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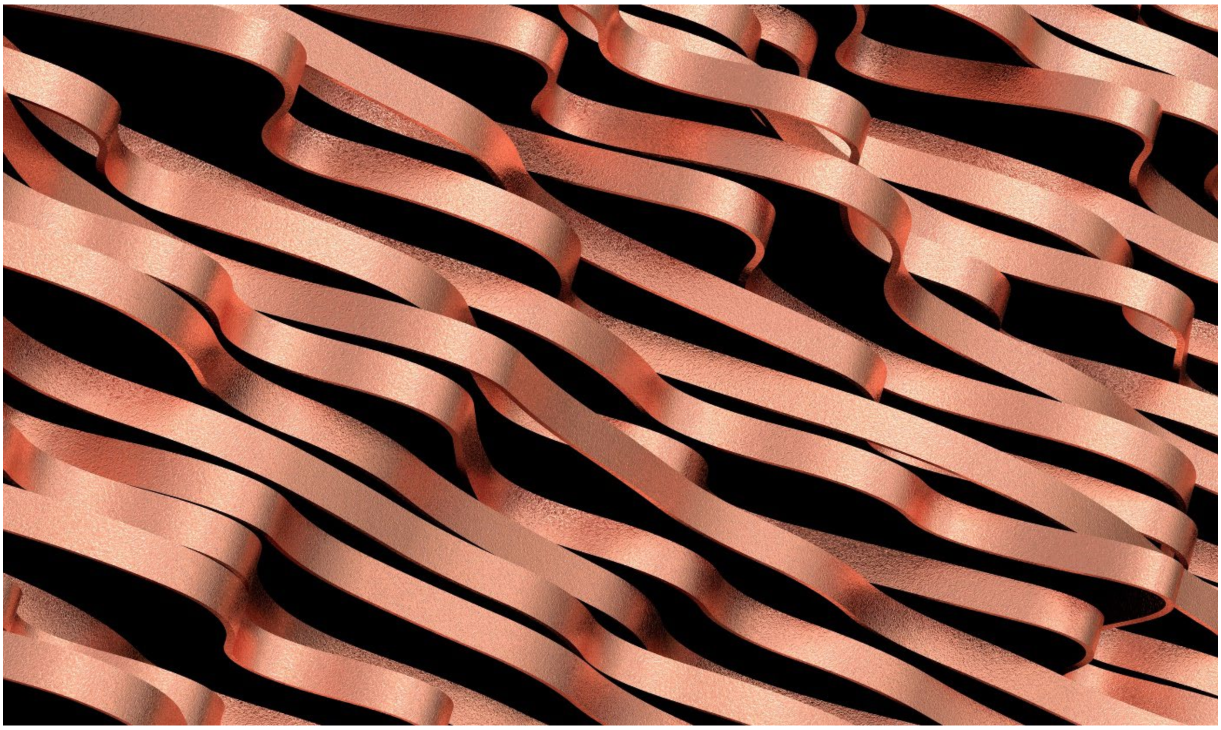

Financialization, Commodity Markets and Global Value Chains

Insights from a Literature Review and the Valueworks Project

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Valueworks: Effects of Financialization along the Copper Value Chain

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Abstract

This paper examines current debates on financialization—defined as the increasing role of finance, its institutions, actors and broader motives, in the operations of the global economy—and its implications for global value chains and transnational commodity trade related to extractive industries. It is a contribution to Valueworks: Effects of Financialization along the Copper Value Chain, a project examining the transnational flow of copper and its impact on social development trajectories and local lifeworlds, connecting Zambia, Switzerland and China. The purpose of this paper is to reflect the multidisciplinary nature and diversity of this growing field of study, as well as to set out potential conceptual lenses to better understand financialization's social and economic development impacts at macro, meso and micro levels of analysis. In particular, it underscores the need to better understand the ways in which gains and losses along global commodity chains are distributed between different financial, market and non-market actors. It also highlights the need to account for the uneven ways in which price volatility, cost-cutting and value chain restructuring in pursuit of shareholder value affect household income, employment, well-being and social relations. Focusing on financialization in this way will not only bring to light issues that have been overlooked, providing a deeper understanding of the direct, indirect, and differentiated consequences of financialized commodity production and trade on local lifeworlds, but it will also inform policy directions that are compatible with the required transition toward more inclusive, stable and sustainable development models.

Keywords

Copper; financialization; gender; global value chains; Zambia

Bios

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Introduction[1]

The present day is marked by multiple crises and mounting uncertainties. After several development decades which have led to considerable though uneven progress (Köhler 2015; UNDP 2019), current challenges are compounding, ranging from poverty and hunger, climate change, unsustainable growth patterns and economic crises, migration, flight and displacement; inequality, social exclusion, lack of decent work and social protection, health epidemics such as Covid-19; to political instability, insecurity and violent conflicts (UNRISD 2016). While the Agenda 2030 for Sustainable Development sets out to address the root causes of these problems and "transform our world" (UN 2015), it does not provide an analysis of the drivers of current crises, nor a clear roadmap of how countries can embark on more sustainable and inclusive development paths and rebuild better in response to the current Covid-19 pandemic.

