The Financialization of Social Life and the Socialization of Finance

Reviewing the Concepts & the Literature

The literature on financialization has developed to a stage where the concept itself is well-defined, as is the process of asset securitization on which it rests. Palley refers readers to Epstein’s definition, which is characteristic of the approach taken by the literature as a whole:

Financialization refers to the increasing importance of financial markets, financial motives, financial institutions, and financial elites in the operation of the economy and its governing institutions, both at the national and international level. (Epstein, 2001, p. 1; quoted in Palley, 2007, p. 3).

Palley goes on to explain the effects of financialization on workers, describing the policies associated with the process as the ‘neo-liberal box;’ four policy factors which ‘box in’ workers. These are the abandonment of full employment, globalization, small government, and labour market flexibility (Palley, 2007, pp. 21-24). These policy factors arise from the way in which finance creates income. With assets as the necessary collateral to allow increasing debt-financed spending, monetary policy in a financialized economy is concerned with asset prices, rather than real wages (Palley, 2007, pp. 24-25). This financial system seeks to ‘constantly reproduce itself’ in an attempt to maintain and increase profitability; financialization thus necessitates an intense and continuous search for ‘new asset seams that can be turned into collateral’ (Leyshon & Thrift, 2007, p. 98). This has led to the increasing securitization of future asset-based income streams, in a sense seeking to realise future profit in the present, while also spreading the risk of such investments over a wider geographical space (Leyshon & Thrift, 2007, pp. 100-101). This quest for new income streams has seen a growing willingness to capitalize almost anything. In Leyshon & Thrift’s words: ‘one of the abiding financial stories of the last 20 years ... has been the search for , and the corresponding expansion of, what counts as a reliable income-yielding asset’ (2007, p. 100).

This search for new asset-based income streams connects the local and the global in new, closer ways. This theme pervades much of the writing on financialization. Perhaps the most central contribution to this theme is Martin’s The Financialization of Daily Life (2002), in which he argues that with the financialization of the global economy ‘The individual is more fully one with the
vast interdependencies of society than ever before, and the local more fully consequent to the global’ (Martin, 2002, p. 195). For some who approach financialization from a Marxian perspective, these relationships are seen as a ‘mutual association’ between capital and labour, as part of a process by which capital enters labour's private sphere in order to maximise production (Martin, et al, 2008, pp. 122, 124). This increased interconnectedness results from the securitization of non-financial assets. The most obvious (and probably the most troublesome) example is the home. As mortgage backed securities are traded globally, the local home is connected with the global market. Furthermore, the expansion of mortgage markets to incorporate lower income groups has directly contributed to markets for sub-prime and predatory lending (Aalbers, 2008, pp. 157-160). The trading of mortgage backed securities—the financialization of the home—is not the extent of the search for new income streams. Aalbers argues that the American system of credit scoring amounts to the financialization of home owners themselves. Rather than investing in the future income from an asset, credit scoring ‘make[s] predictions about future payment behaviour’ (Aalbers, 2008, pp. 155-156). The bundling of mortgages according to the risk associated with the individuals who have generated that debt amounts to the trading of attributes of those individuals themselves.

Observations about the financialization of the home and even of the homeowner have given rise to an increasing body of literature exploring not only the social effects of financialization, but also the socialization of finance. Martin et al have gone as far as to argue that financialization acts as a new ontology for life in the twenty-first century. ‘Risk becomes not simply not simply a form of calculation, a way of knowing, but also invites a kind of being’ (Martin, et al, 2008, p. 122). In this socialization process, the family residence becomes not somewhere to live so much as an asset to use to generate income. This is not simply the case for those investing in finance, but is increasingly the way homeowners themselves understand property: ‘not just as a home ... but as an investment, something to put equity into and take equity from’ (Aalbers, 2008, p. 152). This use of the home as a source of equity has seen a dramatic increase in the use of debt by households to act as a safety net to offset injury or unemployment, to meet educational and medical bills, and even to service daily living expenses (Montgomerie, 2009, p. 17). Governments have played a significant role in encouraging households towards this type of debt-driven expenditure in a process Martin (2002) terms ‘the financialization of daily life.’ The state increasingly pursues policies which transfer the responsibility for welfare provision from the state to individuals’ and households’ manipulation of assets and which promise great returns, which are rarely forthcoming. In the United States, the government-driven opening up of access to mortgage markets began a process which has seen ‘social rights and
guarantees ... transferred from the state to financial markets’ (Aalbers, 2008, p. 151). Watson (2009) has explored this in the United Kingdom’s context, observing the New Labour government’s encouragement to households to increase their asset portfolio as a prudent method of taking personal responsibility for their future wellbeing. This encouragement comes hand-in-glove with a move to decrease the government’s role in welfare provision (Watson, 2009, pp. 43, 47).

The call for households to use finance to secure their own future wellbeing well illustrates the ontological nature of financialization described by Martin et al (2008). Financial processes and ways of thinking are increasingly characterising the way households operate. Erturk, et al (2008) have looked at the ‘democratization of finance,’ a socializing process which sees households promised that they can make money by buying appropriate financial products. This has seen household savings freed up for use in and by the market, while asset-backed securities are used to secure future retirement funds, university education for children, and to avoid risk in the case of personal injury or unemployment. Furthermore, households are encouraged ‘to manage a balance sheet as well as current income and expenditure’ (Erturk, et al, 2008, p. 554). This is precisely what is meant by ‘the financialization of daily life,’ and it is particularly evident in the growing importance of ‘financial literacy’ (Martin, 2002, chapter 2; Erturk, et al, 2008, pp. 562-563). In the age of financialization, good parenting means appropriate instruction in financial matters for children. Martin chronicles the growing market for products assisting parents to teach personal finance skills to their children (Martin, 2002, pp. 56-69). This development certainly indicates a new ontology, in which the individual or household are encouraged to understand themselves as financial-by-nature. To be financially literate is an indication of real, full citizenship in the capitalist state (Erturk, et al, 2008, p. 559), and an awareness of financial markets is deemed necessary knowledge for any adult, interpreting the stream of financial market information on nightly television news programmes as ‘an EKG to the global body’ (Martin, et al, 2008, p. 124). When the home, homeowner and private life are financialized, that finance becomes a kind of barometer for the human condition.

It should be noted that not all the literature exploring the financialization of social life and the increasing interconnectedness of individuals, the local, and the global are necessarily negative. Martin et al (2008) argue that the securitization of things once considered to be in the private social domain makes visible the greater interdependence of capital and labour. This provides potential for a new alliance, where class distinctions are transcended by the knowledge that the prosperity of each depends upon the other (Martin, et al, 2008, p. 128). Nevertheless, the incorporation of the social spaces of the household into the financial system,
entwining the local and global, and the increasingly central place of finance in daily life may still be described as ‘capital dispossess[ing] labour of that haven from market instrumentalities known as private life’ (Martin, et al, 2008, p. 130). Whether or not one takes a Marxian view of financialization, Aalbers’ observation that the ‘rules and logics of Wall Street are increasingly becoming the rules and logics outside Wall Street’ (2008, p. 149) certainly rings true. As the financial system continues to seek new income streams to increase profitability, daily life becomes more and more reflective of the processes by which every day assets are divided up and traded.
References


