

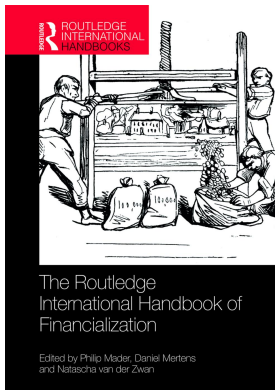
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3

ENTREPRENEURSHIP, FINANCE AND SOCIAL STRATIFICATION

The Socio-Economic Background of Financialization¹

Christoph Deutschmann

Introduction

Since the last decades of the 20th century, the development of advanced capitalist economies was characterized by two major trends: first, a continuous and extraordinary growth of financial wealth, surpassing by far the growth of nominal GDP. In connection with this, the so-called FIRE-sector (financial services, insurance and real estate) has steadily increased its relative contribution to total economic value creation and employment, and became a dominant source of profit generation; these developments were to be observed in the US as well as in other OECD countries (Krippner 2005; Piketty 2014; Guttmann 2016). Political economists and economic sociologists have coined the term “financialization” to circumscribe these changes. Second, a long lasting decline of real economic growth rates, which was combined with rising unemployment, and stagnating or shrinking real mass incomes (Brenner 2006; Streeck 2017). As we know today, the global financial crisis of 2007/2008 did not result in a marked change of these trends. Even after 2007, no lasting contraction of the overall value of global financial assets could be observed. After a short recession, the volume of financial wealth and bank balances continued to rise, though at a much slower pace. At the same time, the recovery of the real economy in the US as well as in Japan and Europe was more sluggish than it used to be in earlier business cycles.

Is there a relationship between the two trends, and – if yes – how are they related to each other? Since the financial crisis of 2007/2008 the phenomenon of financialization is receiving broad scientific and public attention. It should be recalled, however, that the scientific literature on financialization is not that new at all, and can look back on a tradition of at least 20 years before the big crisis. As early as in the mid-1980s, Susan Strange warned of the dangerous consequences of the deregulation of global financial markets in the aftermath of the breakdown of the Bretton Woods system in 1973. Still, what she focused on was less the spectacular expansion of the financial sector itself, but rather the heightened volatility of global capital markets, and the resulting general uncertainty in commodity and labor markets. As Strange viewed it, the global economy became more and more similar to a “casino” – a casino, however, not built for entertainment, and one that allowed no one to escape (Strange 1986).

Most later analyses of financialization agree with Strange that the suspension of the gold-convertibility of the Dollar by the Nixon Government in 1971, the subsequent transition to floating foreign exchange rates, and the gradual abolition of national capital controls were key events initiating the process of financialization. The new volatility of foreign exchange rates gave rise to the spread of new financial instruments, such as derivatives, options, futures, and credit default swaps, originally designed to hedge traders and investors against unforeseeable market turbulences, but afterwards developing a life of their own as vehicles of speculation. The opening of global capital markets, which was continued by Margaret Thatcher's "big bang" in 1986, and the subsequent European deregulation of capital markets (for an overview Helleiner 1995; Bieling 2013), enabled capital now to move freely across borders. Banks saw themselves faced with an *El Dorado* of global investment opportunities, offering much more promising prospects than the conventional, nationally based savings and credit business. Viewed from this angle, financialization appeared as a process that had been initiated largely by regulatory changes regarding financial markets. Following this line of analysis, several researchers have highlighted the role of political decisions, and their intended and unintended consequences in promoting the financialization process. For instance, Greta Krippner showed how the financialization of the US economy unfolded as an unintended consequence of a number of discrete policy decisions, aiming to settle unresolved distributional conflicts under conditions of fading economic growth (Krippner 2011; see Pagliari and Young, this volume).

