



# Inflating value with other people's money

Finance and Society  
2023, 9(2): 67-70  
© The Author(s)  
10.2218/finsoc.8802



## Mindy Peden

John Carroll University, USA

Kurt Mettenheim, *Review of Political Economy of Financialization in the United States: A Historical-Institutional Balance-Sheet Approach*, New York, Routledge, 2022, ISBN 978-0-367-62716-4

Kurt Mettenheim and Olivier Butzbach, *Financialization of the Economy, Business, and Household Inequality in the United States: A Historical-Institutional Balance-Sheet Approach*, New York, Routledge, 2022, ISBN 978-1-032-12151-2

Studying financialization as it has emerged and continues to evolve is one of the most complex and important tasks of today. At stake is our understanding of many significant relationships, including those between banks as firms who have social roles and work according to various logics, representative government that ostensibly serves as an umpire among interests when they clash, and individuals and households who all exist in an overlapping ecosystem. This ecosystem consists of sometimes shared and sometimes competing interests, but also norms, habits, methodologies, and values. Accounting for the role of financialization in and with society, then, can take many forms. One important thing to understand, I think, is the relationship between different sectors of the economy, focusing on the extent to which these sectors reflect what we might consider to be a fair and balanced ecosystem whose outcomes are consistent with society's values. From a theoretical perspective, this means interrogating assumptions about the nature of saving, investing, and lending, and considering the social value of diverse financial products. What if the rise of financialization is only good for a small number of people and bad for almost everyone else, even if they don't realize it? How can we understand the coincident increase in inequality and the power of the financial sector in ways that might push back against an approach to capturing relative values that undermines core assumptions about property and value that it ostensibly supports? In addition to broad questions of this sort, it is important to drill-down on the diversity of the financial sector, rather than treat it as a monolith. The choice of lens through which we approach such concerns matters. A one country case study using a historical-institutional balance sheet approach, such as the one adopted in the works under review here, is an illuminating way in from an empirical and theoretical perspective because it allows for both drilling down and taking a bird's eye view.

---

### Corresponding author:

Mindy Peden, Department of Political Science, 1 John Carroll Blvd., University Heights, OH, 44118, USA.  
Email: mpeden@jcu.edu. <https://doi.org/10.2218/finsoc.8802>

The key to the balance sheet approach is elegant and simple; an assumption that “for every asset held by an individual or social entity there is a corresponding liability” (Mettenheim, 2022: 53). A historical-institutional approach can look at financialization by returning to the relationship between assets and liabilities in different sectors of the economy to get a big picture of the changing institutional context for what we can see are major shifts in the relative valuation of firms and households. Doing this involves disaggregating financial data and its components: income, capital, production, money, and inequality. The historical-institutional balance sheet approach, then, works by inferring “backwards from the large number of observations in historical statistics” (Mettenheim, 2022: 42). Interestingly, balanced balance sheets are not the norm for most individuals and entities, and in fact, financial entities may be the only consistent sheets that balance. The historical balance sheet method, then, traces these anomalies over time and compares sectors to each other in order to gain insight into the workings of what we have come to call ‘financialization’. The idea is to follow financial assets and liabilities over time and not take them at face value, in isolation, and without netting, in order to understand how such a shift in the relative power between sectors occurred and was sustained. The historical-institutional balance sheet approach in the two-volume work of Kurt Mettenheim and Olivier Butzbach is enlightening in so many ways (Mettenheim, 2022; Mettenheim and Butzbach, 2022). These volumes work together to tease out the balance-sheet approach using the enormous amount of official data available on the United States (US) context over time. By clarifying early conceptual distinctions between assets and liabilities in households and banks, and painstakingly representing historical financial data in disaggregated forms and according to social sectors by percentage, Mettenheim and Butzbach offer us a significant critical genealogy of the production of money and value in the US.

One of the central insights these books offer is that over time, analysts have been hindered by a conceptual confusion regarding personal savings and the assets of banks and financial enterprises. The authors are able to uncover this confusion because of their methodological approach to official US data. In the historical evolution of how assets and liabilities are counted, somewhere along the way personal savings held in financial institutions started counting twice. Returning to Simon Kuznets’ thoughts on the early national reporting measures for which he was himself responsible (Bureau of Commerce, 1934; see also Kuznets, 1937; Kuznets and Jenks, 1957), the authors explain the logic of counting household savings as an asset for households but a liability for banks. The elegance of the balance sheet approach elicits this kind of clarity around accounting. However, as a result of a change in practices, what was once counted as a liability for banks came to be double counted, as it were, and counted twice as an asset; once for the household and once for the bank. In this regard, the authors clarify that what had once been clearly understood as ‘other people’s money’ in banks from the perspective of official national accounts came, over time, to be understood as the bank’s money. Banks assets are overvalued as a result.

