Financial Globalization and the New Capitalism

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Abstract. *Financial globalization, a complex phenomenon that has multiple facets, is directly influenced by some aspects characterizing the current stage of capitalism. In order to decrypt the set of such interferences, the consequences have been emphasized of the excessive trust in the market mechanisms, the role of deregulation and liberalization in promoting a new economic direction, as well as other theses representing the essence of neo-liberal revolution. The realities specific to the last three decays of the 20th century generated enhanced criticism regarding the myth of pure and perfect transparency, the market inability of self-regulation and the illusion of perfect information.*

The excesses of neo-liberalism imposed the need for a new paradigm, concretized in the mutations in the nature and mechanisms of capitalism, the domination of finances and knowledge, a paradigm in which market globalization and financial profitability logic are becoming priorities.

In the second part of the article the conditions are analyzed that favored the occurrence and expansion of financial globalization, as well as the multiple implications of such over the micro and macro-economical mechanisms. A particular focus is on describing the characteristics of financial globalization in the current phase: the occurrence of new financial players (institutional investors) and tools, markets de-localization and un-intermediated financial operations. As a conclusion, the tendencies are noticed of the financial world economy to become fragile, of fading connections between the financial and the real economy, of enhanced risk for financial accidents to propagate. Based on these observations, the extent is emphasized to which financial globalization provides the possibility of the financial crises to occur and expand.

Keywords: financial globalization; shareholding capitalism; de-localization; des-intermediation; institutional investor; post-political; economy becoming more financial.

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Political and ideological mutations

At the end of the 70s, a genuine liberal revolution took place, inspired by Fr. Hayek and his adepts, the central focus of which was to reinstate the market mechanism, the reflux of ethatic/etatic power, privatization, de-regulation and liberalization.

The excessive trust in the market mechanisms (the magic of the market) and the thesis regarding the markets efficacy represented the main arguments for fighting against the Keynesian interference.

By giving up its traditional activism, reducing taxation, calling for de-regulation or liberalization, the state created a new economic direction. *The era of big government is over* became the slogan of the promoters of the neo-liberal ideology supremacy. A core feature of this new vision was its pursuit for universality (Plihon, 2003, p. 23), describing the market as a natural study of the society. The impossibility of providing an alternative conception of the world turned the liberal doctrine into the *unique thinking* and liberalism into the *natural order*. Therefore, the conservative revolution was considered the new ideological dogma, based on the idea that the state is not apt for managing the economy, as its regulations were unfit or inapplicable.

The neo-liberal doctrine represented the core of the Washington Convention, calling for trade and finance liberalization, de-regulation and privatization, the recoil of public expenses and taxation in favor of private activity, providing for priority of international investments and financial markets. In a nutshell, the main idea is that of decline of the politics and of the state in favor of private interests.

At the beginning of the third millennium, the neo-liberal ideology is highly contested, and proposals are made of giving up to the *unique thinking* and of using scientific methods in order to reflect reality. The main reproaches refer to the myth of pure and perfect market transparency, dominating ideas of the economists of neo-classical formation. More and more specialists considered that the entire theoretical apparatus had been created on false presumptions. Thus, markets are not perfect simply by deeming the state intervention as inefficient. Also, at the core of the de-regulation philosophy lays the self-regulation virtue. Nonetheless, self-regulation faces systemic risks.

By exacerbating the individualist ideology during the last three decays, the obsession for individual wealth and success to the damage of the common welfare, as well as the excesses of an *amoral* liberalism, concerned with the privatization of profits and socialization of losses, have called for the acknowledgement of the new paradigm, of an alternative that is more adapted to the current demands of mankind. Without speaking of an *ideological void* or of a *thinking blockage*, the concerns for recycling ill-fated, simplistic or simplifying ideas are increasingly manifested. In the same time, the analyses are noticed made in order to asses the current stage and the future of the capitalism.

Most researches are grounded on the width of the changes that have occurred during the past decays, the depth of which exceed the mainly technological mutations, invoked by the theoreticians of the *new economy*. The beginning of this millennium is characterized by the progressive occurrence of a new form of capitalism, marked by the domination of finances and knowledge.

The new phase, financial capitalism, provides priority to the global market and the financial profitability logic (Batsch, 2002, p. 5). This new regime is marked by economic and financial turbulences, which are the consequence of internal contradictions, mainly the capitalism's inability of self-regulation. Significantly different from the capitalism of the *30 years of glory*, the new phase troubles the social relations and introduces new forms of inequality.

