Transformation and Policy Responses

This book makes four fundamental points. First, that there is a real transformation underway in terms of how advanced economies allocate capital, with households and financial sectors absorbing a growing share of advanced societies’ economic resources. Second, this transformation has consequences. More specifically, it alters the nature of the “finance–growth nexus”—the connection between financial development and wider economic growth. Third, this new type of growth is unbalanced in terms of its macroeconomic and distributional effects. Fourth, that there are nevertheless variations from country to country in terms of how deep the transformation goes—variations rooted in divergent interests, institutions, ideas, and international contexts.

I have attempted to be transparent about the inherent difficulties in making such a wide-ranging argument: no single book can accommodate all the variables leading to such a profound set of transformations. Take the rise in inequality, for example: it would be foolish to say that financial liberalization and the resulting reallocation of capital is the one explanation for rising inequality in the developed world. There are simply too many other important factors at play. The contention here is that financial liberalization plays an important role. Ordinarily, isolating cause and effect in these scenarios would mean turning to statistical methods that assess the effect of one variable while holding all other variables constant. In this book’s central argument, however, the variables are many, they interact so much, and the number of “observations” (cases reporting all the requisite data) is so limited that such a statistical examination is impossible. Perhaps in a more perfect future work, it will be possible to use statistical tools to complement the analysis done here. Even then, it becomes difficult to incorporate components, like ideas, that clearly matter but are not so easily quantified.

G. W. Fuller, The Great Debt Transformation
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This is all to say that the causal assertions found in the preceding pages are—and should be—subject to intense disagreement. At the same time, there is strong qualitative evidence for the book’s core argument. The cases of Britain, France, and Germany—together with the generalized narrative in the first two chapters—show that financial liberalization has led to more competition among financial firms, forcing them to adapt. Moreover, it has demonstrated how these adaptations have fueled a relative increase in borrowing by the household and financial sectors—and that the resulting reallocation has had macroeconomic and macrosocial consequences of note. Finally, the diversity of national contexts has forced this process to unfold differently in different places. This account begs the question of what we can learn from this transformation—including how the process itself can be modified. In other words, such lessons might instruct us on how to encourage a more rapid transformation, limit the transformation altogether, or modify it in some other way.

The purpose of this concluding chapter is threefold. The first goal is to recap the findings of the three case studies, focusing on the sections at the end of chapters three, four, and five. Taking the three cases together, it examines what constellations of interests, ideas, institutions, and international regimes most clearly shape the great debt transformation and its consequences. The second goal is to formulate a set of policy responses that might help policymakers adjust the trajectories of their national—or regional, in the case of the eurozone—transformations. The book concludes by discussing how focusing on sectoral capital allocation offers new perspectives on the larger economic challenges of our times.

What We Have Learned

The sharpest contrast between the cases discussed over the past three chapters is between Britain on one side and Germany and France on the other. Britain has done virtually everything it could to encourage the reallocation of capital and essentially nothing to mitigate it. On the other hand, France and Germany have both acted to limit the great debt transformation—albeit in different ways. Whereas France has tried to shield households from finance through direct regulation at the national level, Germany’s resistance has been anchored by traditional and deeply rooted institutional structures. In other words, France’s unique financial transformation is state mediated while Germany’s is produced by unique patterns of interfirm and firm–state coordination. There are clear echoes of the classic “varieties of capitalism” that emerge from this analysis: Britain’s trust in markets and Germany’s reliance on coordination are worlds apart, with