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The Political Economy of Financialisation in an Age of Growing Inequality

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This article proposes a re-interpretation of the political economy of financialisation in the OECD countries, which have experienced a continuous rise in income inequality. I show that changes in the income distribution may threaten the socio-political foundations of financialisation. First, whereas the continuous increase in income inequality maintain the alliance between financiers, managers and high-skilled workers intact to support the adoption of pro-minority shareholder, all the consecutive changes in financial and labour markets have produced increasing institutional incoherence and labour market dualisation, making the previous alliance more fragile. Second, despite stagnant incomes, middle-class and low-income households are in favour of higher financialisation because easy credit stimulates their consumption level. Encouraging credit supply contributes to the rise in household debt, thereby increasing workers' vulnerability.

Keywords: financialisation; corporate governance; income inequality; instability; political economy

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Introduction

Most Organisation for Economic Co-operation and Development (OECD) countries experienced during the 1970/1980s sharp reforms in the financial and banking sector. First, capital controls were abolished in the end-1970s and in the early-1980s. Then, domestic financial structures have been deregulated since the 1980s. As the result, the volume of the financial activities has strongly increased during the last decades. New financial markets, financial institutions and financial innovations have emerged. According to the report from the ILLS (2009), the finance's share of GDP doubled in the past 30 years, including in the European countries. Finance's profits have also doubled between the 1980s and now. The expansion of financial activities refers to the concept of 'financialisation'. Financialisation comprises a diverse range of phenomena, including financial deregulation, securitisation, shareholder value orientation, and increasing household debt. Thus, the process of financialisation could be understood as the result of a finance-led growth regime as a specific 'regime of accumulation' following the terminology of the Régulation School (Boyer, 2005; 2011). Second, it can also be related to the adoption of specific corporate governance reforms whose aim is to increase the rights of minority shareholders within the firm. A large literature has documented that many countries increased the rights of independent directors and passed new regulations about the disclosure of information and the transparency of stock markets. Finally, the continuous growth of capital markets has contributed to the increase in credit supply. As a reaction, credit demand has risen, thereby increasing household debt. For instance, easy credit policies have been implemented in most OECD countries (and especially in the US and the UK) with the aim of boosting homeownership among middle-class and low-income households. Banks and financial institutions have strongly benefited from the continuous growth of housing markets with the increase in housing prices (Crouch, 2011). Simultaneously, the banking sector has undergone profound mutations. The internationalization as well as the process of concentration of commercial banks have considerably increased their political-economic influence. Additional financial actors, such as collective investment schemes or mutual funds (e.g. CalPERS), have also since then emerged. More precisely, the increasing weight of the institutional investors has played a considerable role in recent corporate governance reforms based on shareholder value maximisation as a central principle. Accordingly, 'financiers' – which refers to all these financial actors (bankers, institutional investors, minority shareholders …) – have played an increasing role. At the same time, all the OECD countries have experienced a continuous rise in income inequality, especially at the very top of the income distribution. General income inequality, measured by the Gini coefficient, has increased by 10% from the mid-1980s to the late 2000s in these countries (OECD, 2011). Very similarly, the inter-decile ratio (i.e. the ratio of earnings at the 90th percentile to earnings at the 10th percentile) has also continuously risen. Very recently, the increase in the top income shares has also been well documented in a large literature (Piketty, 2014; Tcherneva, 2014; OECD, 2014) has well documented.

This article analyses the political economy determinants and consequences of financialisation in the OECD countries since the last decades in this context of increasing income inequality. The originality of this contribution is to point out complex linkages between financial deregulation and income inequality and to offer a re-interpretation of the political economy of financialisation in the OECD countries. Whereas a large literature has focused on the increasing-effect of financial development on income inequality, more recent contributions have shown that this context of continuous increase in income inequality has also contributed to higher financial deregulation. First, due to the existence of institutional complementarities between financial and labour markets, financialisation can affect other institutional areas through the complementarity links (Amable, 2015). From this perspective, Boyer (2011) argues that the rise of finance through its side effects on corporate governance has gradually undermined specific institutional arrangements. For instance, financialisation has important consequences on labour market institutions, reducing workers' bargaining power and the level of employment protection (Author, 2015b), and but also on tax policies (Alverado et al. 2013). It has been largely recognized that labour market regulation and tax policies have both powerful reducing-effect on income inequality (OECD, 2011). Simultaneously, a growing literature has also argued that this context of increasing income inequality has not impeded but has rather encouraged the continuous growth of capital markets (Rajan, 2010). Based on this argument, it can be shown that financialisation as a specific regime of accumulation is based on the continuous growth of credit markets and is supported by a large coalition between top earners and middle-class and low-income households (Azizi and Author, 2015). A growing financial sector induces more profits for top earners but also provides greater access to consumption goods and services for low-income and middle-class households, and this to compensate the relative stagnation or decline in median income.

