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THE PROCESS OF THE GROWING IMPORTANCE OF THE FINANCIAL SECTOR IN THE USA

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ABSTRACT

The aim of the article is to show the process of the growing importance of the financial sector in the United States. The growth of the financial sector is identified with the process of financialization. It is the area of deep scientific research since the financial crisis which began in 2007. The excess of finances is visible in highly developed countries. The United States as one of the most developed countries in the world also has a highly developed financial sector. The article shows the process of the financial sector development in the USA. The results of the survey indicated that the financial sector in the United States increased in the analyzed period, and the surveyed indicators show that the financial crisis had an impact on the slowdown in the development of the financial sector.

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INTRODUCTION

The financial sector is absolutely important in the functioning of a countries economy in the 21st century. The increase in its importance is determined as financialization. The effects of the process of financing the economy are most visible in highly developed countries. The United States, which has one of the largest economies in the world, was designated as the research area. The author has analyzed the US financial sector using five indicators that helped determine the level of the development of the sector.

2. The financial sector during the financialization period

The financial sector takes on the value of assets and innovativeness of instruments, thanks to which market participants have greater opportunities to make profit. The advantage of the financial sector and entities operating in its scope over other sectors of the economy is often referred as financialization (Gołębiowski, Szczepankowski, 2015). Financialization describes the growing importance of the financial sector in both - economic and social terms.

Polish authors use various terms to determine the increase in the importance of the financial sector or a given part of it. Literature dealing with the subject presents, most frequently, terms referring to the financial sector, such as financing or financialization. In many studies, one can also find the following words: stock exchangization, bankization, financial capitalism (Ratajczak, 2012).

Financialization, in the simplest way, is the growing importance of the financial sector. There are many definitions of the described process. Some refer to its general outline. Others point to more precise sources and aspects of financialization. Two definitions are given below.

G Gołębiowski and P. Szczepankowski say that financialization is a progressive domination of the financial sector and its entities over the activities of other economic units. Financialization also consists of the mechanisms of the impact of the financial sphere over the real sphere of the economy (Gołębiowski, Szcze-pankowski, 2015).

According to S. Dallyn, financialization is the spread of the loan money over a bigger percentage of the population and processing and opening new loans in the form of derivative financial instruments, i.e. securitization or derivatives (Dallyn, 2011).

3. The history of the financialization of the economies

The beginnings of the financialization process date back to the 1950s. In those times, the economy began to be perceived through the risk and profitability. Over the next decades, the described method of describing the state of the economy became wide spread. Achieving appropriate results for these quantities contributed to the disappearance of system securities (Szczepankowski, 2015).

The changes above were followed by the introduction of new financial instruments beyond the control of central banks in the early 1960s. The innovative instruments created by commercial banks were focused on the currency exchange. Most often, they included the conversion of US dollars into euros, and then the euro into the currencies of other European countries (Dembinski, 2011).

The consequence of the events described above was the reduction of the system relating to the constant value of gold - the Bretton Woods system. The fall of the mentioned system took place in the early 1970s. The situation was conducive to the development of the flexible exchange rates. The new currency exchange instruments favored phenomena of uncertainty and variability, which resulted in higher costs of investment securing. An attempt was made to reduce these costs through the use of new financial instruments – futures contracts were used for the foreign exchange market, they hedge possible currency price differences resulting from the volatility of a given currency value over time. New speculative markets have also been created for new instruments. New markets allowed obtaining profits from the exchange rate differences between the real prices and the prices from futures instruments (Vogl, 2012).

The collapse of the Bretton Woods system and the development of new markets contributed to the growing importance of the financial sector. Similarly, financiers and institutions in the financial sector gained importance. At that time sociologists started to describe these changes with the term of financialization (French, Leyshon, Wainwright, 2008).

The consequence of the excessive growth of the financial sector was the economic crisis that started in 2007. It had been one of the largest crisis since the 1930s. (Gkanoutas-Leventis, Nesvesailova, 2015). The collapse in the financial markets contributed to the attention to the process of financialization. The basis of the crisis was the excessive supply of loan money. Banking institutions sold receivables in the form of financial instruments. They granted further loans from the received funds. Such practices created a spiral of credit indebtedness (Pike, Pollard, 2010).