However, as it turned out soon, the focus on macro-level political decisions alone was not sufficient to understand the full complexity of the financialization phenomenon. The bird's eye view of political economy had to be supplemented by analyses of changes on lower system levels, to grasp the full societal impact of the phenomenon. Researchers developed different perspectives and approaches, focusing on at least three levels: macro-conditions of capital accumulation, the corporate level and the "shareholder revolution" evolving here, and the changed role of finance in private life (Van der Zwan 2014). Moreover, the influence of neoliberal ideologies in promoting financialization, and the structural changes of the political system due to the rising power of financial interests and investment banks, became key issues of research (Fox 2009; Mizruchi 2010). The "increasing role of financial motives, financial markets, financial actors and financial institutions," which Gerald Epstein put into the center of his widely cited definition of financialization (Epstein 2005: 3), indeed was something that seemed to permeate most spheres of society after the late 1980s. Not only the US and the UK, but most other advanced capitalist societies were implicated into these developments too. To gain a deeper sociological understanding of them, multilevel analyses appear most promising. It is this approach that I am going to follow here, aiming to open the view on the structural socio-economic conditions of the financialization phenomenon, which apparently have been neglected in the literature so far. It is the interaction between micro conditions of economic action and the changes of social stratification that appears vital to understand financialization (cf. also Deutschmann 2011a, 2019).

My focus will be on the factors contributing to the spectacular increase of financial wealth and financial assets over the last 30 years, in which the trend towards financialization is becoming most visible. According to figures from the McKinsey Global Institute, total global financial assets (including equity, government bonds, financial bonds, corporate bonds, securitized loans, non-securitized loans) grew from US \$12 trillion in 1980, to \$56 trillion in 1990, \$119 trillion in 2000, and \$206 trillion in 2007. This meant a rise of "financial depth" (the ratio of debt and equity outstanding to GDP) from 1.2 in 1980 to 2.6 in 1990, 3.1 in 2000, and 3.5 in 2007. After a short decline due to the financial crisis, the aggregate value of assets continued to grow to \$ 225 trillion in 2012, which, however, meant a decline in financial depth to 3.1 due to the higher increase of GDP (McKinsey Global Institute 2013: 2). The overall rise in the

value of assets as well as of “financial depth”, nevertheless, remains remarkable. How could this happen? Basically, there are two types of explanations offered in the literature. The first one interprets financialization as a process of upward income redistribution, pushing up the share of capital incomes at cost of wages, public revenues and transfer incomes. The second explanation emphasizes the self-referential elements of financialization, due to speculative inflation of assets and spectacularly growing leverage of the financial sector. As a result, the financial sector decoupled itself from the development of the real economy. I will discuss the two approaches in turn, then – in the next chapter – turning to the relationship of both developments to the decline of real growth and its socio-structural conditions.

Upward Redistribution and Speculative Inflation of Assets as Key Elements of Financialization

To analyze the redistributive effects of financialization, the distinction between effects arising at the macro-, meso- and micro-levels is helpful. Considering the macro-level, it often has been shown that the deregulation of financial markets after the end of the Bretton Woods system in 1973 prepared the ground for the spread of a new type of global market actors: investment banks, mutual funds, hedge funds, rating agencies. Due to their growing transnational mobility and their tremendous capital resources, and backed by the influence of an ascendant ever-present neo-liberal ideology, these actors were able to exert massive pressures on the national states. National states increasingly found themselves in a position of having to compete for the favor of financial investors, thereby more and more copying the competitive behavior of private corporations (e.g. Davis 2010). To attract investors, many governments cut corporate taxes and tax rates on high incomes. In the 20 key OECD countries, the average corporate tax rate fell from 44% in 1985 to 29% in 2009; in the East European transformation economies, the tax reductions after 1990 were even more marked (Genschel and Schwarz 2011: 356). Moreover, the deliberate institution of tax havens by the UK, US and many other governments opened vast opportunities to evade taxation altogether. To discover and exploit these opportunities, an entire industry of accounting firms and consultancies developed, offering their services to corporations and wealthy individuals (Harrington 2016).

