ROMA TRE
UNIVERSITÀ DEGLI STUDI

COLLANA DEL
DIPARTIMENTO DI ECONOMIA

FINANCIAL GLOBALIZATION EFFECTS ON INVESTMENT DECISIONS AND FINANCIALIZATION OF BIG CORPORATIONS

Giovanni Scarano

ISSN 2279-6916 Working papers

(Dipartimento di Economia Università degli studi Roma Tre) (online)

Working Paper n° 255, 2020

I Working Papers del Dipartimento di Economia svolgono la funzione di divulgare tempestivamente, in forma definitiva o provvisoria, i risultati di ricerche scientifiche originali. La loro pubblicazione è soggetta all'approvazione del Comitato Scientifico.

Per ciascuna pubblicazione vengono soddisfatti gli obblighi previsti dall'art. l del D.L.L. 31.8.1945, n. 660 e successive modifiche.

Copie della presente pubblicazione possono essere richieste alla Redazione.

esemplare fuori commercio
ai sensi della legge 14 aprile 2004 n.106

REDAZIONE:
Dipartimento di Economia
Università degli Studi Roma Tre
Via Silvio D'Amico, 77 - 00145 Roma
Tel. 0039-06-57335655 fax 0039-06-57335771
E-mail: dip_eco@uniroma3.it
http://dipeco.uniroma3.it

ROMA TRE
UNIVERSITÀ DEGLI STUDI

DIPARTIMENTO DI ECONOMIA

FINANCIAL GLOBALIZATION EFFECTS ON INVESTMENT DECISIONS AND FINANCIALIZATION OF BIG CORPORATIONS

Giovanni Scarano

FINANCIAL GLOBALIZATION EFFECTS ON INVESTMENT DECISIONS AND FINANCIALIZATION OF BIG CORPORATIONS

Giovanni Scarano[*]
Roma Tre University
Department of Economics
giovanni.scarano@uniroma3.it

Abstract

The share of surplus devoted to direct investment in capital goods by big corporations also depends on their corporate savings decisions, which are closely connected not only to the features of corporate governance and the forms of competition, but also to the possibilities of holding liquid financial assets bearing high returns. Financial globalization, multiplying the potential range of financial instruments available to big corporations' portfolios and creating new ways to access the high profits produced in the emergent markets, can contribute to change the portfolio composition.
The paper deals with some contributions that analyse the effects of financial globalization on portfolio management and investment decisions in big corporations, seeking to determine how they may be playing a major role in timing the rhythms of real investment. The main objective is to understand whether these models can account for the tendency to put growing shares of social surplus into speculative channels.

Keywords: Investment theory, Corporate Savings, Capital Movements, Financialisation, Financial Crises.

JEL Classification Codes: B510, E110, E120, E320, F230, G350.

[*] Thanks are due to Prof. Antonella Palumbo for her helpful comments on a previous version of the paper. The usual disclaimer applies.

1. Introduction

As everybody knows, there are a number of different ways to define globalization, each of which underlines different aspects of a progressive worldwide integration process between people, companies, and governments. However, here we prefer to confine our attention to its major economic features, which can be summarised as a sustained move towards increasing liberalisation in trade and a progressive worldwide liberalization of the movements of labour and capital.

Truly, so far, labour movements have only been liberalised on a very limited regional basis. Just as free trade has been only partially implemented under the umbrella of the WTO, with many surviving, even though minimised, tariff regimes, and countless non-tariff barriers. Moreover, today these liberalisation processes appear to be running into a new phase of troubles, with the threat of another round of trade wars.

In fact, the main successful economic field of globalization seems to be free movements of capital. Unfortunately, today capital account liberalization is the theoretical field where economics largely fails in explaining actual events in the real world.