Other debates refer to the legitimacy of dividing the wealth created by the capitalist societies, whereas the world economy faces a genuine deadlock. The conclusion of such analyses is that in the current phase in creating welfare the short-term and financial vision are dominating (Artus, Virard, 2007, p. 6).

Under such circumstances, the obsession for short-term profitability has ill-fated consequences over the economic and social system. The short-term logic of high profitability implies the scarification of the future. In such an interpretation, the existence of capitalism without a project creates the risk of self-destruction. The fact that the current system is in danger is mainly a matter of its own excesses.

The current debates introduce some theses and ideas of questionable scientific nature. Thus, by invoking the tendency of the public power of withdrawing from the multi-polar society, in which the increasing role of the non-ethatic players is asserted, the politics lack of power is claimed and its tendency of disappearing from the Western democracies. Under such vision, the ideologies have become superannuated, leaving room for pragmatism. Re-discussing the role of public power in the Western world is supported by the width and deepness of the mutations that are specific to the global society. To declare the post-political nature of the 21st century is not equal to the disappearance of the politics. In this new framework, where the power positions have dissipated, the politics has lost significant portions of its prestige and influence, following the boost of globalization and disintegration of budgetary movement margins.

More than ever, the size of the effects of the economic and financial crises and the creation of the conditions for economic re-launch call for the identification of new regulation forms, founded on freedom and responsibility, and not for the failures of the market economy to be exacerbated or for the *state bankruptcy* to be proclaimed (Laine, 2009, p. 19).

The understanding the post-politics as an essential mutation should be grounded on ascertaining obvious realities. On one hand, the model of market economy, grounded on exchange, freedom and responsibility, generates many positive externalities, which justify its being contested. On the other hand, the crisis of the welfare state, to which the transfer of a part of national suzerainty towards supra-state institutions enhances the weakness and relative recoil of the politics compared to other powers.

The predictions regarding the future of capitalism are various. A trenchant opinion is that of those claiming that we will not face the end of history, but the dawns of a new history. Although it has succeeded in providing a tremendous progress and to impose its individualist representation and behavior model, capitalism has also become inefficient in allocating resources, and has been eroded by its own contradictions. It faces a long-lasting planetary environmental crisis, as well as a profound economic and financial crisis. Throughout the past decays, the inequalities have amplified, the economy has become highly criminalized, the finances have become increasingly independent from material production and so on, imposing the need for giving up to capitalism, however not to market economy, with the environmental emergency and social justice placed at the very core of the political project. In the opinion of some, capitalism reached its peak and is about to end (Kempf, 2009, p.12).

The causes and implications of financial globalization

The new global capitalism is the result of two major forces: the new technologies and financial globalization. The shift to non-assets based capitalism is viewed as one of the significant features of the world capitalist system, the essence of which is the trans-bordering of technologies and communications. Technological innovations have significantly contributed to the transformation of the general conditions of economic activity, they have dazzled the financial markets and have initiated the processes favoring the initiation of turbulences in the economic and financial field.

The globalization process, which contributed to the creation of a planetary wide economic area, is generally associated to the mechanisms for economy integration upon various levels: commercial integration, with the goods and services market opening, financial integration, characterized by the 3D (de-regulation, de-regularization, des-intermediation), and productive integration with companies becoming multinational.

The political and economic context at the end of the 20th century highly contributed to the boosting expansion of international finances. Thus, the conservative economy influenced the dominating financial doctrine and contributed to the export of Anglo-Saxon financial culture. As a political project, financial globalization served the interests of the market fundamentalism adepts and was supported by political decisions and state involvement for de-regulation and elimination of the obstacles impeding the international circulation of the capital. Whereas in the age of Ford capitalism the economy and finances were organized on national bases, starting with the 70s, as a reaction to the crisis of the Ford regime, most industrialized countries introduced significant reforms destined to liberalize and modernize their financial systems, for the purpose of inserting such in the global finances. Therefore, a new financial system started to function, in which capital markets gained priority compared to the banking financing. As a general rule, reform policies referred to two sets of measures: radical financial liberalization, together with banks privatization and creation of a wide capital market, which in the EU took the form of unique capital market founded by defining common rules and creating the unique currency.