The redistributive effects of these developments were considerable. The erosion of tax revenues forced governments to cut social expenditures, public investments and to downsize public sector personnel; as a consequence, large parts of the population had to accept lower transfer payments, and a deterioration of the quality and quantity of public services. Moreover, governments decided to privatize public property and public corporations in sectors such as energy, transport, health, education on a large scale, thus obeying the pressure of investors to open new outlets for their idle capital. The consequences for employees and clients often were negative too. Despite privatizations, the trend towards rising sovereign debts could not be stopped and was even reinforced by the restrictive monetary policies of central banks in the G7-countries, which kept real interest rates above growth rates from the 1980s to the early 2000s. Again, investors profited from this in the form of rising interest revenues from state bonds. Due to the depressing impact of public austerity policies and high interest rates, unemployment rose in many countries, and the market position of labor and unions deteriorated. The redistributive consequences were spectacular, as a declining trend of wage to national income ratios in all G7-countries since the 1980s showed (SVR 2012: 322; see Adkins, this volume).

A key development on the meso-level was the so-called “shareholder revolution”, starting in the US and then gradually spreading to the UK and the European continent (Fligstein 1990; Useem 1993). Since the 1970s, investment funds and institutional investors became the

dominant party on the owner's side in many public companies; moreover, with the spread of "private equity," the grip of investors even extended to mid-sized and small family firms. This led to marked changes in the structure of corporate governance (Erturk, in this volume). The ideology of "shareholder value" and the portfolio theory of the firm gained influence on managerial theory and practice. Increasingly, managers were considered less to be skilled professionals, and more agents of shareholder value maximization. Increasing the value of the owner's portfolio by leveraged buyouts, stock repurchases, mergers and acquisitions became a top priority of business strategy (Fligstein 2008; Dobbin and Jung 2010). These changes occurred not only in the US and the UK, but also in the once firmly integrated business systems such as the German one, where the financialization of corporate governance – nevertheless – remained less pronounced (Deeg 2012; Faust 2012).

In practice, the impact of the influence of investment funds and institutional investors on corporate governance varied, depending on strategies and time horizons of investors, and the degree of their involvement in concrete management decisions (Fichtner, in this volume). However, to comply with the expectations of their clientele, and to perform well in a strongly competitive environment, fund managers often pressed corporate managers to pay out higher dividends, or, alternatively, to buy back shares of their own company in order to boost share prices (Lazonick 2010). Moreover, for corporate managers it became vital to meet the profit targets agreed upon with the owners, because the market value of the firm would decline if profits came under the projected rate. The overall result of these imperatives was a decline in the internal funds disposable for corporate management, which were curtailed further by soaring bonuses and salaries for managers themselves. Often, this had negative consequences not only for process and product innovation, but for many employees too, who were faced with personnel downsizing, wage and benefit cuts, and longer working hours (Epstein 2005; Mizruchi 2010; Van der Zwan 2014). Under financialization, capital largely drew back from its former functions of promoting innovations and industrial efficiency, focusing instead on the aim of maximizing personal wealth of capital owners and managers, in this sense developing "parasitic" (Sayer 2016) traits. Thus, the bottom-up redistribution processes to be observed at the macro-level were reinforced by parallel mechanisms on company level.

The financialization of everyday life revealed itself in a marked rise of private household debt to be observed in particular in the US (Phillips 2006; Montgomerie 2013) and in the UK, though not likewise in continental European countries such as France, Germany or Austria. The growth of household debt developed in connection with the institutional and organizational changes on company and macro-levels. Given the cuts to public welfare programs and transfer payments, the worsening employment situation and declining real wages, it is no surprise that many consumers took recourse to additional credit to maintain their standards of living, and were supported in this by the "democratization" of finance in parallel with the deregulation of the banking sector. With Colin Crouch (2009), one could speak of a regime of "privatized Keynesianism", with private credit cards, mortgage and pension schemes now taking over the former functions of the Keynesian welfare state to stabilize effective demand, though not in a sustainable way. Again, the redistributive implications of this shift from public to private Keynesianism are evident, as the rise of household debts – of course – went in parallel with a rise of interest obligations for large parts of the population. However, the changes in the structure of private finances cannot be interpreted solely as an aftereffect of the retreat of the welfare state and of declining real wages. They were also the result of autonomous changes of popular consumer and investor cultures. Not only consumer credit and mortgage debts mushroomed, but so did stock and mutual fund ownership. A "mass investment culture" (Harmes 2001; Fligstein and Goldstein 2015) emerged and gained ground even in the lower middle classes. Investment and consumption no longer seemed to be

