T.C.

İSTANBUL ÜNİVERSİTESİ

SOSYAL BİLİMLER ENSTİTÜSÜ

İNGİLİZCE İKTİSAT ANABİLİM DALI

YÜKSEK LİSANS TEZİ

THE IMPACT OF FINANCIALIZATION ON ECONOMIC GROWTH: THE CASE OF UNITED KINGDOM

BAVER VEDAT BİLEN

2504160005

TEZ DANIŞMANI

DOÇ. DR. TANER AKAN

İSTANBUL-2019

T.C.
İSTANBUL ÜNİVERSİTESİ
SOSYAL BİLİMLER ENSTİTÜSÜ

YÜKSEK LİSANS TEZ ONAYI

ÖĞRENCİNİN;

Adı ve Soyadı	:	BAVER VEDAT BİLEN	**Numarası**	:	2504160005
Anabilim Dalı / Anasanat Dalı / Programı	:	İNGİLİZCE-İKTİSAT	**Danışmanı**	:	DOÇ. DR. TANER AKAN
Tez Savunma Tarihi	:	20.06.2019	**Saati**	:	14.30
Tez Başlığı	:	THE IMPACT FINANCIALIZATION ON ECONOMIC GROWTH: THE CASE OF INITED KINGDOM			

TEZ SAVUNMA SINAVI, İÜ Lisansüstü Eğitim-Öğretim Yönetmeliği'nin **36. Maddesi** uyarınca yapılmış, sorulan sorulara alınan cevaplar sonunda adayın tezinin **KABULÜNE** OYBİRLİĞİ / OYÇOKLUĞUYLA karar verilmiştir.

JÜRİ ÜYESİ	İMZA	KANAATİ (KABUL / RED / DÜZELTME)
1- PROF. DR. MEHMET KUTLUĞHAN SAVAŞ ÖKTE	Savaş	Kabul
2- PROF. DR. ÖZGÜR ORHANGAZİ	Orhangazi	Kabul
3- DOÇ. DR. TANER AKAN		Kabul

YEDEK JÜRİ ÜYESİ	İMZA	KANAATİ (KABUL / RED / DÜZELTME)
1- DR. ÖĞR. ÜYESİ ONUR DÜNDAR		
2- DR. ÖĞR. ÜYESİ GÖKHAN ÖVENÇ		

ÖZ

FİNANSALLAŞMANIN EKONOMİK BÜYÜME ÜZERİNDEKİ ETKİSİ: BİRLEŞİK KRALLIK ÖRNEĞİ

BAVER VEDAT BİLEN

Bu çalışma Birleşik Krallık ekonomisinin finans sektörü ekseninde geçirdiği dönüşümü, bu dönüşümün ülkenin ekonomik büyüme performansına etkisini ön planda tutarak incelemektedir. Bu bağlamda, finansallaşma çalışmaları temelinde teorik altyapı oluşturulup ülkenin uzun dönem yapısal ve kurumsal değişimi incelendikten sonra, Stilize Gerçekler Metodu'yla finansallaşma olgusu ve bu olgunun ekonomik büyüme üzerindeki etkisi incelenmiştir. Bu çalışmada, finans sektörünün konvansiyonel rolünün dışına çıkmasıyla birlikte ekonomik büyüme açısından yarattığı olumsuzluklar doğrulanmıştır. Söz konusu olgunun finansal olmayan firmaların içsel dinamikleri üzerinde yarattığı olumsuzlukların ekonomik büyümeyi negatif etkilediği bulunmuştur.

Anahtar Kelimeler : Finansallaşma, Ekonomik Büyüme, Kurumsal Dönüşümler, Stilize Gerçekler Metodu.

ABSTRACT

THE IMPACT OF FINANCIALIZATION ON ECONOMIC GROWTH: THE CASE OF UNITED KINGDOM

BAVER VEDAT BİLEN

This study examines the transformation of the United Kingdom economy around the orbit of the finance sector with giving particular importance to the impact of this transformation on the country's economic growth performance. In this regard, after presenting a conceptual framework based on the studies of financialization and analysing the institutional and structural changes in the post-war UK economy, the phenomenon and its impact on economic growth are examined with using the stylized facts method. It has been found that financialization deteriorates economic growth, inter alia, by influencing the operational rationality of the non-financial corporations.

Key Words: Financialization, Economic Growth, Institutional Transformations, Stylized Facts Method.

PREFACE

This study analyses financialization of the UK economy with reference to its impact on the country's growth performance. Finance sector's growing role has come to the fore with the financial crises and their negative externalities on the structural dynamics of contemporary economies. This study aims to contribute to the literature of financialization given the lack of a systematic examination of the financialization of the British economy in terms of its impact on the country's macroeconomic and growth performance.

I would like to thank my advisor Taner Akan for his encouragement and guidance. Without his support, this study could not be completed. I would also like to thank Özgür Orhangazi for his recommendations during the completion of this study and for his pivotal studies on financialization that influence me to study this particular subject. That said, any shortcomings in this work are my own responsibility.

Finally, I would like to thank my family and Ezgi for their endless support.

Istanbul-2019

Baver Vedat Bilen

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ABS : Asset Backed Securities

AD : Aggregate Demand

BoE : Bank of England

CDO : Collateralized Debt Obligations

Cmnd : A command paper issued by the government of the United Kingdom

EMH : Efficient Market Hypothesis

EU : European Union

FEP : Full Employment Period

GDP : Gross Domestic Product

GIP : Great Inflation Period

MBS : Mortgage Backed Securities

NFC : Non-Financial Corporation

NLP : Neoliberal Period

ONS : Office for National Statistics

PE : Political Economy

SIV : Structured Investment Vehicle

SPV : Special Purpose Vehicle

UK : United Kingdom

INTRODUCTION

With the historical 'Brexit' vote, the British people have decided to leave the European Union (EU) in a phase-in period. Whether this will be beneficial for the country is beyond the scope of this study. However, what causes this initiative is the county's poor economic performance of the last decades (table 2.1., p.31); facing with stagnant growth, deindustrialisation, high levels of unemployment, declining wages and worsening income inequality, Britons have voted to 'Leave' as a form of social self-protection from the 'free market' ideas of the post-1980s (Pettifor, 2017). This study argues that it is the process of financialization that underlies this poor performance and initiative.

Financialization refers to the rise in the weight of finance and subsequent transformation of macroeconomic dynamics of the industrialised countries- particularly Anglo-Saxon countries of the US and UK- during the last four decades. Although there is no consensus on the definition of the term, it generally refers to the dramatic rise in the size and profitability of the finance sector and subsequent structural transformation of all sectors -especially non-financial corporations- around the orbit of the finance (Krippner, 2005; Orhangazi, 2008a).

It is within this context that studies of financialization question the changing role of the finance in contemporary economies. It is argued by the scholars of financialization that as the traditional role of the finance sector as a provider of funds for productive economy changed and as it became the source of speculation and profit-making, it has brought instability and deteriorated macroeconomic landscape of the Western countries (Zwan,2014). Furthermore, it is argued that this transformation has led, inter alia, rising income inequality, higher debt to income ratios in all sectors, and declining economic growth via deindustrialization (Palley, 2013).

While there are many micro and macro level studies analysing the subject in the context of the US economy (e.g. Krippner, 2005; Orhangazi, 2008b; Palley, 2013), the number of studies taking the UK at the centre and analysing the process of financialization with considering its impact on economic growth is very limited and that is the motivation of this study. In this regard, I begin this study by reviewing both mainstream views and critical perspectives on the role of the finance and its effect on economic growth to see the basic arguments on which the studies of financialization have been built. After that, I review the financialization studies and present an initial framework based on these studies.

In the second chapter, I analyse the post-war UK economy so as to see the context of the transformation in the country. I compare the so-called ‘golden age’ and the post-1980 neoliberal periods in terms of politics, economic policies, financial regulation and corporate governance structures and illustrate how the shift in the country’s institutional structure and economic policymaking towards ‘free market’ ideas has paved the way for deregulation and subsequent financialization of the British economy. After presenting the conceptual framework based on financialization studies and analysing the structural and institutional changes in the post-war Britain through which the deregulation of the financial system has emerged, in the third chapter, I present the stylized facts on the transformation of the country under financialization. Specifically, I present the basic statistics on the transformation of the finance sector itself, households and non-financial corporations (NFCs), and finally, on the consequences of this transformation particularly concerning the issue of economic growth.

CHAPTER ONE

FINANCIALIZATION AND ECONOMIC GROWTH

Over the last couple of decades, following the rising intensity, frequency and devastating impact of the financial crises, economists have begun to interrogate the changing role of the financial system in contemporary capitalism under the name of financialization (Zwan, 2014). Financialization, as a critical literature, points to the impact of the rising weight of finance and its adverse effects on the economic dynamics of the Western countries- particularly on fixed-capital investment and economic growth. In terms of economic growth, it is argued by the scholars of financialization that the unprecedented weight gained by the financial sector beyond its traditional role has deteriorated non-financial corporations' (NFCs) performance and changed their focus from long term investment to short term gains, which has adversely affected economic growth by reducing investment in physical capital and productivity (Crotty, 2002).

Two main factors have been pointed out in the literature of financialization as the underlying reasons for this change. First, it is argued that, following the rising profitability of the financial sector and transactions, NFCs have started investing more and more in the financial transactions rather than making long term fixed-capital investment, that is, as the short term gains became more profitable than investment itself NFCs' focus have changed. Second, as the shareholder value maximization became an orthodoxy in the corporate governance of the NFCs, the rising pressure from the finance sector has caused NFCs and their managers to focus on the short run expectations of shareholders. Hence, both of these factors have deteriorated economic growth performance of financialized Anglo-Saxon countries, the scholars of financialization argue (Orhangazi, 2008a and 2008b).

Before turning to these arguments in the literature of financialization in more detail, analysing finance and growth nexus in terms of both mainstream and critical perspectives would provide us with a necessary framework to find out the root causes of these arguments and analyse the transformation of the industrialized Western countries from a broader perspective.

1.1 Finance and Growth Nexus

The impact of financial systems on economic growth has always been a matter of controversy among economists. Whereas the scholars of the neoclassical economic tradition[1] attribute special importance to the finance sector in enhancing economic growth, economists with critical lens have always drawn attention to the overreliance on the financial system with an emphasis on the fact that speculative nature of the financial activities may impede productive investment, and therefore, economic growth.

In the neoclassical economic perspective, it is assumed that financial markets are efficient and these efficient markets under the rational actions of financial intermediaries are expected to cause economic systems to function in a more productive manner (Palley, 2013). On the one hand, according to Efficient Market Hypothesis (EMH), assets are priced correctly and asset prices reflect all available information in financial markets. In other words, capital asset prices claimed to reflect their fundamental values- otherwise arbitrageurs would profit from it and eliminate any diversion from fundamental values. And correctly priced assets are assumed to provide accurate signals for both investors of securities and firms to make more efficient decisions. Hence, the financial markets are claimed to produce Pareto efficient outcome contributing to the efficient allocation of societies' resources (Fama,1970).

On the other hand, particularly recent mainstream studies, focusing on the influence of the financial system on productivity growth, emphasize finance sector's role in fostering economic growth by enhancing research and development, innovation, human capital, and knowledge. In general, these studies point out that the financial sector contributes to the economy's productive capacity by allocating capital more efficiently, providing means of monitoring, dealing with various types of financial risks and providing liquidity (Levine, 2005).

[1] In this study, by neoclassical and mainstream economics I refer the definition used by Jespersen, J.:2009, **"Macroeconomic Methodology: A Post-Keynesian Perspective"**, Edward Elgar, Cheltenham, UK, Northampton, MA, USA.

On the contrary, non-classical economic tradition have long warned about over-reliance on the financial system and speculative nature of these activities. For instance, John Maynard Keynes, in 'The General Theory of Employment, Interest and Money', problematizes how over-reliance on the financial system shifts the focus of economic activity from long term investment activities to short term speculative gains. Although he believed that regulated and organised financial system may reduce some risks associated with long term investment and may provide liquidity for individual investors, he also pointed out the speculative and unstable nature of the financial system and its devastating impacts on confidence, and therefore, long term productive investment activities (Keynes, 1936).[2]

1.1.1 Evolution of the Theories of Economic Growth

In mainstream economics, the financial sector has always been assumed to enhance economic growth. Building complex mathematical models that are claimed to be ideal representation of reality, these theories put different arguments forward to show how the functioning of the financial sector is vital for economic growth. Furthermore, the arguments of these theories on finance-growth nexus have changed in nature with the evolution of economic growth studies. From the physical capital and labour based studies to productivity and efficiency based studies of economic growth, as the theories of economic growth evolved, the mainstream arguments on the finance-growth nexus have been transformed accordingly. That is, the very same financial sector that once claimed to be a key factor in increasing capital accumulation has come to be a key factor in boosting R&D activities, human capital, knowledge of production, and therefore, productivity and economic growth. Thereby, a brief introduction of the economic growth theories can be useful to better explain today's prevalent views

[2] Similar arguments on the contrasting dual role of the finance can also be found in the Marxist approaches, in that, on the one hand, the finance is argued to be accelerator of the capital accumulation and economic growth by mobilization of money capital; on the other hand, it can create problems for accumulation by creating instability and periodic disturbances in the economy (see Orhangazi, Ö.: 2011, " 'Financial' vs. 'Real': An Overview of the Contradictory Role of Finance", in **Revitalizing Marxist Theory for Today's Capitalism** edited by Zarembka, P. and Desai, R., Emerald Group Publishing Limited, pp.121 – 148).

analysing the finance and growth nexus with particular emphasis on the productivity and efficiency-enhancing effect of the financial system.

As a starting point, basic arguments of the conventional theories of economic growth were put forward by the Solow model during the 1950s. In this model, emphasis was put on the countries' overall saving, investment and physical capital accumulation levels and it was argued that 'underdeveloped world' could 'catch-up' with industrialised countries by increasing their capital accumulation. However, the model's assumption of diminishing returns and its inability to explain underlying reasons behind the productivity gains resulted in dead-lock (Solow 1956; Barro and Salai-Martin, 2004).

After the 1980s, with the endogenous growth models, the importance of productivity and efficiency gains has been underlined besides the role of capital accumulation. With the abandonment of 'diminishing returns' to inputs in production process and extension of the models with R&D capital, human capital, and knowledge, the theories of economic growth have come to focus on explaining productivity parameter, which could not be explained in the previous growth models (Romer, 1990 and 1994). Furthermore, particularly with the second wave of the endogenous growth theories, NFCs' investment in R&D activities as the key factor in determining the productivity parameter has enabled these theories to explain economic growth more accurately (Aghion and Howitt, 2009).

Overall, conventional theories of economic growth have come to explain economic growth better by putting large NFCs at the centre of economic growth process (Cypher and Dietz; 2009).

1.1.2 The Impact of the Financial Sector on Economic Growth: Prevalent Views

Following the developments in the studies of economic growth with endogenous theories, the relationship between the financial sector and economic growth has been examined by mainstream economists with rising enthusiasm. In these studies, the influence of the financial system on productivity growth -rather than the physical accumulation- has been analysed. In general, these studies have particularly underlined the finance sector's role in fostering research and development, innovation, human capital, knowledge and therefore, productivity and economic growth.

Featuring the allocation of savings through financial intermediaries, some of these studies have suggested that the financial intermediaries play a growth-enhancing role by providing the necessary background of information about investment projects and by funding those projects. Adopting the Schumpeterian growth perspective[3], these studies claim that by evaluating the entrepreneurial skills and funding those firms that have the most promising entrepreneurial and R&D infrastructure, financial intermediaries play a key role in the process of economic growth. They foster economic growth not only through the rate of physical capital accumulation but through boosting the entrepreneurial activity and innovation that leads to total factor productivity growth (Beck et al., 2000; King and Levine, 1993). Further, this relationship between financial intermediaries and growth is argued to become more beneficial as the country becomes more 'developed' (or 'approaches to the world technology frontier') since selecting good R&D projects and producing unique products becomes more important (Acemoglu et al., 2006).

Some others have focused on the provision of liquidity by the financial sector and its positive ramifications for economic growth. Levine and Zervos (1998) argue that, for instance, rise in the stock market liquidity, the degree of which is given by stock turnover rate[4], and in the credit provided by banks, which is total bank credits given to the private sector as a percentage of GDP, increase productivity and economic growth significantly. In particular, analysing a sample of 42 countries over the period 1976-93, they conclude that 0.3 percentage points increase in the stock turnover rate would increase per capita GDP growth by 0.8%, while 0.5 percentage points increase

[3] According to Schumpeterian growth perspective, oligopoly-like non-financial corporations in product markets drive economic growth by simply following their profit motivation. In order to expand their businesses and increase their profitability, they engage in entrepreneurial activity, make productive investment, boost technological change and productivity, and therefore, drive the economic growth (see Crotty, J.: 2002, "The Effects of Increased Product Market Competition and Changes in Financial Markets on the Performance of Nonfinancial Corporations in the Neoliberal Era", **Political Economy Research Institute**, working paper no. 44.).

[4] Stock turnover rate equals the total value of shares traded on a country's stock exchanges divided by stock market capitalization which is the value of listed shares on the country's exchanges.

in the credit provided by banks would boost the per capita GDP by 0.7%. Furthermore, it is emphasized that liquidity provision of the financial sector foster economic growth via productivity (Levine, 1991; Levine and Zervos, 1998).

Yet, some others have emphasized beneficial ramifications of the risk diversification on increasing the innovative capacity of economies. Acemoglu and Zilibotti (1997), for example, have constructed a model in which risk diversification may foster allocation of savings through high-return, risky, innovation based projects creating positive externalities for economic growth. In the model they constructed, risk avoidance of people, capital scarcity, 'invisibility' of high-return risky projects and their high start-up cost, and availability and appeal of lower return 'safe' projects are emphasized. It is stated that in the absence of financial intermediation that allow people to hold diversified range of portfolio assets, economic agents avoid to engage in high return risky projects. Thus, *"development goes hand in hand with the expansion of markets and with better diversification opportunities"* (ibid., p. 711) and a financial system in which diversification –possibly via financial innovation- is available and everyone has access to invest in risky projects through large open markets is presented as a precondition for increasing countries' productive capacity and economic growth rates (Acemoglu and Zilibotti, 1997).

Last but not least, based on the agency theory[5] which takes shareholder value as a key to corporate success, some of these mainstream economic studies emphasize the monitoring role of the financial system. They suggest that, the financial system, by providing the means of monitoring, improve the efficiency with which firms allocate resources and make savers more willing to finance production and innovation (Levine, 2005). Aghion and Howitt (2009), seeing this role as one of the most important roles provided by the financial sector, explain it as:

> *Finally, and perhaps most importantly, banks can also help to alleviate agency problems by monitoring investors and making sure that they are making*

[5]As will be elaborated in detail in the later part of this study, the agency theory focuses on the separation between ownership and management in large corporations and claims this separation gives managers the opportunity to use corporate resources for their own sake. The theory, furthermore, offers some 'solutions' such as stock options and hostile takeovers with which interests of managers and shareholders can be aligned and corporates' performances can be improved by maximization of owners' (e.g. shareholders) interests. This theory has particularly been one of the main points of criticism for the scholars of financialization.

productive use of their loans rather than spending them on private consumption or otherwise defrauding the ultimate lenders. Many of these roles are also served by stock markets, private equity firms, and venture capitalists, all of which help to identify, finance, and monitor good investment projects (p. 129).

1.1.3 Keynesian Responses

Contrary to the mainstream perspective on the relationship between the financial system and economic growth, economists with critical lens have always pointed out the speculative and crisis-prone nature of the financial system and its possible negative consequences on investment and production. Recognizing the significance of the regulated financial sector and its positive externalities for the economic activity and production, these economists have also stated how uncertainty and instability created in the financial system may reduce confidence in the economy which would have devastating consequences for the productive investment.

