

## Financial accumulation in the rich countries since 1970<sup>1</sup>

Cédric Durand

The accelerated development of financial operations has been one of the most striking evolutions observed in the rich countries since the 1970s. The crisis of 2007-2008 and the long recession in which the global economy has been stuck since then have dramatically exposed the high economic and social cost of this financialization.

This note describes the profile of financial accumulation in the main rich economies (Germany, United States, France, Japan and the United Kingdom). It follows the approach initiated by Greta Krippner, who defined financialization in terms of the reorientation of capital accumulation towards financial activities, to the detriment of trade and commodity production<sup>2</sup>.

To demonstrate the financialization of these economies, we have chosen three types of indicators: the weight of the financial sector, the relative importance of the profits of this sector as a share of total profits and the dynamics of the financial revenues of non-financial firms in relation to the profits generated by their operations.

### The weight of the financial sector

Since the 1970s, there has been a steady increase in the weight of financial activities. The graph below is based on a broad definition of finance, including all the activities of financial intermediation, insurance and real estate. It shows that for the main rich countries, value added in this sector as a proportion of GDP has risen continuously. With the exception of Japan, where the curve is slightly less steep, all these countries have seen a doubling of the weight of these activities in the GDP. The scale of this evolution suggests that alongside the boom in the service sector, financialization is the structural transformation that most characterizes the large developed economies.

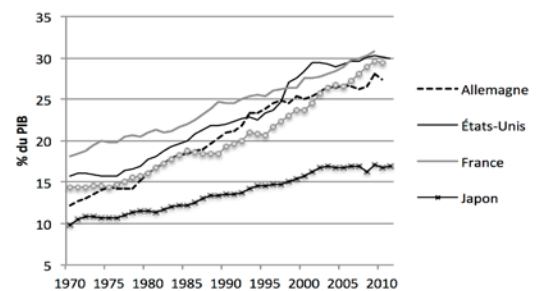


Figure 1: gross value added in the sector of financial activities, insurance and real estate in % of GDP (1970-2012).

Source of data: OCDE.

### The profits of financial institutions

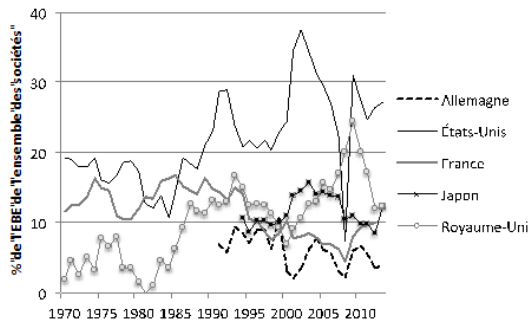
Figure 2 shows the profits of financial firms, i.e., institutions whose main activity consists in providing financial services (banks, insurance companies and financial auxiliaries such as brokers or stock exchanges) as a share of the total profits of all firms. The calculations are based on gross profits (Earnings Before Interest, Taxes, Depreciation and Amortization - EBITDA), both because of the availability of statistics and to avoid problems relating to the calculation of amortizations. It is important to focus on the dynamics rather than absolute levels, which may be determined by divergent statistical practices (concerning the classification of the different types of holdings, for example).

This graph shows that the United States and Great Britain have seen a strong rise in the profits of financial institutions as a proportion of total profits. This growth occurred mainly in the 1980s. The downturn at the end of the 1990s was followed by a return to growth in the early 2000s in the United States, where the profits of this sector reached 35% in 2003. In the United Kingdom, the sector resisted the crisis better than the rest of the economy up until 2009; but in the United States the upswing was faster.

<sup>1</sup> This note is drawn from the study carried out in the book *Le capital fictif, Les prairies ordinaires*, Paris, 2014

<sup>2</sup> Krippner, Greta R., 2011, *Capitalizing on Crisis: The Political Origins of the Rise of Finance*, Cambridge, Harvard University Press.