The contemporary form of capitalism favors the occurrence of crises that cease to be exceptions. Increasingly, they can take the form of regular events. Regularity does not mean an equivalent course of crises. They can differ in both causes and effects. In most cases, the crises will be related to the occurrence of the phenomenon of financialization (Roubini, Mihm, 2011).

4. Causes of financialization

The process of the growing importance of the financial sector has a significant role in the 21st century economies. This is due to the changes that took place on the world market in the 20th century. Thanks to them, there was a significant economic growth. Unfortunately, they also increased the instability of the economy and allowed a significant increase in the importance of the financial sector (Gostomski, 2014).

There are many reasons that have caused significant changes in the economy. T. Palley attempted to group the factors that contributed to the significant increase in the importance of the financial sector. The author specified three main categories of reasons for the financing process. The groups are as follows (Palley, 2007):

- modifications of the functioning and structure of the financial sector;
- modifications of the scope of activity of non-financial enterprises;
- modifications in the policy of contemporary countries limiting the role of the state in the economy.

The modifications of the functioning and structure of the financial sector include: the increasing number of available financial instruments, new dependencies on the financial market, deregulation of regulations, liberalization of the market rules. In the case of modifying the scope of non-financial enterprises, the following can be taken into account: the: increased importance of maximizing profits in business operations, the increased importance of institutional investors, the increase in external financing. Modifications in the policy of contemporary countries refer mainly to: decisions of the state authorities, pro-globalization policy, increasing price stability at the expense of the employment growth, liberalization of market principles (Janc, Jurek, Marszałek, 2015).

On the other hand, A. Szunke distinguishes five phenomena which she considers to be the most important factors affecting the development of financialization. The most important reasons for changes in the economy that cause the growth of the financial sector are (Szunke, 2014):

- globalization - conducive to facilitating access to financial markets which constitute open mechanisms in the global economy;
- deregulation and liberalization of the financial sector - changes to the rules governing the operation of banking institutions, reduction of the criteria for financial instruments, facilitation of capital flows between countries;
- outflow of capital - reduction of the role of banks in the growing assets of enterprises;
- technical and technological development of new banking products;
- consolidation and financial expansion - market changes caused the necessity for many mergers or acquisitions.

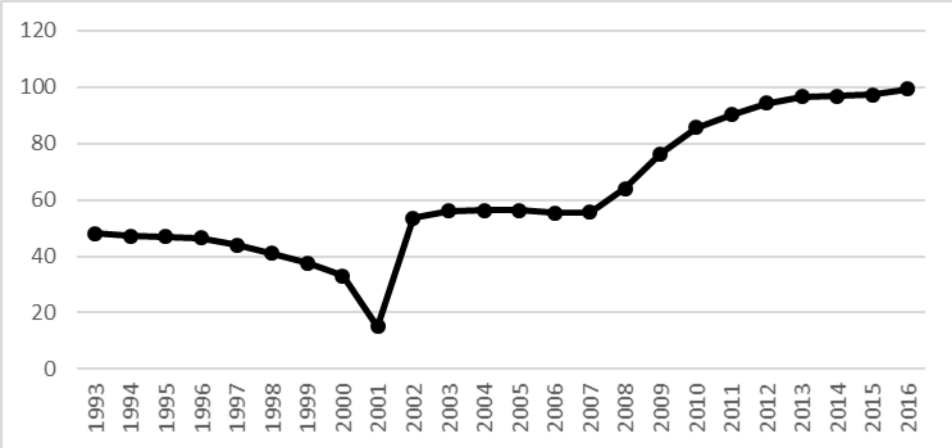
The process of financialization results from many reasons. Many of them relate to changes which take place within the financial market. However, some of them have their source in terms that seem unrelated to finances – they are, among others, political decisions that can contribute to facilitating the creation of new financial instruments or the liberalization of the entire financial market..

5. The process of the growing importance of the financial sector in the US

The financial sector is a major factor in the functioning of the majority of developed countries in the 21st century. One of these countries, the United States, are the subject to regularities resulting from the functioning of state-owned economies operating on the principle of communicating vessels. At the same time, many changes on the world market have their origin in the US economy.

