Globalization and the financialization of the economy

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Abstract: *The defining with profound implications on the economy and society is represented by the globalization. In this context, we have noticed the increasing influence of the financial markets on the economy, the tendency to remove the finances from the real economy requirements, the growing role of external financing using more volatile capital goods, increased competition regarding the access to financing, the significant increase of power of the international capital markets whose characteristic is represented by the increased instability, the implications of the investors' obsession with an excessive profitableness of their own funds and the expansion of using sophisticated financial products. Realities of today's financial markets, which are the subject of numerous studies and analysis, have contributed to the association of the arguments that are contesting the thesis on the virtues of self-regulation markets and promoting a new paradigm, within which finances should subordinate the requirements of a balanced and sustained economic growth.*

Key words: cognitive capitalism, the financialization of the economy, financial innovations, volatile capital, institutional investors, derivative products.

Introduction

The end of the twentieth century had as main feature the financial globalization and characterized an unstable, unpredictable and fragile world. The outset of the financial globalization in the modem era occurred within a particular ideological climate. The liberal revolution of the late 70s had as an essential discourse the withdrawal of the state, privatization, deregulation and liberalization.

The ideological tenets and the liberal prophecies have dominated for a quarter of the century. The myth of financial globalization is accompanied by archaic beliefs claiming that financial markets are self-regulating entities that are stable, solid and secure. The assumption that financial markets are stable in a natural way, automatically moving towards equilibrium and predisposed to boom-crash cycles are prevailing.

The hypothesis of perfect competition and the belief in rationality were deeply rooted in economics. Also, the laissez-faire ideology has promoted magic words like rational (rational expectations), perfect (perfect competition) and efficient. The global financial system has been built based on false premises. The idea that the financial markets are self-regulating and tend towards equilibrium represents the dominant paradigm on which different systematic instruments and models for evaluation are based on. Financial globalization has a logic whose impact exceeds the rigorous defined field of finance.

Within the neoliberal phase of capitalism, the place of finance within the world economy has changed radically. The financial industry outruns the economy, we are witnessing a dramatic increase of the speculative finances which develop independently from the funding needs of the economy, the relationship between productive capital and financial capital is changing profoundly, the embryo of an autonomous movement of capital is occurring, and more sophisticated products and the revolution of the risk management are launched. The liberalization policies have emphasized the instability of financial markets and have highlighted their deeply destabilizing character, helping to accelerate the financial crises and their spreading throughout most state

Thus, the global economy has been affected by over 10 financial crises of the early '80s. Recent financial crises have taken different forms: stock exchange crisis, housing crisis, banking crisis and / or exchange crisis. This apparent crisis diversity must not omit the fact that they have a common cause: the application of neoliberal policies after the '80s with the liberalization of national financial systems and international capital movements. The existence of a direct relationship between financial liberalization policies and the acceleration of the crisis is recognized by most economists. After the euphoria of the '90s, the new capitalism is entering a phase of severe turbulence. Most financial crises that hit the emerging countries in the '90s are conjugated crisis which had significant economic and social costs, estimated up to 15% of GDP.

Their increased frequency and virulence requires a new reading of these crises, the application of the destabilizing forces from within the system, as well as appropriate responses to new theoretical problems: recurrence of business cycles, to what extent the crises are specific to the current period of financial globalization, the distinction between crises within capitalism and those of capitalism, the possibility the globalization could open up much deeper crisis, etc.

The western economic prosperity, characterized as the Great Moderation, has led to the accreditation of the continuously economic growth idea, freed from the spectrum of crises. The quasi-unanimous accepted economic theory has either ignored the crisis, or it has considered them a symptom of emerging countries.

The reconsideration required by the devastating effects of the crisis triggered in the U.S. in 2007, has led to the establishment of a new research field called crisis economics (Roubini N., 2010, p. 267).

The global and systematic nature of the current economic and financial crisis, whose multiple dimensions are combined and mutually reinforcing, emphasizes the illegalization of the neoliberal ideology and the unsustainable nature of current globalization.

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The genesis and evolution of "the global finance" have considerably marked the defining processes of capital accumulation, economic growth, economic and financial stability, etc. The edifying aspects are highlighted by the problem of the "historic" role of finance in the contemporary capitalism.

During the "thirty glorious years" (1945-1975), the economy and finances were organized on national basis, with an increase interventionism from the state. This is the so-called period of "Fordism".