alternatives for many families, but occurred at the same time. Neoliberal politics did its part to promote the dream of ever-increasing wealth thorough promoting “financial literacy” and self-discipline as the keys to self-advancement (Lazarus, this volume). Since the Reagan era, stock ownership was propagated as a panacea for the solution of social problems; later, G.W. Bush would come up with his ideology of “ownership” society (Davis 2010). Though the dubious character of such enactments came to the fore in the financial crisis, there can be no doubt that the financialization of everyday life had a pervasive impact on individual value orientations and lifestyles even before (see Aitken, this volume).

Summing up, there is considerable evidence that the financialization of the advanced capitalist economies went in parallel with strong bottom-up redistribution effects (see also Roberts and Kwon 2017). A major factor contributing to higher income inequality and greater wage disparities was the size of the financial sector itself, due to the privileged pay conditions of its employees (see Godechot, this volume).

However, a growth of financial assets as spectacular as shown by the above-cited McKinsey figures certainly cannot be explained by bottom-up redistribution *alone*. Here, the second element mentioned above comes into play, which explains the increase in financial depth from a speculative inflation of assets, and a tremendous increase of financial leverage mediated by the circulation of a large variety of new financial “products.” As pointed out above, national governments, with the US and the UK taking a leading role and many EU governments joining, actively dismantled the regulatory framework of financial markets. Bank laws were liberalized, shadow banking tolerated, capital resource requirements relaxed, firewalls between credit and investment banking demolished, transparency prescriptions watered down, offshore centers created, hedge funds allowed to develop, and so on. For the financial industry, this opened a chance to overcome the constraints of its traditional credit and saving business, and to engage in new and promising fields, such as global investment banking and the marketing of financial innovations. New vehicles of financial speculation such as derivatives, options, futures, credit default swaps, collateralized debt obligations (CDOs), asset backed securities (ABS) pushed financial leverage up to unprecedented dimensions. Dubious credits and bonds of all kinds were securitized and sold, following the logic of the “greater fool theory.”² Ratings, securities and balances no longer were simply indicators of creditworthiness; rather, in the context of the speculative mania developing they became signals to justify ever increasing financial leverage. As a result, the financial sector decoupled from the real economy and developed according to a self-referential logic (Guttman 2016). As the authors of the above cited McKinsey analysis found, only 28% of the rise in global financial depth between 1995 and 2007 came from credits for households and nonfinancial corporations, and 10% from the sovereign bond market. Some 62% of the increase of financial depth, on the other hand, was due to higher equity market valuations and financial system leverage (McKinsey Global Institute 2013: 17). As the authors emphasize, financial expansion was much more pronounced in the developed economies than in the emerging ones, as the level of financial depth in the former is roughly twice as high as in the latter, and substantially above the global average of 3.1 in 2012.³

With hindsight, it is evident that such an expansion could not sustain. However, when the bubble ultimately burst in 2007/2008, it turned out that it had become too big to let it collapse. Governments and central banks intervened with massive “rescue” programs to stabilize faltering banks. Interest rates were dropped down to zero or even negative levels; “Quantitative Easing” policies pumped additional liquidity into the financial sector, and continue to do so up to the present day. This helped to bring about an immediate stabilization, with the consequence, however, of making the dissociation of finance from the non-financial economy permanent. Viewed from this perspective, financialization is based not merely on redistribution, but has

taken the character of a lasting, politically guaranteed inflation of financial assets. Perhaps one could speak of a super-bubble; nevertheless it remains a bubble. Imagine that, by some accident, the entire superstructure of inflated assets and derivative financial products would wither away with one stroke, with the exception only of primary accounts of states, firms and households. Would that really do so much harm to the non-financial “rest” of society?