According to neoclassical theory, free capital flows should only be a form of intertemporal trade and then their functioning rules should be no different from those of free trade. Thus, free flows of external capital should contribute to smoothing consumption and production paths, improving social welfare. However, in the real world the result seems to be the exact opposite. Free movements of short-term capital, such as portfolio flows and short-term bank loans, have so far been related to a long series of serious economic and financial crises because of their volatility and exposure to surges in and sudden withdrawals from the financial markets.

Thus, successively to economic and financial crises in Asia, Latin America and Russia in the late 1990s, many economists underlined the possible dangerous effects of these kinds of capital movements for developing countries. Instead, long-term capital flows, such as FDI, were usually regarded as more positive for the long-term economic growth of developing countries, because they are generally more stable and can improve their production capacity and technology (Stiglitz, 2002, 2004; Singh, 2007). Thus, the economic literature analysing the effects of liberalization of capital flows on the developing countries usually highlights the difference between short-term and long-term flows.

However, free movements of capital can produce significant effects on the developed economies, too. Much less analysis has been dedicated to these effects, but they can play a major role in producing the present tendency to stagnation in this kind of economies, and, as we will see in the following pages, they are closely connected with another major phenomenon of our time: financialisation by non-financial corporations – understood as the adoption of shareholder value orientation by their managers, associated to increasing investment in financial assets. (Stochammer, 2004a, 2004b). This phenomenon can, in fact, greatly contribute to reducing real investment of non-financial corporations in the developed countries, contributing to decreasing their growth rate and increasing their unemployment rate. In this context, however, the distinction between short-term and long-term capital flows can be less evident and significant.

Capital accumulation, one of the major movers of economic growth, ultimately depends on the share of social surplus devoted to investment. In capitalist economic systems, moreover, profits are the main part of social surplus on the income distribution side, and thus they are also the most prominent source of potential investment in new capital goods.

Unfortunately, in the past fifty years the investment/profits ratio has shown a declining trend (Stockhammer, 2006). Since the late 1980s, however, non-financial corporations, while reducing their accumulation of capital goods, have progressively increased their financial investment (Stockhammer, 2004a).

Thus, it becomes important to understand whether there is a connection between decreasing real investment and growing financialisation by non-financial corporations. Unfortunately, the present investment theory is not particularly helpful in investigating this potential connection (Scarano, 2019).

In fact, even though trends over time and volatility of aggregate investment in fixed capital should be central to understanding aggregate fluctuations in economic activities, investment theory shows some limitations in explaining these phenomena. Moreover, in the early 1960s Jorgenson had already noted there was a great gap between economic theory and econometric practice in the literature on business investment in fixed capital. Econometric models, indeed, merely find empirical correlations between aggregate investment and other economic variables, sometimes without any rigor in the underlying theoretical foundations (Jorgenson, 1963).

Economists have long been trying to explain the aggregate investment demand empirically simply by using scale variables. The most famous attempt of this kind, as is well known, is the *accelerator model* by Clark (1917), built on the basis of the relation existing between the first differences of a simple fixed coefficient inverse production function. However, despite the empirical success of this model, since the late 1960s there have been many attempts to introduce the cost of capital as explanatory variable in econometric models specified starting from the optimisation problem of a perfectly competitive firm (Hall, Jorgenson, 1967).

Meanwhile, other economists highlighted the predominance of liquidity variables over the interest rate for short-run investment, introducing elements of portfolio choices into investment theory (Tinbergern, 1939; Meyer, Kuh, 1957). Subsequently, according to the Tobin approach, investment has been recognised as an increasing function of q, the ratio of the financial value of the firm to the market cost of its capital goods, which is, in fact, closely connected to the companies' rate of profit (Brainard, Tobin, 1968; Tobin, 1969; Hayashi, 1982; Caballero, 1999).

Yet very few models highlight the fact that investment in capital goods depends mainly on corporate savings decisions, which are closely connected to the features of corporate governance and the forms of competition, and strategic competitive behaviours. In most advanced economies, in fact, retained earnings constitute the dominant source of finance (Mayer, 1988; Tirole, 2006, Shaikh, 2016).