This context of increasing income inequality has led to a resurgence of interests in the political economy of financialisation. First, I show that the continuous rise in income inequality is the direct consequence to maintain the socio-political alliance between financiers, managers and high-skilled workers intact. Consecutive changes in financial and labour markets have resulted in 'hybridisation' and then in exacerbating labour market dualisation, thereby self-generating inequality. Second, the alliance between top earners and middle-class and low-income households is based on a 'democratisation of finance' (such as the adoption of easy credit policies). It can be shown that these policies are only a transitory solution to the continuous increase in income inequality. Higher credit demand contributes to rising household debt, making workers more vulnerable (Jacoby, 2008). In this sense, this article questions the long-term stability of the finance-led regime of accumulation. This evolution can be interpreted as the result of consecutive institutional changes in the gradual transition from a Fordist regime of accumulation to a finance-led regime of accumulation. Wage labour nexus, which appeared to be hierarchically superior in the 'Fordist' compromise, has gradually been replaced by dominant financial institutions facilitating the issuance of debt and credit in the finance-led regime of accumulation. In other words, credit and then (public and private) debt play a central role in this regime (Crouch, 2011; Streeck, 2014).

The article is organised as follows. Section 2 presents the conventional political economy arguments of financialisation by linking the role of partisan politics and the role of coalitions in the socio-political strategies. Then, Section 3 reviews the literature on the relationship between financialisation and income inequality. Section 4 proposes a re-interpretation of the political economy of financialisation in a context of increasing income inequality. Section 5 concludes.

The Political Economy of Financialisation

Financial deregulation policies imply high distributive conflicts that be then solved in the political arena. Distributive conflicts of one reform may result from the post-reform heterogeneity of gains (Alesina and Drazen, 1991). A large literature has also shown that financial deregulation also has important consequences on the whole institutional architecture. Accordingly, the political choices made by governments are not neutral and can differently affect the welfare of different social groups. The distributive consequences of financial deregulation may be important if reforms in the financial and banking sector are expected to modify the existing institutional arrangements (especially on labour markets) and thus alter the expectations and the strategy of the social groups.

Partisan politics and financial deregulation

Due to socio-political conflicts, political parties should adopt different strategies towards financial reforms. In that sense, political partisanship should play a determining role. Traditional partisan models are based on the idea that the utility of political parties is reflecting the interests of the groups they represent: thus, right-wing and left-wing parties have different positions on economic issues, and hence different macroeconomic objectives. Once the elections are over, incumbent governments seeking re-election have strong incentives to implement distinct economic policies.

In favour of free market ideology, right-wing governments are more likely to promote financial liberalisation because it satisfies the capital holders' interests: strongly integrated financial markets should lead a more efficient resource allocation and allow for a better risk diversification. The stance of right-wing governments with regard to financial liberalisation, however, changed over time. It can be argued that the right-wing governments' position on financial deregulation is mainly shaped by the expectations of commercial banks (Quinn and Inclan, 1997; Li and Smith, 2002). In the post-war time, the main big commercial banks in Europe and in the United States were opposed to measures of financial deregulation and were in favour of a strong banking regulation. Financial regulation was associated with a strong regulation in the economy. In the institutional complementarity theory, regulation in financial, product and labour markets are considered as complementary structure (Hall and Soskice, 2001; Amable, 2003). For instance, small banks in the United States took advantage from the branching restrictions that prevented to U.S. commercial banks from branching nationally (Economides et al., 1996). The purpose of these restrictions was to limit the growth and activities of commercial banks to fund big pieces of the capital required by the large American firms emerging at the end of the 19th century. At that time, policymakers, in most advanced countries including in the United States, were concerned to safeguard the financial stability at the domestic and global levels. The commercial banks' expectations on financial regulation have begun to change since the mid-1980s. The growing economic international integration has eroded the banks' monopolistic position, particularly in Western Europe. The European economic integration has contributed to the deregulation of product markets. Accordingly, big commercial banks began to promote financial deregulation. Due to a change in banks' expectations on financial regulation, right-wing governments became more captive to the financiers' demands. Li and Smith (2002) find strong empirical evidence that a strong right-wing government is more likely to liberalise capital restrictions when commercial banks or multinational corporations become more interested in the free movement of capital. Similarly, Quinn and Inclan (1997) find that right-wing governments are more in favour of financial restrictions in countries with internationally uncontested domestic markets.

On the other side of the political spectrum, left-wing governments are more likely to be opposed to financial deregulation (Garrett, 1998). First, capital taxation is more difficult in a world of mobile capital. Capital flight outside the national economy increases tax losses for government. Reinforcing restrictions on financial markets can be interpreted as an increase in taxes on capital owners. Capital controls may allow governments to tax more effectively money and asset holdings. In that sense, capital mobility would challenge the aim of reducing inequality mainly pursued by left-wing governments. In addition, it becomes more difficult to left-wing governments to pursue an accommodating monetary policy and to create more budget deficits. Similarly, financial deregulation increases the real cost of domestic debt and reduce seigniorage revenue. The position of left-wing governments on financial regulation is shaped by the expectations of workers. Labour is, however, not considered as a homogenous commodity (Rueda, 2007). For this reason, workers may have opposed preferences on financial regulation. Skilled workers, as human capital holders, are less hostile to increased competition on markets. Quinn and Inclán (1997) and Li and Smith (2002) find some empirical evidence of left-wing governments will be in favour of financial liberalisation in countries with skilled labour as a relative factor advantage. By contrast, low-skilled workers are more vulnerable to the international economic and financial integration (Rodrik, 1997). Indeed, the number and the frequency of financial crises have continuously increased since the 1980s. Financial crises may weaken the workers' situation, and more specifically the situation of low-skilled workers (Rodrik, 1997). The Left constituency is partly composed by these economically insecure voters strongly exposed to international competition (Garrett, 1998). Paradoxically, most recent financial reforms were adopted under Left governments: for instance, major reforms such as the Riegle-Neal Act in 1994 which removed many of the branching restrictions across state lines and the Gramm-Leach-Bliley Act in 1999 which allowed commercial banks, investment banks, securities firms, and insurance companies to consolidate were adopted under the Clinton administration. In the late-1990s were created new financial markets in Germany under the Red-green coalition led by the Chancellor Schröder and in France under the Jospin Government in the late-1990s with major tax reforms on capital gains.