In France, on the contrary, the growth enjoyed in the 1980s soon ended and a slow decline set in, which lasted until the crisis of 2008. In the aftermath of the crisis, the share of this sector bounced back thanks to the effectiveness of the measures of support taken by the state, while the rest of the economy remained mired in stagnation. The data available for Germany and Japan do not allow us to appreciate the dynamics over a long period.



**Figure 2 : profits of financial firms as a% of the total profits of all firms (1970-2012).. Allemagne, États-Unis, France, Japon, Royaume-Uni.**  
Sources of data: Germany, Statistische Bundesamt; France and Japan, OECD; United Kingdom, ONS; United States, BEA.

### The financialization of the revenues of non-financial firms

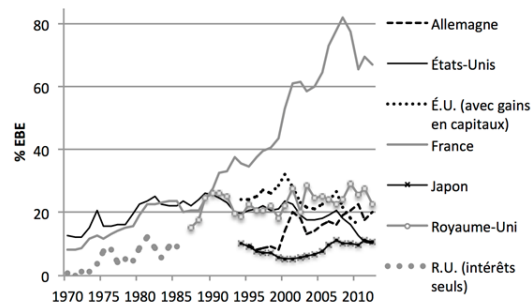
The financial revenues of non-financial firms are the third indicator we use to demonstrate the shift towards financial accumulation. It expresses the dividends and interests earned by the firms in this sector as a percentage of their gross profits. The data concerning capital gains – realized by selling securities at a profit – are not available for all the countries. However, it is reasonable to assume that they represent a relatively small proportion of the financial revenues of these firms. In the United States, since the 1990s, they have fluctuated between 20% and 30%.

Figure 3 shows highly contrasting evolutions. One extreme is represented by France, where the financial revenues of non-financial firms as a proportion of profits has grown constantly since the 1970s, rising from 8% of EBITDA in 1970 to 88% in 2008. For the United Kingdom, the data on interest received show continuous but slow growth up until the beginning of the 1990s. Data on dividends are only available since 1987. They suggest rapid growth at the end of the 1980s (rising from 7.2% in 1987 to 14.4% in 1992), followed by slower growth, which nevertheless more than compensated for the decline in the weight of interest received.

The United States followed a completely different trajectory. Firstly, the financial revenues of

firms were comprised mainly of interests received, including those produced by investing their cash in money market funds, very developed in North America. Secondly, the pronounced growth of the 1970s and 1980s continued in the 1990s thanks to capital gains. This was followed by a gradual decline in the 2000s, but up until the crisis, the level stabilised at around 20%, well above the level of the 1970s.

For Germany and Japan, the data only go back as far as the mid-1990s. In Germany, financial revenues grew from less than 10% of gross profits in 1995 to 23% in 2010; a level close to that of the English-speaking countries and a sign that significant transformations were at work. In Japan, the weight of the financial revenues of non-financial firms is much lower; the decline of the 1990s was followed by a strong recovery until the crisis of 2008.



**Figure 3 : the financial revenues of non-financial firms in % of EBITDA (1970-2012).**

Sources of data: OECD data and national accounts. Total interests and dividends received. For capital gains in the US: IRS tax data.

Care should be taken in interpreting this graph, because there is limited comparability between the national data. Nevertheless, it shows a general trend for financial revenues to increase as a proportion of the gross profits of non-financial firms. The surprising fall in this ratio in the United States in the 2000s and its limited rise in the United Kingdom should be considered in the light of the data presented above, concerning the profits of financial firms. It was these two countries that showed the strongest growth in the profits of the financial sector as a proportion of total profits of all firms.