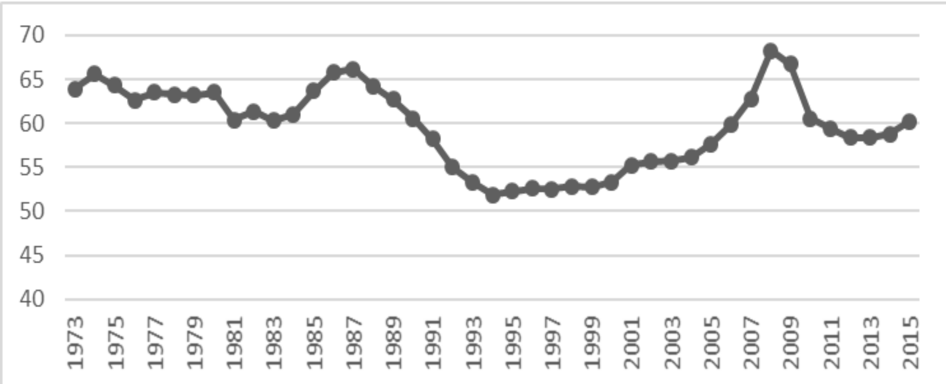
The financial sector growth process was presented with five indicators that relate to various aspects of the sector's operation. The following results are presented below for the following indicators:

- share of public debt in GDP level (in%);
- share of financial sector assets in GDP (in%);
- share of loans granted to the private sector in GDP (in%);
- share of the assets of the three largest banks in the total assets of the financial sector;
- share of the assets of the five largest banks in the total assets of the financial sector (in%).



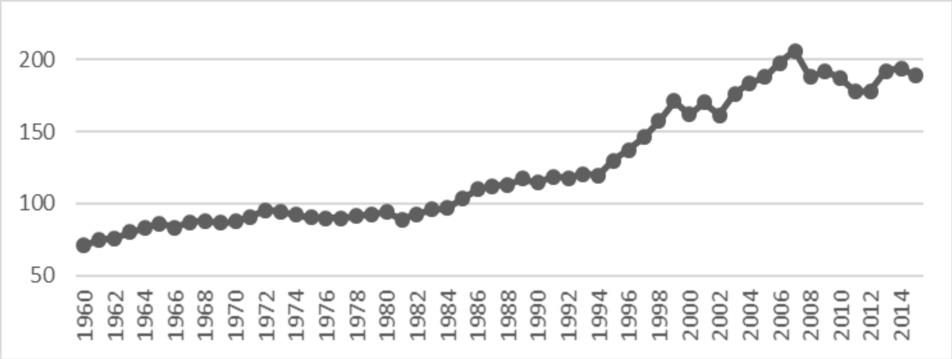
Graph 1. Share of public debt in the level of GDP in the USA (in %).
Source: www.databank.worldbank.org [accessed: 01/10/2018].

Graph 1 shows the share of the public debt in the US GDP level. This indicator shows the level of the public debt in the current GDP of the studied country. In the case of the United States, the indicator's level decreased, which means that the public debt in relation to GDP was smaller. However, since 2001 the value of the index has increased to 100%. In 2016, the value of US public debt equaled GDP. This indicator is very important because the public debt often results from financing the budget deficit with the funds from the financial sector. The higher the value of the indicator, the more indebted the country becomes.



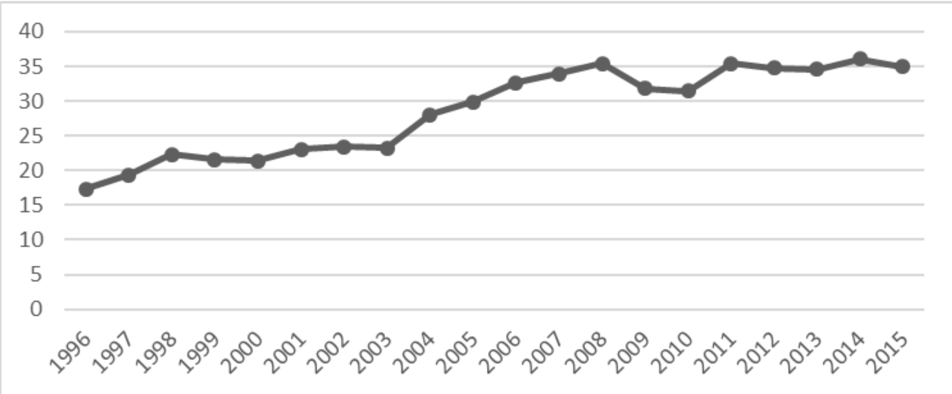
Graph 2. Share of financial sector assets in GDP in the USA (in%).
Source: Bank scope; World Bank Financial Development and Structure Dataset.