Most models of investment decisions utilised in macroeconomic models, in fact, take free or perfect competition as explicit or implicit assumption. However, the oligopolistic structure of most real markets leads to corporate strategic behaviours that can produce very different results. Strategic decisions, connected with agency problems, can play a major role in producing financialisation and timing the rhythms of real investment. And

free movements of capital, both short- and long-term, can in turn influence the portfolio choices which are at its core.

In the following pages the paper deals with some contributions, both mainstream and heterodox, that analyse the effects of corporate governance and strategic behaviours on portfolio management and investment decisions in big corporations, seeking to determine how these effects might play a major role in producing growing liquidity holdings and financialisation, and how they can be influenced by the new opportunities created by free movements of capital and the economic dynamics of the emerging countries. The main objective is to understand whether these models can explain the tendency in the developed countries to place growing shares of social surplus in speculative financial channels, thereby contributing to long-term real stagnation in at least one part of the world.

2. Corporate governance and investment choices

Even though the interest rate, in itself, can play a minor role in determining real investment, if corporate managers act as financial investors, then the term structure of interest rates could play a major role in determining investment in capital goods as a share of companies' portfolios (Scarano, 2019). Thus, the way managers make their portfolio choices becomes crucial. This issue, of course, is closely connected to corporate governance problems.

Since the appearance of the book by Berle and Means (1932), the separation of ownership and control and the substantial managerial discretionary powers have constituted a path-breaking issue in the debate on corporate decision-making (Tirole, 2006, p. 15).

Severe agency problems can impair corporate performance in both public companies, such as those operating in Anglo-Saxon countries, and companies with a controlling shareholder, such as those prevailing in European countries. Insiders can operate on the basis of criteria other than those of the fund providers, not necessarily against their long-run interests, but through strategic considerations that are not easy for the mass of outsiders to understand.

If firms are viewed as mere instruments operating in the interest of the equity owners, the agency problem needs the organisation structure of firms to be shaped to provide proper incentives for managers to act in the shareholders' interest. From this point of view, the internal control by means of the board of directors usually appears to be hardly effective at all. The main external mechanism for corporate governance in Anglo-Saxon countries, in fact, consists in hostile takeovers, but in other countries this mechanism seems rare or completely non-existent. In bank-oriented financial systems, the same role is mainly performed by monitoring banks and other financial institutions and close relationships between firms and banks (Allen, Gale, 2000).

However, corporate governance, as is well known, is usually defined as "ways in which the suppliers of finance to corporations assure themselves of getting a return on their investment." (Shleifer, Vishny, 1997; Becht et al., 2002). The main problem, therefore, seems to be how corporations' insiders can attract external financial funds,

committing themselves to paying back funds, with an adequate rate of return, to external investors.

In the usual description of the financing of firms, accountants and economists distinguish between debt and equity. However, on a closer look, debt and equity are only the two extremes of a long claim series on corporate income held by a number of different claimholders (Tirole, 2006). Common stockholders, of course, have voting rights in shareholders' meeting, by means of which they can exercise direct control over the board of directors. Most claimholders, however, can vote with their feet in financial markets, if the latter are sufficiently liquid.

However, who holds the claims definitely matters. The corporate governance way of functioning depends on whether equity is held by "insiders" (managers or entrepreneurs) or by "outsiders", on the shareholding concentration and the nature and dimension of the claimholders.

An agency conflict can arise whenever managers have different objectives from their shareholders. Of course, there are many ways in which managers may not act in the shareholders' best interest, but they are all gathered by mainstream economists under the label "moral hazard" (Tirole, 2006, p. 16). One of these ways, in particular, is defined by Tirole "extravagant investments", which could sometimes be only strategic moves over a horizon longer than that of financial investors, who are often victims of the short-sighted view of the discount rate.

In the first three post-war decades, the role of shareholders in corporations was severely limited by heavily restrictive financial regulation and capital flows control, which were the political reactions to the financial and real crisis of the 1930s.