Regardless of partisanship, the macroeconomic context at the global and domestic levels can also influence the governments' decision to deregulate the financial and banking sector. According to Abiad and Mody (2005), financial deregulation would be more driven by macroeconomic fundamentals and has little to do with political variables. Whereas they find no statistical differences across party ideologies, Abiad and Mody (2005) note that a balance of payments crisis, a banking crisis and a rise in U.S. interest rates have a significant impact on the pace of financial sector liberalisation. This result has been challenged by Burgoon, Demetriades and Underhill (2012) who find that a shift to a left-wing (respectively to a right-wing) government decreases (increases) the chances of financial liberalisation. Their results also point out that liberalisation is more likely to be initiated when the international support for free-market openness is high.

The role of coalitions in the socio-political strategies

Coalitions between different socio-political groups play a central role in shaping financial (de)regulation policies. Because social groups express heterogeneous demands, political actors will select the political demands that will be preserved and those which will be neglected. The role of policymakers is to adopt new legislation with the aim of satisfying the political expectations of specific socioeconomic groups. Accordingly, institutions in this approach are defined as socio-political compromises (Amable and Palombarini, 2009).

Boyer (2005, 2011) argues that the support for the finance-led regime of accumulation has been built on a hybrid alliance between financiers and enterprises (i.e. managers). As indicated in Table 1 (see annex), the

'Fordist' compromise in the post-war era was based on a facto compromise between managers and wage earners (Boyer, 2005; Gourevitch and Shinn, 2005; Author, 2015a). At that time, strong financial regulation was compatible with strong regulation in product and labour markets. Most large companies in the OECD countries had a concentrated capital ownership structure (Roe, 2003) and banks played a central role as 'capital patient' providers. In the post-war era, strong collective bargaining institutions (i.e. powerful unions and centralization of wage bargaining) were complementary with patient capital.

According to Boyer (2011), the increasing international competition in the 1980s and the introduction of new standards of corporate governance in the 1990s combined with a movement of deregulation of the financial structures bring forward a new coalition between entrepreneurs and financiers. First, capital movement liberalisation increased the institutional power of international companies that pressed for further liberalisation of domestic financial structures. The expansion of financial markets and the rise of institutional investors (mutual funds or collective investment schemes) have diversified the sources of funding for firms and have make more profitable for firms to use external financing. Financial deregulation by improving access for firms to external financing directly modifies the internal relationships within the firm and leads to radical changes in corporate governance. Corporate governance refers to "the system by which firms are controlled and operated, the rules and practices that govern the relationship between managers and shareholders, and the overall process by which investment capital is allocated" (Goyer, 2011, p. 1). In other words, corporate governance refers to how the power is shared between owners, managers and employees involved in the firm. Recent corporate governance reforms, as promoted by the OECD or the FMI, refer to the adoption of a set of principles of management based on a 'shareholder value maximization' strategy (Author, 2015a). Shareholder value enhancing practices create new rules of management and profitability with the aim of increasing the wealth of its shareholders (owners) by paying dividends and/or causing the stock price to increase. Shareholder value maximization as a key principle of corporate governance emerged in the Anglo-Saxon countries in the 1980s, in reaction of unprecedented waves of hostile takeovers, and then widespread in the 1990s in many European countries as well as in many emerging economies. The extension of the shareholder value model has increased the institutional weight of minority shareholders as well as the influence of stock markets (Crouch, 2011).

Shareholder value has played a central role in the firms' organization. New corporate rules contributed to the erosion of collective bargaining institutions (reducing unions' power, as reflected by the decline in union density and coverage) and to a decentralization of previously centralized collective bargaining institutions (Boyer, 2006; Author, 2015b). Second, financialisation is also associated with more flexible employment relations, altering the relation between capital and labour and making wages and employment adjustment variables. The pursuit of shareholder value-enhancing strategies implies that the shareholders' interests prevail over the firm's interests: managers will be less prone to promote contracts providing job security (Sjöberg, 2009). Higher degree of minority shareholder protection is more compatible with higher external labour market flexibility. Due to the institutional consequences of financialisation on labour market institutions, a new socio-political alliance to support for this new regime of accumulation has emerged: the initial alliance between entrepreneurs and workers was gradually replaced by a new alliance between entrepreneurs and financiers.

Then, because wage labour nexus and social security are under the control of finance in the finance-led regime of accumulation, employees are excluded from this alliance between entrepreneurs and financiers (Boyer, 2005; 2011). The process of financialisation cannot, however, be described as a monolithic force that affects all workers uniformly. A growing literature argues that core employees have benefited more particularly from the rise of the financial markets. Concessions conceded by the core employees have been compensated by the introduction of new payment mechanisms. According to Höpner (2007), these workers can be in favour of shareholder value practices enhancing transparency and promoting good accounting. As a result, variable pay reinforces the institutional power of some workers and also introduces greater flexibility at the firm level (Jackson et al., 2006). Firms and trade unions have adjusted to financialisation so that central social compromises, such as 'co-determination' in Germany, have been left intact (Ahlering and Deakin, 2007). More generally, the introduction of HRM practices and increased labour market flexibility in many OECD countries, such as in France, in Italy or in Spain, have increased the growing dualisation of labour market. In addition, if workers acquire more private pension assets, they also can support this new regime of accumulation (Perotti and Von Thadden, 2006; Author, 2015a). To sum up, some workers are more likely to join the alliance between financiers/enterprises as the result of the financialisation of income and pensions. Simultaneously, the financialisation of income and pensions has induced workers to accept a larger share of risk (Boyer, 2005).