### Conclusion

We can draw two main lessons from these stylised facts. Firstly, it appears that in the five countries studied, the weight of the financial sector in the broadest sense of the term (including real estate activities) has grown strongly and steadily since the 1970s. Secondly, the weight of

financial profits has increased, an observation that gives empirical support to the idea of financialization as accumulation through financial channels. With the exception of Japan, where the crisis of the early 1990s brought about a pause in the process, the trend towards the financialization of profits has been universal. However, the locus of its development differs from one country to another. In France and, to a lesser extent, Germany, the dynamics mainly involves growth in the financial revenues of non-financial firms, whereas in the United States and the United Kingdom, it is the growth in the profits of the financial sector that predominates. This contrast is not easy to interpret. It may be related to “creative accounting” practices, concerning for example the rules for distinguishing between holdings in the financial and non-financial sectors, or to mechanisms of a more structural nature, concerning for example the relative importance of revenues deriving from holdings in companies operating abroad. Nevertheless, these data clearly establish the surge in financial modes of capital accumulation. They highlight the importance of investigating the origin of these financial profits.

<sup>1</sup> See Wolfgang Streeck, *Du temps acheté*, Gallimard, 2014.

If financial securities are independent of the production process - if, to use a concept discussed by Marx and Hayek, they represent fictitious capital -, there is nothing fictitious about financial profits. Paid in hard cash, they possess all the attributes of monetary power, and first of all what is commonly called purchasing power. Their only

singularity as profits is that they have no direct link with the production and exchange of commodities: they are returns generated by financial processes.

Of course, finance can favour the production of value by reallocating capital away from declining sectors and towards growth sectors. But it is never, in itself, a source of value creation. Financial profits embody value, but they do not result from the production of value. They must therefore be considered as transfers of revenues from value-creating activities, i.e., revenues of labour and/or profits generated by the production of goods and services. The theoretical question is not simple, and the political stakes are high, because this is an essential channel for understanding the social and economic decline that high-income countries are currently experiencing, and in particular the deepening of inequalities.

From this perspective, instead of endeavouring to maintain financial stability, in other words defending a sort of right to profits for the holders of financial securities, the public authorities should seek to organise financial disaccumulation. To reduce the ascendancy of finance over modern societies and to assert the principle of social justice over that of market justice<sup>3</sup>, it is necessary to dismantle the freedoms acquired by financial capital over the last few decades. This entails the nationalisation of the banking sector, the restructuring of public and private debts (for low-income households), limiting stock market operations and, last but not least, restoring capital controls.

## Seminars & Conferences

March 21, 2015 - an IHPM Study Day (Institute of History and Prospective Management)

[The heritage of Taylor: One Hundred Years of Management](#)

Day organized by Luc and Marco (CEPN) at the University Paris 13

Contact : [luc.marco@univ-paris13](mailto:luc.marco@univ-paris13)

*Program* (The language of the conference is French):

**Bernard Attali** (Will be Group) : « *Du taylorisme au Lean management : historique, rétrospective, mise en perspective.* »

**Wassim Chennoufi** (UP13) : « *Le néo taylorisme comme une doctrine durable de l'organisation de travail.* »

**Rachid Mira** (UP13) : « *La pratique de méthodes tayloristes au sein de l'industrie mécanique SNVI (Algérie).* »

**Luc Marco** (UP13) et **Cédric Poivret** (UPEC) : « *Taylor vu par deux docteurs (1926-1940)* »

**Emmanuel Okamba** (UPEM) : « *La mesure et le contrôle de l'efficacité dans le modèle taylorien* »

**Alain P. Michel** (IDHES, Evry) : « *Frederick, Louis et Henry : les premières chaînes de Renault entre Taylor et Ford (1912-1922)* »

**Nabil El Hilali** (Esca) et **Jean-Pierre Mathieu** (IHPM) : « *Aux origines du design thinking, l'apport de Frederick Winslow Taylor.* »

March 21, 2015 - 14:00-17:00 – Maison des Sciences Économiques

[Seminar of Health Political Economy \(SEPOSA\)](#)

Seminar co-organized by CEPN STRAS TEAM (U.P13), ÉCONOMIX (U.P10) & REGARDS (U. REIMS)

<http://ecoposante.free.fr/>

MATHIEU MONTALBAN (GRETha, Université Montesquieu-Bordeaux IV):