Subsequently, the politics considerably intervenes in favor for finances. Starting with 1979, a radical change of the direction occurs in the monetary policy in the U.S.A. and other industrialized countries. The fight against inflation, exacerbated by oil shocks, becomes the primary purpose. This results in a spectacular increase in interest rates in the U.S. and global economy, leading to the appreciable modification of the balance of forces between creditors and debtors. Thus, the first victory of the financial capital holders occurs.

During the 80's, it is applied a new financial system where capital markets acquire priority over bank financing. The rapid increase of the international finance is also due to financing the public debt, which was the engine of financial modernization performed by the public powers. As the debt was increasing, the national public treasuries could not rely anymore solely on domestic investors. Hence, the state resorts more and more frequent to international investors, especially institutional investors to purchase national public bonds. Thus, in the 80's, states have become active players of the institutional financial markets.

Deregulation of the banking and financial sector, relocation of the business and deposit banks, not intermediating bank credits by shifting to market finance represent defining features for the development of international financial activities under the influence of globalization.

The place of the finance in the global economy has changed radically. Financial markets extend their influence on economy having an important role both in financing the market and in risk assessment and redistribution. However, the external financing of the economy is made using more volatile capital, which has led to the emergence and development of industry volatility. Also it should be noted the engagement of the private finance in developing emerging economies, which may represent a major risk factor for the recipient countries. Abrupt withdrawal of private investors is always a crisis accelerator.

Financial globalization has tightened competition for access to finance. International financial players - pension funds, mutual funds and banks - which offer equity focus, have the means to impose on the states. The liberalization of financial markets, considered an important dimension of financial globalization is a phenomenon characteristic to the last quarter of the last century. Financial markets, which for some analysts represent a new form of governamentality, are in the process of fully globalization of their components based on the increasing worldwide integration.

These markets become interdependent on the planetary level as their main variables (interest rate, exchange rate and stock exchange) interact with each other (phenomenon of markets correlation). In an equal extent, stock markets, money markets and hedging markets are subjected to the globalization process. After mid 90's, these markets have seen significant developments that can be compared to the entrance into a new paradigm. The reference point may be represented by the formation of financial bubbles, starting with 1995, as a result of the very rapid increase of the financial assets' price.

As the financial liberalization is intensifying, interest rates are beginning to emancipate themselves from the tutelage of the states; under these circumstances, private powers, represented by big international banking groups, have the possibility and can fix in the most part, the evolution of these rates. With this considerable power of banks, financial market capitalism dominates today the real economy through exorbitant levies that occur within it. The significant increase in power of international capital markets is accompanied by the development of some "off - shore" or "parallel" markets dominated by large banking groups.

The process of financial liberalization has a twofold dimension: the booming market or financial assets and institutionalization of population's savings. The profound instability of these markets, the speculative aspect of the operations that aim at different currencies and financial instruments, have made some analysts to link the financial liberalization to the recurrence of business cycles (Aglietta, 2001, p. 92).

Financial globalization had great implications on the international mobility of capital and opened new horizons to investors. Movements of financial capital met considerable values in the last decades and there were abundant savings. The formation of savings massively oriented to the stock market is undoubtedly a feature of the new capitalism. The opening of the borders permitted the rapid transfer of the savings from the areas where they were made (Asia and Europe) to those where the savings were used (especially U.S.A.). The result was the very rapid growth of global liquidity and the low level of the long-term interest rates, favorable to credit growth. Then, the rapid growth of credit has been closely linked to the price of assets (the shares, the late 90's and 2005-2007, and the real estate sector between 2002 and 2006).

The contemporary development of finance can be explained by the emergence of a new stage of capitalism, characterized by a new regime of growth and new forms of accumulation. Under these conditions, cyclical fluctuations are strongly influenced by the prices of financial assets.

The prospect of a new "patrimonial" growth regime resettles the relations between the financial form of organizing the capital and the economic structures of the productive activities. There are close relations of dependency, even domination, between these. Some analysts prefer the thesis of a finance power over the real sphere, while others acknowledge the existence of two distinct spheres.

Within the recent mutation of the capitalism, finance and the perspective of a new "patrimonial" growth regime have an important role. The progress of finance can be explained by the emergence of a new period of capitalism, characterized by new forms of "real" accumulation. Regarding the current orientation of capital accumulation two analytical perspectives were outlined: on one hand, the analysis is focused on the central actors of capitalism. From this point of view, the capitalist firm is the subject of numerous reconsiderations; on the other hand, the importance of global financial markets is revealed the. The objective is not only to highlight the current "exuberance" of these markets, but also to illustrate the mechanisms by which finances actually put a strong pressure on the real economy, with particular implications on the direction of capital accumulation.