Graph 2 shows the assets of the financial sector in relation to GDP. This ratio allows determining how the financial sector assets relate to the value generated by the economy. Until the end of the 1980s, financial sector assets in the USA remained at the level of 60-70% of GDP. In the following years, the index dropped to 52-53% to increase to 70% in 2009. In the following years, the level of assets in the sector decreased due to the financial crisis. The level of the index does not suggest that the assets of the financial sector exceed the level of the country's GDP.



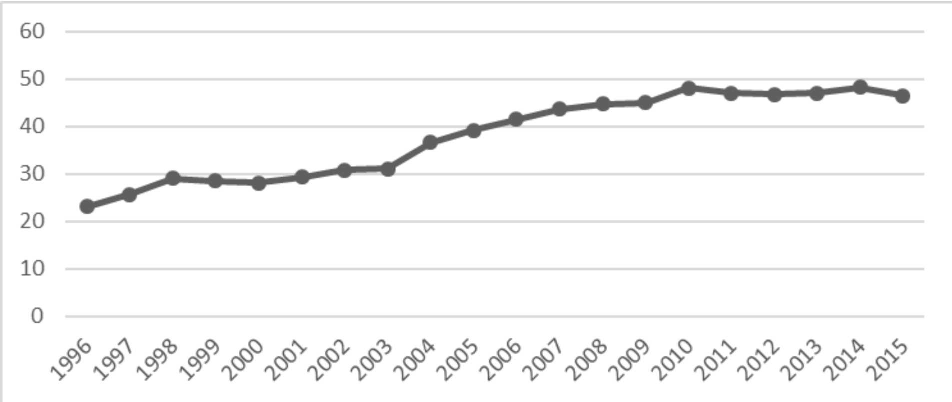
Graph 3. Share of loans granted to the private sector in GDP in the US (in%).
Source: Bankscope; World Bank Financial Development and Structure Dataset.

Graph 3 shows the level of loans granted to the private sector in relation to GDP. Private sector loans help determine to what extent households finance their operations with loan money. In the US, private-sector loans currently amount to 188% of GDP. Since the 1960s the value of the index has been increasing. The biggest increase took place in the early years of the 21st century. The temporary decline in the value of loans is related to the crisis on the financial market.



Graph 4. Share of assets of the three largest banks in the total assets of the financial sector in the USA (in%).
Source: Bankscope; World Bank Financial Development and Structure Dataset.

Graph 4 presents the share of assets of the three largest banks in the total assets of the financial sector. The value of the ratio for the United States in 1996 was around 17% and increased until 2008 when the assets of the three largest banks fell compared to the previous period. Since 2011 the ratio has remained at around 35%.



Graph 5. Share of assets of the five largest banks in the total assets of the financial sector in the USA (in%).
Source: Bankscope; World Bank Financial Development and Structure Dataset.

Graph 5. covers the share of the assets of the five largest banks in the total assets of the financial sector. The value of the indicator increased in the analyzed period, from 23% in 1996 to around 47% in 2015. This means that the financial crisis of 2008 did not significantly affect the total situation of the five largest banks in the financial market.

6. Conclusions

The article describes the concept of the process of the growing importance of the financial sector known as financialization. The events that facilitate the economic growth were presented. The main reasons for the occurrence of finances in the 21st century were also pointed out. The values of the five indicators showing the degree of the development of the financial sector were also presented. Most of the indicators surveyed show a stable increase in the importance of the financial sector. Some of the indicators draw attention to the importance of the financial crisis, which has slowed down the economic development. According to the research, the financial sector in the US after 2009-2010 is growing again.

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