For instance, in his influential 'The General Theory of Employment, Interest and Money', John Maynard Keynes warns about how overreliance on the financial system shifts the focus of economic activity from long term investment activities to short term speculative gains. As a key factor in determining marginal efficiency of capital and investment, Keynes (1936) emphasizes the importance of confidence and underlines how it may be negatively influenced by almost instantaneous daily revaluations of long term investment in capital markets. These revaluations in capital markets, he underlines, firstly, makes productive investment and knowledge about that investment to become increasingly detached since it is made by the people who hold securities rather than managers who are responsible for the investment. Secondly, with these revaluations, seasonal or even daily fluctuations in profitability of businesses gains an 'absurd' importance. Thirdly, with the daily revaluations, markets are becoming increasingly prone to waves of optimistic and pessimistic views in extraordinary times. And fourth and particularly important point underlined by him is that, speculation may become more profitable and less riskier than long term investment. Thus, all of these factors may increase instability, reduce confidence and make socially advantageous long term investment less favourable than speculation according to Keynes (1936), and therefore, he favours strict regulation of the financial system:

If I may be allowed to appropriate the term speculation for the activity of forecasting the psychology of the market, and the term enterprise for the activity of forecasting the prospective yield of assets over their whole life…as the organisation of investment markets improves, the risk of the predominance of speculation does…increase…Speculators may do no harm as bubbles on a steady stream of enterprise. But the position is serious when enterprise becomes the bubble on a whirlpool of speculation. When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done…It is usually agreed that casinos should, in the public interest, be inaccessible and expensive (pp. 158-9).

Based on Keynesian and Kaleckian theoretical framework, Minsky (1982) also draws attention to the instabilities that would be created in the financial system and their devastating impacts on productive investment and economic activity. He explains how money market innovations and increasing leverage tend to occur in the economically prosperous times due to profit motivation of businesses and financial institutions and how this situation leads the creation of asset price bubbles and deteriorates liability structures of businesses and makes the overall economy more prone to debt deflation process. In his words, "*…the big conclusion…is that the processes which make for financial instability are an inescapable part of any decentralized capitalist economy—i.e., capitalism is inherently flawed…"* and:

The observed instability of capitalist economies is due to (1) the complex set of market relations that enter into the investment process; and (2) the way the liability structure commits the cash flows that result from producing and distributing output (ibid., p.16).

1.2 Financialization

Over the last four decades, increased frequency and intensity of financial crises and their devastating impact on globalized world economy have caught the attention of economists. As financial crises followed one another, from Black Monday to Asian financial crisis, and from the dot-com bubble to the financial crisis of 2008, economists have begun to interrogate the changing role of the financial system in contemporary capitalism (Krippner, 2005; Zwan, 2014).

In this setting, studies of financialization have emerged. Although early systematic studies that examined the financial system beyond its conventional role- as a provider of capital for productive economy- dated back to the late 1960s and 1970s, the term financialization came to light in the 1990s.[6] Moreover, the number of studies that specifically features financialization has increased significantly after the outburst of dot-com bubble in the early 2000s and skyrocketed after the financial crisis of 2008 (Engelen,2008).

The term financialization is used for describing number of changes that have taken place in the industrialized- or increasingly deindustrializing- countries of the world over the last couple of decades. These changes mainly include explosion in the size of the financial sector, dramatic rise in the profitability of the financial transactions, and increase in the involvement of non-financial corporations to the financial transactions (Krippner, 2012; Orhangazi, 2008a). Scholars from a variety of disciplines[7] have examined causes and consequences of these changes and transformations they have brought to the macroeconomic dynamics of the Western countries.

Although the literature analysing the subject is vast, it can be examined under three different perspectives: speculative trends, corporate governance, and heterodox economics. In general, all of these perspectives reflect the transformation that has taken place in the industrialized economies of the world from different points of view. Some focusing on psychological factors that change behaviour of the economic agents, others focusing on alterations in the behaviour of non-financial corporations, and yet others focusing on the phenomenon along with political and socioeconomic developments from a broader canvas.

1.2.1 Speculative Trends and Financialization

The most popular view that explains exponential growth of the financial system and subsequent financial crises, in particular in the aftermath of the financial crisis of 2008, is speculative bubble view. According to this view, the reason for the rise of the

---

[6] For an overview about early uses and roots of the term, see: Foster, John B.: 2007, "The Financialization of Capitalism', **Monthly Review**, 58, pp. 1–12. and Lapavitsas, C., Powell, J.: 2013, "Financialisation Varied: A Comparative Analysis of Advanced Economies", **Cambridge Journal of Regions Economy and Society**, 6, pp. 359–379.

[7] Focus of this study will be on economic issues around the concept of financialization.

financial motives is speculation in asset prices, triggered by optimistic expectations of market participants in the wake of the relatively more favourable economic periods (Krippner, 2012).

This perspective is basically built upon Hyman Minsky's Financial Instability Hypothesis. In his important study ''Can It Happen Again'', Minsky explains how financial crises are natural and endogenous part of the economic system. According to his theory, after some stable and prosperous periods of an economy, financial institutions and businesses that aim to increase their profitability and expand their investment opportunities, respectively, tend to engage in riskier financial activities. To rise their profitability, financial institutions increase financial innovations and leverage. This increase in the supply of financial assets tend to increase demand for, and therefore, the price of capital assets above their real value. Furthermore, businesses and households that expect even higher asset prices and therefore higher returns react by engaging in more 'speculative and Ponzi financing', which increases capital asset prices further, in addition to increasing debt to income ratios and making the overall financial and economic system more fragile and vulnerable to crises (Minsky, 1982).

Based upon this idea of asset price inflation-especially in equity and real estate markets- and subsequent speculative mania, this perspective is against the market efficiency hypothesis, which emphasizes correct valuation of asset prices and equilibrium in financial markets that are assumed to produce efficient allocation of society's sources (Fama,1970). Asset prices may not reflect their real or fundamental prices simply because imperfect knowledge and expectation of investors for further price increases. Market participants who are sure of the fact that selling price will be higher in the future continue to invest in risky assets and thus push their prices up to the extent of building up an asset price bubble (Stiglitz, 1990).

While explaining this vicious circle of asset price inflations and bubbles endogenous to financial systems, some economists under the name of behavioural economics emphasize the importance of psychological, sociological, or even 'epidemiological' factors. Seeing asset price bubbles as epidemics, the behavioural economists emphasize the role of mass psychology in creation of bubbles and regard news media and other information channels responsible in creation of bubbles[8] (Shiller, 2014). Furthermore, in order to point out the tendency of asset prices to diverge from their real value as a result of this mass psychology that spreads through information channels, Shiller (2000) defines bubbles as:

> *A situation in which news of price increases spurs investor enthusiasm which spreads by psychological contagion from person to person, in the process amplifying stories that might justify the price increases and bringing in a larger and larger class of investors, who, despite doubts about the real value of an investment, are drawn to it partly through envy of others' successes and partly through a gambler's excitement (p. 1487).*

Finally, putting 'speculative mania' approach at the centre, this perspective supports government interventions -'lender of last resort' approach- in case asset price bubbles burst following the debt price deflation process. According to Minsky (1982), as debt deflation process begin, governments should step in by increasing its expenditures and providing liquidity to financial system to restore confidence in the economy and prevent another devastating economic crisis as 'It' happened in the 1929.

Overall, although this view gives us the underlying reasons of the transformation of the economy towards financial sector dominated structure and subsequent financial crises, it does not reveal out overall picture -in which firms and governments have also played important roles- and lacks to give ultimate reasons behind transformation of the contemporary capitalism (Palley, 2012; Krippner, 2012).

1.2.2 Heterodox Economics and Financialization

Another perspective that examines the rise of finance is related with heterodox economics.[9] Scholars of this perspective suggest that the process of financialization is the result of governments' and businesses' reactions to the profitability crisis of the

[8] According to Shiller (2014), news media contributes 'epidemic spread of bubbles' by exaggerating financial market movements in order to get attention of audiences. Hearing financial market index 'hit another record high' and there is extreme upward movements in some asset prices, people acquire those financial assets to profit, and tend to contribute asset price bubbles.

[9] Although this umbrella term and categorization is rejected by some economists, it is used here broadly to represent the economic traditions that do not follow mainstream economic tradition that are constructed upon or influenced by the ideas of non-classical economists Kalecki, Keynes, and Marx.

1970s. They argue that the increasing value-added of financial system and the subsequent financial crises represent systemic tendency of the production system and inherent instability created in the deregulated financial system. Scholars from this perspective also suggest that the financialization is affected by not only economic but also political factors. The latter factors are regarding the rise of finance with neoliberal policies, thought the causal relationship between financialization and neoliberalism still remains a matter of controversy. There is a vast literature analysing ascendancy of the financial sector from this perspective that cannot be presented in a few pages. However, presenting general framework offered by heterodox economists –at least briefly- is of great importance for understanding the process.

In one of the earliest and much cited empirical study of financialization, Krippner (2005) examines the concept in the post-war period US economy where financialization originated. Following Arrighi (1994), who is one of the first social scientists using the term financialization, she defines financialization as a new way of capital accumulation after the crisis of the 1970s. In this new ‘accumulation regime’, she argues, profits are increasingly being made through financial channels instead of productive economy. Furthermore, since profits come to accrue more and more from financial activities, the financial system gains weight over the behaviours of non-financial firms, political system and overall economy. To illustrate this rise of financial motives, she both looks at the revenue sources of the US NFCs and compares financial and non-financial profits earned in the US economy, throughout the fifty year period between 1950 and 2000. On the one hand, she finds an increasing trend in the ratio of ‘portfolio income’ –generated from interest, dividends and capital gains- to corporate cash flow especially after 1980s, which indicates higher share of revenues gained from financial activities than non-financial ones by the US NFCs. On the other hand, for examining the increasing salience of the financial sector itself besides its impacts on NFCs, she examines the ratio of financial to non-financial profits earned in the economy and finds another positive trend, which illustrates the growing importance of the financial sector as a source of profits. Overall, according to Krippner, looking from ‘accumulation-centred’ perspective that focuses on profits, financialization is the most important concept that features recent changes in the economic system (Krippner, 2005).

Focusing on the economic crisis of the 1970s that paved the way for neoliberal policies as the root cause of the process of financialization, Crotty (2002 and 2005) scrutinizes the relationship between the neoliberal economic policies and financialization, and their impact on performances of NFCs. Based on the Schumpeterian growth perspective that regard large NFCs as the main driving force of economic growth, he criticizes the neoliberal policies and holds them responsible for the erosion of NFCs' performance. According to him, neoliberal policies have created such an environment in both product and financial markets that NFCs have been eventually put in the 'neoliberal paradox': on the one hand, weak AD and increasing competition -especially international- have diminished profitability of NFCs in the goods market; on the other hand, the rise of short-termism in financial markets and expectations of higher returns from financial market participants have created an ever increasing pressure on NFCs. As a response to this crisis created by 'neoliberal paradox', NFCs have become increasingly involved with the financial system- that is, 'financialization of NFCs' took place in the neoliberal era according to Crotty. Hence, by acquiring more financial assets or creating or buying financial subsidiaries, NFCs have had less and less funds for fixed-capital investment (Crotty, 2002 and 2005).

To emphasize the role of neoliberal policies as the driving force of financialization, another important figure from the Post-Keynesian economic tradition, Palley (2012 and 2013), renames the term financialization as financial neoliberalism. Like other scholars from this perspective, he underlies economic downturns of the 1970s and subsequent implementation of neoliberal economic policies as the root cause of the process. According to him, abandonment of the 'Keynesian era virtuous circle growth model' and ensuing neoliberal economic policies after the 1980s have created an aggregate demand gap by increasing income inequality and undermining households' income.[10] Inflation obsessive monetary policy has been enforced at the

[10] By the Keynesian era virtuous circle growth model, Palley implies combination of 'Fordist growth regime' and full employment commitments of the governments of the post-war Keynesian era. According to this model wage and productivity growth rise in parallel and government demand

cost of high unemployment and the virtuous circle between wage and productivity growth disappeared with tight labour market conditions, he argues. At this point, the financial sector took the role of filling the aggregate demand gap by opening up credit markets and inflating the asset prices:

> *The neoliberal model undermined the income and demand generation process by shifting income from wages to profits and by widening wage inequality. That created a growing structural aggregate demand (AD) gap, and the role of finance was to fill that gap. Financial deregulation, financial innovation, speculation, and fraud enabled finance to fill the demand gap by lending to consumers and by inflating asset price…Reliance on debt and asset price inflation put financial markets at the center of the economic process, and hence the notion of financialization or financial neoliberalism (Palley, 2013, p.6).*

This reliance on debt is one of the main characteristics of a financialized economy according to Palley; household, non-financial business and government debt ratios have skyrocketed in order to fund their expenses in the face of declining wages, profitability and tax revenues. Besides this role of filling aggregate demand gap, he states, the other role of financial system in the neoliberal era is to redistribute aggregate income from labour to capital. As a result of this process, new economic paradigm under this financialized system has emerged according to Palley, the main characteristics of which are declining wages, increasing income inequality, manufacturing job losses, overvalued exchange rate, cheap imports, trade deficits and asset price inflation in the United States (Palley, 2012 and 2013).

1.2.3 Corporate Governance and Financialization

The third approach that explains the process of financialization focuses on its impact on corporate governance. This perspective analyses the changes created by the financialization in the corporate governance that first, restructures the internal functioning of non-financial corporations, and then, affects the overall economic performance. It examines how NFCs have changed under increasing pressure of

management policies supports this process. That is, on the one hand, wage increase fuels consumption and support aggregate demand which is welcomed by private sector by increasing investment and led higher productivity, income and wages that supported aggregate demand further; on the other hand, government stabilizes the process by Keynesian economic toolkit (Boyer, 2000; Palley, 2012 and 2013; Streeck, 2016).

financial markets and how they have transmitted this pressure to the other constituents of corporations- owners, managers, and workers (Zwan, 2014).

First of all, this perspective is fundamentally against the agency theory that considers shareholder value as a key to corporate success. Agency theories claim that the separation of ownership and management in large corporations brings in some challenges since managers may opportunistically use corporate resources for their own sake. Therefore, they argue that managers should be disciplined by market mechanism to act in a way to maximize shareholder interest. In this regard, these theories favour the creation of takeover markets in which failure of managers to increase asset prices would be punished by hostile takeovers and disciplinary mechanism would be provided. Besides this punishment tactic, these theories argue that managers should also be given incentives by stock options, as a way of their compensation. With this carrot and stick approach, they assume that shareholder profits and corporate performance could be maximized (Jensen and Meckling, 1976; Fama and Jensen, 1983).

Criticizing the agency theory of the 1970s and 80s, this perspective refuses the logic that being exposed to the market discipline improves the performances of managers and corporations. On the contrary, it emphasizes the role of agency theory that favours takeover movements and stock options, increasing dominance of the institutional investors, financial innovation and financial deregulation in deterioration of NFCs' performance. It underlies the role of these developments in promotion of shareholder value with which the focus of non-financial corporations turns into short term gains of their shareholders, rather than expanding their businesses with long term investment projects (Orhangazi, 2008a).

In their study that analyses historical evolution of shareholder value -which has become prominent especially among US and British companies[11]- Lazonick and

[11] The concept of financialization is more relevant to the Anglo-Saxon economies of the US and UK than other types of national political economies. However, there are strong tendencies towards financialization in a global scale, especially in the vast majority of the Western countries (e.g. France), and since the relative size and dominance of the Anglo-American economic system creates an overall financialized environment –similar to the Keynesian environment created in the post-war period, financial crises like the one in 2008 affect overall interconnected world economy (Boyer, 2000; Crouch, 2008; Froud et al, 2000).

O’sullivan (2000) show how the post-war US corporate governance strategy has changed after the 1980s, from retaining corporate cash flows and labour force and reinvesting in long term growth opportunities to downsizing labour force and redistributing to shareholders. In explaining the sources of this shift, they emphasize the role of agency theories, rise in the power of the institutional investors and financial deregulation and innovations of the 1970s-80s. Firstly, they argue that technological advances gave collective power to institutional investors and that financial deregulation enabled both institutional investors and other financial institutions to hold risky assets including junk bonds. Secondly, the introduction of the junk bond market created an environment in which the institutional investors can easily trade junk bonds. Thus, these two developments have facilitated hostile takeovers that create an enormous pressure on the managers to focus on keeping stock prices high.[12] In the end, the takeover movement along with managerial shift –especially with the help of stock options as manager compensation- have created support for corporate governance on the principle of maximizing shareholder value, according to authors. Under this new regime, managers do whatever needs to be done to keep stock prices increasing. As a result of the pressure from the financial sector, authors state, on the one hand; manufacturing employment declined, de-unionization accelerated, insecurity and anxiety among labour increased as a result of ‘downsizing’, on the other hand; distribution of corporate revenues to shareholders by dividends and stock repurchases increased as a result of ‘redistributing’ (Lazonick and O’Sullivan, 2000).

Taking this perspective one step further, Boyer (2000) states that the pressure for increasing returns by shareholders does not only affects internal structures of corporations but also transforms the overall economic structure of Anglo-Saxon countries. The finance-led growth regime, to put it in his terms, substitutes Keynesian compromise under the Fordist growth regime of ‘Golden Age’ period. As a result, all institutional dynamics would change under this new regime; including, structure of labour markets, forms of competition, central bank policies, public sector-society

[12] Hostile takeover movements of the 1980s was one of the key factors in creation of shareholder value prominence in the corporate governance. Two developments, the rise in the power of institutional investors and financial deregulation of the 1980s facilitated this movement (Lazonick and O’Sullivan, 2000; Orhangazi, 2008a).

relations, and adaptation to the international economy. Under this new system, maximization of shareholder value does not only affects productive investment by altering corporate governance, but also requires flexible labour market, restraints public borrowing and spending, shifts competition from goods to financial markets, changes monetary policy through financial system stability to prevent bubbles, and lastly, entails complete deregulation of financial infrastructure. Furthermore, the need for higher returns holds the potential to create asset price bubbles under this new system, which, on the one hand, boosts household wealth and consumption in the face of tight labour market conditions, on the other hand, makes overall economic system fragile and prone to financial crises; as economic system become more financialized, it further destabilizes the macroeconomic environment, which inspires central banks' rapid and harsh reactions to prevent bubbles from bursting (Boyer, 2000).

Another important figure of the French Regulation School, Aglietta (2000), questions sustainability of this shareholder value-based financialized system.[13] Like other scholars from this perspective, he draws attention to the shifts in the corporate behaviour after the 1980s.[14] The prominence of shareholder value, he underlies, has shifted the firms' strategy towards increasing return on capital employed by restructuring activities. Consequently, this has induced managers to reduce labour cost or save productive capital- basically by increasing leverage. These endeavours to increase profitability by increasing leverage, as its also indicated by Minsky (1982), cause asset price appreciation and, with optimistic expectations of higher future profits, asset prices go up further. This appreciation is the key for the survival of this financialized system, according to Aglietta, since it helps to boost consumer demand by increasing household wealth. At the same time, it also makes this system fragile since it rests on the permanent optimism of financial markets (Aglietta, 2000).

[13] Pioneering articles of the shareholder value perspective published in the special volume of the journal "Economy and Society" in February, 2000.

[14] Agglietta (2000) especially emphasizes the role of technological advances in the promotion of shareholder value as a corporate governance strategy. He states how technological advances in the information technology contributed the power of capital markets to value firms publicly and how this increased power influenced corporate behaviour and help ascendancy of shareholder value as a corporate governance strategy.

Seeing the financial crisis of 2008 as a reflection of this shareholder value based system, Dore (2008) criticizes increasing dominance of the global financial system over the productive economy and problematizes its negative social consequences. He points to the rising proportion of income gained by financial sector-as a result of increasing volume of financial intermediary actions, maximization of shareholder value doctrine, government policies of Anglo-American countries and subsequently created financially unstable world economy as the underlying reasons for today’s financial crises (Dore, 2008).

