

# FINANCIALIZATION AS INTER- ORGANIZATIONAL COUPLING AND GRAVITATIONAL SHIFT

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# MOTIVATION AND RESEARCH QUESTION

- Three different perspectives on financialization
  - as accumulation regime
  - shareholder value
  - everyday life
- Each perspective has distinct strengths
- What are the relationships between these facets of financialization?
- How do they reinforce each other?

# EMPIRICAL PATTERNS

- growing share of finance and insurance sector in GDP
- profits generated through financial activities
- credit boom
- institutional transformation of credit intermediation
- increasing role of capital markets
- financial literacy
- valuation tools and financial techniques

# THEORETICAL FRAMEWORK (I)

- Two inter-organizational transformations to characterize financialization:
  - inter-organizational coupling
    - history of the concept
  - centralization of finance

# THEORETICAL FRAMEWORK (2): MECHANISMS

- Increasing connectivity between capital markets and other domains of economic activity
- Structural dependence & feedback loops
- Transformation in collective rationality
- Capital markets playing a more central role in flows of information & resources

# TRANSFORMATION OF FINANCIAL INTERMEDIATION

- Use of financial derivatives & financial engineering
- Credit intermediation through capital markets, diminishing role of deposit-taking institutions
- New circuits of capital

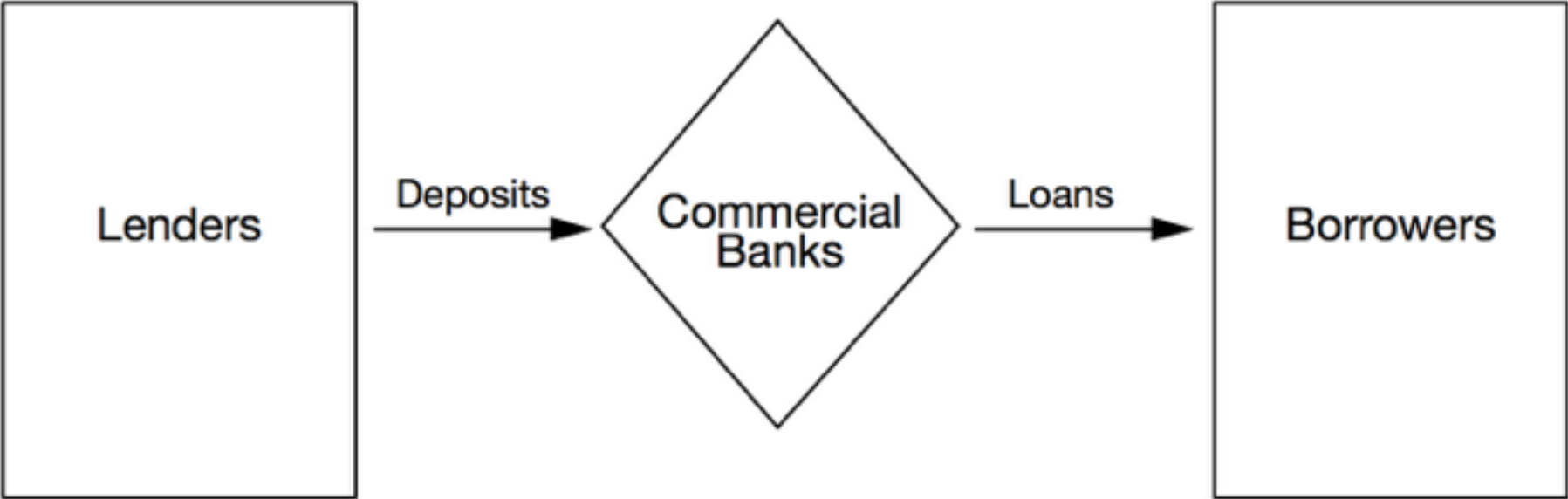
# CASE STUDY: HOUSING FINANCE

- Comparison & contrast between housing finance after the Great Depression and since the late 1970s
- Crucial case to understand transformations in finance and consumer credit boom
- Can be extended to all consumer loans as well as seemingly unrelated corners of the financial system such as private equity

# HOUSING FINANCE IN THE POST-GREAT DEPRESSION ERA

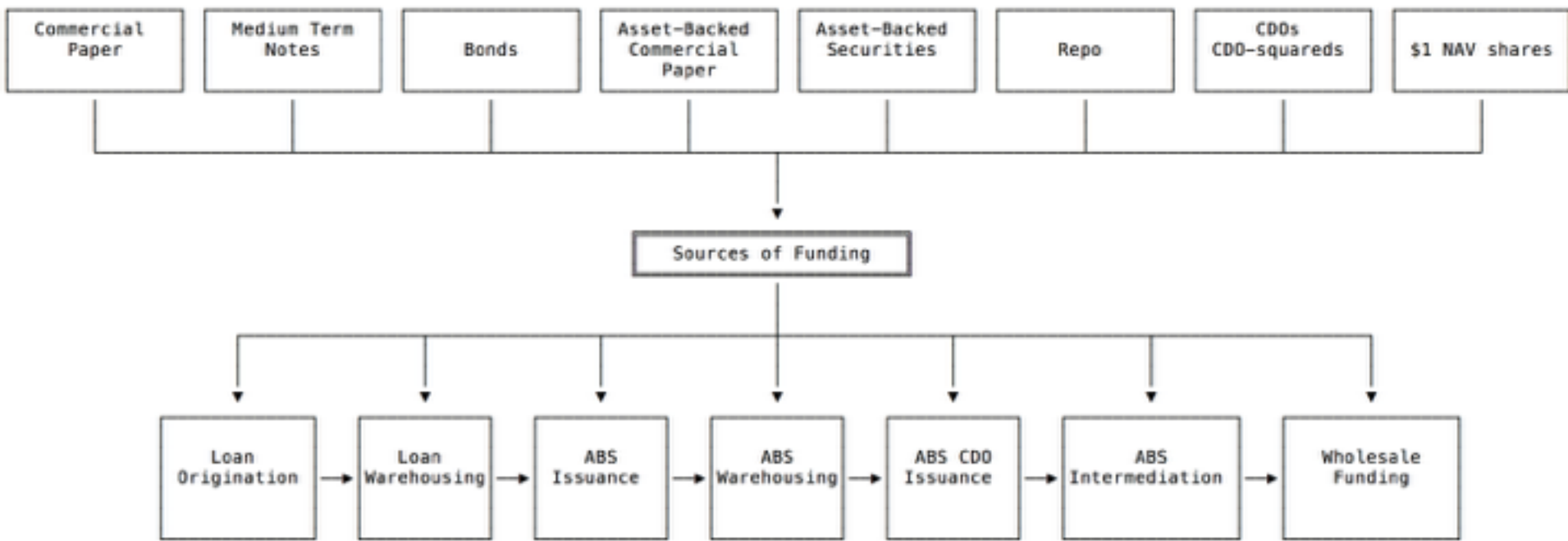
- Two circuits of capital:
  - savings & loans, commercial banks, and mortgage banks
  - insurance companies
- Housing finance largely isolated from capital markets





# HOUSING FINANCE SINCE THE 1970S

- The rise of securitization
- Greater connectivity to capital markets
- Housing finance dependent on capital markets
- Strong feedback loops between capital markets and the housing system, as mortgage loans are converted into debt securities with high liquidity
- Increasing salience of homes as financial assets



# CONCLUSION

- Financial crisis is long over, but shadow banking is not shrinking
- New ecology of credit intermediation translates into financialization of auto loans, student loans, commercial property, even ownership of small and medium-scale enterprises