Neoliberal globalization—a combination of accelerated economic integration propelled by trade and capital account liberalization, the Information and Communication Technology (ICT) revolution and market-oriented policies—has been identified as one key driver of economic and financial crises and growing inequalities within and between countries (UNCTAD 2020; Utting et al. 2012). This globalization model, imposed since the early 1980s, is closely associated with two phenomena: financialization and the rise of transnational production, investment and trade organized along global value chains (GVCs). Exploring the interlinkages between these two phenomena and their development implications for different actors across connected sites promises to bring important insights to current debates on how to transition towards more equitable, inclusive and sustainable economic systems.

Against this backdrop, the purpose of this paper is to provide an introduction into the conceptual debates around financialization, in particular with regard to trade of mineral products, and economic and social impacts of financialization at multiple levels. It aims to highlight the deep-seated power imbalances inherent in the global division of labour along value chains (Phillips 2017), as well as move beyond the nation state as the privileged category of analysis, toward a more integrated macro, meso and micro framework. In doing so, this paper provides an overview of the rich interdisciplinary literature that grapples with the increasing dominance of finance in our global economy, with implications that move from the higher macro levels down to local living conditions. As a revised background paper for the project *Valueworks: Effects of Financialization along the Copper Value Chain* (see Box 1), the paper combines analysis of theoretical and policy literatures with empirical insights from the project.

[1] The authors are grateful for very useful comments from two external peer reviewers as well as from UNRISD colleagues and researchers of the Valueworks project. For further information on the project visit www.unrisd.org/valueworks.

Box 1. The Valueworks project

Valueworks examined social dynamics at the different nodes of a particular global value chain, following one single commodity, copper, from mining pits and the surrounding communities in Zambia, through towns and harbours on African transport corridors, through Swiss trading firms and banks, to the sites of industrial production and recycling in China. The project aimed to provide a better understanding of the creation and transformation of value in the transnational flow of copper and its impact on local lifeworlds. It examined financialization and its consequences for extractive industries in different sites and in structuring and transforming global commodity trade. It identified implications with regard to national and local policies along the value chain as well as arguments for better regulation and oversight of international trading systems (Kesselring et al. 2019).

The paper is structured as follows: in the next section, we introduce the background and relevance of financialization as well as definitions and the main theoretical standpoints, namely the regime of accumulation, critical social accountancy and financialization of everyday life approaches. Section 3 explores the ways in which financialization has affected social development outcomes with an emphasis on the macro level, from growing indebtedness, instability and crises, to the collateralization of social policy. Section 4 explores the linkages between financialization and commodity markets, highlighting the need for meso and micro analyses to understand the broad range of differentiated impacts it produces for different actors along global value chains and within global production networks, such as multinational buyers, local suppliers, communities, households and workers. The fifth section discusses some findings from the Zambian case study of the Valueworks project. In the concluding part we identify some areas for future research and formulate policy implications emerging from the literature review and project findings.

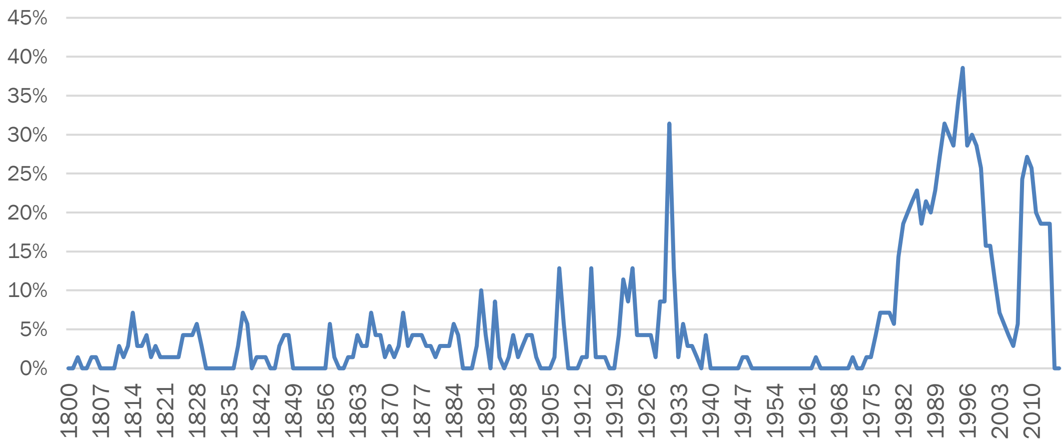
Understanding financialization

Financialization is most frequently defined in Epstein's words as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein 2005: 3). It is both a phenomenon and a process that dates back to the 19th century and earlier when it was analysed by prominent economists (for example Bagehot 1873; Marx 1894; Hilferding 1910; Keynes 1924), including to explain the stock market crash in 1929 and the subsequent Great Depression (Keynes 1936).

