has been changing and continues to do so. There is real potential for financialization to conjoin real-world processes and practices that are conceptually treated as discrete entities. Financialization is an inherently spatial phenomenon that should be much more central to economic-geographic analysis, explaining how the financialization of the global economy is tied to financialization at other scales as well as to the financialization of the state, economic sectors, individual firms and daily-life.

Introduction

Brett Christophers presents a range of critiques to the concept of financialization as well as to real-world financialization (or the lack thereof). In my opinion, the author expresses a number of valid concerns but also makes several unjustified claims. I am convinced that there are limits to financialization, both in conceptual and in empirical terms, and the author makes this argument quite explicitly. But he sometimes goes too far and ignores what the financialization literature is really arguing, firing his critique at a sub-set of the literature while condemning it in its totality. Although I don't subscribe to several of the Christophers' assertions, I believe his paper is a good place to start the debate. Whereas Christophers sees financialization as a worn out concept, I am noting its – largely unmet – potential to link debates that were hitherto disconnected. And whereas Christophers sees an a-historical, a-spatial literature unable to see the real-world limits of financialization, I see a historically embedded and increasingly geographical understanding of real-world financialization that has stressed how financialization has already crossed the limits of what is ethical, sustainable and humane.

Conceptual potential

Christophers warns us that 'we need to be much more wary of relying on the concept [of financialization] and of mobilizing it for the purposes of both categorization and explanation.' So let me start by providing a definition of the concept. To me, financialization is 'the increasing dominance of financial actors, markets, practices, measurements and narratives, at various scales, resulting in a structural transformation of economies, firms (including financial institutions), states and households' (Aalbers, 2015). This is a definition capable of uniting the different strands of the financialization literature. It is therefore an umbrella definition open to multiple operational definitions that could be utilized in empirical research.

We may not like it, but it's common these days for concepts in the social sciences and humanities to be lacking a single definition and be scrutinized through continuous re-

conceptualization and redefining. Mainstream economists tend to agree on many of their (basic) concepts; most other social scientists and humanities scholars do not. More importantly, concepts in social science are always value-laden, contested, open to multiple interpretations, and often confusing. And to the extent that financialization functions as an umbrella term, 'the umbrella is open to anyone who wishes to place new meanings, or a variety of stereotypes, accusations and stigmas under it' (Gans, 1996: 151). This is all part of an early phase in the life of a concept.

As I have argued elsewhere (Aalbers, 2015) financialization can be a very loosely defined concept that covers many processes, structures, practices and outcomes at different scales and in different time frames, but this, I believe, is part of its strength. In some studies financialization is the *explanandum* (the phenomenon to be explained), in others the *explanans* (the thing that explains) and at times it is not even clear which of the two it is. In that sense, financialization is not that different from other concepts whose popularity – in both academic and popular media – rose quickly and which are simultaneously criticized for being imprecise and vague. Globalization and neoliberalism are cases in point. It is interesting that Christophers considers "neoliberalization" less problematic as a concept than financialization. To anyone who has followed the genesis and spread of the concept "neoliberalism", it is clear that there are dozens of different definitions and understandings (i.a. Aalbers, 2013; Audier, 2012; Crouch, 2011; Mirowski, 2009).

Financialization, like globalization and neoliberalization, is a concept that tries to make sense of contemporary capitalism and the way it is embedded in societies, as well as changing (and depending on your ideological and theoretical stance, disrupting) those same societies. The attractiveness of each of these concepts lays, at least in part, in their imprecision, i.e. in their ability to transcend different lines of argument, originating from different disciplines and taking place at different scales. It is the inability of existing perspectives, concepts and data to deal with the complex realities of contemporary societies that explains an important part of the appeal of such imprecise concepts. The literature on financialization thus is part of a larger attempt to understand the non-linear, multi-dimensional, multi-scalar complexity of contemporary societies/economies.

But there is another possible response to Christophers' accusation that the concept of financialization is 'an increasingly nebulous and even, arguably, unhelpful signifier', which is not a conceptual response but one coming from situated knowledge. The question one could ask about any concept is: does it work for you as a heuristic device? Does it help you explain or understand social reality? Does it throw new light on your empirical results? Does it help connecting practices, processes and theories that were hitherto considered – or at least studied – independently of each other, and to consider these as related? To me, the answer to all these questions is: yes, most certainly. But I feel rather agnostic about this. If it works for you too: great. If it doesn't work for you: no problem. If you are convinced that it is not a useful concept for you: fine. If you're not sure about it being a useful concept: sure, I'll tell you why I find it useful and you make up your own mind.