Growth, Entrepreneurship and the Collective Elevator Effect: Socio-economic Contradictions underlying Financialization

It appears strange that among the explanations offered for financialization just one is lacking, which orthodox economics textbook models treat as the “normal” one. According to such models, financial expansion should reflect a growing and flourishing real economy requiring additional capital to finance promising innovations and future projects, and, hence, increasing the demand for credit and capital. As stated above, the opposite is the case. Today, there is abundant evidence that the process of financialization of the advanced industrial economies went along with a long-term decline of real economic growth and investment, which developed after the erosion of the often cited “Fordist” model of capitalism in the 1970s.⁴ What is lacking up to the present, however, is a consistent theory about the slowdown of the real economy, and the interaction of the two developments. Did the slowdown of the real economy go back to a decline of productivity, or to a profit squeeze due to sticky wages and too strong unions, or to a combination of both factors – as some commentators have alleged? Is a somewhat modified version of the Marxian theory of the falling rate of profit required to explain the slowdown, as Robert Brenner (2006) suggested? Do we have to identify the causes of the crisis in the demise of the former “Fordist” regime of production, resulting in lasting mismatches between production and consumption, as the authors of the regulation school (for an overview see Boyer and Saillard 2002) are arguing? Or should we take recourse to some version of “long wave” theories, either of economic innovations, or of hegemonic political regimes (e.g. Arrighi and Silver 1999)? Certainly, most of these approaches have contributed valuable insights (Beck and Knafo, in this volume). However, a point that seems to be neglected in most of them (except the last-mentioned long wave theories) is the key role of economic innovation for profit and growth, and of the socio-economic conditions underlying the innovative process in capitalist economies. What I offer in this last section of my chapter is an outline of an alternative sociological approach, focusing on the socio-economic conditions of innovation and their internal contradictions, which could bring more light into the interaction between financial expansion and real economic slowdown (cf. also Deutschmann 2011a, b, 2019).

Some few preliminary remarks on the concept of economic growth are in order. Usually, growth is decomposed into absolute growth of real social product due to a rising population and workforce, and per capita growth due to higher productivity. Only per capita growth is “true” growth, as it implies a higher income per person. Per capita growth, however, should not be equalized with higher *physical* productivity; it does not simply mean “more of the same.” What is vital, rather, are *innovations* resulting in a higher *value* of output. Innovations can take many forms: new products, new technologies, new systems of organization or logistics, discovery of new markets; they involve applied as well as basic technologies or products. It is extremely difficult to measure the contribution of innovation to value creation; only money has the numinous capacity to commensurate private property rights over a totality of vastly heterogeneous, and ever changing, objects of value. Therefore, textbook quantitative economic models such as $y \text{ growth} = x \text{ capital} + u \text{ labor} + v \text{ knowledge}$ are not sufficient for understanding the micro-dimension of the innovation process. Of course, capital, labor and knowledge are

required to generate innovations, but the real question obviously is: *What kind* of capital, labor, knowledge precisely? As Schumpeter, Knight and Hayek have emphasized, such questions cannot be answered on the basis of abstract models, but only of the context-dependent expertise of the historical actors. A general theory of innovations would be a contradiction in terms, since product as well as process innovations are something that by definition cannot be predicted based on nomological knowledge.

What is possible, nevertheless, are sociological theories about entrepreneurs as a particular category of social actors and the typical social circumstances generating them. “Entrepreneurs” in the widest sense of actors promoting innovations include not only firm owners and self-employed persons but also all those taking entrepreneurial “functions” such as managers and qualified employees, if we follow Schumpeter further. Entrepreneurs, of course, need professional expertise and technical training. Nevertheless, what they are doing is not simply to “apply” given technical or academic knowledge. Higher education and scientific expertise will not necessarily produce entrepreneurship and, hence, also not growth.⁵ It is the mission of entrepreneurs to make use of given knowledge in a *new* way, and to transform inventions into marketable “innovations”. They strive to exploit the chances of a given market constellation, thereby employing not only scientific and academic knowledge, but also creativity and practical intuition. In the case of success, profit emerges as a premium on a temporary monopoly, which the successful entrepreneur enjoys.

