Zvonimir Baletić *

FINANCIALIZATION AND FINANCIAL CRISIS – LESSONS FROM CENTRAL AND SOUTH EASTERN EUROPEAN ECONOMIES (CRITICAL REVIEW)

Dubravko Radošević and Vladimir Cvijanović (editors)

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"Financialization" is the latest, and probably most widely used term by analysts trying to "name" and understand this contemporary rise of finance and its powerful role, the supremacy of financial industry over real economy. The term had been developed long before the crisis of 2008 but, understandably, since the crisis hit, it has become even more popular. As Gerald Epstein correctly said (Epstein, 2015) , "this vast and rapidly expanding literature on financialization has a number of important strands. Some of the literature focuses on clarifying the definition of financialization, and assessing whether it is a dominant cause of the ills confronting capitalism or is just a symptom of other, deeper causes; some asks whether financialization is a new "phase" of capitalist development, perhaps a new "mode of accumulation", or considers whether it is just one among a number of important developments along with "neoliberalism" and "globalization" that are arising in the contemporary world; other literature is focused on less theoretical and more empirical matters, trying to measure the nature and extent of financialization, however defined and to describe its institutional and economic dimensions; and still other work is focused on attempting to analyze theoretically and empirically the impact of financialization on important phenomena such as financial crises, productive investment, productivity growth, wages and income distribution;

* Dr. Z. Baletić, Professor at athe University of Zagreb, Member of the Croatian Academy of Arts and Science. (E-mail: zbaletic@eizg.hr).

and finally, other parts of the literature are more policy-oriented, trying to grapple with policies and structural changes that can improve the role that finance plays in the economy. This book on financialization is focused on less theoretical and more empirical matters, trying to measure the nature and extent of financialization, however defined and to describe its institutional and economic dimensions of financialization process in European/EU periphery economies.

The SEE economies are very divergent group of economies and they are at the various stages of economic development. Four of these SEE economies are already in the EU (Croatia, Greece, Hungary and Slovenia), but other countries are on the path to EU membership in the next 10 years, if real and nominal convergence criteria will be met. Two EU economies (Greece and Slovenia) are also full members of the European monetary union, while Croatia will enter into the EMU after achieving successful convergence in the medium and long term period. This implies that such a divergent group of national economies, that are "small open economies" in transition, may have different experiences with financialisation process, although they also showed important similarities in financialization process across the region. As we could understand, primary intention of the research presented in this book on financialization in SEE – was to analyze what was common in financialization process in this group of European economies, but also what is still specific in each of these countries. 18 authors from 9 countries are contributing to the book on financialization in SEE. The structure of the book obviously follows the same line of reasoning (financialization patterns in general and specific models and aspects of financialization in particular countries in SEE). Book is divided into three basic parts and 13 chapters: (1) "Finance-dominated capitalism, financialization and systemic instability", analyzes systemic patterns of financialization in EU and SEE; second part (2) "Financialization, exchange rate policies, euroization and inherent financial instability in CESEE", presents Mynskian liquidity model explanation of financial crisis and consuequences of premature accession into the EMU; while part three (3): "Capital account management, capital flows reversals and deleveraging in CESEE economies", is research on capital flows management and various aspects of post – crisis deleveraging process, with conclusions and outline of policy recommendations in the Introduction of the book. In addition, Malcolm Sawyer (Principal Investigator of FESSUD Project funded by the EU, i.e. "The Financialisation, Economy, Society and Sustainable Development") made a contribution in a Foreword, summarizing main research findings, introducing so the readers into the financialization theory.

Main quality of this book is that it is based on Keynes/Fisher/Minsky framework, as authors emphasize in their analysis, to emphasize the difference with Neoclassical theories. It is based on the Minsky's theory of financial cycles, their basic theoretical framework is „inherent financial instability theory" formulated by Hyman Minsky. Hyman Minsky acquired acknowledgement and wide spread respect among financial and academic community in the wake of global financial crisis, when Lehman Brothers collapsed triggering global financial crisis, by melting down the asset bubble on the Wall Street. This moment of bubbles burst and sharp disinflation was then called in honour of Minsky as „Minsky's moment", who actually predicted global financial crisis. In addition, we think that it was highly important when Minsky gained acceptance by the academics (Randal Wray, 2016) and major opinion makers, for instance, Martin Wolf, chief economist in Financial Times, who published an remarkable book on financial crisis (Wolf, 2014) and Adair Turner, President of the Institute for New Economic Thinking (Turner, 2016).