To conclude, I argue that a 'hybrid' alliance between financiers (i.e. minority shareholders and banks), enterprise (i.e. managers) and the core employees (i.e. insiders) has been built to support this finance-led regime of accumulation. The aim of this contribution is to show why the context of increasing income inequality and labour dualisation has made this 'anti-natural' alliance very fragile and unstable. To do this, I focus in the following section on the relation between finance and income inequality.

Finance and Inequality: Which linkages?

A growing literature has focused on the relationship between financialisation and income inequality. The rise in income inequality, especially at the top of the income distribution, has been well documented (OECD, 2011; Piketty, 2014). As above argued, the process of financialisation has exacerbated socio-economic conflicts in industrialized economies, putting the existing institutional arrangements under pressure and modifying the political expectations of and the balance of power between social groups. From this perspective, it can be claimed that the continuous rise in income inequality may be caused by various tensions on the existing institutional arrangements. In this context of growing income inequality, financial markets and financial activities have paradoxically continued to extend. Moreover, a growing literature has argued that the continuous rise in income inequality has rather stimulated the expansion of the financial markets.

The effects of financialisation on income inequality

I argue that financial deregulation and recent changes in corporate governance have important consequences on the income distribution. Roe (2003) shows that weak scores of Gini coefficient of national income inequality are positively and significantly associated with high degree of ownership separation. Figure 1 reveals a strong correlation between top income and financial liberalisation in the United States from 1917 to 2009: the financially restricted post-war period saw a reduction of inequality whereas the top deciles income share rapidly rose during the 1990s (Moss, 2010).

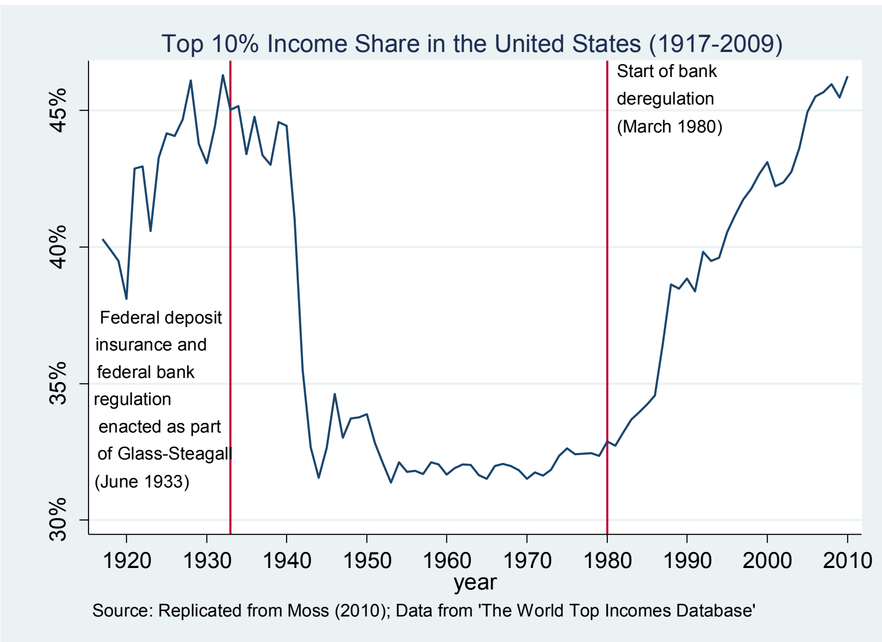

Figure 1. Financial deregulation and top 10% income share in the United States

Periods of financial liberalisation are associated with an increase in the 10% top income share whereas top 10% income share substantially decreased after 1933 where were introduced several regulatory measures to repress the financial system. Top 10% income share has then remained weak until the beginning of banking and financial deregulation in the early of 1980s. More importantly, top 10% income share sharply increased from 1980 onwards.

It can be shown that financialisation has an overall effect on income inequality: within-group inequality and between-group inequality. First, the growth of the financial sector has considerably contributed to the increase in incomes within the financial sector. Recent papers using micro data have paid particular attention to the impact of the growth of the financial industry on wage/income differentials. Philippon and Reshef (2012) find that financial deregulation in the United States has caused an increase in skill intensity and in wages in the financial sector. This has resulted in excess wages in finance and then an increase in wage differentials between the workers working in the finance industry and those working in the rest of the economy. In the case of France, Godechot (2012) shows that half of the increase in the share of the top 0.1% is due to an increase in pay among top finance managers between 1996 and 2007. In addition, financialisation can be responsible of increasing income inequality between high-skilled and low-skilled workers. In this line, higher financial development contributes to the increase in the employment level and wages of skilled labour (Jerzmanowski and Nabar, 2013; Larrain, 2015). Jerzmanowski and Nabar (2013) demonstrate that financial development by promoting the creation of new innovative sectors increases the wages of high-skilled workers. By contrast, wages of low-skilled workers in the more traditional sectors (such as the manufacturing sector) will be reduced. Similarly, Larrain (2015) argues that financial development by facilitating the access to capital may be associated with an increase in the employment level of high-skilled workers.