Time and time again, Christophers denotes that financialization is nothing new and also that related arguments have been made previously. His critique of the "financialization of land" is a case in point. Christophers argues that we could use Harvey's idea of "the increasing tendency to treat land as a pure financial asset" (Harvey, 1982: chapter 11). But this generates a few questions. First, would the author consider it problematic if others refer to "the increasing tendency to treat land as a financial asset", as the "financialization of land" if they credit Harvey's contribution explicitly, but prefer a shorter phrase or intend to relate Harvey's argument to the wider financialization literature? Second, does the author believe that the different forms of financialization of land/housing/urban-development/property can all be completely reduced to the

increasing tendency to treat land as a pure financial asset? He argues this is really only reinventing the wheel. I beg to differ. Third, what if, in other discussions of financialization, there is not such a clear alternative conceptualization readily available; should we then write many more papers proposing alternative conceptualizations? Going back to older concepts would, I believe, result in an overstretching of many such concepts, which is something Christophers would consider at least as problematic as I do. More neologisms might not be the best way to tackle the conceptual problem.

This brings us to another issue. The author mentions that he sees some potential for financialization as a concept facilitating the conversations between different (sub-)disciplines that otherwise do not necessarily talk much to each other. Personally, I think this may be the most important contribution of the financialization literature to date. Does the author suggest that we need to give this up because: a) often alternative concepts are available; b) this implies even more conceptual vagueness; c) it is better to discuss related processes currently referred to as “financialization” under a range of conceptual labels? The power of the financialization literature is not only that it connects different disciplines, but also different levels of analysis, from the very micro to the very macro – and demonstrating how these are related.

One of the key challenges in geography is to link the analysis at different scales and make them contribute to each other. Some sociologists speak of connecting the analysis of the system to that of the life-world (Habermas, 1987), of the habitus to that the field (Bourdieu, 1984), or of self-restraints and social attitudes to that modern states (Elias, 1994). Other sociologists and many economists aim to bridge micro and macro (e.g. Ritzer and Goodman, 2003). All this is about linking large, sweeping (structural?) developments/movements/trends to changes in the nitty-gritty of everyday life, at home, at work, in real life/time/place. The concept of financialization has great promise in conjoining these debates. Yes, it is true that the financialization of daily life (Martin, 2002) and of home (Aalbers, 2008) may at times feel detached from financialization as a growth machine (Boyer, 2002) or pattern of accumulation (Krippner, 2011), but if you actually read the literature well, many contributions (including the four just cited) make connections between the different levels of analysis. Indeed, there is unrealized potential to link real world processes, practices and literatures that are at present discussed separately.

Contrary to Christophers, I don't see the financialization literature as a-spatial or a-historical. Although it is true that a great deal of empirical literature comes from the US and UK, this is true for papers in English-language journals on most topics. Moreover, there are plenty of studies on financialization outside Anglo-America (for an early discussion, see Engelen and Konings, 2010) and anecdotally as someone who reviews a lot of papers on financialization, the number of papers from outside the US and UK is rapidly increasing. Furthermore, the financialization literature is not a-historical at all. There is a strong focus on financialization as a historical development. It is true that most authors do not focus on the historical dimensions further back than the 1970s, but this, again, is not unique to the concept of financialization. It is simply not the focus of a great deal of the literature, while, at the same time, it is the focus of a subset of the literature. Few authors use the concept of financialization would argue it is an entirely new phenomenon. On the other hand: I think few, if any, would argue, it is simply another reiteration of the same thing. Contemporary financialization is quantitatively and qualitatively different than earlier iterations of financialization. A close reading of Arrighi (1994) would demonstrate that he, contrary to what many of his critics argue, is not at all arguing that cycles simply repeat themselves throughout history. In fact, Arrighi discusses in detail what structurally changes in new cycles and iterations.

Real-world potential and limits

Christophers argues that the financialization literature ignores, or is unable to see, the limits of actually existing financialization. My assessment is that most of the literature is very critical of increasing financialization and many authors argue either that financialization has already reached its limits or will do so in the near future. In fact, Christoph Deutschmann published a paper in 2011 discussing the real limits of financialization, which was aptly titled *Limits to financialization*, which is probably why Christophers' title looks so familiar.

Christophers mobilizes the example of a "financialized desert island" to make us think about the real limits of financialization, but his example misses the point. The financialization of retail does not necessarily imply that banks replace shopkeepers but that financialization structurally changes retail. Christophers' fallacy here is that full financialization doesn't mean the elimination of mom-and-pop stores, but that their profit margins are relatively low since someone else is extracting the rent, resulting in small shopkeepers being pushed out by financialized and globalized retail corporations that use techniques of tax arbitrage and outright tax evasion. A financialized retailer is managed through the metrics of finance rather than those of trade. This is related to the strand of the financialization literature that looks at the rise of the ideology of shareholder value and the financialization of hitherto non-financialized firms and sectors of the economy.