In the 1950s and 1960s, according to Baran and Sweezy (1966), giant corporations usually aimed at financial independence through retained earnings. They were able to borrow from financial institutions and markets, but were not normally forced to act so and could avoid subjection to control by financial corporations and outside shareholders. In this kind of corporations, managers were a self-perpetuating group that identified itself with the corporation and its fate. The board of directors and the chief executive officers were "organization men" and the control rested securely in their hands. Their major objectives were the corporation market share and its strategic positions in the market.

However, this situation has been changing since the late 1970s, through the progressive erosion of financial regulation by means of the invention of new financial instruments, such as junk bonds and other high-risk and high-return securities. Moreover, up to 1982 the *Securities and Exchange Commission* (SEC) could counteract massive stock repurchases as illegal attempts to manipulate stock prices by the companies. Since the end of 1982, instead, during the deregulation onset of the neoliberal phase, the SEC has partially liberalised stock repurchases, provided that they be less than 25% of the average daily trading volume over the previous four weeks and the buybacks be carried out at neither the beginning nor the end of the trading day (Lazonick, 2012).

By means of this financial deregulation, the financial markets have progressively exerted increasing pressure on non-financial corporations (NFCs), by means of hostile takeovers first, and then with the "shareholder revolution", characterised by a growing presence of institutional investors within their shareholding (Lowenstein, 2004;

Orhangazi, 2008). French regulationists have been emphasising corporate governance since the 1970s, because the pursuit of "shareholder value' is closely associated with the short-termism of non-financial corporations (Boyer, 2000; Grahl Teague, 2000; Aglietta, 2000; Aglietta and Breton, 2001), and Lazonick and O'Sullivan (2000) have perceptively shown the connections between shareholder value and company downsizing throughout the neoliberal phase of capitalist development (Lapavitsas, 2011).

According to Stockhammer, the "shareholder revolution" is one of the main features of the present neoliberal era, which has produced radical changes in corporate behaviour in the name of creating "shareholder value." According to him, this revolution has been the consequence of the financial liberalization and the emergence of very liquid share markets in the 1980s and 1990s, together with the successive rise in shareholders' capability to influence public company managers by means of the creation of "a market for corporate control". The managements of large corporations, in fact, would have committed themselves to increasingly producing shareholder value because of the expanded possibilities for financial investors to use the capital market to estimate and compare performance of their corporations and to discipline them with the threat of hostile takeovers. In this new context, the managers of large corporations could easily be replaced by shareholders if corporate performance proved inadequate in creating value for them (Stockhammer, 2006).

Moreover, twenty years ago an important tendency was identified in the emergence of mutual and pension funds which held growing fractions of equity, increasing their ownership shares at the expense of cross-shareholdings between non-financial firms. These institutional investors allocated capital among industries and firms in a decidedly market-based way, imposing profitability norms on enterprises and looking to short-term profit. They exerted their power over the management with exit strategies, creating difficulties for the firm to obtain new financing. Their arrival unleashed competition for global saving among companies. However, investment funds were set up by the banks, especially in Europe (Levine, 2003).

Thus, the threat of growing control by large financial intermediaries in public companies could be an incentive for managers to change their investment behaviours, increasingly orienting them towards short-term profit investment and discouraging "extravagant" or long-term strategic investments. This change is also supported by an incentives system for managers that closely connects their wages to the company stock prices, encouraging financial operations like share repurchasing by means of retained earnings, which would thus be subtracted from investment in new capital-goods and technologies.

However, this tendency to produce an increasing shareholder value could not only be the result of new forms of corporate governance and new financial intermediaries, but rather the traditional way to maximise the equity capital self-valorisation in a different competition environment and given new financial investment opportunities. This puts the emphasis on other transformations of the capitalist system in its neoliberal phase, which have been in part gathered under the label of financialisation.