Second, due to the institutional consequences of financialisation, it can be shown that the growth of the financial sector has also altered the distribution of value added in the non-financial sectors, and this both at the top and at the bottom of the income distribution. By affecting compensation schemes, notably for top managers, and taxation system, financialisation can be associated with an increase in income inequality at the top of the income distribution. On this point, Alverado et al. (2011) show that changes in the taxation structure in the long run are correlated to the rise in income inequality. They argue that the deregulation of finance may have contributed to the increase in top earners' bargaining power, which has interacted with changes in top tax marginal rates. Very similarly, according to Piketty and Saez (2007), the rise in top incomes has been strongly driven in a large part by an increase in the labour income component, due to the explosion of executive compensation. New forms of incentive remuneration of executives (such as performance related salary or stock-options) have been introduced in most of developed countries as a consequence of more liquid financial markets (Sjöberg, 2009). The aim of these new forms of remuneration schemes is to align minority shareholders' interests with those of managers by proposing high rewards to top managers. Then, financialisation has also weakened labour market regulation and then impacted the bottom of the income distribution. A vast literature has shown a direct reducing-effect of labour market institutions (such as unionization, collective bargaining institutions and employment protection legislation) on wage dispersion. Author (2015c) shows that strong encompassing labour market institutions (i.e. workers' bargaining power and employment protection legislation) contribute to mitigating income disparities in the era of financial deregulation. In other words, by increasing labour market regulation one also weakens the impact of the flexibilisation in the credit market on the increase in income inequality. At the same time, higher financialisation reduces workers' bargaining power and the strictness of employment legislation protection (Author, 2015b). The consequence of these two results is that financialisation should lead to higher income disparities.

The effects of income inequality on financialisation

A growing literature has shown that inequality and finance have complex linkages. First, the process of financial liberalisation combined with a restrictive monetary policy in the 1970s-1980s in the advanced countries jointly contributed to an increase in credit supply. Second, an increase in credit demand has been one of the consequences of the continuous rise in income inequality. Larger income dispersion suggests a rise in top earners' income and/or a stagnation of median income. As a response of a stagnation of median income, middle-class and low-income households will increase their borrowings (i.e. credit demand) in order to defend their consumption level. According to Boyer (2011), the erosion of the responsibility of credit decision played a central in the 'subprime' crisis. Simultaneously, income inequality has continuously grown since the 1980s in the U.S., reaching a peak prior the crisis. From this perspective, Schelkle (2012) and Streeck (2014) argue that subprime mortgages became a substitute for social policy.

Prior to the financial crisis in 2007-08, the Clinton administration in the 1990s encouraged the deregulation of the financial sector as the response of increasing income inequality. Indeed, the U.S. low-income and middle-class households have experienced a stagnation in median income since the early-1990s (Boyer, 2011; Piketty, 2014). In this context, rapidly rising income inequality was counterbalanced by unprecedented opportunities for citizens and firms to become heavily indebted (Streeck, 2014). Accordingly, as argued by Rajan (2010), growing inequality has created political pressure not to reverse inequality but to encourage easy credit to sustain demand because of stagnating incomes. In the absence of a political consensus on redistributive policies and given increasing pressure on public debt, policymakers have strong incentives to implement easy credit policies as a substitute for purely redistributive policies. Policymakers have promoted the expansion of the financial markets and the adoption of easy credit policies to offset the increase in income inequality, and this in order to satisfy the political expectations of their constituents. In other words, policymakers intended such easy credit policy to facilitate household consumption to offset the effects of increased income inequality. Financial development allows top earners to accumulate additional financial assets which are granted to low-income and middle-class households in the form of consumer credit.

On the basis of this argument, Azizi and Author (2015) find strong evidence of a positive relationship between the share of GDP held by top income earner and the aggregate consumption level on a large sample of OECD countries from 1980 to 2007. This study also shows that the positive correlation between income inequality and the aggregate consumption level is higher in countries with well-developed financial markets.

A New Political Economy of Financialisation in an Age of Growing Income Inequality

I argue that this context of increasing income inequality (and in combination with labour market dualisation) has made the support for financialisation very fragile. Financial deregulation and the subsequent increasing influence of the financial activities are, in fact, based on instable socio-political compromises. First, financial deregulation policies are strongly supported by a hybrid coalition between financiers, managers and high-skilled workers. I argue that the institutional compatibilities between these different groups are not viable in the long run and are only transitory, and this due to the continuous rise in income inequality and the increasing labour market dualisation. Second, the continuous increase in income inequality makes fragile the large coalition between top earners and middle-class and low-income households to the support for financialisation.

Which socio-political foundations of financialisation?

The existence of institutional complementarities between labour market, product market competition, innovation and financial systems and social protection systems has made this transition from the post-war 'Fordist' compromise to the finance-led regime gradual. Due to the existence of institutional complementarities between different institutional areas, the succession of 'local' changes (i.e. affecting a limited set of institutional forms) may have a significant effect in the whole economy. In the same vein, Boyer (2011) argues that capital account liberalisation during the 1970s/1980s can be considered as a 'localised' change because the benefits are concentrated among a limited number of individuals. Resistance to higher financial openness was very low at that time. Financial openness then induced a number of changes that radically modified the nature of the socio-political compromise.