To perform in the market, the entrepreneur – first of all – needs a strong personal motivation. What drives entrepreneurial action, if he/she is not simply a rational hedonist (as Schumpeter had emphasized)? To a large degree, it is the quest for social advance, mainly not through acquired formal qualifications, but through competitive performance on the market. The capitalist entrepreneur as a historically new type of actor, of course, does not fall from heaven. Entrepreneurship can arise only in the context of a particular class structure, which, in some sense, shows the characteristics of a “double-bind”: on the one hand, it is characterized by a marked inequality of wealth; on the other hand, it leaves at least some room for the underprivileged to advance across class lines individually thanks to extraordinary market performance. Indeed, in contrast to pre-modern class structures, which ascribed class membership to social origin, the capitalist class dichotomy leaves individual affiliation to both main classes (worker and capitalist) formally open and social mobility across classes possible. Although actual chances for social advance mostly are low, the formal openness can encourage individual ambitions to rise. The relative openness of the capitalist class structure without doubt is a key variable motivating entrepreneurial action, and – even more so – generating “entrepreneurs” as a social category itself. The polarization of classes opens up room for intense competition, with entrepreneurs competing to exploit the creative potentials of labor with the aim of profit, and workers competing for subsistence and social rise too.

A factor that heats up these competitive pressures is population growth, which is a typical phenomenon in periods of rapid capitalist expansion. A growing population is a further structural factor vital for entrepreneurship, as nascent entrepreneurs concentrate strongly on the younger and middle cohorts (GEM 2014). The ideal constellation for capitalist growth is a strongly uneven distribution of wealth, in combination with a large, poor and *juvenile* population striving for social advancement; conversely, an ageing population will have a negative impact on growth.

Not all unpropertied people are receptive to the quest for social advance to the same degree. The members of the “underclass” are generally not, as are people in the traditional working-class milieus, who tend to develop a defensive and collective stance about their interests. However, individuals in the lower middle classes, including not only the self-employed, but also the “new” middle classes of white collar and qualified blue-collar workers, tend to view their prospects for individual social rise in a more positive light. To bridge the gap between their ambitious personal objectives and their mostly limited resources, they often take recourse to “innovative” ways of

adaptation, sometimes on the boundaries of legality,⁶ as the American sociologist Robert K. Merton (1965) had observed already in his classic studies of social anomie. To put it briefly: The paradoxical, open-as-well-as-closed structure of capitalist classes generates structural tensions which, in turn, induce processes of striving for social upward mobility in the middle and lower middle layers of society. The extraordinary efforts of entrepreneurs and employees, driven by the stick of competition as well as by the carrot of social rise, in turn, secure the continued profitability of capital. The innovative dynamics of capitalism and, hence, growth, can be explained largely from this constellation.

It would be short-sighted to hypothesize a simple empirical correlation between total, structural as well as individual, mobility and growth. Mobility can have an upward as well as downward trajectory, thus the effect of total mobility on growth as a macro variable is largely indeterminate (Breen 2014: 465). What appears more relevant is *structural* mobility, implying a collective rise or descent of entire groups or layers within the social structure, either through individual careers or intergenerational succession. If a group advances collectively, this is a symptom of individual performance getting rewarded at a large scale, and experiences of market success outweighing those of failure. Structural upward mobility, therefore, can be interpreted as a factor indicating as well as promoting growth; conversely, the impact of structural downward mobility on growth will be negative. There is much evidence that historical periods of structural upward mobility are characterized by high growth rates. A spectacular example are the three decades after World War II, which were indeed “golden” ones for the advanced Western economies (Western Europe, North America, Japan), as the white collar middle and service classes expanded considerably at the cost of blue collar worker positions. Ulrich Beck (1992) coined the concept of a collective “elevator-effect” to describe these developments. At the same time, growth rates soared to historically unprecedented heights (Piketty 2014).