1.3 Macroeconomic Landscape and Economic Growth in the Era of Financialization

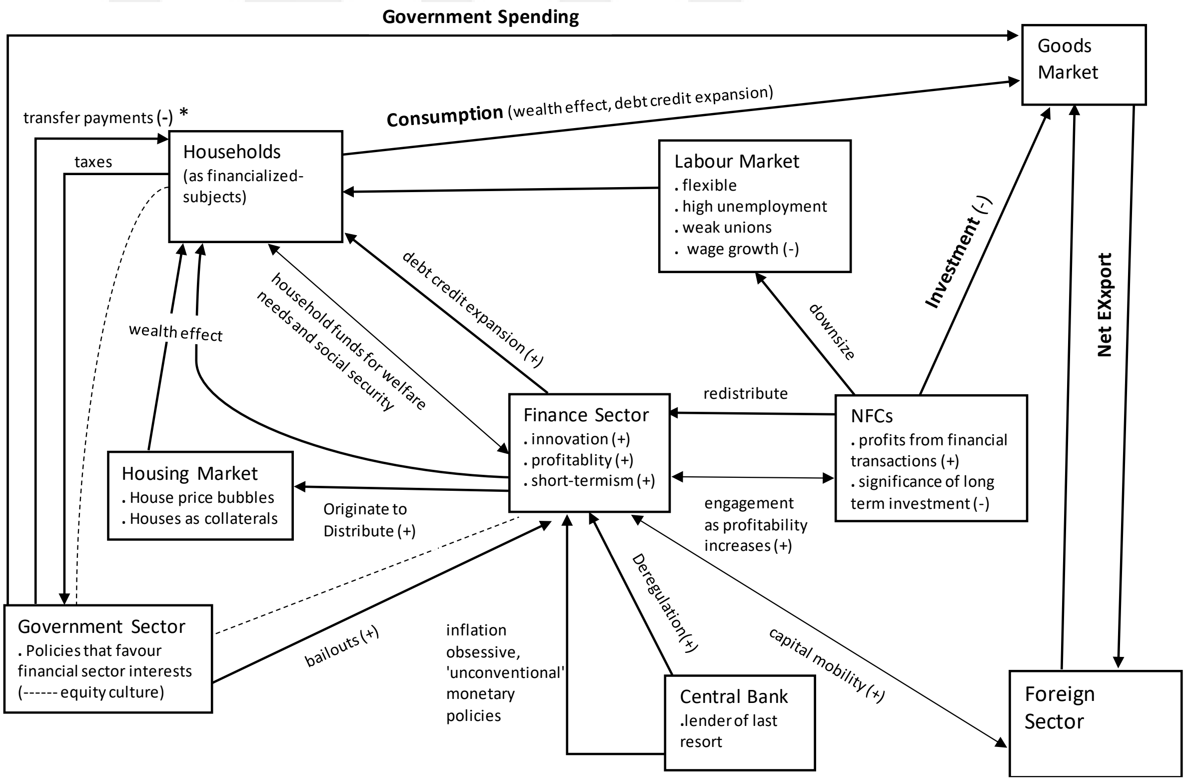
Up to now, we have seen two different point of views on the role and impact of the financial sector. On the one hand, taking Jean Baptiste Say’s inheritance, mainstream economics considers only the supply side of economics and emphasizes the importance of ideal financial systems as provider of funds for production. It states how production may be stimulated by the financial sector without taking its destabilizing impacts into consideration. Constructing theoretical frameworks that are claimed to be ‘ideal representations of reality’, these theories underline significance of the financial sector for the conduct of our economies and productivity and efficiency gains.

On the contrary, looking from a different perspective, critical views do not see the production as a mechanical but a complex process in which demand side considerations play a vital role and the financial sector may destabilize the economy by changing the focus from production to speculative gains. If the finance becomes a source of profit-making instead of providing funds for productive investment, it is argued by these views, it may destabilize the economy by affecting business confidence for making investment and changing the focus of the economy away from production. Furthermore, it may affect distribution of income among different segments of population and create debt relied liability structures, which further deteriorates the aggregate demand mechanism.

1.3.1 Macroeconomic Landscape of Anglo-Saxon Economies under Financialization

Based on the above-noted critical views, scholars of financialization have questioned the conventional role of the financial system especially after the recurring financial crises of the last decades. They have tried to show us the underlying reasons of the transformation of the industrialized countries over the last decades. It is within this context that, constructing a framework that sums up the central findings of these studies would help us to analyse the impact of the phenomenon on the macroeconomic dynamics of the British economy in the third chapter.

Figure 1.1. Macroeconomic Landscape under Financialization



* government retreat from expenses such as welfare, social security, financial aid.

Source: Jespersen J.:2009, Macroeconomic Methodology: A Post-Keynesian Perspective, Edward Elgar.[15]

[15] This figure is a restructured version of Jespersen's (2009) 'a macroeconomic landscape' according to financialization thesis (see figure 3.2 p. 99 in Jespersen J.:2009, **"Macroeconomic Methodology: A Post-Keynesian Perspective"**, Edward Elgar, Cheltenham, UK, Northampton, MA, USA,)

According to studies of financialization, economic mechanisms of the Anglo-Saxon countries have changed dramatically under financialization, as its presented in the figure 1.1. Following the deregulation of the financial system around the 1980s, the state-of-the-art technologies and complex methods of financial innovations have been introduced in the finance sector and an unstable economic system around the financial motives has been created. Consequently, in the era of financialization, not only the size of the finance sector, amount and profitability of the financial transactions have skyrocketed but also NFCs have come to increasingly engage with the finance and overall macro-economic dynamics of the Anglo-Saxon economies have been transformed.

NFCs have both increased their payments to the finance sector by redistributing their funds -as a result of the rising pressure from shareholders- and accrued more profit from the financial transactions by increasing their financial investments and involvement with the finance. This change in the focus of the NFCs towards short term gains has diminished productive investment activities, led to higher levels of unemployment and increased insecurity among workers.

In this era, the operation of the financial markets and institutions itself has changed dramatically. Instead of providing funds for long term investment activities, financial institutions have increased risk taking and financial innovation and turned to risky speculative activities so as to further augment their profitability. They have begun to distribute more and more debt and credit instruments to households, engage more in investment banking and asset management businesses. Again, from means of providing long term funds for NFCs' investment activities, stock and bond markets are also turned into tools of achieving short term profits.

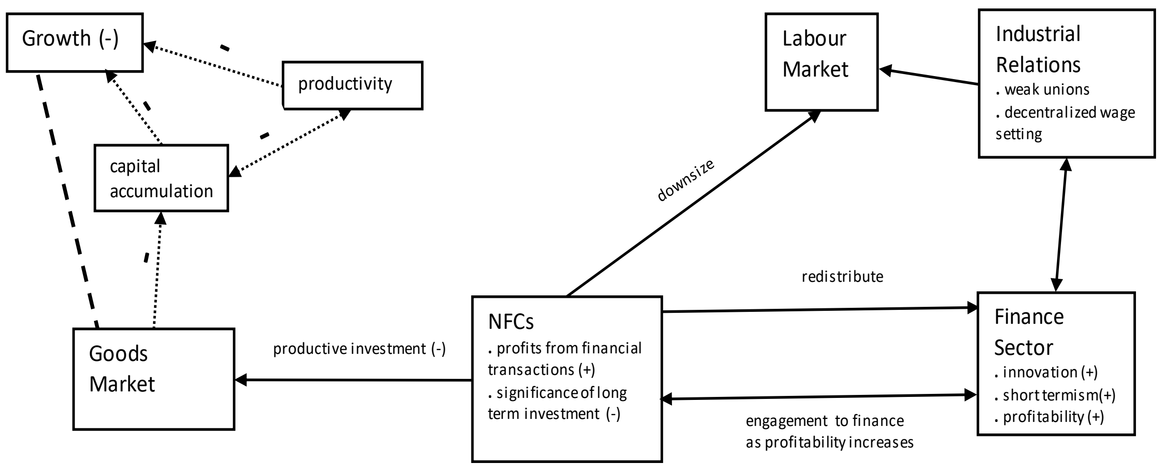
In terms of the household sector, the transformation can be analysed via two conduits; creation of an 'equity culture' in which households' savings have been transferred to the financial institutions led by institutional investors and the expansion of easy credit to households. On the one hand, as the governments of Anglo-Saxon countries reduced their transfer payments in the neoliberal era, households have been drawn into the 'equity culture' by transfer of their savings to various financial institutions to meet their future social security and welfare needs. On the other hand, facing with the rising unemployment and stagnating wages due to the process of de-industrialisation, which stems from the shift in the focus of the NFCs towards short-term gains, households turned to credit markets to maintain their spending. With the easy access to credit and debt instruments, they rushed into debt to fund their expenses for various needs.

Overall, behind the dramatic rise in the size of the financial sector, volume of financial transactions, increasing profitability of the financial corporations and increasingly financialized NFCs and households, lies an unstable economic system in which financial deregulation and subsequent financial innovation, rising leverage and speculation have taken place.

1.3.2 Economic Growth in the Era of Financialization

Beside the changes in the macroeconomic landscape, the channels through which the process of financialization affects the economic growth performance of countries -as the focal point of this study- are also pointed by the scholars of financialization. Contrary to the neoclassical claims about economic growth fostering role of the financial system, scholars of financialization have especially emphasized the changing nature of the relationship between the financial sector and NFCs and analysed the possible negative consequences of this change on the economic growth.

Figure 1.2. Economic Growth in the Era of Financialization[16]



[16] Extracted from the figure 1.1.

In particular, studies of financialization underline three ways through which the phenomenon has affected economic growth. First, by changing the distribution of income -both from the labour to capital and workers to managers- and rising income inequality; second, by rising debt reliance and speculative, financial wealth based consumption of households; and third, and most importantly, by changing the workings of NFCs structurally and leading deindustrialization, the phenomena is emphasized to affect economic growth (Hein and Treeck, 2008).[17]

As it is summed up in the figure 1.2, the financialization thesis emphasizes the increasing orientation of the NFCs towards financial activities and consequent lower physical investment and productivity growth in deterioration of economic growth. It is argued, first, as the maximization of the shareholder value became an orthodoxy, NFCs and their managers have come to focus on short term gains and distribute more and more of their funds to the financial sector -and consequently left with less funds for investing in productive capital. Second, as the profitability of financial transactions increased in the era of financialization, NFCs have become more interested in engaging short term gains rather than making investment. Hence, both of these developments and consequent focus on short term profits are stated as the underlying reasons for less investment in physical capital and lower rates of productivity, and therefore, economic growth (Onaran and Tori, 2018; Orhangazi, 2008b).

[17] In this study, the relationship between financialization and economic growth will be analysed through the impact of the phenomenon on the NFCs' performance and consequent deindustrialization.

CHAPTER TWO
FINANCIALIZATION IN THE CONTEXT OF THE UK ECONOMY: INSTITUTONAL AND STRUCTURAL CHANGES IN THE POST-WAR ERA

In neoclassical economics, the economy is assumed to move towards the equilibrium where expectations of foresighted economic agents are met, and all the resources are used efficiently. Although economic crises may cause movements from the equilibrium, they are treated as temporary movements triggered by market or government failures, and eventually, the economy is assumed to turn its long run equilibrium. Constructed upon this framework and armed with economic positivism, economic phenomena are generally examined in isolation with other social sciences in the name of avoiding bias and ideology. Furthermore, economic studies are treated as laboratory experiments that produce economic knowledge as a 'scientific knowledge' (Friedman, 1953; Mankiw,2006). As Streeck (2016) points out in his study that examines the Western political economies after the second world war:

> *For the economic mainstream, disorders like inflation, public deficits and excessive private or public debt result from insufficient knowledge of the laws governing the economy as a wealth-creation machine, or from disregard of such laws in selfish pursuit of political power. By contrast, theories of political economy – to the extent that they take the political seriously and are not just functionalist efficiency theories – recognize market allocation as just one type of political-economic regime, governed by the interests of those owning scarce productive resources and thus in a strong market position. An alternative regime, political allocation, is preferred by those with little economic weight but potentially extensive political power. From this perspective, standard economics is basically the theoretical exaltation of a political-economic social order serving those well-endowed with market power, in that it equates their interests with the general interest... In the language of mainstream economics, crises appear as punishment for governments failing to respect the natural laws that are the true governors of the economy. By contrast, a theory of political economy worth its name perceives crises as manifestations of the 'Kaleckian reactions' of the owners of productive resources to democratic politics penetrating into their exclusive domain, trying to prevent them from exploiting their market power to the fullest and thereby violating their expectations of being justly rewarded for their astute risk-taking. Standard economic theory treats social structure and the distribution of interests and power vested in it as exogenous, holding them constant and thereby making them both invisible and, for the purposes of*

economic 'science', naturally given. The only politics such a theory can envisage involves opportunistic or, at best, incompetent attempts to bend economic laws. Good economic policy is non-political by definition (pp. 76-77).

Following this ascendant logic in economics, the relationship between the financial system and economic growth has been examined by the mainstream economic tradition, as its given in the first chapter. At its basic form, mainstream studies have pointed to the economic growth enhancing role of the financial system via productivity gains- without taking country specific regulatory frameworks of the financial system, economic policies, the role of politics and institutions into consideration (Aghion and Howitt, 2009; Levine, 2005).

Contrary to this logic and based on the studies of financialization this study takes a very different path in examining the finance-growth nexus in Britain under the rise in the weight of the finance sector, believing economics as a social science cannot be isolated from other social disciplines and dynamic path dependent processes in which the economic events takes place. In other words, since an understanding of economic phenomena requires that phenomena to be examined in its social and historical reality and should be evaluated according to path dependent changes in relation with other social disciplines (Jespersen, 2009) this study analyse and evaluate the process of financialization and its impact on the country's economic performance by examining the time period through which the phenomenon emerged and evolved.

Parallel to the developments in the industrialized countries of the world, the British economy has witnessed number of breakthroughs after the second world war. From the welfare state and Keynesian demand management years of the 1950s and 60s to the economic crisis of the 1970s, and from dramatic turn to the neoliberal policies in the 1980s to the financial crises of the last couple of decades, the UK economy has experienced number of downturns and radical changes in the economic policymaking. Therefore, to understand the process of financialization in the UK, it is important to understand how the phenomenon emerged and evolved in this environment and how these developments have affected the process and having been affected by it.

In this manner, based on the studies of Comparative Political Economy (PE)[1], this chapter will analyse the British post-war era under four sub-periods. The sub-periods will be the full employment period of 1949–1970 (FEP), the great inflation period of 1970-1979 (GIP), the neoliberal period of 1980–2006 (NLP), and the great recession period of 2007-16 (GRP)[2] and a comparative analyses of these periods will be made with respect to the country's politics, economic policy, regulatory framework of the financial system and corporate governance structure.

It will be argued that how the British economy achieved relative economic success in the FEP by the post war corporation of economic actors and labour friendly and growth focused policies that how this structure began to be fragmented in the GIP and ended up with a chaotic economic structure in the NLP in which the cooperation between the economic actors broken and financialization emerged after the deregulation of the 1980s.

2.1 Setting Stage for the 'Golden Age' Era

Economically, politically and militarily being the most powerful imperial country in the globe at the beginning of the 20th century, Britain had lost its hegemonic power to the US after the first world war. In terms of economics, there were many reasons for this transition of power, one of which was being, keeping its finance capital idle and losing its competitiveness in manufacturing sector to other countries in the late 19th and early 20th centuries -mainly to the US (Booth, 2001). Be that as it may, the 1920s also brought economic and political upheavals to the country.

---

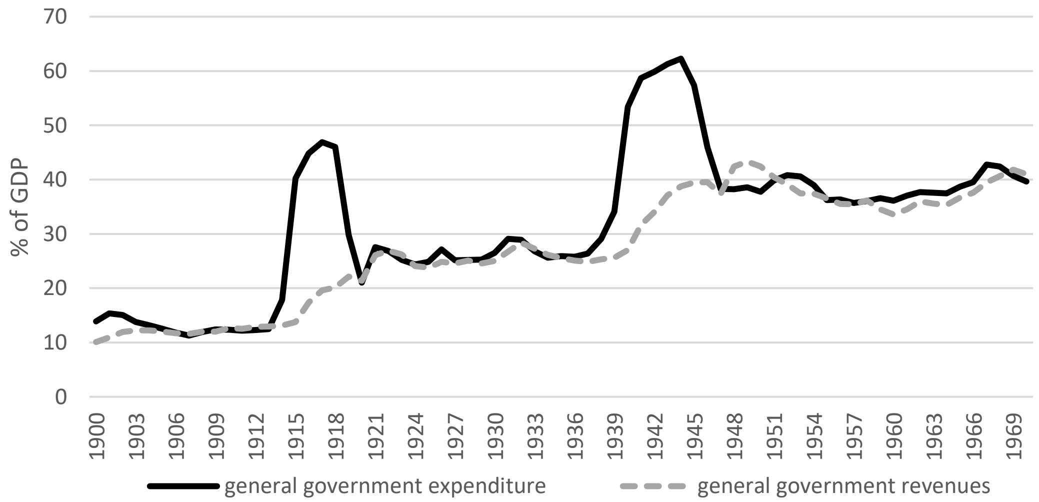
[1] In preparation of this chapter it is influenced by the framework offered by Akan (2018) (see Akan T., 2018, "**The Complementary Roots of Growth and Development**: Comparative Analysis of the United States, South Korea, and Turkey", Palgrave Macmillan, Springer International Publishing).

[2] The periodization in this section can be flexible. The FEP may have also started in the 1945 but the year 1949 is chosen due to availability of data in the ONS and the relative stability of the country's economic indicators following the war. Further, the GIP could also be started in 1973 when the first OPEC crisis materialized and productivity indicators ceased but the year 1970 is chosen since the predecessor of the Thatcherite logic, the Heath government, had been elected in that year and the inflation climbed to an unusually high level compared to overall FEP period as a result of the rising tensions between capital and labour. Lastly, the year 1980 is chosen since it represents the symbolic birth of neoliberalism and the 2007 is chosen since impacts of the recent financial crisis on the economic indicators began to be apparent in that year -i.e. to exclude the impact of the financial crisis on the macroeconomic indicators of the NLP.

The quest for an alternative economic policy to deal with ‘inherent instabilities of the economic system’ began in the early 1930s. Following the economic crises of the 1920s and catastrophic impact of the collapse of US financial markets in 1929, the laissez-faire approach in the management of the UK economy was abandoned. Earlier attempts for an alternative economic policy in which the state would take more responsibility were made by successive governments of the 1930s (both by the Labour and Conservative governments) albeit without success (Weir, 1989). However, these attempts contributed to the experience of the abandonment of the laissez-faire and government involvement in the economic management.

Further, another major factor that contributed to the rise in the discretionary power of the government –which eased implementation of Keynesian economics and welfare policies after the war- was the dramatic rise in the government budget that vast military expenditure of the second world war brought with (Crouch, 2008, p. 477). Looking at the government revenues and expenditures from the early 20th century to the crisis of the 1970s, the impact of the both world wars could clearly be seen (figure 2.1). Especially during the second world war, government budget saw dramatic increase of approximately 15% of the GDP. Following this large rise, particularly in the government expenditure, both expenditure and revenues retained at around 40% of the GDP in the FEP.

Figure 2.1 Government Revenues and Expenditures, 1900-1969



Source: Bank of England (2017), A Millennium of Macroeconomic Data for the UK

Besides these changes, there were also some other factors such as the abandonment of the gold standard in 1931 risen the power of government in influencing monetary policy (Kaldor,1971) and essentiality for British governments of offering security to its citizens to gain support in the face of rising 'Soviet threat' (Tomlinson, 2004) that were contributed to the discretionary environment. Although the British governments could not use their increasing influence on the economic management of the country in a way that boost the country's economic performance, and generally rejected Keynesian ideas in favour of either the Treasury's orthodox ideas or the Labour governments' economic planning and nationalization throughout the 1930s and in the first half of the 1940s (Weir, 1989), all of these above summarized developments -especially the dramatic rise in the government budget- paved the way for discretion and implementation of the Keynesian economic policies along with a strong welfare approach in the post-war period.

2.2 The UK Economy in the Full Employment Period

The tax state of the post-war era, having ability to influence and shape economic policy more than ever, took more active role in the management of the economy. Initial steps towards the post-war economic policy were taken with the White Paper of the 1944 (Cmnd 6527, 1944).[3] Having abandoned laissez faire approach in the management of the country's economic policy, *"for the first time an official document acknowledged the responsibility of the Government for preventing large fluctuations in output and employment"* (Kalecki, 1944, p.131). As a manifestation of this new attitude in the economic management, commitments were made with respect to the full employment, economic growth, balance of payments and wage increase or incomes policy targets by the successive governments of the era (Kaldor,1971). Accordingly, economic policies, regulatory framework of the finance and industrial policy were implemented to achieve these objectives.