From this perspective, the coherence of a given socioeconomic model and the political equilibrium supporting it is based on particular complementary institutions that define specific institutional arrangements. Institutional change may challenge the existing socio-political compromises and institutional arrangements. Consequently, institutional change in the financial sector can threaten the interests of social groups and may modify the political strategy of political actors. In addition, some institutions can be considered as hierarchically superior by the group(s) whose social demands have been selected by policymakers. These institutions are central to maintain the political compromise. In other words, as long as the hierarchically superior institutions are not affected by (initial) institutional changes and this change offers new and compatible possibilities from the these social groups, the political compromise remains intact. For instance, left-wing policymakers are more particularly concerned about the preservation of central labour market institutions (i.e. strong employment protection for permanent workers) that are considered to be at the top of the hierarchy for high-skilled workers. As the result, the stability of these hierarchically labour market institutions is central to maintain the political compromise for left-wing governments.

Accordingly, financialisation is supported by a hybrid alliance between managers, financiers and high-skilled workers. In that sense, the increasing influence of the financial markets and the subsequent adoption of new corporate governance rules may be seen as complementary with strong employment protection and higher wages particularly for high-skilled workers (Rueda and Barker, 2007). This complementarity is necessary to produce a resilient support from high-skilled workers for the process of financialisation. As the result, the increase in income inequality is a direct consequence to maintain this socio-political alliance between financiers, managers and high-skilled workers intact. In a political economy approach, following the analysis proposed by Amable and Palombarini (2009) and Amable (2015), the continuous rise in income inequality results from a particular socio-political strategy and not only from economic determinants, such as the internationalisation of the production or technological change.

In addition, one aspect of this regime of accumulation is the continuous increase in credit supply. Due to easy credit policies, consumer credit can help non-rich households defend their consumption or even make them believe that they can become wealthier in the future (Boyer, 2011). For this reason, low-income and middle-class households largely support the increasing process of financialisation even though the finance-led regime of accumulation is responsible for generating higher income inequality and economic instability, especially for low-skilled workers and low-paid households. Azizi and Author (2015) argue that those easy credit policies permit the formation of a coalition of two different socio-political groups with potentially diverging interests: top income earners and low-income and middle-class households. A growing financial sector induces more profits for top earners but also provides greater access to consumption goods and services for low-income and middle-class households. In this new institutional configuration, credit plays a central role as hierarchically superior (Crouch, 2011). The increase in household indebtedness creates a hold-up situation which leads to a moral hazard problem, as witnessed by the 2007-08 financial crash in the United States and then in most OECD countries. In that sense, the different bailout plans adopted in many developed countries could reflect the central role played by the continuous increase in credit supply. Then, I argue that the subsequent rise in income inequality, by stimulating the credit demand from non-rich households and the credit supply from top earners, has contributed to challenging the existing institutional complementarities between labour market, product market competition, innovation and financial systems and social protection systems, as initially identified by the Varieties of Capitalism (VoC) theory, especially in the European countries where stock and equity markets were traditionally underdeveloped and where commercial banks were important 'capital patient' providers. Moreover, whereas wage labour nexus was hierarchically superior in the traditional 'Fordist' regime of accumulation, financial market institutions necessary to allow a continuous rise in credit supply can be considered as hierarchically superior institutions in the finance-led regime of accumulation.

To conclude, the 'Fordist' and the finance-led regimes of accumulation are based on radically different hierarchically superior institutions: the wage labour nexus gradually began losing its status as a hierarchically superior institutional form due to higher pressures from a financial and monetary regime which the finance-led regime of accumulation is based on. In this new regime, credit and (private and public) debt play a central role as hierarchically superior institutional forms. As underlined by Amable and Palombarini (2009), the socio-political support on which the regime of accumulation is based determine which institutions are hierarchically superior. The process of financialisation is supported by a hybrid coalition: (1) financiers and managers are supportive of this regime of accumulation because their main (labour and capital) incomes are increasing in a continuous growth of the capital markets. High-skilled workers also benefit from this growth of the capital markets. (2) Middle-class and low-income households are also in favour of financialisation as a means to defend their consumption level and to compensate stagnant incomes.

The stability of the finance-led regime of accumulation in the long term

First, relying on the concepts of institutional complementarity and hierarchy, I argue that the increase in income inequality and labour market dualisation raise doubt as to the ability of this new institutional configuration of maintaining a compromise in the long run. During the post-war era, the 'Fordist' compromise was based on an alliance between firms' owners, managers and workers, including in the United States (Boyer, 2005). Workers accepted to cede authority to managers in exchange for stable jobs and pay increase; and managers supported this alliance by protecting themselves from hostile takeovers. In other words, all interests were represented within the firm (Author, 2015a). This institutional configuration produced wage and income equality where productivity gains were equally distributed across groups (i.e. shareholders, workers and managers). Thus, income equality and high economic growth were conditions to a stable regime of accumulation, and this due to a stable alliance between social groups in the long term. This situation contrasts with the emergence of the finance-led regime of accumulation. As earlier mentioned the financial and economic international integration created new opportunities for managers to defect from this compromise. In other words, the increasing economic and financial integration, especially in the European Union, have put central institutional arrangements under pressure. The social compromises supporting existing institutions have been undermined, thus making institutional change inevitable. A change in institutions such as the labour market, product market competition, innovation and financial systems and social protection systems, can thus be traced back to a change in social demands and balance of power between social groups, and the reaction of political actors. The socio-political support for financialisation between different social groups can be seen as per se fragile for two different reasons: First, managers, financiers and workers may have opposite interests. Workers and financiers are anti-natural allies (Roe, 2003), and this despite incentive mechanisms aligning the interests of managers and financiers. Workers and managers have also diverging interests especially when workers perceive stock options and other compensation arrangements for managers as excessive. Second, the context of increasing income inequality and risks for workers (Jacoby, 2008), including for high-skilled workers, also makes the alliance between managers, financiers and high-skilled workers very fragile.