However, likewise, it is clear that structural upward mobility as a factor promoting growth cannot continue indefinitely. Not everybody can join the wealthy classes, since this would mean the end of the capitalist polarization of classes and hence of the capital market. Society needs Indians too, not only chiefs. Wealth is always contingent upon debt, the value of assets depending precisely upon the availability of solvent debtors who can service the claims of capital. With continuing structural upward mobility, therefore, an increasing mismatch in the capital markets tends to arise. On the one hand, the social structure becomes top-heavy, and the wealth even of the upper middle classes, all the more so of the elites, increases. The volume of rent-seeking financial assets soars accordingly, paving the ground for actors such as mutual funds and investment banks to develop and to serve the needs of a larger and larger clientele. On the other hand, the entrepreneurial potentials to redeem the assets decrease, as the social reservoir of those still eager to advance, and to incur debts and risks for advancing their career shrinks, due to the collective elevator effect. This applies even more in the case of a parallel decline in population. The successful and their descendants may still be career oriented, but they no longer have a stringent motive for taking the personal risks of an *entrepreneurial career*. The accumulation of wealth in the hands of the successful gives them an edge over subsequent social risers. The intergenerational transmission of fortunes and educational privileges (Piketty 2014) exacerbates this effect, as it tends to close the channels of upward mobility. For those not belonging to privileged networks, and lacking access to credit, resources and education, the chances are dwindling. Nascent real economy entrepreneurs, when asking banks for credit, often cannot compete with the apparently superior profitability of financial investments. At the same time, firm-internal entrepreneurs feel frustrated by the tough cost regime and the short-term profit targets that are characteristic in financialized firms. As a consequence, the gospel of social rise, and, with it, of growth, loses credibility even for many of the qualified in the younger generation (Blossfeld et al. 2005).

Thus, as financial assets grow, the entrepreneurial potential required to secure the profitability of capital tends to decline, with the result of declining real growth rates. Indeed this is exactly what seems to have happened after the 1980s in the advanced industrial economies, in the US as well as in Europe. While financial wealth grew up to unprecedented dimensions, social upward mobility went down (for the US see Noah 2012, for Europe Byrne 2005, Grabka and Frick 2008), and so did growth. On the one hand, financialization was a response to the erosion of real entrepreneurship. In some sense, it meant to substitute self-referential financial “innovation”, making use of the “performative” effects of financial models (McKenzie and Millo 2008), for innovation in the real economy. On the other hand, financialization contributed to the further erosion of real entrepreneurship due to its demotivating effects on social risers. With ever-increasing concentration of wealth in the top income groups, the negative impact on upward mobility and growth became even stronger, as internationally comparative studies have shown. In his study on 13 OECD countries, Corak found that “countries with higher inequality of incomes also tend to be countries in which a greater fraction of economic advantage and disadvantage is passed on between parents and children” (Corak 2013: 2). Lippman et al. (2005) reached similar conclusions in their study on entrepreneurship, based on data on 60 industrial, emerging and developing countries provided by the “Global Entrepreneurship Monitor” (GEM) research network. The data show that the relative frequency of nascent entrepreneurs is much lower in the industrially advanced countries, as compared to emerging and developing ones. Moreover, the authors analysed the correlation between wealth inequality and nascent entrepreneurship and distinguished between necessity- and opportunity-based entrepreneurship, the first one being driven by the sheer absence of alternative livelihood options, the other one by perceived economic chances. As it turns out, the frequency of necessity-based entrepreneurship tends to increase linearly with wealth inequality, while the correlation of wealth inequality with opportunity based entrepreneurship showed a curvilinear pattern, with nascent entrepreneurship declining again beyond a medium level of inequality. As the authors conclude, it appears that only “moderate levels of inequality do help opportunity based entrepreneurship to flourish. Countries with high levels of inequality do not experience as much opportunity entrepreneurship, because people lack the resources and information required to take advantage of opportunities essential for such activity” (Lippman et al. 2005: 15).