The financial modernization process initiated by the public powers also referred to the need of financing the public debt. While the value of such increased considerably, national public treasuries had to call for international investors in order to purchase national public titles. Thus, in the 80s the states became one of the main players on the international financial markets. In order to meet the financing imperatives, industrialized countries introduced financial modernization and liberalization policies. Such concern had already begun in the 70s and represented a decisive factor of financial globalization. The liberalization of the international finances was made in a specific context. On one hand, the competition between financial markets represented a significant pressure factor in favor of liberalizing the international capital movement. The states were the main players of such liberalization, as they eliminated the restrictions over capital movements, thus contributing to an increased level of financial opening.

Financial liberalization is based on one hand on the critical analysis of the ill-fated effects determined by the regulation and ethatic control over the financial systems. In the same time, aspects were also considered regarding the economic efficiency. In other words, favorable effects were predicted regarding the growth rhythm in the countries adopting measures that were favorable to liberalization.

By removing national borders, finances liberalization created the conditions for unlimited capital movement on an international level. The new technologies amplified such evolution, allowing for capitals to move rapidly along the planet. As a particular aspect, financial and technologic innovations supported each other. Financial liberalization and the new technologies eliminated the space-time sides, which represented the triumph of virtual economy. The new policies, applied by the governments of the main developed countries, lead to the creation of a unique money market on a planetary level. By such, the international financial system became a unified mega-market, characterized by time unity (continuous functioning) and space unity, as national financial markets became inter-connected by modern communication networks (Plihon, 2003, p. 26).

Financial globalization represented a complex, multi-faceted process, generated by the joint action of multiple factors, with obvious features and generating profound consequences over the evolution and stability of the economic and financial environment. Such phenomenon accompanied and even manifested the tendency for overcoming the other components of the world economy globalization. Therefore, the inter-connection between countries obtained by means of the world finances reached a higher level than the integration by goods and services markets. Financial globalization can be defined as the inter-connection process of the capital markets, on a national and international level, leading to the occurrence of a unified planet wide market. Such is manifested as one of the main sides of the globalization process and of the increased inter-penetration of national economies.

Starting with the 80s, the development of international financial activity has been marked by progressive de-localization of the financial markets in the developed countries. The evolution to globalization has been facilitated and amplified by a series of factors: capitals movements arising from the need of covering the external balance deficit, speculative capitals movements in search of remunerating placements, the de-regulation of national markets, favoring the international capital circulation, the development of financial innovations, which will lead to the occurrence of new financial tools, the progress of telecommunications and informatics, generating more rapid transactions and so on (Dumas, 2003, p. 114).

The joint action of such factors has concretized in the form of opening the national markets, which in their turn became part of a global financial market.

The role of finances in the world economy changed significantly. In the past, the function of the financial system consisted in ensuring the financing of the world trade and the payment balances deficit. Under the new circumstances, international financial flows have registered a progressive explosion, with no direct connection to the world economy needs. Amounts similar to the GDP of France are transferred daily on the world stock exchange. On the other hand, on such markets the transactions induced by financial operations exceed 50 times those regarding the international goods and services trade. Such evolutions emphasize the fact that under the new conditions international finances follow their own logic and are indirectly connected to the financing needs of the exchange operations and investments in the world economy. The main purpose of the financial operations is a speculative one.

The multi-form nature of financial globalization calls for a complex analysis in order to allow for its main features to be identified. Initially, the financial integration movement was made in an indirect manner, due to the development of a "supra-state" financial market, which was independent from the national financial markets. Since the 80s, financial integration has progressed based on a different logic, in close connection to the national financial markets, which has lead to the creation of the world financial market. From this standpoint, financial globalization is viewed as a final stage in the process for integrating the national financial markets (Lemoine et al., 2007, p. 393). Under such circumstances, the financial globalization phenomenon calls for multiple sided approaches. One of them refers to the very reality of such phenomenon. It is undeniable that the financial integration level has increased during the past decades. In order to emphasize its multiple valences, it is necessary for various sides to be approached, each regarding a privileged specific measure, and also the need for overcoming a simply quantitative analysis of the constitutive aspects of financial globalization.

Also, the distortions and inequalities specific to the current world economy are emphasizing an asymmetrical financial globalization. Whereas international transfers of savings are registered from the wealthy countries to the poor ones, a significant part of the planet is excluded from the area of defining processes regarding the international finances.