Financialization was subsequently reined in during the "30 glorious years of capitalism" in the post-war period from 1948 to 1977, when the Bretton Woods monetary and financial system of fixed exchange rates and financial regulation, combined with Keynesian policies of demand stimulation, led to steady economic growth and progressive extension of social rights in some parts of the world (Bresser Pereira 2010), although to varying degrees and not without contradictions, especially in developing regions.[2]

The end of the Bretton Woods system in 1971 also marked the end of the Fordist model of industrialized capitalism and paved the way for a new period of neoliberal, finance-led capitalism, fueled by the development of digital ICT. This period was characterized by widespread liberalization and deregulation of financial markets and capital accounts to reduce government intervention that had limited domestic economic actors' access to foreign capital and regulated financial markets through ceilings on interest rates, reserve requirements, taxation of financial transactions and compulsory credit allocation, also referred to as "financial repression" (Shaw 1973; McKinnon 1973). This process of liberalization and deregulation was supposed to increase savings and investment and, according to monetarist and neoclassical economists, provide the foundations for economic growth (Galbis 1976). Liberalization under conditions of monetary and financial instability, however, triggered a sequence of global and regional financial crises from the late 1970s and early 1980s (Diaz-Alejandro 1985) through the mid and late 1990s, up until the global financial crisis of 2008 as illustrated in Figure 1 below.

Figure 1. Proportion of countries experiencing a banking crisis by year, 1800-2016



Source: Harvard Business School (2018), based on data for a total of 70 countries (authors' elaboration)

In particular, the 2008 crisis and its deeper roots in the acceleration and deepening of financialization in the 1990s and 2000s (Utting et al. 2012) have exposed the weaknesses of the financialized world economy and the ways in which unregulated trade can amplify imbalances leading to crises in both commodity and financial markets (the crisis was also called the triple F crisis: finance, food and fuel). Despite calls from academics, civil society activists

[2] This period has been described by Kari Polanyi Levitt in Canada as follows: "This model of 'embedded liberalism', which yielded three decades of high growth, was underpinned by an institutional framework which regulated and restricted both the power and the mobility of capital. Finance was subservient to production. Financial institutions channeled savings to investment and were strictly regulated. Central banks served as instruments of the government, with full employment as primary objective; price stability was secondary. Banks were not permitted to charge more than six percent interest on loans or to engage in mortgage or investment banking. There were exchange controls, and no private trading in foreign currencies. Social expenditures were financed by progressive income taxation. In Canada, the highest tax bracket was 80 percent; in the United States it was even higher at 94 percent" (2008: 8).

and other political actors for greater regulation and improved governance of the global financial architecture and for a new global development model (Bresser-Pereira 2010; Utting et al. 2012; Jolly et al. 2012; Ocampo 2014; UNCTAD 2015), progress has been insufficient so far and has further accelerated financialization, directed by the neoliberal political project.[3] At the same time, this has been accompanied by a significant increase in knowledge production on financialization (Mader et al. 2020).

Crucially, financialization cannot be solely captured by shifts in financial and monetary conditions. The increasing role of finance encompasses economic, social (including cultural) and political dimensions and affects livelihoods, as well as dynamics within and across countries. Reflecting the multidimensional nature of financialization, the literature has seen a proliferation of different definitions and methodologies investigating "how an increasingly autonomous realm of global finance has altered the underlying logics of the industrial economy and the inner workings of democratic society" (Van der Zwan 2014: 100). Because the concept conveys multiple meanings, it represents the ideal arena for interdisciplinary studies (Aalbers 2015). Positive and critical approaches, belonging to different strands in the social sciences, present multiple nuanced arguments and come to heterogeneous conclusions about its impacts and required policy responses.

While proponents of neoliberal economic approaches argue that financial sector development is a key driver of economic growth (Sahay et al. 2015; World Bank 1989, 2001), the term itself has largely been absent from this literature.[4] In fact, authors using the term financialization tend to address the criticisms, rather than potential, of financial deepening, defined as the accumulation of financial assets at a faster pace than accumulation of nonfinancial wealth (Shaw 1973).

These contributions have been grouped aptly into three main approaches summarized in Table 1: regime of accumulation; critical social accountancy; and financialization of everyday life (Van der Zwan 2014). To a certain extent, these traditions also reflect three complementary approaches to understanding financialization, at macro, meso and micro levels respectively. In fact, in terms of the main unit of analysis, the first approach centers around the role of the state