[3] 1944 'White Paper on Employment Policy' and Beveridge's 'Full Employment in a Free Society' can be seen as the documents that gave overall picture of the economic policy in this era (see Snowdon and Vane (2005, p.15) and also see Appendix).

2.2.1 Politics and Fiscal Policy

First of all, an important point that needs to be emphasized is the positive role of politics in achieving relatively more successful cooperation between the economic actors and in implementing Keynesian economic policies and regulation. It is true that, strong and organized labour movements of the time as an important socio-political actor made the consolidation of Keynesian economics easier compared to the other countries. However, in addition to that, acceptance of the Keynesian ideas by both Labour and Conservative parties in essentially two party dominated British political system, also made post war economic structure of the British economy possible[4] (Weir,1989). Consequently, policymakers from both parties used their power to jointly regulate the economy and implement economic policies to ensure the full employment and growth objectives of the period. As indicated by Kaldor (1971) in his study that analysis macroeconomic policies after the second world war*:*

> *It has come to be taken for granted by the leaders of both of the major political parties, as well as by the public that Governments can, and should, assume responsibility for the " management of the economy "; and that " successful management " comprises the simultaneous attainment of at least the four major objectives of the White Paper (pp. 1-2).*

In the FEP period, as illustrated in Table 2.1, the British economy achieved higher growth and lower unemployment even with lower rates of inflation compared to the NLP. In terms of economic policy, the fiscal policy tools were used as primary whereas monetary policy tools were used as subsidiary economic policy tools.

In the fiscal field, the governments of the FEP contributed almost twice as much to the economic growth compared with the governments in the NLP. As a result, governments' spending on public investment generated higher levels of economic growth not only by directly boosting the aggregate demand, but also by its multiplier impact on the private consumption and investment spending. Furthermore, consequent higher aggregate demand, income and wages, and lower unemployment contributed

[4] While conservative governments have historically been the representatives of the businesses and laissez-faire logic, they embraced Keynesian ideas because it was more preferable than Labour party's economic planning and micro scale interventionist ideas and there was no strong alternative economic policy that conservatives could offer. On the Labour side, acceptance of Keynesianism came after the electoral support for the idea of full employment.

not only to more egalitarian distribution of income, higher household consumption and savings but also to the retention of the strong tax government of the war period that could stimulate the economy whenever it was necessary. As its reflected to the budgetary balance figures, although government expenditures were much higher in the FEP, budgetary balance was stronger compared to the NLP.

Table 2.1: Macroeconomic Indicators of the UK Economy, 1949-2016

Series name	1949-1969	1970-1979	1980-2006	2007-2016
GDP per capita (thousand £)	9,316	13,644	20,589	27,297
GDP growth	3.3	2.6	2.5	1.2
Government expenditures	0.90	0.62	0.50	0.23
Consumption expenditures	1.87	1.40	1.58	0.80
Investment	0.56	0.57	0.46	0.19
Net exports	0.02	0.04	0.00	-0.01
Budgetary balance*	-0.8	-3.4	-2.2	-6.0
Inflation (GDP deflator)	3.8	13.2	4.7	1.8
Unemployment	2.3	5.0	8.0	6.6
Real interest rate**	1.0	-3.7	3.7	-0.4
Net national saving***	8.0	9.4	4.9	0.2
Capital formation (I) growth	8.6	2.3	2.1	1.0
TFP growth	2.22	1.81	1.25	-0.17

* As a % of GDP.
** Calculated by subtracting inflation from nominal interest rate.
*** As a % of household income
Sources: Office for National Statistics (2018), UK Economic Accounts: Main Aggregates; Bank of England (2017), A Millennium of Macroeconomic Data for the UK.

2.2.2 Monetary Policy, Financial Regulation and Corporate Governance

Turning to the monetary field, accommodative monetary policy was also used to boost aggregate demand to reach the full employment and economic growth targets of this era. It focused on managing bank credit and keeping interest rates at optimal levels in order not to reduce the marginal propensity to invest. This general view about the use of monetary policy in the FEP can clearly be seen in the Radcliffe Report, the document published by the Bank of England in 1959.[5] It is clearly stated in the report

[5] Although the Radcliffe report was criticized by Kaldor (1960) as an appraisal of the use of monetary policies, it gives the logic with which monetary policy and financial regulation implemented. It stresses the subsidiary role of monetary policy in managing aggregate demand and emphasizes the importance of credit restrictions implemented on the clearing banks as a way of regulating the potential instability that might result from excess credit.

that the aim of the subsidiary monetary policy is to help to regulate the total demand by checking the overall liquidity structure of the economy via manipulation of the interest rate and credit controls (Cmnd 827, 1959).

As to the manipulation of interest rate, the growth driven perspective about the use of monetary policy can be seen by looking at the real cost of borrowing in the FEP, which is approximately one fourth of the cost of borrowing in the NLP (table 2.1). With respect to the management of credits under this liquidity focused approach, monetary authorities implemented quantitative control and guidance approach in this era: on the one hand, they made 'requests' to financial institutions to give priority to particular groups of borrowers in line with the economic growth objectives[6]; on the other hand, they put credit restrictions on certain financial institutions -especially on the clearing banks of Barclays, Lloyds, Midland, National Westminster- in order to prevent speculative and liquidity decreasing activities in the financial system that might impede economic growth (Bank of England, 1969[7]).

Under this liquidity based approach, the regulatory framework of the financial system was more sound in the FEP compared to the NLP. Authorities, instead of focusing only on the money supply and 'leaving the financial system to the market forces of supply and demand', regulated the financial system heavily under this approach. Various measures, including, the liquidity ratios, hire purchase controls, lending ceilings on the bank advances implemented throughout the period (Bank of England, 1969) to provide stability in the financial system.[8] Thus, the stronger regulatory framework of the financial system in the FEP, prevented relatively higher national saving to be a source of speculation and profit for the financial institutions.

---

[6] In this era, for example, urging banks to discriminate against importers and personal borrowers, and requesting priority for farmers, exporters and those needing money for manufacturing investment was a common practice. (see Moran M., 1984, **"The Politics of Banking: The Strange Case of Competition and Credit Control"**, Palgrave Macmillan, London, UK.)

[7] For Bank of England documents, parliamentary papers and legislations see Appendix.

[8] As its stated by Minsky (1982), if central banks focus only on the money supply and leave the issue of liquidity and working of the financial system to the market forces of supply and demand, the financial innovation, risk taking and speculation are likely to take place due to profit motivations of market participants. The financial institutions tend to engage in financial innovation and rise leverage and firms and households tend to engage in 'Ponzi finance' to increase their profitability. The result will be illiquid economic structure that is prone to financial crises following a wave of pessimism in the markets.

The regulatory framework of the financial system also affected the corporate governance structure, in that, free from the financial market pressure to increase share prices, managers had the opportunity to focus primarily on their objectives of expanding business by investing in long term productive activities and increasing productivity. Combined with the wage increase targets set by the governments of this era[9], corporate governance structure in the post-war Britain could be characterized by the Fordist production regime, similar to the other Anglo-Saxon economies. Under this Fordist production regime, workers who got decent wages boosted aggregate demand by consuming more, and managers who welcomed this higher demand by increasing investment contributed to higher levels of productivity and economic growth that provided the basis for further income and wage increases (Crouch, 2009; Boyer, 2000 and 2005). As can be seen from the figure 2.2, wage and productivity increases followed the same pattern in most of this era- especially until the second half of the 1960s.[10]

Figure 2.2: Labour Productivity and Real Wage Indicators, 1949-2010.

Source: Bank of England (2017), A Millennium of Macroeconomic Data for the UK.

---

[9] Again, initial commitment to the wage increase target was made with the White Paper of 1944, in which, it was stated that "increases in the general level of wages must be related to increased productivity" (Cmnd 6527, 1944 see Appendix).

[10] This is literally what is called the Keynesian era virtuous circle growth model (see Palley T., 2012, **"From Financial Crisis to Stagnation : The Destruction of Shared Prosperity and the Role of Economics"**, Cambridge University Press, New York).

2.2.3 The Notion of 'Declinism'

Before summing up our analyses of the FEP, one point needs to be emphasized with regard to the general perception of this period by British politics and mainstream economics, that is, the notion of 'declinism'. This notion that has occupied British economic thinking for decades and being used by both the Conservative and Labour parties of the time as a useful tool to criticize one another's performance in the management of the country's economic policies, has been given a particular importance by the Thatcher and Blair governments since it represented 'mismanagement of the use of government power' according to these 'free market' supporters (Tomlinson, 1996 and 2009). By comparing the era dominated by Thatcher and Blair politics -the NLP- and the FEP in which rather labour friendly and growth focused policies were at the forefront of economic policy, one can see the manipulative side of this argument.[11]

Overall, then, in the FEP the UK economy performed relatively better in terms of achieving higher economic growth, lower unemployment, and more egalitarian distribution of income compared to the NLP and an important part of this structure was the stability created by the strong regulation of the financial sector. However, there were two drawbacks of this period, namely, the lack of neo-corporatist industrial relations and exclusiveness of the financial sector in the post-war British type corporatism (Crouch and Keune, 2005) which paved the way for the crisis of the 1970s -along with the oil price shocks of the period- and eventually resulted in the radical change in the country's economic policy towards neo-liberal policies that brought deregulation of the financial system and financialization.

2.3 The Crisis of the 1970s

At the end of the 1960s, as the growth rates began to sluggish and inflation began to increase as a manifestation of the rising tensions between capital and labour, the post-war economic structure began to experience problems. In the following decade, the

[11] By comparing these two periods (see table 2.1) it can clearly be seen that although the UK was lost its hegemonic power particularly in international trade after the wars and left with domestic 'consumption-led' growth model in the FEP (Kaldor, 1971), it performed better in the FEP than NLP.

major drawbacks of the FEP revealed and the economic crisis exacerbated with the governments' expansionary policies and the oil price rises of the times. First, the major drawback of the lack of corporation in the industrial relations paved the way for the long lasting crisis of the 1970s in British economy (Crouch, 2009, p.387). Facing with the labour militancy, governments tried to escape the crisis between capital and labour with implementing expansionary measures at the expense of rising inflation (Streeck, 2016).[12] Then, the supply side shock of the 1970s exacerbated the problem of inflation after which another drawback of the FEP crystallized -exclusiveness of the financial sector in the post war corporatism- and the process eventually ended up with a radical shift in the country's economic policies (Hall, 1993)-a shift that ended up with financialization of the economy.

In the first instance, parallel to the most of the Western countries, the distributional conflict between capital and labour shook the economic structure of the British economy in the FEP that could be characterized by the Fordist growth regime supported by the welfare state approach and Keynesian economic management. Furthermore, governments of the time that were not able decrease aggregate demand in the face of strong trade unions and the lack of corporation between capital and labour, implemented expansionary measures as a way out of the crisis and contributed to the inflation (Crouch and Keune, 2005; Streeck, 2016). With the oil price shocks of the 1970s, the crisis deepened and inflationary tendencies revealed further. After all, as pointed out by Crouch (2008):

> *It was easy for governments to increase spending in a recession, bringing lower unemployment, more public services and more money in people's pockets. It would be far more difficult at times of boom in a democracy to reverse these trends. This was the seed of destruction at the heart of the model… The*

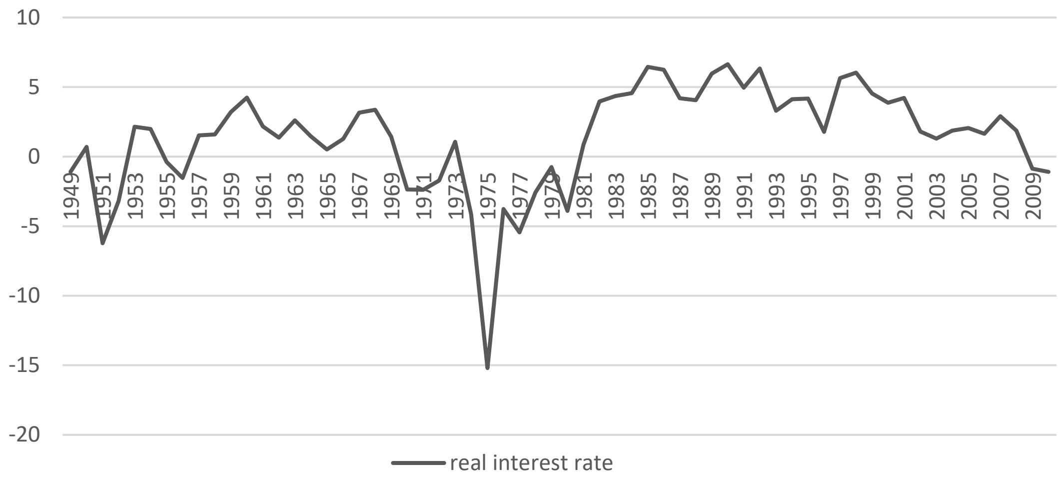
---

[12] It should be noted that the crisis at the end of the 1960s and early 1970s was not precipitated by aggregate demand deficiency- a general tendency of the economic system from Keynesian point of view. On the contrary, the crisis caused by excess aggregate demand and carried inflationary tendencies within. As the conflict between workers and capital owners -pushed for higher wages and employment security and maximization of higher returns and profits, respectively- intensified and inflationary tendencies revealed, instead of decreasing aggregate demand, governments implemented accommodative monetary policies and contributed further increase in the price levels. The importance of the cooperation between capital and labour (or 'neo-corporatist industrial relations' or 'industrial democracy') comes at this point: faced with strong labour movements organized around unions and the lack of corporation between economic actors, governments of the time could not decrease aggregate demand since it would mean higher unemployment and lower wages. Instead, they pushed for accommodative monetary policies and contributed to higher inflation.

importance of neo-corporatism for present purposes is that it addressed the Achilles' heel of Keynesianism: the inflationary tendencies of its politically determined ratchet. Countries that had Keynesian policies but no or weak neo-corporatism—before all others the UK…—were highly vulnerable to the inflationary shocks unleashed by the general rise in commodity prices during the 1970s, particularly the oil price rises of 1973 and 1978.The wave of inflation…more or less destroyed the model (p. 477).

What is striking is that the skyrocketed inflation came primarily at the expense of holders of financial assets (Streeck, 2011, p.11). Inflation rates of the period were so high that they resulted in large losses for the finance capital -as it reflects the real interest rates (figure 2.3).

Figure 2.3: Real Interest Rates*, 1949-2010.



* Simply calculated by subtracting the rate of inflation from nominal interest rates

Sources: Bank of England (2017), A Millennium of Macroeconomic Data for the UK.

At this point, another major pitfall of the FEP crystallized, namely, the exclusiveness of the financial sector in the British type of cooperation between the economic actors (Crouch and Keune, 2005, pp. 88-89).[13] As the crisis deepened and the Keynesian paradigm of the time persistently delivered no success during the 1970s, the finance capital played a key role in the dramatic shift of the British economic policy from Keynesianism to Monetarism- i.e. the representative of the mainstream

[13] Although there was no Scandinavian type of cooperation and coordination between the employers' organization, trade unions and government in the post-war UK, there was a British type of relatively successful cooperation between the actors -whether it was involuntary and was the result of the state power and/or no safe heaven for British capital after the war or not. But even in this quasi cooperation, there was an exclusiveness of the historically powerful British finance capital (Moran, 1984; Crouch and Keune, 2005).

economics and free market ideas of the time (Hall, 1992). This point clearly stated by Peter Hall as:

> *Like most kinds of policy, a macroeconomic strategy tends to favour the material interests of some social groups to the disadvantage of others. Although both have some generalized merit, Keynesian and monetarist policies are not exceptions to this rule. Perceiving this, the organizational representatives of the working class generally argued for Keynesian policies during the 1970s, while the spokesmen for capital leaned more strongly toward monetarism. Among the segments of British capital, those in the financial community tended to favour monetarist policies more than did many industrialists (p. 94).*

Overall, the crisis of the 1970s provided historical moment for the supporters of the 'free market' ideas[14], in that, almost simultaneously, both Britain and the US had turned to the deregulatory and capital friendly economic policies recommended by mainstream economic tradition of the time and implemented these policies under the Thatcherite and Reaganite administrations.

2.4 The UK Economy in the Neoliberal Period

The crisis of the 1970s left the British economy with a new paradigm in which the labour friendly policies were abandoned, the British type of post-war corporatism between economic actors ended, the power of workers' organizations reduced dramatically, governments engaged in rent-seeking activities with the financial and industrial capital, and economic policies conducted such that employment and growth objectives abandoned and low inflation and deregulation of the markets became the central targets. This new economic paradigm brought large scale deregulation in the financial system, rapid deindustrialisation, privatisation of public owned enterprises, dramatic rises in the unemployment rates and stagnating growth rates.[15]

[14] Although some deregulatory measures were taken in the 1970s (see for instance BoE document on the Competition and Credit Control act in the Appendix), full-blown turn to the 'free market' ideas had come after the 1980s.

[15] For instance, from 1980 to the end of the Thatcher era, economic indicators of the country were similar or even worse than those in the crisis of the 1970s: on average growth was 2.5 %, unemployment was 9.7 %, inflation was 7 % and factor productivity growth was even as low as 1.1 % throughout this period (BoE, 2017, A millennium of macroeconomic data for the UK).

2.4.1 Politics and Fiscal Policy

In terms of politics in the NLP, governments from the both parties increasingly sought to engage in rent-seeking activities[16] with businesses to create funds for their election campaigns, and even the historical difference between the Conservative and Labour parties -at least on theoretical level- over the role of governments in the economic management disappeared. Although full-blown transition to the ‘free market’ ideas took place under Thatcher’s Conservative government (Hall, 1993), subsequent efforts by both Major’s Conservative and Blair’s Labour governments consolidated those ideas and pushed for further liberalization of markets that overall opened up the road to the financialization of British economy (Gamble, 2009; Hay, 2013). Overall from Thatcher’s Conservative to Blair’s Labour governments (i.e. so-called ‘third way politics’) the politics of both conservative and labour governments became almost identical in this era.

In terms of economic policies of these governments, supply-side strategy in the management of the country’s economic policies gained ascendancy. Beginning with the Thatcher government, full employment and growth objectives of the FEP abandoned, and instead, economic policy became obsessive with consolidation and reducing inflation as its primary goals (Buiter, 1983). Contractionary fiscal and monetary policies implemented at the expense of high unemployment, rapid deindustrialization and stagnating economic growth.

Regarding the fiscal policies, consolidation obsessive policies and large cuts in public spending deteriorated the aggregate demand not only through decrease in public expenditure directly but also through its contractionary impact on private consumption and investment expenditures via multiplier effect. Furthermore, although overall public expenditure of the FEP had been reduced in the NLP (Clark and Dilnot, 2002), resulting lower aggregate demand, wages and income and higher unemployment reduced tax earnings of the government and led almost threefold increase in the public deficit (table 2.1).

[16] In general, rent-seeking can be described as generating income from unproductive activities such as lobbying, bribery, monopoly, or any other activity (Cypher and Dietz, 2009).

2.4.2 Monetary Policy, Financial Regulation and Corporate Governance

Turning to the monetary policies of the NLP, contractionary monetary policies that began to be used as primary policy tools with the NLP, besides deteriorating aggregate demand and causing unemployment via decreasing marginal propensity to invest, could not even achieve lower levels of inflation compared to the FEP (table 2.1). In addition to the rapid deindustrialisation and mass unemployment, shift in the monetary policies from growth driven perspective to inflation obsessive perspective, also contributed to destabilization of the economy with deregulation of the financial system that created an economic environment in which large scale financial market innovations, increasing leverage, and asset price bubbles materialised. That is, in the background of the process of financialization and consequent transformation of British economy, stylized facts on which will be presented in the next chapter, lies an unstable economic system around financial motives in which uttermost financial innovation, risk taking and speculation take place and the main reason for this has been the deregulation of financial system in the NLP.