In part 1, presented are research papers explaining what is common in financialization process in SEE economies. Eckhard Hein is analyzing the finance dominated capitalism and it's propensity for systemic instability and crises. This is summary of his several research papers made under the FESSUD project for the EU. Joachim Becker and Predrag Četković presented their research on patterns of financialization in CESEE, while Petra Rodik and Mislav Žitko elaborated specific issues of financialization – housing and consumer loans extended by commercial banks to households in EU periphery countries and other emerging economies of Europe, but linked/indexed with Swiss francs – and consequences of such financial policies that were not able to sustain exchange rate risks in already unstable national economies, contributing thus to their systemic banking risks and financial instability.

In part 2, Gordana Kordić made an interesting research on modern exchange rate economics, linking exchange rate regimes with issues of the accession to the EMU. Ognjen Radonjić and Srdjan Kokotović made an interesting contribution on Mynskian liquidity model explanation of financial crisis in emerging Europe, with original approach to inherent instability hypothesis on financialziation in periphery of Europe. Dubravko Radošević focused on comparative analysis of financialization and systemic instability in Croatia and Slovenia that are now in EU and EMU, focusing on the policy lessons from Slovenian case and warning on the risks for Croatia and other European economies of to early entry into the European monetary union. Franjo Štiblar made an extensive paper on the euroization in Slovenia, explaining why premature euroization could be harmful and how it has contributed to the financial instability in Slovenia. Aleksandar Kešeljević and Vladimir Cvijanović supported this approach, and made case study of financialization process in Slovenia and Croatia, showing that policy lessons from Slovenia are very important for Croatia, in preventing policy mistakes of premature euroization in Croatia, although Croatian financial system already has a high level of euroization, due to the monetary strategy of exchange rate based nominal anchor for disinflation. Kosmas Manoudakis analysed the IMF policies in Greece and systemic inconsistencies of EU/IMF bail – out arrangement.

In Part 3, there are several important research papers on specific aspects of financialization (determinants of current account deficits in CESEE economies, capital account management, capital flows management and deleveraging after the global financial crisis). Dušan Zbašnik and Neven Vidaković are analyzing the main patterns of financialization in three EU economies (Croatia, Hungary and Slovenia) focusing more on the consequences of volatile capital flows, i.e. capital reversal in post–crisis period, causing credit crunch and deleveraging dynamics. Deflationary policies accompanied with capital flight and deleveraging in the banking sector, after the pre–crisis expansionary monetary policies and asset- price inflation, made significant contribution to the recessionary dynamics in these economies that could be considered as EU periphery. Tomislav Globan made a research on pre-crisis composition of capital flows and their contribution to the systemic financial instability in recession. Conclusions are convincing in sense that reliance of debt–creation capital inflows (external indebtedness) are less favorable than non–debt capital inflows (FDIs), from the point of view of systemic instability that is inherent in national financial systems based on external debt after the bubble bursts and deleveraging started with capital reversals. Aleksandar Stojkov and Thierry Warin focused on link between the current account balance (deficits) and economic growth, which is very challenging issue, because mainstream macroeconomics in the pre-crisis period has neglected “the signaling role” and importance of current account deficits (balance-of-payments policy) in achieving and preserving macroeconomic external macroeconomic equilibrium.

Finally, we think that this book on financialization contains original and interesting contributions to modern analysis of financialization theory and practice. They are provocative, in particular because financialization has not yet been systematically analyzed in SEE countries, although they are so needed in the post-crisis development models rebalancing across the Europe and EU periphery. There is a lack of this kind of economic literature. The book provides nicely written and well structured review of financialization in EU periphery and fits well into the main currents of post-crisis monetary theories. It is necessary reading for academic financial experts, policymakers, central bank and government decision - makers, in advanced as well in emerging economies, in designing post- crisis financial and economic policies.

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