« *Construction des marchés et des catégories de la santé mentale : enjeux, synthèse et perspectives* »

## Books



### LE CAPITAL FICTIF

#### COMMENT LA FINANCE S'APPROPRIE NOTRE AVENIR

CÉDRIC DURAND

ÉDITIONS LES PRAIRIES ORDINAIRES, PUBLIÉ EN NOVEMBRE 2014, 224 PAGES, 17 €

On explique souvent les turbulences des marchés financiers par l'immoralité des agents, les errements de la théorie économique ou les réglementations inadaptées. Bien que ces explications ne soient pas fausses, elles laissent de côté le principal problème : la nature et l'origine de la valeur financière. C'est ce mystère que Cédric Durand propose d'éclaircir.

À partir du concept de capital fictif, il soutient que la finance préempte la production future, s'approprie de la richesse qui reste à créer. S'appuyant sur des données comparatives couvrant les quatre dernières décennies, il montre que l'accroissement des dettes publiques et privées, l'essor des produits financiers, l'affirmation de la norme de création de valeur pour l'actionnaire, ou encore l'action des pouvoirs publics en faveur de la stabilité financière participent d'un même dispositif de domination sociale et politique. Le capital fictif pourrait n'être qu'un tigre de papier... Mais il mord ! Par la financiarisation, le capital s'est arrogé un pouvoir dont on ressent aujourd'hui toute la violence. Si la sophistication financière a permis un temps de masquer la déconnexion croissante entre l'épuisement de la dynamique productive et les exigences du capital, la crise de 2007-2008 a fait tomber le voile. L'hégémonie financière se pare des atours libéraux du marché, mais à chaque fois que les marchés s'effondrent, le capital fictif se tourne vers le politique pour mieux presser à son profit les corps sociaux. Avec des contributions de : Isabel Babou, Patrice Ballester, Mirielle Barthod-Prothade, Philippe Callot, Bruno Cardinale, Cécile Clergeau, Frédéric Desglis, Mbaye Fall Diallo, Xavier Dupuis, Sall Fattou Diop, Luc Florent, Christian Germanaz, Thi Thuy Duong Ha, Aziz Hmioui, Erick Leroux, Jean-Bernard Marsat, Béatrice Moppert, Krystel Paulus, Olivier Saissi, Michel Sicre.



### ARRÊTONS LES FRAIS ! POUR UN ENSEIGNEMENT SUPÉRIEUR GRATUIT ET ÉMANCIPATEUR

COLLECTIF ACIDES (Approches Critiques et Interdisciplinaires des Dynamiques de l'Enseignement Supérieur)

SÉVERINE CHAUVEL, PIERRE CLÉMENT, DAVID FLACHER, HUGO HARARI-KERMADEC,  
SABINA ISSEHNANE, LÉONARD MOULIN, UGO PALHETA

ÉDITIONS RAISONS D'AGIR, PUBLIÉ LE 29 JANVIER 2015, 156 PAGES, 8 EUROS.

Alors que dans les pays anglo-saxons, les frais d'inscription à l'université ne cessent d'augmenter au point de représenter l'une des principales sources d'endettement des étudiants et de leurs familles, ils constituent l'espoir secret d'universités françaises exsangues. Ce livre montre que s'engager ainsi dans la voie de la financiarisation de l'enseignement supérieur ne permet ni d'augmenter les ressources des universités ni de rendre leur financement plus juste.

Cela conduit au contraire à une explosion du coût des études, à une subordination des choix d'orientation à la logique marchande et à un accroissement considérable des inégalités entre étudiants, filières et établissements. Refusant la fatalité, ce livre montre qu'un autre modèle de financement des universités est possible. Plus juste et plus efficace, il garantirait également l'autonomie réelle du monde universitaire, conçue non pas comme un privilège indu mais comme la condition de sa capacité à défendre la connaissance et la citoyenneté, sans lesquelles innovation et progrès social ne peuvent exister.

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