The capital inflows in the emerging countries have intensified. The structure of those countries' external financing has changed significantly. While the public funds represented two thirds of the long-term capitals received by such countries in mid 80s, nowadays such represent only a quarter. The major growth of financial operations represents a proof of international financial integration. Its width can be also evaluated in view of the ascension of capital movements and financial assets stocks in the developed countries, of the operations registered on the international capital market, as well as in the transactions registered on the stock exchange and on the derivative markets.

On a general level, the trans-border capital flows (portfolio investments – shares, bonds –, foreign direct investments and banking loans) have tripled since 1995, and exceeded 4,000 billion US dollars in 2004. In the same time, it is interesting to notice that such financial assets are owned to an increasing percent by non-residents. At the present moment, foreign investors own 12% of the American shares, 25% of the private bonds and 44% of the titles issued by the American Treasury.

Globalization has generated cross-border opening of the national markets, along with the internal markets facing an augmenting of the existing areas: the monetary market (short term monetary operations), stock exchange, depository markets etc. Under such circumstances, the investors aim at obtaining the best profitability levels by shifting from one title to another or from one currency to another: from EUR bonds to US Dollars bonds, from private bonds to Treasury notes and so one. As a whole the specialized markets (the financial, currency or depository ones, etc.) are becoming the components of a global financial market.

Financial globalization implies the call for financial markets for the purpose of financing economies, increased competition between market players and the possibility of covering all of their sectors. Such situations become possible due to the congruence of a number of phenomena: de-localization of the financial markets and banking sector, de-regulation, marketing and mobilization of financial intermediaries balances (Lemoine et al., 2007, pp. 424-425).

Delocalization has contributed to the opening of the national financial markets. To such end, an important role has been played by the European directives for financial liberalization, which have led to the elimination of the effective exchange control (in 1989 in France and in 1987 in England). On an internal market, de-localization has contributed to the suppression of previously existent obstacles between the areas of the financial markets. Along with the monetary, strictly inter-banking market, a short-term and medium-term negotiable debt titles has been created, which can be accessed by all business units. Thus, any investor can benefit of the opportunity of deciding upon the duration of his placement in negotiable titles. In parallel, this market has been stimulated by a diversified offer of short- and medium-term titles: deposit certificates, treasury notes issued by non-financial institutions, negotiable treasury bills, or negotiable medium-term bills issued by companies and banks. In mid 80s, some American states authorized the diversification of the banking activity so that to expand placement operations into securities, insurances and even movables. After the abolishment in 1999 of the Glass Stegall Act, commercial banks can now establish financial holdings, a statute which will allow them to reach all financial and insurance areas. Under such circumstances, de-localization caused the bank's activities to become less specialized and the competition pressure to increase, whereas such became competitors in this field. In the same time, de-localization called for a de-regulation of the banking activity.

Marketization refers to the increases sensitivity of financial intermediaries as regards the price established on the financial markets. The basic banking interest becomes increasingly dependant on the interest rate, which in its turn becomes market price.

The increased complexity of the banking activities has also generated the *movementization* of accountancy records. In fact, such a tendency refers to the regain of an ever increasing reflection of negotiable titles in the banking balance sheets (mainly securities), hence the occurrence of the term.

The current stage and perspectives of capitalism can also be assessed in view of financial globalization. There is no doubt about the important role of internationalization and globalization of the financial activities in the development of the world economy, as such have generated increased financial availabilities allocation. Markets de-localization, increased competition between financial intermediaries and the development of more flexible, less expensive and risking financial tools have lead to the improvement of the financial markets' efficacy and to the adjustment of the availabilities to the financing needs.

The amplified role of the financial markets in the economies' financing refers to the tendency towards des-intermediation and emphasizes the diminishment of the traditional banking activity. In some countries (Germany, France) banks hold the dominant position in the intermediary financing circuit. Financial systems also exist (as those in the Anglo-Saxon countries) marked by the central role played by the financial markets in the economy financing. The des-intermediation process stands for the recoil of the banks (indirect financing) in connection with the market (direct financing). In reality, the border between banking financing and market financing is becoming more and more fluid. In other words, banks are financing companies more and more, by buying the titles issued by such (shares or bonds). In the same time, banks collect an important portion of their resources by issuing titles by themselves. Thus, banks are adapting to a new form of intermediation: *market intermediation* (Plihon, 2003, pp. 59-60).

In conclusion, financial markets compete around a financial market model that privileges the stock exchange intermediation, to the disadvantage of banks. A financial *industry* is growing, characterized by complex financings and financial engineering over the titles.