Conclusions

The above discussion pinpoints how the success of capitalism at promoting social advance on a large scale undermines the chances for subsequent entrepreneurs and social risers, with the consequence of an erosion of innovation and growth. The decay of entrepreneurial spirit often happening in the third or fourth generations of entrepreneurial dynasties, which Thomas Mann highlighted in his novel on “The Buddenbrooks”, is repeating itself at the collective level (cf. Deutschmann 2008). Financialization, be it in its redistributive or in its speculative forms, can be interpreted as an unintended response of the capitalist system to this dilemma. In some sense, it can be interpreted as an “innovative” reaction of the banking sector to declining profits in its traditional business; at the same time, it tends to exacerbate the problem due to its discouraging effects on real entrepreneurship.

Financialization, indeed, represents a “new mode of accumulation”, as capital is accumulated no longer via innovation and entrepreneurial “creative destruction” in the Schumpeterian sense. On the one hand, capital takes the character of a power-based, “parasitic” claim on the productive resources of the economy, restoring in some sense the “feudal” past of capitalism as it redistributes resources ruthlessly upward (Neckel 2010; Sayer 2016). On the other hand, because such a

redistribution will eventually encounter economic and political limits (and resistances); a way out lies in the politically safeguarded inflation of assets, which seems to work smoothly and to offer almost unlimited horizons, as the money-creating potential of central banks and the financial system is infinite. However, there is a price to be paid for this option too. First, reflating financial assets by central bank money means to push the rate of interest on loans to zero or negative values. With loans bearing negative real (or even nominal) interest rates, Keynes' "euthanasia of the rentier" looms large, as safe options for capital placement no longer deliver returns. Still, this mostly harms small middle-class savers, not big investors, and it does not signal the end of the capital market. However, the remaining markets – in particular stocks and real estate – are exposed even more to the risk of bubbles, and higher volatility. Second, and above all, capital departs from the real altogether, and takes refuge in a virtual and imaginary one. Similar to the pathology of "stinginess" described by Georg Simmel in his classic analyses (1989: 322f.), the rentier contents her-/himself with the obsession of what he *could do* with her/his money, while withdrawing from an innovative and transformative role in the real world. This may not yet come down to an "end" of capitalism, as Wolfgang Streeck (2016) has suggested, but financialized capitalism can no longer be legitimate as a social order promoting innovation and mass welfare.

Notes

- 1 I am greatly indebted to Phil Mader and Felipe Gonzalez for helpful comments to this article.
- 2 As John Lanchester explains, everybody who bought such titles knew it was crazy. However, he/she could count on meeting an even "greater fool" to whom the titles could be sold with a profit (Lanchester 2012: 129).
- 3 In 2012, the level of financial depth amounted to 4.6 in the US, 4.5 in Japan and 3.7 in Western Europe. By contrast, it amounted to 2.3 in China, 1.5 in the Middle East, 1.5 in other emerging Asia countries and India (McKinsey Global Institute 2013: 19).
- 4 Global per capita real output fell from an annual average growth rate of 2.5 percent between 1950 and 1980 to 1.7 percent between 1981 and 2012. In Europe it fell from 3.4 percent to 1.8 percent in the same periods, in America from 2.0 percent to 1.3 percent (Piketty 2014: 94).
- 5 Though nascent entrepreneurs show a comparatively high percentage of university graduates in Europe (ca. 5 percent), there are more than 3 percent nascent entrepreneurs among the low skilled too; in Germany nascent entrepreneurship is even higher among the low skilled than among university graduates (OECD 2013: 50).
- 6 An actual example is Uber, whose innovative business model is confronted with accusations of violating legal standards of safety and social security.

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