As a history of financialization, the works present a longer, steadier process with less volatility than usually understood. At the same time, the process of financialization presented here is also more prone to intervention and social or political response. The authors understand that because of the methodological problem of double counting assets, it inflated the relative importance and power of banks vis-à-vis other parts of the economy; “both because returns on financial assets remained above returns on non-financial assets, and because banks and financial institutions carry hardly any nonfinancial assets” (Mettenheim, 2022: 297). In that sense, the narrative that financialization is the future and finance the most important sector in the economy has been based on an inflated sense of the importance of

certain financial products, combined with methodological errors that reinforce that inflation of power. Moreover, almost all approaches to aggregating economic data equate savings with investment, which has the effect of biasing toward business in general (Mettenheim, 2022: 21). This results in problems of conceptual stretching and mis-aggregation that, over time, “became ideologies that contributed to, and concealed, both the compounding of financialization and the financialization of inequality” (Mettenheim, 2022: 32). This explains how intervention in the form of conceptual clarity and multimodal methodologies could contribute to reversing the trend of extreme inequality in the US.

It is open to question how well the story that emerges in these two volumes can be generalized. The uniqueness of the US becomes clear as the books unfold to disclose a nuanced understanding of the federal system and its relationship to public policy. Dubious claims to ‘other people’s money’ create errors in public policy and, understood in this way, deregulation in the US also had the effect of marginalizing socially-oriented banks that were defending Americans against the commodification of money. So, despite US traditions of decentralization, historically, we see “the centralization and financialization of monetary authority, an extreme consolidation of US banking, and unprecedented moral hazard produced by government accommodation of trillions of dollars of dubious, un-priceable, and unmarketable financial claims” (Mettenheim, 2022: 45). In that sense, the US case reveals a system of dual banking (big banks and smaller community banks); though some are chartered by the state or federal government, all banks are private. The books present evidence of the concentration of financial assets and shadow banking operations in the Big Four (JP Morgan, Bank of America, Citigroup, Goldman Sachs), not across all banks, which complicates in important ways at least one dominant narrative of financialization in the US (Mettenheim, 2022: 54).

There are a wide variety of funds and financial products held by banks and financial institutions, but according to an institutional balance sheet approach, they have “proved to be a wedge of inefficiency, instability, and inequality that has left most American households in debt while banks, financial firms, and the upper classes walk away with the financial claims, increasingly free to count these extravagant claims as assets, or money, or money equivalents” (Mettenheim, 2022: 93). Financialization has involved a profound increase in the value of assets for the rich and an increase in the value of liabilities (or debts) incurred by the bottom 50%, which is why it is correctly associated with inequality (Mettenheim, 2022: 50). When Mettenheim and Butzbach (2022: 23) use “classic modern concepts” of bank capital and bank reserves to contest the idea that reserves are counted as assets for banks, they direct much-needed attention to how we count financial activity, showing the veil of ideology surrounding the apparent success of finance vis-à-vis other sectors of the economy. Here we should understand the two volumes together, because the wealth effects of double counting financial claims is coincident with a decrease in the relative share of households, along with overestimation of the social value of some banks (coincidentally, only the ones who hold derivatives that are by definition not tradable and therefore difficult to value).

According to the authors, these two works on financialization in the US “seek to understand how power constellations shaped the money prices of financial claims and liabilities on American social sector balance sheets” (Mettenheim, 2022: 86). This exercise exposes the profoundly changing fortunes of American social sectors, which appear to be reversing after 2010. This is another insight from the books that is worth dwelling on, because it hints at the need to take seriously the diversity of the financial sector, which may in turn help us to better understand how the financialization of society involves the penetration of certain (financial) logics into other social spheres. Meanwhile, “taxation remains the single most

effective means for public management of financial markets and government control over the vast conglomerates that dominate financial transactions” (Mettenheim, 2022: 303) In order to understand and respond to the overwhelming power of the largest US banks, “political economy and social economics can no longer be intimidated by the rhetoric of reaction whereby alternative theories and policies are necessarily perverse and futile, serving only to jeopardize the welfare brought by big banks” (Mettenheim, 2022: 303) The approach to data and conceptual clarity in the two volumes reviewed here can help scholars and activists in expanding the scope of conflict and asserting human control over the processes of financial accumulation, rather than seeing financialization as a foregone conclusion. Moreover, these works show how historical institutional methods can lend clarity to a development that has occurred over a long period of time, disaggregating data and using percentages by sector to underscore the social and political context of financialization. In this way, they intervene powerfully into debates around the law of large assets, declining marginal returns, banking theory, and methodologies of political economy, as well as adding nuance to theoretical and philosophical work concerned with deepening inequality, neoliberalism (a term very carefully not used in these books), and emerging policy debates. The deep dive into big data over time may help policy makers to revisit basic conceptual distinctions that have morphed over time into seemingly insurmountable ideology. Finally, the two books help underscore the importance of credit cooperatives in the face of a very small number of big banks who sell a class of financial products that have been systematically overvalued for decades now.

## References

- Bureau of Commerce (1934) *National Income, 1929-1932*. Washington, DC: Government Printing Office.
- Kuznets, S. (1937) *National Income and Capital Formation, 1919-1935*. New York: NBER.
- Kuznets, S. and Jenks, E. (1953) *Shares of Upper Income Groups in Income and Savings*. New York: NBER.
- Mettenheim, K. (2022) *Political Economy of Financialization in the United States A Historical-Institutional Balance-Sheet Approach*. New York: Routledge.
- Mettenheim, K. and Butzbach, O. (2022) *Financialization of the Economy, Business, and Household Inequality in the United States A Historical-Institutional Balance-Sheet Approach*. New York: Routledge.