Especially with the full-blown deregulation of the 1986 'Big Bang'[17], regulatory restrictions on the City eased dramatically. Various measures were taken in the name of increasing competitive power of the financial sector, including introduction of the state-of-the-art technologies in financial transactions, removal of barriers to entry in investment banking, abolition of fixed commission charges and reforms that eased international capital movements. Moreover, subsequent Labour governments of the 1990s and early 2000s, far from restricting or re-regulating the activities of the City, supported deregulatory activities with increasingly aligning with the City[18] (Crouch and Keune, 2005; Gamble, 2009).

These changes in the economic policies and regulatory framework on the financial system that paved the way for financialization of the British economy directly

[17] Series of deregulatory measures that enabled with Financial Services Act of 1986 (See Financial Services Act 1986, c.60. in Appendix).
[18] For instance, with the Financial Services and Markets Act of 2000 most of the deregulatory practices retained or even extended (see Financial Services and Markets Act 2000, c.8. in Appendix).

affected corporate governance structures of the British firms in which the sole aim of the firm managers had become maximizing the shareholder value. Although the German type of stakeholder model had never prevailed in the British firms' corporate governance structure even during the FEP (Hall and Soskice, 2001), tighter regulatory measures on the financial system (that had built as a response to Great Depression of the 1929 in many Western countries) and credit controls prevented firms and financial institutions to engage in destabilizing and risky financial activities in the FEP. In the NLP, however, massive deregulation, rising power of institutional investors (such as mutual funds and pension funds), and alignment of interest between managers and shareholders brought shareholder value domination in the management of the British companies. This shareholder value dominated structure, in turn, affected other constituencies of the British firms which had major implications on the overall British economy (Vitols, 2001).

In the end, as a result of the massive deregulation and structural transformation of macroeconomic dynamics of the British economy around the orbit of the finance sector, household savings have become the source of speculation and profit making for both financial and non-financial corporations instead of being used for productive investment. Consequently, figures for both capital formation and total factor productivity growth plummeted in the NLP compared to FEP (table 2.1).

2.5 Financialization Readings From the Context

Overall, then, the narrative of the post-war Britain include major changes in that the institutions and economic policies have transformed, interests and power relations have shifted and a new phenomenon called financialization has emerged following the deregulation of the financial system. Although the British economy performed relatively better during the growth-driven and labour friendly structure of the FEP, after the crisis of the 1970s , the major drawbacks of this structure revealed and the process ended up with the market friendly paradigm of the NLP which gave birth to the phenomena of financialization by boosting deregulation.

Particularly, the deregulatory waves of the 1980s and subsequent 'reforms' in the name of increasing competitive power of the financial sector, including, introduction of the state-of-the-art technologies in financial transactions, removal of barriers to entry in investment banking, abolition of fixed commission charges and reforms that eased international capital movements, paved the way for financialization of the British economy.

As will be elaborated in the next chapter in detail, this deregulation in the financial system has initiated a chain of reactions beginning from the financial sector itself and transformed macroeconomic dynamics of the British economy. With the introduction of technological advances in the financial sector, large scale financial innovations (particularly different types of securitization), and rising leverage and risk taking; the size of the financial sector, the volume and profitability of the financial transactions have increased and all sectors in the British economy have transformed structurally.

Specifically, regarding the changes in the financial sector wrought by deregulation, the power of the institutional investors was boosted with the introduction of the state-of-the-art technologies in the financial sector (Lazonick and O'Sullivan, 1997, 2000). In addition, with the removal of barriers to entry in investment banking, the 'Big Four' banks (Barclays, National Westminster, Midland, and Lloyds) entered to the investment banking and asset management businesses which increased the pace and impact of corporate restructuring activities and played an another important role in the shareholder value domination in the corporate governance structure of firms (Vitols, 2001).

Furthermore, this increase in the investment banking and asset management businesses along with reforms that eased international capital movements and technological advances introduced in the finance sector have brought the financial innovation of securitization[19](Wainwright, 2009) with which banks have turned to

[19] Securitization is a practice of pooling various types of contractual debt such as residential mortgages, commercial mortgages, auto loans, credit cards debt obligations, consumer loans, etc and selling their related cash flows (principal and interest) to a third party as security. There are mortgage-backed securities (MBS) which involves bundling mortgage debts and asset-backed securities (ABS) which also involves bundling other types of debts stated above. Furthermore, there is a specific type of ABS called collateralized debt obligation (CDO) which can bundle assets of ABS and MBS along with corporate bonds and various types of derivatives. Generally, there are four organization in 'production, distribution, agreement and consumption' parts of securitization. First, the originator (i.e. lender,

increase their lending to households due to the off-balance-sheet nature of these activities. To put it another way, since bundling and selling mortgage and other consumer credits have not been reflected their balance sheet and the related credit risk transferred from originators to investors, banks have begun 'originate to distribute' to increase their leverage and profitability (Langley, 2006).

Turning to the non-financial corporations (NFCs); on the one hand, in addition to the rise in the investment banking activity, introduction of the state-of-the-art technologies in the financial transactions and the subsequent boost in the power of the institutional investors have transformed the corporate governance structures of these corporations. As the institutional investors have been enabled to buy and sell large amounts of shares in an instant and 'structured investment services' provided by investment banks has increased the effect corporate restructuring, an enormous pressure has been put on the NFCs (Lazonick and O'Sullivan, 1997). Eventually, focus of the British corporations has completely changed and they have come to compete to deliver higher returns to their shareholders whether by downsizing their labour force and closing their factories or redistributing their earnings (e.g. via stock buy-backs or dividend payments) instead of reinvesting in long term productive investment projects (Froud et al, 2000; Lazonick and O'sullivan, 1997 and 2000).

On the other hand, the rising profitability in the financial transactions brought with deregulation and financial innovation has attracted the NFCs, in that, they increasingly engaged with the finance by increasing their financial investments and accruing higher profit from the financial transactions (Lapavitsas and Powell, 2013).

Turning to the impact of deregulation on the household sector, households, as the objects of the shift in the focus of NFCs and profit motivation of banks, have drawn

---

generally banks) who produces mortgage and other types of assets and collects the repayments, sells the assets to a special purpose vehicle (SPV). Then, investment banks which are central to securitization, promote the deals between SPVs and buyers (generally institutional investors) of these assets and provide 'structured finance services that manages leverage and risk' (e.g. packaging different securities 'slicing' into different 'tranches' and redistributing the cash flow of interest and principal payments in sequence based on seniority- a process known as 'waterfall structure'). Although history of securitization goes long back in history, migration and institutionalization of MBS and CDOs in the UK that brought explosion in the volume of credit given by banks and size of financial sector, have taken place with the massive deregulation of the 1980s (Dore 2008; Hay, 2013; Langley, 2006; Palley, 2012; Wainwright, 2009).

into debt. As the deregulation of the 1980s transformed NFCs and financial institutions, facing with the unemployment due to deindustrialization, households have accrued various types of consumer credits such as mortgages, credit cards and so forth in line with 'originate to distribute' approach of the financial institutions (Crouch, 2009; Hay, 2013).

Finally, deregulation of the NLP has also contributed to the introduction of specific types of securitization, known as CDOs, which combined this profitable system of uttermost speculation, leverage and risk taking altogether. By boosting investment banking and asset management businesses, easing international capital movements and introducing technological advances in the finance sector, the financial deregulation not only opened up the road for migration of securitization but also contributed to the financial innovation of CDOs that tied households' savings for their welfare and social security needs, corporate bonds and shares, future obligations of mortgages and other types of consumer debts, and various types of financial derivatives together (Dore, 2008; Langley, 2006).

CHAPTER THREE

STYLIZED FACTS ON THE FINANCIALIZATION OF THE UK ECONOMY

Having constructed a conceptual framework based on financialization studies and analysed the structural and institutional changes in the post-war Britain through which the deregulation of financial system has emerged, the stylized facts on the transformation of the country can be presented and central arguments made by financialization studies can be analysed.

The process of financialization can surely be said to have affected the whole dynamics of the British economy, particularly from the 1980s onwards.[1] In the era of financialization, an unstable economic environment has been created in which financial deregulation and innovation, rising leverage and speculation have taken place. Furthermore, as the size of financial sector and volume of financial transactions exploded, the profitability of the financial activities increased and non-financial corporations (NFCs) engaged in financial transactions more than ever[2], the macroeconomic dynamics of the British economy have completely changed. In this financialized regime where the finance sector has become the focal point of economic activity, the central role of production and wage-productivity nexus in the FEP has come to be played by the finance sector (Boyer, 2000; Palley 2013). The finance has come to transform the corporate governance of the NFCs, changed households' behaviours and economic policies of governments.

However, from the beginning, this system has always been vulnerable to crises and with the recent financial crisis, robustness of this system has been tested and

[1] The aim of this chapter of the study is to analyse the phenomenon of financialization that has emerged after the 1980s and eventually led the financial crisis of the 2007-9. In this manner, data presented in this section aims to give a picture of the period from 1980 to 2010 to illustrate the process from the beginning to the aftermath of the financial crisis- so as to present the impact of the financialization. However, some data before the 1980s -believed to enrich the study- will be given for comparison.

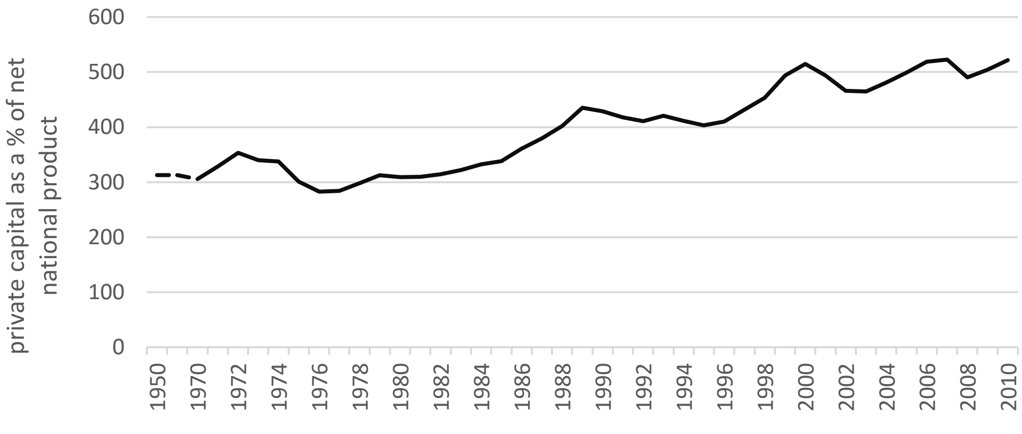
[2] Dramatic rise in the size and profitability of the finance and subsequent influence of these changes particularly on the NFCs are defining characteristics of the financialization (Krippner, 2005; Orhangazi, 2008a). Furthermore, although there are country-specific variations across the Western countries due to different historical, political and institutional settings (Lapavitsas and Powell, 2013), the process of financialization has quite similar path particularly in the case of Anglo-Saxon countries of the US and UK.

fragility of its macroeconomic dynamics has been revealed. After all, this system of massive deregulation, financial innovation, uttermost leverage and speculation has always been prone to the creation of asset price bubbles and subsequent debt deflation process, as its explained by Minsky (1982) decades ago. In the end, the financialized British economy has led to rising debt levels, shifted distribution of income, worsened income inequality, and accelerated deindustrialization.

3.1 Financialization: Being Overstated?

An important study made by the French economists Piketty (2014) on the evolution of the capital structure of the industrialized countries and its distributional impacts reveals how the importance of capital relative to production and income inequality have risen after the 1980s. As can be seen from the figure and table below, on the one hand, private capital to production ratio in Britain that fluctuated around 300% between the 1950s and 1980s has dramatically increased thereafter and reached to well above 500%; on the other hand, national income has increasingly concentrated in the hands of small minority and income inequality has risen significantly.

Figure 3.1: Private Capital in Britain, 1950-2010.



*Dashed lines for 1950-70 period represent decennial averages for the 1950s and 1960s

Source: Piketty, T.: 2014, Capital in the Twenty-First Century, Harvard University Press.

Table 3.1: Share of top 10%, 1% and 0.1% in total income, 1950-2010.

	1950-59	1960-69	1970-79	1980-89	1990-99	2000-09	2010
top 0.1%	2.60%	2.10%	1.50%	1.90%	3.50%	5.00%	5.60%
top 1%	9.40%	8.20%	6.40%	7.50%	11.10%	13.60%	14.70%
top 10%	30.30%	29.40%	28.30%	32.60%	38.40%	40.20%	41.60%

Source:Piketty, T.:2014,Capital in the Twenty-First Century, Harvard University Press

According to financialization thesis, this rising importance of the private capital relative to productive economy, changes in the distribution of income and rising income inequality wrought by the rising weight of the financial sector following redesign of economic policies according to financial sector interests and massive deregulation took place in the financial sector particularly after the 1980s (Palley, 2013, p.29). However, in explaining these phenomena, Piketty (2014) takes a very different path. In general, he understates the role of politics, economic policies, financial markets and institutions and the process of financialization and gives prominence to high saving and low demographic growth rates. Furthermore, with respect to the rise in the income inequality, he emphasizes the role of 'supermanagers' who have the power to set their own remuneration- a concept created by him out of thin air, a concept that is similar to the alignment of the interest of shareholders and managers via stock options argument of financialization thesis (ibid.).

Overall, even Piketty's (2014) endeavours that pays no attention to the evolution of the capital markets in analysing capital structure of Britain ends up with illustrating sheer scale of deterioration in the British economy; it simply shows us how inescapable the reality of financialization has become.

3.1.1. On the Role of the Media

Given the undermining approach that ignores the economic policy choices and the financialization of the British economy, it is by no means a coincidence for him to be given such names as 'rock star of the economy' (BBC) and 'the modern Marx' (The Economist) by the leading mainstream media. It is understandable that these institutions that have played a crucial role in the shift from Keynesian policies to the neoliberal policies (Hall, 1993, p. 287), and therefore, contributed to financialization of the British economy, to praise an economist that almost undermines the role of neoliberal polices and phenomenon of financialization in deterioration of the British economy[3]. However, one thing has become crystal clear that the rising the dominance of the idle capital against productive economy, fall in the share of the labour in national

[3] Furthermore, the mainstream media has also played a critical role in the creation of equity culture and financialized households, as will be explained.

income and the rising income inequality cannot be ignored, as can also be seen from the figures given even by Piketty (2014).

3.2 Stylized Facts on the Finance

The financialization of the British economy refers to the rise in the weight of finance and its impact on the macroeconomic dynamics of the British economy. More precisely, it refers to the rise in the volume, profitability, and dominance of financial transactions, markets, and institutions and influence of these changes on the British economy. As its stated in the previous chapter, the transformation of the economy under financialization has begun with the deregulation of the 1980s and the macroeconomic landscape of the British economy have structurally transformed around the orbit of the finance sector. Therefore, beginning with alterations that have taken place in the finance sector would be a good starting point.

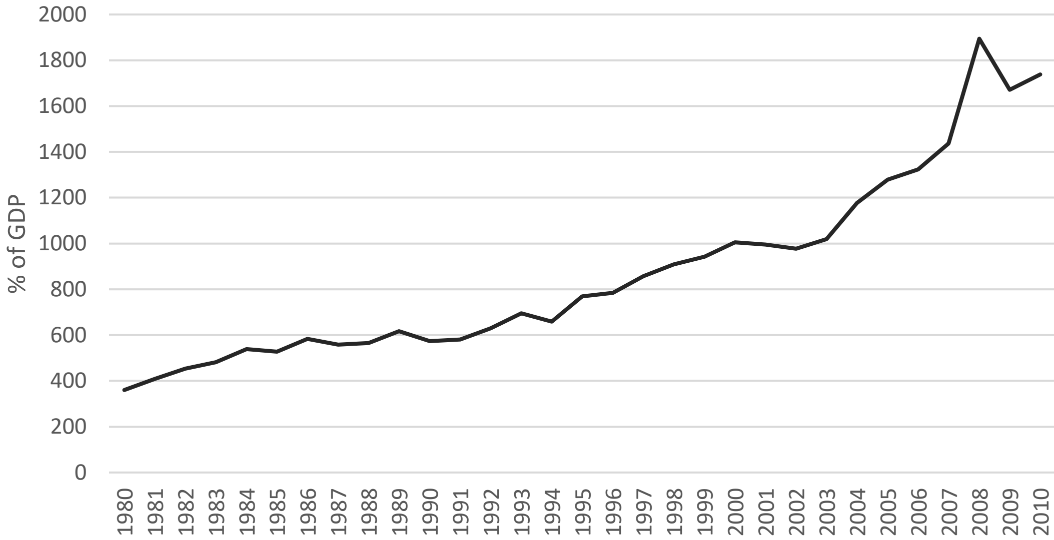
Following the deregulation, the financial sector itself has transformed in that the investment banking and asset management businesses have risen, large scale financial innovations have taken place and financial institutions -particularly banks- have increased their leverage. In line with these developments, the size of the financial sector and volume of financial transactions have dramatically increased and a highly profitable but also unstable financial environment has been created.

First of all, increase in the size of the financial sector and the volume of financial transactions have reached to an unprecedented degree in the last four decades. After the 1980s, parallel to the global explosion in the volume of financial assets and size of financial markets (Dore, 2008; Daruvala et al., 2013), various sectors in the British economy have increasingly acquired more financial asset. Analysing the sum of financial assets held by British NFCs, households and financial corporations from 1980 to 2010, we can clearly see that the volume of financial assets has risen to a degree that is not related with production and economic activity.[4] Almost six fold

[4] The point is that, contrary to the orthodox representation of the finance and its conventional role (i.e. provider of funds for productive economy), the amount of financial assets has skyrocketed as the finance became the source of speculation and profit making rather than a convenient tool for production.

increase in the volume of financial assets relative to GDP simply indicates this fact (figure 3.2).

Figure 3.2: Financial Assets as a % of GDP*, 1980-2010



*****Sum of financial assets held by households, non-financial and financial corporations as % of GDP

Sources: ONS (2008), New Historical Data for Assets and Liabilities; ONS (2018), The UK national balance sheet

Other aspects of this size and volume effect can also be seen by looking at the figures for the value of stocks traded in equity markets and domestic credit given by financial sector, both of which are given as percentage of GDP in the table below. First, almost fifteen fold increase in the stocks traded shows exponential growth in the trading volume of firms' shares and gives us a clue about large scale rise in the British stock market activities. Furthermore, sharp rise in the volume of credit provided by financial sector, from around 45% to above 200% of the GDP, indicates how the financial sector has increased leverage so as to rise profitability (Table 3.3). These figures about the domestic credit provided by the finance sector also confirms the 'Privatised-Keynesianism' argument of Colin Crouch as will be elaborated in the financialization of households section (Crouch, 2008 and 2009).

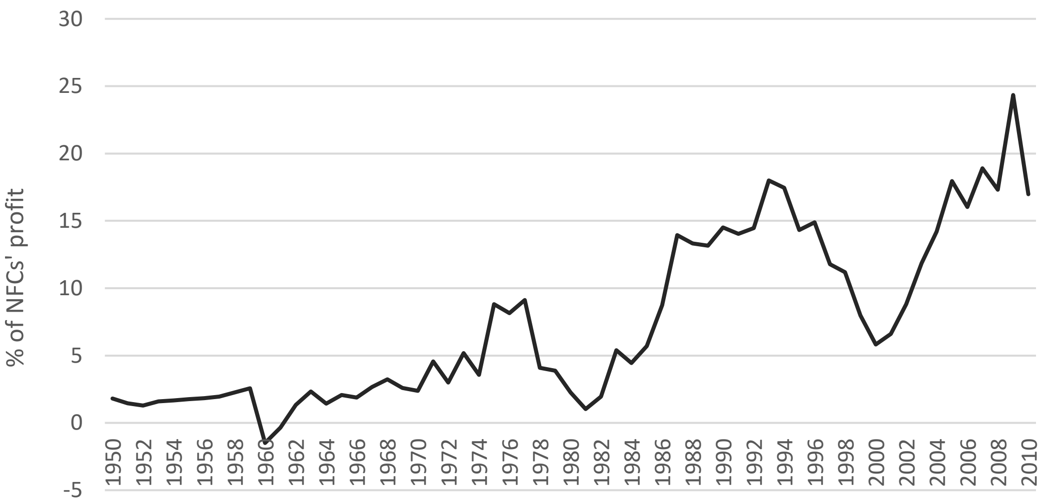
Table 3.2: Stocks Traded Value and Domestic Credit Provided by Financial Sector, % of GDP, 1970-2010.