Thus, all these changes resulting from the increasing influence of the financial markets and activities are necessary not institutionally 'consistent' from a political economy point of view. In other words, the emergence of 'hybrid' models of capitalism (for instance in France or in Germany) may undermine the socio-political stability of these model in the long-run. Indeed, due to the institutional complementarities between financial systems and labour market institutions the introduction of pro-minority shareholder reforms may weaken politically labour's collective representative or a reduction in employment protection for workers with 'temporary' contracts. It can be doubted that such an evolution favours the emergence of a political stable equilibrium between financiers and workers. Because of changes in the balance of power between social groups, the associated political equilibrium is consequently modified. The emergence of these new institutional configurations raises doubt as to its ability of maintaining a compromise in the long run. Boyer (2006) focuses on changes in the German corporate governance system and argues that the introduction of a shareholder value maximization strategy represents a noticeable threat for the long term viability of the German productive system based on strong collective bargaining institutions: for this reason, the institutional compatibility between new rules of corporate governance and the traditional system of 'codetermination' as described in Höpner (2007) or in Vitols (2004) would be only transitory. In that sense, it can be argued that financialisation may contribute to produce some situations of hybridisation between different models of capitalism, with the introduction of some features of liberal capitalism into 'non-liberal' capitalism, such as in Germany or in France (Amable, 2015). For instance, the recent trend towards a higher labour market dualisation between 'insiders' (i.e. workers with permanent) and 'outsiders' (i.e. workers with temporary contracts) threatens the alliance between financiers, managers and a category of workers. To sum up, because financialisation is based on a hybrid coalition which induces a continuous rise in income inequality, this socio-political alliance is per se fragile and sustainable in the long run due to the institutional incoherence between all changes resulting from this process of financialisation.

Second, beyond institutional compatibilities, especially between labour and financial markets, the continuous increase in income inequality also has made the alliance between top earners and middle-class and low-income households per se fragile in the long run. One aspect of the rise in income inequality, especially at the top of the distribution, is that proceeds of economic growth are increasingly being captured by a miniscule part of the population. Figure 2 displays the share of GDP held by top income earners on average between 1975 and 2007 in some OECD countries. The increase in the share of GDP held by top earners has been particularly pronounced in Anglo-Saxon countries, and especially in the United States. Tcherneva (2014) shows that since the 1950-53 expansion, the top 10% of households have been capturing a growing share of the income growth in the U.S. More recently, 'rich' households captured 98% and 115% of the income growth during the 2001-07 and 2009-12 expansions, respectively, whereas the bottom 90% of households captured 2% and -15% of the income growth during the same periods. All these figures question the viability in the long run of the alliance between top earners and middle-class and low-income households to support the finance-led regime of accumulation. In addition, the process of financialisation is also responsible for generating higher instability, especially for low-income households. Even though low-income households can keep constant their consumption level despite stagnant or declining incomes, financial and banking instability also makes incomes and consumption very instable. In other words, 'poor' economic performances, i.e. higher income inequality and instability for middle-class and low-income households, threatens their support for an increasing process of financialisation in the economy. In addition, as earlier mentioned increased credit supply implies higher public and private debt ratios. In the same line, Streeck (2014) argues that higher debt ratios have been necessary since the 1990s to produce economic growth. He shows that inflation, public debt and private debt have been successively transitory instruments for governments to "sustain the appearance of a capitalism that delivered growth" and to postpone the 'legitimation crisis' of contemporary capitalism (Streeck, 2014). Governments have also strongly encouraged financial market development to be able of maintaining their own capacity to implement generous redistributive policies. It has been that most financial reforms in France, Italy or in Spain were driven by a large process of privatisation of state-owned enterprises during the 1980s and 1990s, mainly with the aim of achieving fiscal discipline and public debt control. For instance, the debt crisis in France in the mid-1980s led the French government to liberalise its financial structures (Helleiner, 1994). As shown by Krippner (2012), the Reagan administration undertook major financial reforms in order to increase the government's capacity to issue debt bonds. However, restrictive monetary policies led in many countries combined with low economic growth (Streeck, 2014) may lead to snow ball effects and hence to an inescapable increase in the public debt to GDP ratio (Azizi et al., 2012). In this context, governments had strong incentive to facilitate the growth of credit markets with the consequence of increased private debt ratios.