The existence of different growth financing models explains why some countries are more exposed to the financial risk than others. Thus, the rankings of developed countries as regards economic efficacy and financial soundness are different, as their respective objectives are antagonist. The Anglo-Saxon models, with their particular features, are deemed as risk models (Chabot, Chabot, 2007, pp. 243-244).

Despite the particularities regarding the national financing systems, yet another feature of the financial globalization refers to the increased tendency for the world economy to become more financial. The expansion of the financial economy was stimulated by the oil shocks in 1973 and 1979. The sensitive rise in the oil price transferred an important mass of capital towards the producing countries. Most of these petrodollars were reinvested on the Western financial markets. In the same time, the countries which do not produce oil have started to become massively indebted, which has lead to a significant increase in their external debt. Under such circumstances, in order to attract oil incomes the obstacles have been eliminated that limited capital movement, also in order to ease the management of states' debts. The said objectives were achieved by placing the Treasury bills on the financial markets in the form of bonds, which allowed governments to finance themselves without creating any inflation at all. In the same time, the obstacles were eliminated that separated the different financial functions (banking deposits and speculative investments), so that to attract capitals on the stock exchange. The increased de-connection between the evolutions of the financial activity accentuated the instability of the international financial system.

On a micro-economical level, the transformations of the companies' financial structures are becoming more and more obvious. Due to abundant savings following the improvement of their results, companies have gathered important available funds, which were used in order to reimburse debts, make financial placements and buy their own stocks. The increased share of financial activities compared to investments emphasizes the companies' management becoming more financial, which was one of the main features of the shareholding capitalism. In general, the occurrence of a new financial behavior of companies has had important consequences over the activity of financial intermediaries, banks in particular.

Financial innovations and the occurrence of new financial tools and actors have also influenced the national and world financial context.

The use of complex financial tools is destined to allow investors to obtain high profitability levels, higher than those from so-called traditional assets. During the last decades, the number of financial tools and sophisticated investments structures has faced unprecedented development. The option for such tools or for financial operations of high leverage effect is mainly due to the low level of the interest rates, far from meeting the needs of investors aiming for high profitability levels. The investors obsessed with the pursuit of profitability levels, imposing excessive profitability to companies, significantly contribute to the capitals' becoming more and more fragile at the beginning of the 21st century (Artus, Virard, 2007, p.70). The myth of 15% profitability rates under the dictatorship of return on equity represents the emblematic slogan of that period. Another phenomenon that has influenced the recent period was the double movement for centralization and globalization in the savings' management. Financial assets owned by individuals are more often managed by investments funds, called institutional investors or zinzins, which represent a heterogeneous category of investors. According to a classification by OECD, institutional investors include pension funds, mutual funds (OPCVM in France, Mutual Funds in USA), insurance companies, hedge funds. To such a number of other types of financial investors are added (credit institutions, investments companies etc.). Along with banks, institutional investors have become major investors, with the financial investors managing over 50,000 billion dollars in 2003 (160% of the GDP of the countries in OECD).

Conclusions

The often controversial debates over the assessment of the nature and implications of the financial globalization are particularly covered by the media. They equally refer to the relationship between the finances and the economy and to identifying the features of the current stage of the capitalism.

The decisive role of financial factors and the expansion of the financial markets' influence over the economy have influenced the economic growth conditions. This mainly refers to a growth regime the cyclical fluctuations of which are highly influenced by the prices of financial assets. Sometimes, voices from anti or alter-globalization movements accuse financial globalization of diminishing the states' suzerainty over the financial environment and of their limiting the use of the *budgetary weapon* on increasing the economies' dynamic nature. Also, the priority of the financial area is contested. National macro-economic policies have been subordinated to the imperatives of international finances. States are thus subordinated to the *tyranny of the markets*. Central banks, which have become independent from the political power, are de facto entering under the dependence of financial markets. In reality, the main issue faced by monetary authorities in the context of financial globalization is not prices stability, mostly solved by now, but financial instability. In fact, from the analysis of the relationship between financial globalization and financial instability, as well as from emphasizing the limits and speculative nature, numerous questions have occurred, the answers of which are yet to come. Among others, the destabilizing nature of the speculations on the financial markets is referred to, the identification of solutions for protecting the economies, mainly in emergent countries, the way how financial globalization favors the occurrence of financial crises, as well as mitigation modalities etc.

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

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

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

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