	1970-79	1980-89	1990-99	2000-09	2010
Stocks traded (%)	8.8	19.2	44.8	92.8	131.6
Domestic credit (%)	45.2	60.3	106.3	151.8	206.2

Source : World Bank (2019), World Development Indicators.

Turning to the increase in the profitability of financial sector that is one of the key aspects of the rising presence of finance in the British economy, we can clearly see a dramatic positive trend in the profitability of the financial corporations (figure 3.3). After all, as its pointed out by Krippner (2005), following profits instead of 'activity-centred' approach shows us better understanding of financialization since the financial sector activity is not labour intensive and *"its 'products' do not show up in transparent ways in national economic statistics"* (ibid., p.175). In this regard, analysing the profit accrued by financial corporations relative to the NFCs' profits two significant points can be observed in line with the previous arguments: first, relative stability of figures up to the second half of the 1970s; and second, the sharp rise in the financial corporations' profit from about 5% to up to 25% between the 1980s and 2010.

Figure 3.3: Financial Corporations' Profit as a % of NFCs' Profit, 1950-2010.



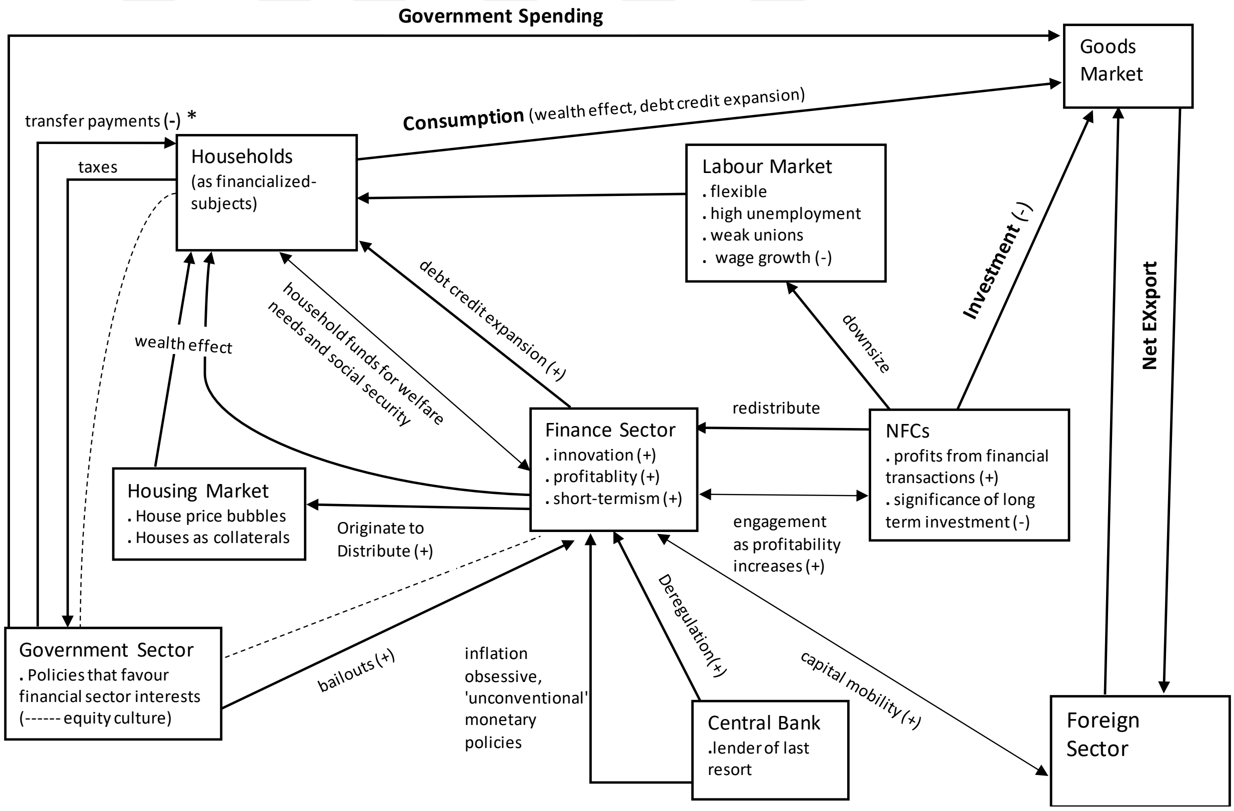
Source: ONS (2017), UK Economic Accounts: Main Aggregates.

In general, taking the finance at the centre, it can clearly be seen that following the deregulatory measures of the 1980s and consequent rise in the asset management business, financial innovations, leverage and risk taking; the size of financial sector and volume of financial transactions have exploded along with the dramatic rise in the profitability of the financial corporations. As a next step, the transformation that these breakthroughs have brought can be analysed to see the complete picture of financialization in the British economy.

3.3 Transformation of the UK Economy under Financialization

The overall picture of the financialization of British economy cannot be understood without considering the impacts of the alterations in the finance sector and subsequent rise in the weight of financial motives on the whole British economy. Since the dynamic process of the financialization has affected all constituents of the British macroeconomic landscape, from the financial sector itself to the households, NFCs, and governments' economic policies, a broad analysis of the phenomenon in terms of the changing dynamics of British macroeconomic landscape (figure 1.1.) is of great importance in understanding the overall process.

Figure 1.1. Macroeconomic Landscape under Financialization



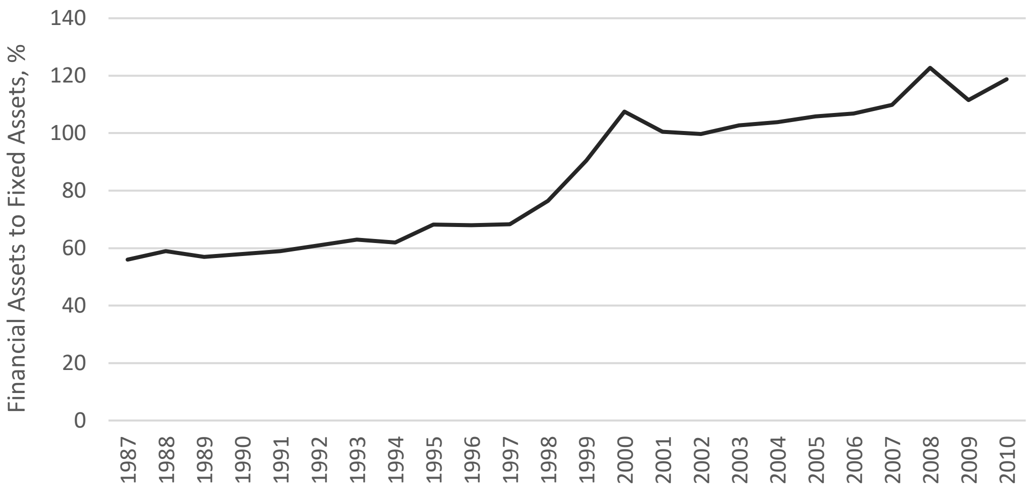
* government retreat from expenses such as welfare, social security, financial aid.

3.3.1 Non-Financial Corporations

Regarding the alterations that have materialized in the British NFCs, two important points need to be emphasized. First, as profitability of the financial sector and transactions increased, British NFCs have increasingly engaged with the finance so as to increase their profitability. Second, not only British NFCs' revenues from the financial transactions have increased, but also their payments to the finance have risen significantly as a result of the rising pressure from the financial sector (Onaran and Tori, 2018). Hence, both of these developments have changed British NFCs structurally and led further alterations in the British economy.

On the one hand, as financial transactions became more profitable than long term investment projects, a danger that was pointed out by Keynes (1936) almost a century ago, NFCs have sought to accrue profits through financial transactions rather than making long term investment and embed with the finance sector (Krippner, 2005; Lapavitsas and Powell, 2013). That is, beside the dramatic rise in the profitability of the financial corporations, NFCs have also accrued higher and higher shares of their total profit through financial channels by increasingly involving in financial transactions. To see this rising engagement, asset side of the NFCs' balance sheet can be analysed (Crotty, 2002; Orhangazi, 2008a). It is clear from the figure 3.4 that NFCs have come to increase their financial assets relative to fixed assets dramatically which indicates the rising involvement.

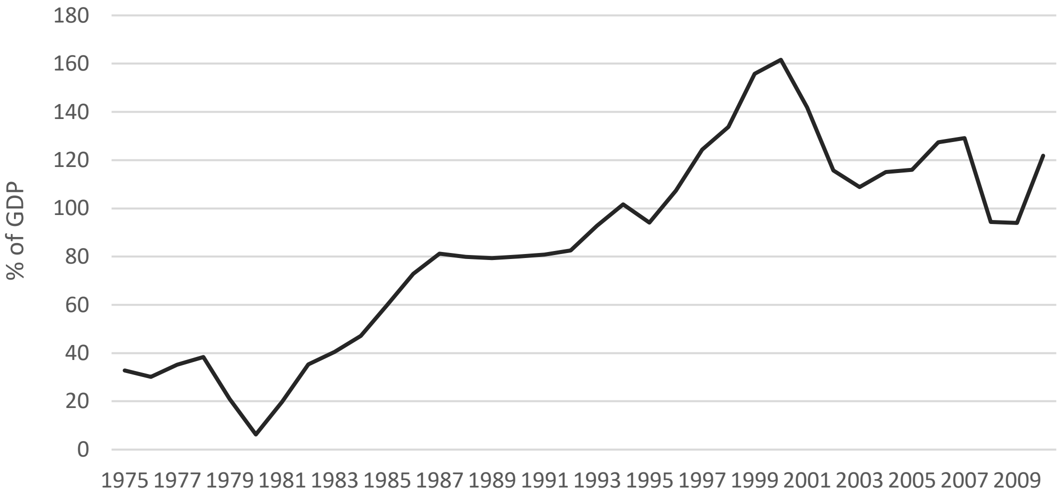
Figure 3.4: Non-Financial Corporations: Financial Assets as a % of Fixed Assets, 1987-2010.



Sources: Lapavitsas, C., Powell, J.: 2013, "Financialisation Varied: A Comparative Analysis of Advanced Economies", Cambridge Journal of Regions, Economy and Society, 6, pp. 359–379; ONS (2018), The UK National Balance Sheet.

Furthermore, another aspect of this involvement of NFCs to the financial sector can be observed from their turn to equity markets (Lapavitsas and Powell, 2013, p. 365) which can be seen from the market capitalization (also known as market value of listed companies) to GDP ratio. As more and more NFC turned to stock markets, stock market size, as measured by market capitalization to GDP, has risen dramatically from around 6% in the early 1980s to well above 100% after the second half of the 1990s and onwards (figure 3.5).[5]

Figure 3.5: Market Capitalization to GDP Ratio, 1975-2010.



Source: World Bank (2018), World Development Indicators.

On the other hand, turning to the rising pressure from the financial sector, number of developments have played vital roles in the promotion of the shareholder value prominence. These developments were the rising popularity of the agency theories that provided theoretical basis for maximizing shareholder value, the rise of institutional investors (like pension funds, mutual funds and life insurance companies) and massive deregulations of the 1980s that both boosted the power of institutional investors and increased the corporate restructuring activities.[6] As a result of these

[5] Although the figures declined following the burst of the dot-com bubble and subsequent decline in the value of the British firms around 2000, after that, they recovered and remained above 100%.

[6] In their study that analysis the shareholder value prominence in the corporate governance structure of the US NFCs after the 1980s, Lazonick and O'Sullivan state the role of agency theories, the rise of the institutional investors and the waves of financial deregulation of the 1970s and 80s –that both boosted the power of institutional investors further and contributed the shareholder value prominence by deregulating other financial institutions and allowing large scale financial innovation. These factors,

developments, British NFCs have come under the pressure of the financial sector as like their US counterparts.

First, agency theories that became popular in the Anglo-Saxon countries of the US and UK provided theoretical basis for the maximization of shareholder value principle (Froud et al. 2000, p.87).[7] Second, the transfer of firms' stocks from individuals to the institutional investors played a key role in changing behaviour of NFCs.[8] It is true that the rise of institutional investors took place earlier in the Britain than the in the US .In the UK, percentage of total shares held by institutional investors went up from around 20% to 60% between the 1960s and 1980s (and fluctuated thereafter between 50% and 60%) whereas in the US the same figures rose from 20% to 50% between the 1970s and 2000s (Armour and Skeel, 2007). However, the rise of institutional investors became important in terms of its impact on the NFCs' behaviour after the massive deregulation of the 1980s as its also stated by Lazonick and O'Sullivan (1997):

> *In Britain, perhaps even more so than in the United States, the deregulated financial environment of the 1980s advanced the power of market control. Dividends and stock prices soared, as did the salaries of top managers of industrial enterprises, who cooperated with the forces of market control (p. 27).*

This deregulation is the third and probably the most important factor in changing the behaviour of the NFCs by enabling shareholder value prominence in the corporate governance structure of the British NFCs. As its stated earlier, first, as technological advances introduced in the financial system, the power of the

---

they states, made the dream of the agency theorists come true by enabling hostile takeover and stock options possible and creating a strong market for corporate control (see Lazonick, W., O'Sullivan, M.: "Maximizing Shareholder Value: A New Ideology for Corporate Governance", **Economy & Society**, 29, pp. 13-35.). Likewise, in the British case, the turn of events followed more or less the same path as in the US case.

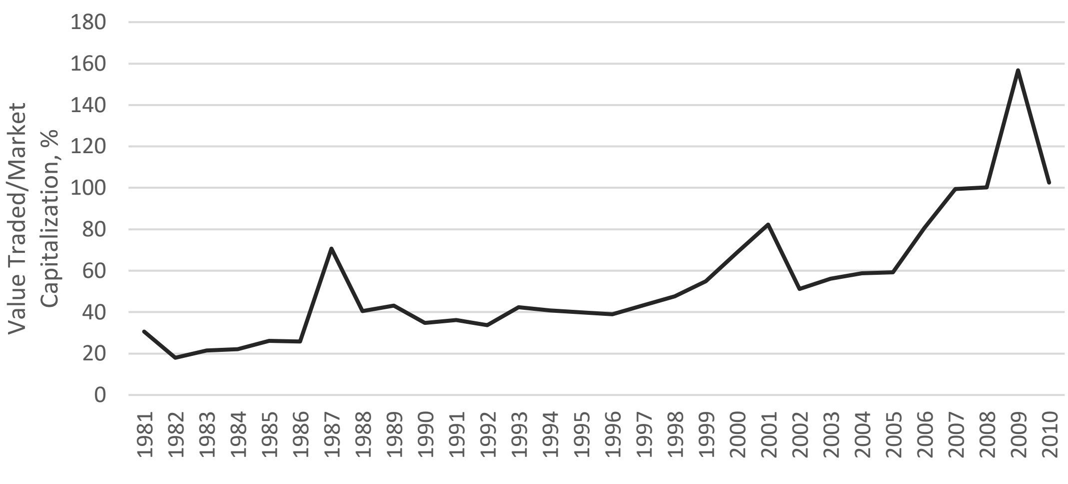
[7] According to agency theories, the sole aim of corporations and managers should be maximization of shareholder value. In this respect, they claim, the separation of ownership and management, in which managers can take the advantage of their autonomy in corporate management and use this power for their personal interests, creates problem and this problem can be dealt by creation of a market for corporate control through which corporate managers who are not able to maximize share prices can be punished by hostile takeovers or those who maximize share prices can be rewarded by stock options as their remuneration (Jensen and Meckling, 1976; Fama and Jensen, 1983). See section 1.2.3 'Corporate Governance and Financialization' in the first chapter for details.

[8] As will be elaborated in the next section, policies of British governments played an important role in boosting the power of institutional investors.

institutional investors boosted in that they were enabled to buy and sell large amount of corporate shares in seconds -and take part in the hostile takeovers and corporate restructuring activities in more threatening way for firms. Second, with the removal of barriers to entry in investment banking, the 'Big Four' banks (Barclays, National Westminster, Midland, and Lloyds) entered the investment banking and asset management businesses and pace of corporate restructuring activities increased (Vitols, 2001, p. 353). Lastly, with the financial innovations, the managers' and shareholders' interest tied through complex methods of remuneration that found impression in the soaring salaries of corporate managers (Lazonick and O'Sullivan, 1997).

In the end, a strong market for corporate control created, in which firms' managers could be punished by corporate restructuring or rewarded by stock options. Moreover, as a result of the process that began in the 1980s '*as part and parcel of the Thatcherite revolution'*, focus of corporations has completely changed in that they aimed to maximize shareholder value by increasing share prices via downsizing the labour force, closing their 'unprofitable' factories and redistributing their earnings to the shareholders (by stock buy-backs and dividend payments) instead of reinvesting in long term productive investment projects (Lazonick and O'sullivan, 1997 and 2000).

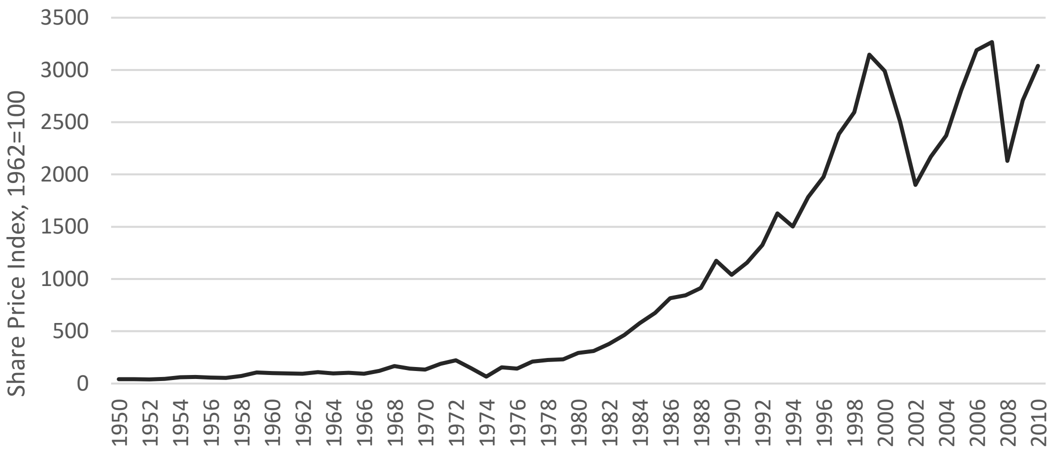
Figure 3.6: Stock Market Turnover Ratio, 1981-2010.



Source: World Bank (2018), World Development Indicators.

This short-termist perspective in the corporate governance structure of the British NFCs that focus on higher returns but not on long term investment projects also reflects stock turnover ratio- the ratio of the value of stock traded to the market value of stocks. As its illustrated in the Figure 3.6, five to six times increase in this ratio from the 1980s' 30% to 2009's 160% indicates not only increase in the stock market activity, but also shows that stocks are being held for shorter and shorter time periods by the stockholders (Orhangazi, 2008a). For instance, the increase in this ratio above 100% after around 2005[9] indicates that stocks are held for less than a year and *"stockholders have no reason to concern themselves with the performance of the companies they 'own' beyond a one-year horizon"* (Crotty, 2002, p. 23).

Figure 3.7: Share Price Index, 1950-2010.



Source: Bank of England (2017), A Millennium of Macroeconomic Data for the UK.

In this system, the form of competition has changed among many large scale British firms from product to financial markets. Instead of competing in the product markets to increase their profits, British NFCs have come to compete in the financial markets to maximize their shareholders' interests (Froud et al, 2000). As a clear indication of both the rising financial market pressure and financial sector profitability -and subsequent turn to the finance- share prices have skyrocketed (figure 3.7).[10]

Overall, at the end of the transformation of the British NFCs, low manufacturing output, high unemployment, long working hours and rising insecurity

[9] Again the impact of so called 'Big Bang' of 1986, dot-com bubble and most importantly housing bubble on the rising stock market activity is obvious. After the 2000s, particularly due to various types of securitization that tied mortgages and corporate stocks, trade volume in the stock markets has skyrocketed.
[10] An important point should be emphasized: almost fifteen fold increase in the share prices cannot be explained by rising earnings and profitability of firms, rather, it is an indication of speculation in the financial markets.

among workers[11] have become norms as in the US case (Lazonick and O'sullivan, 2000, pp. 18-21).