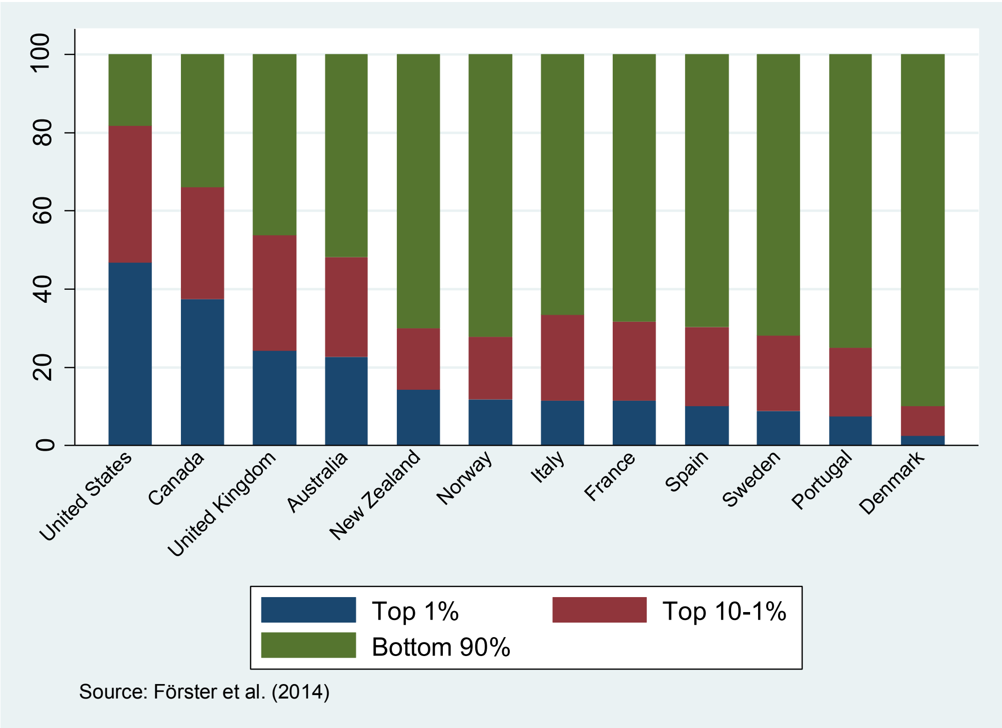

Figure 2. Share of income growth captured by income groups, 1975-2007

Conclusion

This article analyses the new socio-political foundations of financialisation in the age of increasing income inequality in the OECD countries since the last decades. I show that the process of financialisation, defined especially as the adoption of specific corporate governance rules, has been based on the support of a hybrid coalition between financiers, entrepreneurs and high-skilled workers. Whereas a large literature in economics and sociology has shown the contribution of increasing financial development to the continuous rise in income inequality, I argue that this increase in income inequality is a precondition of the conservation of this hybrid coalition between different socio-political with dramatically diverging interests. Simultaneously, the process of financialisation has also contributed to increasing labour market dualisation, i.e. between 'insiders' and ‘outsiders.’ In addition, instead of restricting this increase influence of the financial markets and then with the aim of impeding the rise in income inequality, policymakers have encouraged the growth of capital markets to response to this increasing issue of income inequality. To defend their consumption level and to compensate the relative stagnation or decline in their incomes, middle-class and low-income households have become strong supporters of encouraging financial development (which includes easy credit policies). In other words, the process of financialisation, defined as a specific finance-led regime of accumulation, is supported by a large coalition in the population combining the interests of top earners with those of non-rich households.

This context of increasing income inequality and labour market dualisation paradoxically threatens the socio-political foundations of the process of financialisation. In addition, the increasing influence of the financial markets in the economy contributes to higher risks for workers, including for high-skilled workers. In this sense, financialisation appears as inherently unstable, in part due to these fragile socio-political foundations in the long term. For instance, increasing credit supply in reaction to higher credit demand participates to the increase in household debt, especially for the most financially fragile households. Thus, the adoption of easy credit policies to compensate the relative stagnation in median incomes appears as a transitory solution to the continuous rise in income inequality. In the long term, the financialisation of the economy has had major institutional consequences, particularly on labour markets and tax structures. The existence of institutional complementarities and hierarchy has, however, made institutional change gradual. This gradual transformation makes possible to maintain the socio-political alliances intact. But, this then raises the question of the institutional coherence between all these different changes and the sustainability in the long run for two different reasons. First, it can be resulted in an institutional ‘hybridisation’ with fragile socio-political foundations. For instance, this is the case of the alliance supporting the adoption of pro-minority shareholder corporate governance reforms. Then, whereas the Fordist regime associated with Keynesian management demand policies was able to ensure gradual redistribution from top to bottom of market and life chances, the finance-led regime of accumulation characterised by increasing debt ratios is less prone to ensure equitable long-term growth (Streeck, 2014).

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Annex

	Initial situation	Partial / Local changes	Reaction to initial changes	Second wave of reaction	Changing the dominant bloc	Readjustment of all: dominant bloc and institutional configuration
Wage Labour Nexus	Institutionalized	Institutionalized	Fragmentation	Erosion of protections	Dominated	Financialised
Form of competition/ Corporate governance	Oligopolistic at the domestic scale	Openness to international competition	New corporate governance	Consolidation of this governance	Shareholder value	Competition in the capital market
Financial regime	Administered	Administered	Beginning of liberalisation	External liberalisation	Internal liberalisation	Wage labour nexus, social security and economic policy under the control of finance
Dominant groups	Agreement employees/ entrepreneurs	Agreement employees/ entrepreneurs	Weakening of employees	Loss of workers' influence within the alliance	A new alliance enterprises/ finance	Stabilization of the alliance enterprises/ finance
Dominated group	Financial	Financial	Financial	Financial	Employees	Employees

Table 1. From the 'Fordist' compromise to the hegemony of finance (source: Boyer, 2011)