In the financialized firm, many senior managers become busier with communicating positive stories to appease credit rating agencies, market watchers and stockholders than with innovation or production gains (Froud et al., 2006). The ideology of shareholder value is prioritized in leveraged buy-outs, stock repurchases, mergers and acquisitions, over long-term profitability or firm survival. Many financialized firms seem able to prop up their stock prices or impress the rating agencies for some time, but the effective return on capital rarely goes up structurally and appears more vulnerable to both conjunctural and structural shifts in the industry. Financialization changes the way money is made in many industries: there generally is a narrow focus on outsourcing and short-term profits at the expense of integrated development, long-term investment and non-financial innovation. As a result, non-financial firms have increased financial flows to the financial sector through interest payments, dividend pay-outs and share buy-backs (Lazonick and O'Sullivan, 2000; Crotty, 2005).

In addition, if profits are the bottom line, firm management may be expected to engage in activities that generate the highest profits. As the profit rates in the financial industry were higher than in most of the so-called "real economy", some non-financial firms became mixed non-financial/financial firms. Derivatives, in particular, proved hard to resist for many formerly non-financial firms. As a result, non-financial corporations increasingly derive profits from financial activities and own a greater proportion of financial relative to non-financial assets (Krippner, 2011; Lapavistas and Powell, 2013). Furthermore, financial investments tend to be volatile and may jeopardize the survival of the firm, or at least its non-financial activities (Aalbers, 2015).

This has real consequences. The financialization of natural resources has already resulted in rising prices of land and food, not only displacing hundreds of thousands of people and robbing them of their livelihoods (Sassen, 2014), but also leading to unaffordable food and premature death. So, when Christophers asks: what are the real-world limits of financialization? My reply is: in ethical, sustainable and humane terms, we have already exceeded the limits. Yet, in pure capitalist terms, many aspects of life remain to be financialized, which is why we presently see the rolling out of financialization around the world but also moving to newer industries and in particular to (formerly) public and non-profit sectors of society. The question is not: when is the *economy* fully financialized? But rather: when does *society* put an end to financialized plutocracy?

An important consequence of the roll-out of financialization into hitherto non-financialized firms and sectors, is that statistics of the so-called “real economy” versus the “financial sector” become blurred. Measuring financialization as the increasing dominance of the financial sector in GDP statistics and financial firms’ profits misses an important dimension of financialization, if you consider that many financialized firms are classified as part of the real economy. So, arguing that approximately 40 percent of the economy is financialized (as do sources cited by Christophers) represents a substantial undercount of actually existing financialization – the trouble is that we don’t know how substantial. This is indeed a limit to the measurements of real-world financialization, but this is an empirical challenge that the researchers can take up by investigating how and to what extent traditionally non-financial firms increasingly partake in practices that used to be the domain of the financial sector (Aalbers, 2015). Research methodologies focusing explicitly on individual firms, such as developed by Julie Froud and colleagues (2006), are crucial in this respect.

Throwing out Baby Financialization with the dirty bathwater

The literature on financialization tries to make sense of how the world – at large, but also our personal worlds – has been changing and continues to do so. Financialization is coming to terms with these changes, aiming to understand the messy world we live. Financialization is about trying to understand contemporary societies, politics, economics, work, life, ... trying to understand the contemporary human condition. Is it a flawed understanding? Yes of course – any such ambitious project is bound to be flawed in some ways! Is there a viable alternative that does the job better?

Christophers’ call to use the concept of financialization ‘as prudently and selectively as possible’ is nothing less than a call to throw out the baby with the bathwater. The bathwater surrounding Baby Financialization is dirty, is what Christophers wants us to believe. My reply? No surprise: the baby has been really active, playing outside, getting dirty, expanding its borders, discovering the world and making it hers. But that’s OK, such exposure helps building up resistance. The bathwater is dirty because the dirt of real-world financialization is rubbing off on the water. We will have to keep the water running. Other conceptual babies will be born and will mature – no doubt – and Baby Financialization will play with some of them while ignoring, or being ignored by, others.

There is real potential for financialization to conjoin real-world processes and practices that are conceptually treated as discrete entities. Financialization is an inherently spatial phenomenon that should be much more central to economic-geographic analysis, explaining how the financialization of the global economy is tied to financialization at other scales as well as of the state, economic sectors, individual firms and daily-life. The challenge is to mobilize financialization as a concept that helps connecting the space of places to the flow of spaces (Castells, 1989).

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