3.3.2 Households

Turning to the household sector, transformation can be analysed via two conduits: creation of an 'equity culture' in which households' savings have been transferred to the financial institutions and expansion of easy credit to households. Particularly by the policies of the British governments and large media influence[12], households, on the one hand, have been drawn into the 'equity culture' by transfer of their savings to various financial institutions -particularly to the institutional investors- that tied household' funds for their welfare needs with unstable financial markets; on the other hand, they have been encouraged to take loans and enter mortgage market. This system has worked for a considerable period of time in that households retained their consumption power via accruing credit and appreciation in the house and financial asset prices. However, it has collapsed with the debt deflation process that initially began in the housing market and spread overall financial system around 2007-9 (Crouch, 2009; Hay, 2013).

On the one hand, especially after the 1980s, the state has retreated from the provision of welfare benefits such as unemployment benefits, pensions, sickness insurance and so forth[13] (Hay, 2013, pp.29-31). Instead, it has encouraged individuals to channel their savings into various financial institutions to meet their future welfare

---

[11] After all, this short-termist system has to be tied with flexible labour markets in which managers could fire workers with the aim of achieving appraisal of capital markets (Boyer, 2000).

[12] The mainstream media institutions have contributed to the financialization of the households as they contribute to the shift in economic policies towards Thatcher's neoliberal policies. For instance, property television series such as the BBC's 'Escape to the Country' or Channel Four's 'Location, Location, Location' and 'A Place in the Sun' that began to be broadcasted around 2000s indicates the role of media in creation of 'financialized-subjects' or 'investor-subjects' as they promote certain lifestyles and encourage people to take mortgage loans as part of creating 'mass investment culture'. There is a large literature that is mainly based on Foucauldian 'subjectivity' analysing households as financialized subjects under 'the financialization of everyday life' perspective which also explains the role of media in financialization of households in detail. Although this perspective sometimes lacks to give ultimate economic mechanism behind the financialization process, it broadens the understanding of financialization. (see Finlayson, A.: 2009, "Financialisation, Financial Literacy and Asset- Based Welfare", **British Journal of Politics and International Relations**, 11(3), pp. 400–421.)

[13] On this issue see "I, Daniel Blake", 2016 drama film directed by Ken Loach.

needs and substituted traditional welfare state approach with a new one in which welfare liabilities of the state such as education, healthcare, pensions transferred to individuals (Finlayson, 2009). With the consequent transfer of household savings to the various financial institutions led by institutional investors (Armour and Skeel, 2007) that owned large share of corporate stocks and bonds and variety of risky securities, an 'equity culture' created in which household' funds for their basic needs tied with unstable financial markets. In words of a former Chairman of the London Stock Exchange[14]:

> *…the truth is that everyone in this country has an interest, direct or otherwise, in the health of the equity market. Whether it's the traditional shop floor worker, the public sector employee, the middle manager, the boardroom executive, even the senior civil servant - our share owning democracy is a uniting national characteristic (Gibson-Smith, 2005).*

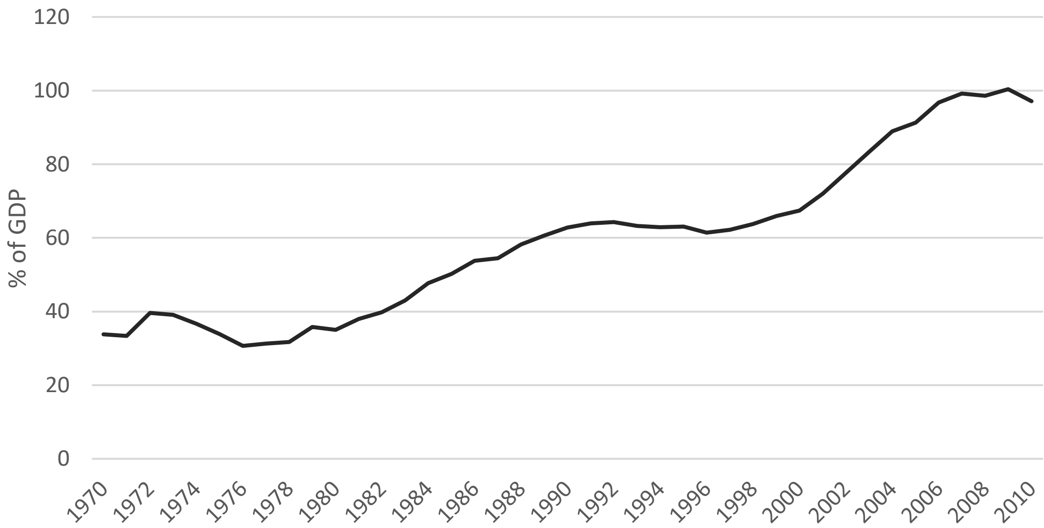
On the other hand, facing with the rising unemployment and stagnating wages that de-industrialisation brought due to the shift in the focus of the British NFCs towards short-term gains and inflation obsessive monetary policies, households have turned to credit markets to maintain their spending. With the easy access to credit and rising house prices that could be used as collateral for accruing more credit, households have gone into debt. They have accrued large sums of mortgage credit and it has also become possible for each individual to have number of credit cards and taking large sums of consumer credits to fund their expenses for various needs (Crouch, 2009; Hay, 2013) In other words, under this debt relied system that has been termed as 'privatised Keynesianism', 'house-price Keynesianism' or 'Anglo-liberal growth model', similar role that governments had in the Keynesian era played by households and *"instead of governments taking on debt to stimulate the economy, individuals did so"* (Crouch, 2008, p. 481). The trends in the household debt in the post 1970 period clearly shed light on this point (Figure 3.8).

Moreover, what made this easy access to credit and private debt stimulated economic structure possible was the financial innovation of specific types of securitization. With the securitization of especially mortgage debts, banks enabled to

[14] See: Dore, R.: 2008, "Financialization of the Global Economy", **Industrial and Corporate Change**, Vol. 17, No. 6, pp. 1097–1112.

increase their lending and profitability for two main reasons. First, the off-balance-sheet nature of securitization enabled banks to increase leverage, issue new mortgages and other credits and make profits from increased assets since these activities did not reflect their balance sheet and affect their capital requirement. Second, as securitization brought transfer of credit risk from originators to investors, banks began not to interest with soundness of credit they were giving but extending credit and rising their profitability (Langley, 2006).

Figure 3.8: Household Debt as a % of GDP, 1970-2010



Source: ONS (2008), New Historical Data for Assets and Liabilities; ONS (2018), The UK National Balance Sheet

Once again, the massive deregulation of the 1980s has played pivotal in this financial innovation and credit extension process, as it did in the prominence of the shareholder value. While different types of securitization were first introduced in the US, the deregulation of the financial markets in the mid-1980s has brought this innovation to London.[15] In the end, with the diffusion of knowledge between the US

[15] First, with the Financial Services Act of 1986 (c.53, 1986) various financial institutions -most importantly banks- allowed to offer mortgage credit, while the Building Societies Act of 1986 (c.60, 1986) allowed building societies that had the sole responsibility of offering mortgage lending until that moment to enter banking business. Further, with the deregulated financial environment of the time, international capital began to move freely to the UK and these developments led US investment banks to establish mortgage lending subsidiaries in the UK, and UK banks begin to originate mortgages. Second, with the introduction of the-state-of-the-art technologies in financial transactions, US investment banks began to expand their operations in the UK and introduced securitization. Third, the rise of the investment banking and asset management business, eventually brought new techniques and different innovations such as structured investment vehicles (SIVs) and collateralized debt obligations

and UK based financial institutions and compatible deregulated environment; first, mortgage backed securities (MBS), and then, the asset backed securities (ABS) -particularly CDOs- began to be traded widely in the UK (Wainwright, 2009).

Finally, the other critical point with securitization -besides its impact on credit extension- is that it has tied this unstable environment; the financial institutions, households, NFCs and government policies have come to focus on the appreciating financial asset prices. Particularly with the specific types of Collateralized Debt Obligations (CDOs), households' funds for their future welfare and social security expenses (e.g. deposited in institutional investors), NFCs' bonds and stocks, various types of financial derivatives, future payment obligations of mortgages, car loans, credit cards, student loans and so forth have tied altogether and a highly interconnected and unstable -albeit profitable- environment has been created (Dore, 2008; Langley, 2006).

3.3.3 Summing Up

Overall, behind the dramatic rise in the size of the financial sector and volume of financial transactions, increasing profitability of the financial corporations and increasingly financialized NFCs and households, lies an unstable economic system in which financial deregulation and subsequent financial innovations, rising leverage, risk taking and speculation have taken place. In this financialized regime, the finance sector has become the focal point of economic activity; the central role that used to be attributed to production in the FEP has come to be played by the finance sector. It has come to affect the corporate governance of NFCs, changed households' behaviours and economic policies of governments.

This financialized system has combined international capital mobility, 'equity culture', credit extension to households, rising involvement of NFCs to financial transactions, shareholder value domination in NFCs' corporate governance, labour-

(CDOs), increased popularity of securitization (see Wainwright, T.:2009, "Laying the Foundations for a Crisis: Mapping the Historico-Geographical Construction of Residential Mortgage Backed Securitization in the UK", **International Journal of Urban and Regional Research**, vol. 33/2, pp. 372–88).

market flexibility, booming financial markets, price stability (in goods market) and permanent optimism of expectations together. However, from the very beginning, this system has been prone to crises (Boyer, 2000; Aglietta, 2000). And with the debt deflation process that initially began in the US housing markets around 2007 and quickly spread to the UK housing markets and overall highly interconnected financial system, robustness of this system has been tested and fragility of its macroeconomic dynamics has revealed (Hay, 2013). After all, this system of massive deregulation, financial innovation, uttermost leverage and speculation has always been prone to the creation of asset price bubbles and subsequent debt deflation process (Minsky, 1982). In the end, the financialized British economy has built up debt, changed distribution of income, increased income and wealth inequality, and brought deindustrialization.

As to the households' and NFCs' debt levels in this financialized economic structure, expecting even higher asset prices and therefore higher returns, both households and NFCs react with engaging in more 'speculative and Ponzi financing', which increased their debt to income ratios. With respect to the government debt, especially in the aftermath of the crisis, government debt has almost doubled- which indicates policies conducted in line with the 'lender of last resort approach' of Minsky (1982). In short, financialization of the British economy has reflected skyrocketed debt levels in overall sectors of the economy (table 3.5).

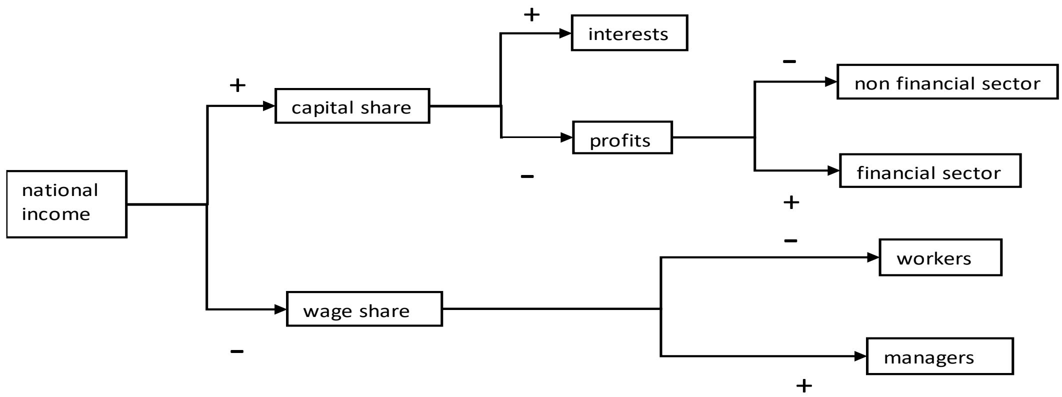
Table 3.3: Household, NFC and Government Debt as a % of GDP, 1970-2010

years	1970-79	1980-89	1990-99	2000-09	2007	2010
Household debt	34.5	48.1	63.3	87.5	99.1	97.1
NFC debt	-	124.5	203.4	256.6	264.1	258.9
Government debt	-	52.7	46.8	55.1	53.2	90.6

Sources: ONS (2008), New Historical Data for Assets and Liabilities; ONS (2018), The UK national balance sheet

Furthermore, financialization has also redistributed income both away from labour to capital and among labour away from workers to managers. First, by affecting NFCs' behaviour and leading downsizing of factories and redistributing the revenues to financial sector it has redistributed income from labour to capital. Second, among labour, by combining the interests of financial sector and managers through stock options, it has redistributed income away from workers towards managers as can be seen from the figure below (Boyer, 2005; Palley, 2013).

Figure 3.9: Financialization and the Functional Distribution of Income



Source: Palley, T. I.: 2013, Financialization: The Economics of Finance Capital Domination, Palgrave Macmillan.

In addition to that, redistribution of income contributed to already unequal distribution of income and wealth and income inequality has increased dramatically (see table 3.1).[16] Finally, the financialization process has brought deindustrialization and decline in the significance of production that has deteriorated economic growth performance of the economy.

3.4 Financialization and Growth

As its explained in the first chapter of this study, the mainstream economics and scholars of financialization have been largely fall apart on the impact of the financial sector on economic growth. While mainstream economic tradition points the productivity and economic growth enhancing role of the financial sector, scholars of financialization warns about instability creating effect of the over-reliance on the financial system and its negative impacts on economic growth via decrease in the fixed-capital investment and productivity.

3.4.1 Analysing the Mainstream Claims

With respect to the central claims made by the mainstream economics, looking from the mechanical, supply side of economics, it emphasizes the importance of ideal

[16] That is, contrary to Piketty (2014), it was not low rates of demographic growth and high saving rates (in fact, contrary to his claims, saving rates decreased and demographic growth slightly increased when we compare the 1950-1980 and 1980-2010 periods) but financialization of the British economy that redistributed the national income, contributed to the rising income inequality, and led lower growth.

financial systems as provider of funds for production and significance of this ideal systems for functioning of our economies and productivity and efficiency gains. According to this view, the financial system plays vital role by providing certain services (e.g. liquidity, dealing with risk, monitoring and so on) and leading higher levels of innovation and knowledge of how to produce with ignoring the possibility of destabilizing impacts of over reliance on the finance.

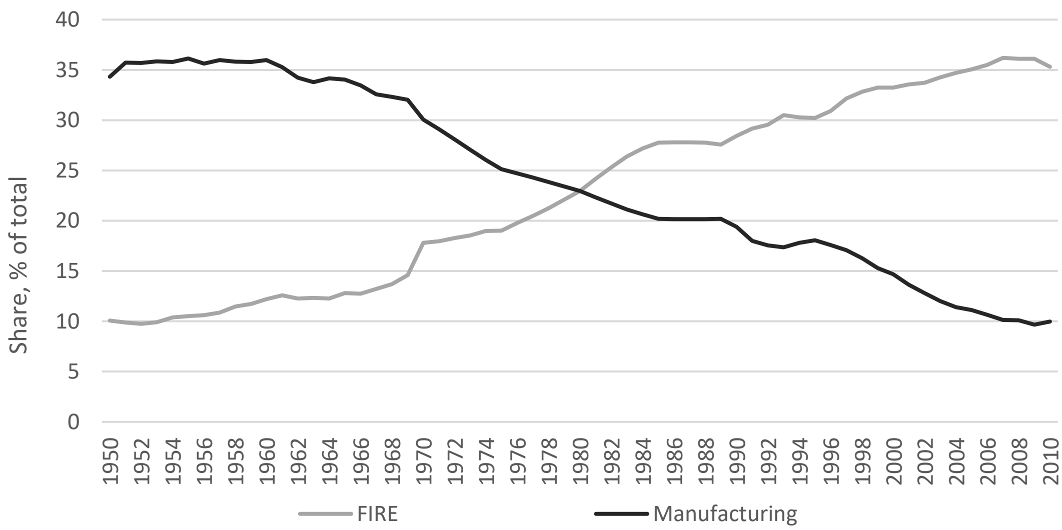
Particularly, some of the mainstream studies point to the allocation of savings through financial intermediaries and claim that the financial intermediaries play a growth enhancing role by providing the information about ‘best possible investment projects’ and funding those projects, therefore, contributing to the economy’s productive capacity (Beck et al., 2000; King and Levine, 1993). Some others, focusing on the provision of liquidity -given by the stock turnover rate, state liquidity increasing role of the financial markets and its impacts on the rising possibility of funding R&D based investment projects (Levine and Zervos, 1998). Yet others emphasize beneficial ramifications of the risk diversification via financial innovation (Acemoglu and Zilibotti, 1997). Finally, some point to the monitoring role of the financial system and its role on the higher efficiency (Aghion and Howitt, 2009).

However, contrary to the mainstream claims, our studies have shown us that instead of providing above mentioned services and contributing productivity and economic growth, financial markets and institutions have destabilized the British economy during the last decades. For instance, instead of identifying and funding innovative investment projects, financial institutions have increased their leverage and engaged in credit extension to households for higher profitability. Further, financial innovations such as securitization have not contributed to funding of risky, innovative R&D projects but paved the way for above mentioned credit extension by banks and destabilized economy by leading higher leverage and risk-taking. In addition, higher stock turnover rates (figure 3.6) has not meant increase of funds for investment but represented speculation and shorter time horizons for investment and production. Finally, instead of providing means of ‘monitoring’ and increasing the efficiency of firms, stock markets have turned means of making pressure on managers and NFCs that eventually ‘crowd out’ investment.

3.4.2 Critical Views Revisited

In contrast with the neoclassical claims, the finance-growth nexus has transformed in the era of financialization as the finance became focal point of economic activity instead of provider of funds for production. With financialization, as the focus of the British NFC's shifted from production to short term gains as a result of both the higher profitability of the financial transactions and expectations of higher returns from shareholders, the significance of production declined. These observations about the rising weight of the finance and subsequent decline in the significance of production reflects in the FIRE (the industry group comprised by finance, insurance and real estate) and manufacturing shares of gross value added given in the figure 3.10. As its illustrated in the figure, while manufacturing share of the gross value added has declined from 30-35% to just below 10%, FIRE share has increased from around 15% to above 35%, particularly after the 1980s. That is, the financial sector, *"instead of being merely a vehicle for more efficient production plans"* has come to occupy larger place in the British economy (Onaran and Tori, 2018). [17]

Figure 3.10: Industry Shares of Gross Value Added, 1950-2010.

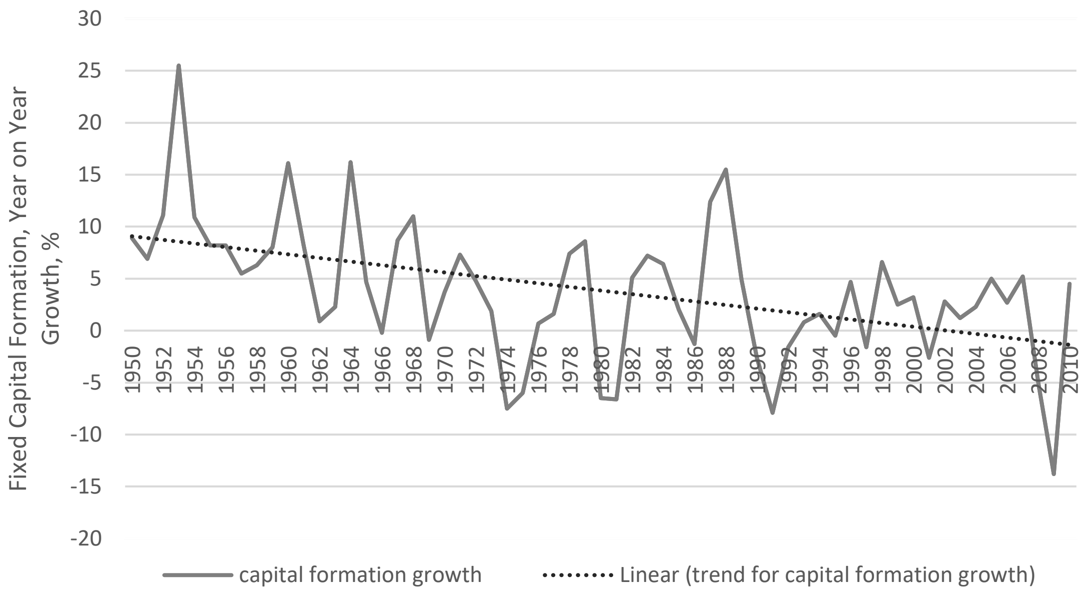


Source: Bank of England (2017), A Millennium of Macroeconomic Data for the UK

[17] Financialization and its negative impact on investment and capital accumulation is also revealed by the firm level econometric studies on the British and US NFCs (see, for example, Onaran, Ö., Tori, D.: 2018, "The Effects of Financialization on Investment: Evidence from Firm-level Data for the UK", **Cambridge Journal of Economics**, vol.42, pp.1393–1416 and Orhangazi, Ö.:2008b, " Financialisation and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation on the US economy: 1973–2003", **Cambridge Journal of Economics**, vol.32, pp. 863–886).