Without doubt, globalization has inspired and emphasized the trends of financialization of economies, a notion associated with the concept of financial capitalism. If the signs of financialization are evident (the increase of the bond portfolio held by households, increasing the ratio of funds held between mutual funds and pension and equity capitals of unfinancial corporations, the ratio between financial assets of households and their available income, etc.), there is no consensus yet on the definition of this process. For some authors, financialization means increased importance of financial markets, players and financial institutions in the functioning of national and international economy (Paulre, 2008, p. 187). The theoretical contributions, which explain the crucial role of finance in the current capitalism, as well as the importance of financial accumulation, plead to a comprehensive vision of finances and point out the role of the financial system in managing risk.

When the financial logic comes first compared to the economic logic, the financialization highlights "the patrimonialisation" of behaviors. On macroeconomic plan, financialization expresses itself through the emergence of the asset economy. Accumulation is financializing under the effect of the current functioning of financial markets.

Firms' financialization represents a process resulting from the new "governance", which was imposed in the 90's. The concepts of financialization and corporate governance capture the realities within companies, directly related to the new shareholders represented by institutional investors. A large part of the investors' activities was dedicated to the risk transfer regarding their sale to other players: employees, savings, pensioners, emerging countries.

In this context, financialization translates into the uncoupling between risk bearers (shareholders) and the bearers of investment decisions. Thus, it is created a new image of capitalism in which financial markets become, in fact, privileged places of action and expression of the ownership relation.

The new players of capitalism (international banks, institutional investors which act to delegate administration) have the ability to participate and influence the firms' strategy.

Transformations that have aimed at the functioning of financial markets and financial form of organizing the capital are characteristic to the shift from the industrial capitalism to cognitive capitalism, represented by another system of accumulation, in which the central role belongs to knowledge and creativity. In its essence, the cognitive capitalism is a financialized capitalism.

The last quarter of the twentieth century expresses a profound transformation of the developed capitalist economy and the emergence of a new capitalism under the influence of new technologies and financial globalization. Such period corresponds to a transition to a new form of capitalism, marked by the domination of finance and knowledge. The new stage, the financial capitalism, is identified by assessing the changes at companies' level, as well as from a macroeconomic perspective (L. Batsch, 2002, p.3).

Sometimes, financial capitalism is associated with the financialization of economies and it marks the emergence of a new period of capitalism, characterized by new forms of "real" accumulation.

There is no consensus regarding the concept of financialization. In some views, financialization represents the increased importance of financial markets, actors and financial institutions in the functioning of national and international economy (Colletis G., B. Paulre, 2008, p. 187).

On the macroeconomic level, this process stands out by the emergence of an asset economy and the provision of the priority of financial logic in relation to economic logic, which confers a new image of a reshuffled capitalism, where financial markets become privileged sites of action. A different perspective of financialization is related to the emergence of a management concept, which argues that the concept of "shareholder value" has redirected companies towards financial markets and emphasizes the tendency to produce profits through financial channels rather than as a result of productive activity. Starting from the increased significance of the financial activity as a source of profit, financialization is designed as a model of economic development and a new phase of capitalist development. (G. Krippner, 2011, p. 51). Arguments that support the reality of financialization are considering the role of the state in creating a proper macroeconomic environment, as well as the regime of the macroeconomic policies used in the '80s and '90s, that have provided a fertile ground for the rise of finance and represented the prelude of financialization.

Conclusions

The current realities in the world economy have led to the reopening of the financial laisser-faire myth, and of the thesis regarding the tremendous benefits arising fi*om the free capitals movement. While the international financial system is becoming more and more integrated, the risk of a financial accident to propagate from one area to another, from one entity to another, is increasing. The domino effect and the system risk are mentioned. Financial globalization is the one generating the germs of a systemic and unavoidable risk of financial instability, considering that it has speeded up the interconnection of the financial markets.

During the last decays we have witnessed a significant increase in the speculative financing, which has been carried out independently from the financing needs of the real area. The spectacular increase of the portfolio investments is a reflection of such tendency, whereas speculative financing meets short term profitability logic. Therefore, external financing of the economies is made with increasingly volatile capitals.

The possibility for financial crises to occur and develop shifts the interest to the issue of global finances governed by self-regulating market mechanisms and the need for the international institutions to get involved.

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