Furthermore, as its stated earlier, this structural change has ultimately led lower investment and capital accumulation by changing the focus of British NFCs. On the one hand, as financial transactions became more profitable than long term investment projects, NFCs have increased their financial investments and sought to accrue profit through financial transactions, and consequently, left with less funds for making investment. On the other hand, as the pressure from the financial markets increased and shareholder value gained ascendancy in the corporate governance of the British NFCs -particularly due to the deregulation of the 1980s and rise in the power of the institutional investors- time horizon for making productive investment has decreased and managers have begun to focus on maximization of their shareholders' returns in the short run. Thus, both of this developments have led a substantial decline in the fixed-investment and capital formation. As can be seen from the figure below, in the era of financialization growth of the capital formation has plummeted.

Figure 3.11: Fixed Capital Formation Growth, 1950-2010



Source: ONS (2018), UK Economic Accounts: Main Aggregates.

In addition to and related with this decline in the fixed-investment, productivity growth has also decreased dramatically in the era of financialization. Looking to the figures for total factor productivity in the era of financialization we can clearly see a constant negative trend from the 1980s and onwards.

Table 3.4: TFP and GDP growth rates, 1950-2010

years	1950-59	1960-69	1970-79	1980-89	1990-99	2000-09	2010
TFP growth (%)	2.1	2.3	1.8	1.5	0.9	0.6	1.1
GDP growth (%)	3.1	3.4	2.6	2.7	2.2	1.8	1.7

Sources: ONS (2018), UK Economic Accounts: Main Aggregates; BoE(2017), A Millennium of Macroeconomic Data for the UK.

To sum up, taking NFCs as the driving force of productivity and economic growth (Crotty, 2002), it is clear that increasing orientation of the British NFCs towards financial activities and consequent lower physical investment and productivity growth have reflected economic growth performance of the economy. As the British NFCs and their managers began to focus on short term gains under the pressure of the financial markets, and as they involved in making financial investment and accruing profits through financial channels, fixed-investment, capital accumulation and productivity have plummeted which find expression in the country's economic growth rates.

CONCLUSION

In this study, the transformation of British economy towards finance centric structure and the impact of this transformation on the economic growth performance of the country have been analysed. Parallel to the findings of the scholars of financialization, it has been found that behind the dramatic rise in the size of the financial sector, volume of financial transactions, increasing profitability of the financial corporations, and increasingly financialized NFCs and households, lies an unstable economic system in which financial deregulation and subsequent financial innovation, rising leverage and speculation have taken place.

Constructing conceptual frameworks both concerning the overall macroeconomic transformation of the economy under financialization and the effect of this transformation on economic growth, the phenomenon has been analysed in its social and historical reality. Believing the social discipline of economics cannot be reduced to deterministic approaches and economic phenomena cannot be examined in isolation with politics, economic policies, power relations, institutional changes and law, the period through which the phenomenon emerged has been analysed. It is found that, out of the changes in the post-war British economy, deregulation of the finance sector has emerged and this deregulation has initiated a chain of reactions beginning from the financial sector itself and transformed macroeconomic dynamics of the British economy.

More precisely, it is found that following the deregulation of the 1980s, large scale financial innovations, speculation and rising leverage and risk taking have materialized and the size of the financial sector, the volume and profitability of the financial transactions have increased, which transformed all sectors in the British economy structurally. Furthermore, it is also found, under this financialized regime where the finance sector has become the focal point of economic activity, behaviour of the British NFCs have changed in that they have come to focus on short-term financial gains instead of focusing on productive investment activities. In this regard, previous findings of the studies analysing the impact of financialization on the economic growth performance of the UK economy (e.g. Onaran and Tori, 2018) have been confirmed.

That is, contrary to the neoclassical claims about economic growth fostering role of the financial system, our studies have shown us destabilizing effect of overreliance on the financial system and growth reducing impact of the rising weight of finance. Based on the scholars of financialization and their emphasize on the changing nature of the relationship between the financial sector and NFCs, we have concluded that the transformation of the British economy around the orbit of the finance sector has deteriorated economic growth performance of the economy by changing the functioning of the NFCs and leading a dramatic decline in the capital accumulation and productivity.

BIBLIOGRAPHY

Acemoglu, D., Aghion, P., Zilibotti, F.: 2006 — "Distance to Frontier, Selection, and Economic Growth", **Journal of the European Economic Association**, March 4(1), pp. 37–74.

Acemoglu, D., Zilibotti, F.: 1997 — "Was Prometheus Unbound by Chance? Risk, Diversification, and Growth", **Journal of Political Economy**, Vol. 105 No. 4, pp. 709-751.

Aghion, P., Howitt, P.: 2009 — **The Economics of Growth**, The MIT Press, Cambridge, Massachusetts.

Aglietta, M.: 2000 — "Shareholder Value and Corporate Governance: Some Tricky Questions", **Economy and Society**, 29 (1), pp. 146-59.

Akan, T.: 2018 — **The Complementary Roots of Growth and Development**: Comparative Analysis of the United States, South Korea, and Turkey, Palgrave Macmillan, Springer International Publishing.

Armour, J., Skeel, David A.: 2007 — "Who Writes the Rules for Hostile Takeovers, and Why? The Peculiar Divergence of US and UK Takeover Regulation", **Georgetown Law Journal**, Vol. 95, pp. 1727- 1793.

Barro, Robert J., Sala-i-Martin, X.: 2004 — **Economic Growth**, The MIT Press, Cambridge, Massachusetts.

Beck, T., Levine, R., Loayza, N.: 2000 — “Finance and the sources of growth”, **Journal of Financial Economics**, 58\2000, 261-300.

Booth, A.: 2001 — **The British Economy in the Twentieth Century**, Palgrave Macmillan, New York.

Boyer, R.:2000 — “Is a Finance-Led Growth Regime a Viable Alternative to Fordism? A Preliminary Analysis”, **Economy and Society**, 29, 111–145.

Boyer, R.: 2005 — **The Future of Economic Growth**, Edward Elgar, Cheltenham, UK, Northampton, MA, USA.

Buiter, W., Miller, M., Sachs, J., Branson, W.: 1983 — "Changing the Rules: Economic Consequences of the Thatcher Regime”, **Brookings Papers on Economic Activity**, Vol. 1983 No. 2, pp. 305-379.

Clark, T., Dilnot, A.: 2002 — “Long-Term Trends in British Taxation and Spending”, **Institute for Fiscal Studies Briefing Note**, No. 25.

Crotty, J.: 2002 — “The Effects of Increased Product Market Competition and Changes in Financial Markets on the Performance of Nonfinancial Corporations in the Neoliberal Era”, **Political Economy Research Institute**, working paper no. 44.

Crotty, J.: 2005 — "The Neoliberal Paradox", in **Financialization and the World Economy** edited by G. Epstein, Cheltenham, Edward Elgar, pp. 77–110.

Crouch, C., Keune, M.: 2005 — "Changing Dominant Practice: Making use of Institutional Diversity in Hungary and the United Kingdom" in **Beyond Continuity: Institutional Change in Advanced Political Economies** edited by W. Streeck and K. Thelen, Oxford University Press, New York.

Crouch, C.: 2008 — "What Will Follow the Demise of Privatised Keynesianism?", **The Political Quarterly**, Vol. 79 No. 4., pp. 476–487.

Crouch, C.: 2009 — "Privatised Keynesianism: An Unacknowledged Policy Regime", **British Journal of Politics and International Relations**, 11(3), pp. 382–399.

Cypher, James M., Dietz, James L.: 2009 — **The Process of Economic Development**, Routledge, Taylor & Francis Group, London and New York.

Daruvala T., Dobbs R., Harle, P., Falcon, R. Susan, L.: 2013 — "Financial Globalization: Retreat or Reset?", **McKinsey Global Institute Global Capital Markets 2013**, March.

Dore, R.: 2008 — "Financialization of the Global Economy", **Industrial and Corporate Change**, Vol. 17, No. 6, pp. 1097–1112.

Engelen, E.: 2008 “The Case for Financialization”, **Competition and Change**, Vol. 12, No. 2, June 2008 111–119

Fama, Eugene F.: 1970 “Efficient Capital Markets: A Review of Theory and Empirical Work”, **The Journal of Finance**, Vol. 25, No. 2, pp. 383-417.

Fama, Eugene F., Jensen, Michael C.: 1983 “Agency Problems and Residual Claims”, **Journal of Law and Economics**, Vol. 26, No. 2, pp. 327-349.

Finlayson, A.: 2009 “Financialisation, Financial Literacy and Asset- Based Welfare”, **British Journal of Politics and International Relations**, 11(3), pp. 400–421.

Foster, John B.: 2007 “The Financialization of Capitalism’, **Monthly Review**, 58, pp. 1–12.

Friedman, M.: 1953 “The Methodology of Positive Economics”, in **Essays in Positive Economics**, University of Chicago Press, pp. 3-43.

Froud, J., Haslam, C., Johal, S., Williams, H., : 2000 “Shareholder Value and Financialization: Consultancy Promises and Management Moves”, **Economy & Society**, 29, pp. 80–110.

Gamble, A.: 2009 — "British Politics and the Financial Crisis", **British Politics**, Vol. 4, 4, 450–462

Gibson-Smith, C.: 2005 — "Why Britain Needs an Equity Culture" at http://www.londonstockexchange.com.

Hall, Peter A.: 1992 — "The Movement from Keynesianism to Monetarism: Institutional Analysis and British Economic Policy in the 1970s", in **Structuring Politics: Historical Institutionalism in Comparative Analysis**, edited by Sven Steinmo, Kathleen Thelen, and Frank Longstreth, New York: Cambridge University Press, 1992, pp. 90-113.

Hall, Peter A.: 1993 — "Policy Paradigms, Social Learning and the State: The Case of Economic Policymaking in Britain", **Comparative Politics**, 25, pp. 275–296.

Hall, Peter A., Soskice, D.:2001 — "An Introduction to Varieties of Capitalism", in **Varieties of Capitalism: The Institutional Foundations of Comparative Advantage** edited by P. A. Hall and D. Soskice, Oxford University Press**,** Oxford.

Hay, C.: 2013 — **The Failure of Anglo-Liberal Capitalism**, Palgrave Macmillan, Basingstoke.

Hein E., Treeck, T.: 2008 — "'Financialisation' in Post-Keynesian models of distribution and growth – a systematic review", **Macroeconomic Policy Institute (IMK),** Working Paper 10.

Jensen, Michael C., Meckling, William H.: 1976 — "Theory of the Firm: Managerial Behaviour, Agency Costs and Ownership Structure", **Journal of Financial Economics**, V. 3, No. 4, pp. 305-360.

Jespersen, J.: 2009 — **Macroeconomic Methodology: A Post-Keynesian Perspective**, Edward Elgar**,** Cheltenham, UK, Northampton, MA, USA.

Kaldor, N.: 1960 — "The Radcliffe Report", **The Review of Economics and Statistics**, Vol. 42, No. 1, pp. 14-19.

Kaldor, N.: 1971 — "Conflicts in National Economic Objectives", **The Economic Journal**, 81(321), pp.1-16.

Kalecki, M.: 1943 — "Political Aspects of Full Employment", **Political Quarterly**, vol. 14, no. 4.

Kalecki, M.: 1944 — "The White Paper on Employment Policy", **Oxford Bulletin of Economics and Statistics**, 6.

Keynes, J. M.: 1936, 1973	**The General Theory of Employment, Interest and Money**, McMillan, London.
King, Robert G., Levine, R. :1993	“Finance, entrepreneurship, and growth: Theory and evidence”, **Journal of Monetary Economics**, vol. 32, pp. 513–542.
Krippner, G.: 2005	“The Financialization of the American Economy”, **Socio-Economic Review**, 3, pp. 173–208.
Krippner, G.: 2012	**Capitalizing on Crisis: The Political Origins of the Rise of Finance**, Harvard University Press, Harvard.
Langley, P.: 2006	“Securitising Suburbia: The Transformation of Anglo-American Mortgage Finance”, **Competition and Change**, Vol. 10, No. 3, pp. 283–299
Lapavitsas, C., Powell, J.: 2013	“Financialisation Varied: A Comparative Analysis of Advanced Economies”, **Cambridge Journal of Regions, Economy and Society**, 6, pp. 359–379.
Lazonick, W., O’Sullivan, M.: 1997	“Finance and Industrial Development. Part I: the United States and the United Kingdom”, **Financial History Review**, Vol. 4, Issue 01 April, pp. 7 – 29.

Lazonick, W., O'Sullivan, M.: 2000 "Maximizing Shareholder Value: A New Ideology for Corporate Governance", **Economy & Society**, 29, pp. 13-35.

Levine, R.: 1991 "Stock markets, growth, and tax policy", **Journal of Finance**, Vol. 46, pp. 1445–1465.

Levine, R.: 2005 "Finance and Growth: Theory and Evidence", in **Handbook of Economic Growth** edited by Aghion, P. and Durlauf, S., edition 1, volume 1, chapter 12, pp. 865-934, Elsevier.

Levine, R., Zervos, S.: 1998 "Stock markets, banks, and economic growth", **American Economic Review**, Vol. 88, pp. 537–558.

Mankiw, N. Gregory: 2006 "The Macroeconomist as Scientist and Engineer", **Journal of Economic Perspectives**, American Economic Association, vol. 20(4), pages 29-46.

Minsky, H.: 1982, 2016 **Can 'It' Happen Again?**, Routledge Classics, Routledge, Taylor & Francis Group, London and New York.

Moran, M.: 1984 **The Politics of Banking: The Strange Case of Competition and Credit Control**, Palgrave Macmillan, London, UK.

Onaran, Ö., Tori, D.: 2018 — “The Effects of Financialization on Investment: Evidence from Firm-level Data for the UK”, **Cambridge Journal of Economics**, vol. 42, pp. 1393–1416.

Orhangazi, Ö.: 2008a — **Financialization and the U.S. Economy**, Edward Elgar Northampton, MA.

Orhangazi, Ö.: 2008b — “ Financialisation and capital accumulation in the non-financial corporate sector: A theoretical and empirical investigation on the US economy: 1973–2003” , **Cambridge Journal of Economics**, vol. 32, pp. 863–886.

Orhangazi, Ö.: 2011 — “ ‘Financial’ vs. ‘Real’: An Overview of the Contradictory Role of Finance”, in **Revitalizing Marxist Theory for Today’s Capitalism** edited by Zarembka, P. and Desai, R., Emerald Group Publishing Limited, pp.121 – 148.

Palley, T. I.: 2012 — **From Financial Crisis to Stagnation : The Destruction of Shared Prosperity and the Role of Economics**, Cambridge University Press, New York.

Palley, T.I.: 2013 — **Financialization: The Economics of Finance Capital Domination**, Palgrave Macmillan, London.

Pettifor, A.: 2017 — “Brexit and its Consequences”, Globalizations, vol. 14:1, pp. 127-132

Piketty, T.: 2014 **Capital in the Twenty-First Century**, the Belknap Press of Harvard University Press, Cambridge, Massachusetts and London, England.

Romer, Paul M.: 1990 "Endogenous Technological Change", **Journal of Political Economy**, 98, pp. 71–102.

Romer, Paul M.: 1994 "The Origins of Endogenous Growth", **Journal of Economic Perspectives**, 8(Winter), pp. 3–22.

Shiller, Robert J.: 2000 **Irrational Exuberance**, Princeton University Press, Princeton New York.

Shiller, Robert J.: 2014 "Speculative Asset Prices", **American Economic Review**, 104(6), pp. 1486–1517.

Solow, Robert M.: 1956 "A Contribution to the Theory of Economic Growth", **Quarterly Journal of Economics**, 70, pp. 65–94.

Stiglitz, Joseph E.: 1990 "Symposium on Bubbles", **Journal of Economic Perspectives**, Vol. 4, No. 2, pp. 13–18.

Streeck, W.: 2011 “The Crisis of Democratic Capitalism”, **New Left Review**, Vol. 71, pp. 5-29.

Streeck, W.: 2016 **How Will Capitalism End? Essays on a Failing System**, Verso, London.

Taggart, R. A.: 1987 "The Growth of the ‘Junk’ Bond Market and Its Role in Financing Takeovers", in **Mergers and Acquisitions**, NBER Chapters, pp. 5-24.

Tomlinson, J.: 1996 “Inventing ‘Decline’: The Falling behind of the British Economy in the Post-War Years”. **Economic History Review**, vol. 49/4, pp. 731–57.

Tomlinson, J.: 2004 “Economic Policy”, in **The Cambridge Economic History of Modern Britain Volume III** edited by Floud R. and Johnson P., Cambridge University Press, Cambridge, UK.

Tomlinson, J.: 2009 “Thrice denied: 'Declinism' as a recurrent theme in British history in the long twentieth century”, **Twentieth Century British History**, Vol. 20, Issue 2, pp. 227–251.

Vitols, S.: 2001 “Varieties of Corporate Governance: Comparing Germany and the UK”, in **“Varieties of Capitalism: The Institutional Foundations of Comparative Advantage”** edited by Hall, P. A. and Soskice, D., Oxford University Press, Oxford.

Wainwright, T.: 2009 "Laying the Foundations for a Crisis: Mapping the Historico-Geographical Construction of Residential Mortgage Backed Securitization in the UK", **International Journal of Urban and Regional Research**, vol. 33/2, pp. 372–88.

Weir, M.: 1989 "Ideas and Politics: The Acceptance of Keynesianism in Britain and the United States", in **The Political Power of Economic Ideas: Keynesianism across Nations** edited by P. A. Hall, Princeton University Press, Princeton, New Jersey.

Zwan, N.: 2014 "Making Sense of Financialization", **Socio-Economic Review**, vol. 12, no. 1, pp. 99–129.

APPENDIX

PARLIAMENTARY PAPERS, BANK OF ENGLAND DOCUMENTS AND LEGISLATIONS

1. Cmnd. 6527 (1944) White Paper on Employment Policy. Available at: https://discovery.nationalarchives.gov.uk/details/r/C200165
2. Cmnd. 827 (1959) Radcliffe Report- Report of the Committee of the Working of the Monetary System. Available at: https://discovery.nationalarchives.gov.uk/details/r/C13896
3. Bank of England Quarterly Bulletin (1969) The operation of monetary policy since the Radcliffe Report. QB 1969 Q4 pp448-460. Available at: https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1969/the-operation-of-monetary-policy-since-the-radcliffe-report.pdf?la=en&hash=BBA9BD52F7F81806835F7B45ABE6FAFBDB72BEE7
4. Bank of England Quarterly Bulletin (1971) Competition and credit control. QB 1971 Q2 pp 189-193. Available at: https://www.bankofengland.co.uk/-/media/boe/files/quarterly-bulletin/1971/competition-and-credit-control-text-of-a-consultatice-document-issued-on-14-may-1971
5. Financial Services Act (1986), c.60. Available at: http://www.legislation.gov.uk/ukpga/1986/60/pdfs/ukpga_19860060_en.pdf.
6. Building Societies Act (1986), c.53 Available at: https://www.legislation.gov.uk/ukpga/1986/53/pdfs/ukpga_19860053_en.pdf.
7. Financial Services and Markets Act (2000), c.8. Available at: http://www.legislation.gov.uk/ukpga/2000/8/pdfs/ukpga_20000008_en.pdf.