3. Financialisation

Today the term financialization is usually used to refer to three different, even though interconnected, phenomena. The first is the reduction of reliance on bank loans by large non-financial corporations and their growing autonomous ability to raise funds in financial markets. The second is the expansion of banks' mediating activities in financial markets and their tendency to lend mainly to households. The third is the increasing involvement of households in the financial markets, as both debtors and asset holders (Orhangazi, 2008; Lapavitsas, 2011).

Thus, at the macroeconomic level, according to these definitions, financialisation ends up simply as synonymous with an expansion of the financial sector, understood as the entire set of financial services and financial intermediaries that provide them, within the economic system.

However, the concept of financialisation can have a deeper and more interesting meaning at the firm level, where it can highlight the changes in the behaviours of the managers of non-financial corporations and their new relations with the financial markets.

An important part of the literature on the relation between financialization and investment draws on Keynesian and Minskian approaches, which emphasize the importance of financial factors in corporate investment (Eichner and Kregel, 1975; Minsky, 1975; Skott, 1989; Crotty, 1990, 1992; Lavoie, 2014; Davis, 2017). In the last three decades, however, a new kind of phenomenon has powerfully been emerging. Mainly in the US, but also in continental Europe, non-financial corporations have been increasingly investing in financial assets and creating own financial subsidiaries, deriving increasing shares of their income from this kind of pure financial activities (Stockhammer, 2004a; Orhangazi, 2008). In the same period, NFCs have increased transfers of earnings to the financial markets in the forms of interest payments, dividend payments and, mainly, stock buybacks. Thus, according to some analysts, these transformations, in close synergy with the previously examined evolution in corporate governance, have produced radical changes in the objectives of top managements, favouring an increasing propensity to short-termism in corporate investment decision-making.

Moreover, according to Sawyer (2017), financialisation has changed the relations between the financial sector and the real sector because the passage of ownership of non-financial corporations into the hands of financial corporations has emphasised the 'pursuit of shareholder value'. This could again connect the effects of financialisation to those previously examined with regard to corporate governance changes. In pursuit of higher corporate performance, defined as meeting financial markets' expectations for quarterly earnings per share, American companies have conducted great stock repurchases to increase their own corporations' stock prices. In this way, according to Lazonick, trillions of dollars have been subtracted from innovation and job creation over more than three decades (Lazonick, 2012).

Thus, a financialized mode of corporate resource allocation could have been produced through the principle of maximizing shareholder value, and corporate executives have been incentivised in this direction by their stock-based compensation.

Financial control, however, has traditionally been viewed also as a particular organization controlling model by top managers (Fligstein,1990). Thus, the 'pursuit of shareholder value' could simply be the effect of traditional maximising self-valorisation of the capital of owners with a controlling shareholding, who utilise mass-shareholders and their financial intermediaries as less-secured claimholders, with a minor role played by the "shareholder revolution".

As pointed out above, since the late 1980s non-financial corporations, while reducing their accumulation of capital goods, have progressively increased their financial investment (Stockhammer, 2004a). The decreasing fixed capital formation rate in many countries, both developed and developing, has probably been the effect of growing uncertainty, risk and volatility on the real investment performance (Demir, 2009). Thus, the relation between fixed investment, uncertainty, increasing integration of international capital markets, the widening gap between real and financial sector transactions and corporate portfolio choice seems to be a very important factor. Successively to financial liberalization, in fact, NFCs have been facing portfolio choice problems in their investment decisions between fixed and financial assets and increasing availability of alternative financial investments can channel NFCs' retained earnings to short-term financial investments instead of long-term fixed capital formation, and thus contribute to deindustrialisation.

If companies are viewed as common investors, Tobin's portfolio choice theory points out the substitutability of real and financial assets also in their portfolios, depending on the respective rates of returns. Increasing risk and uncertainty, combined with capital market imperfections, higher real interest rates and increasing rates of return in the financial markets, may encourage short-term financial investments over long-term real investments. In fact, according to Tornell (1990), an uncertain environment can usually encourage NFCs to invest in more liquid assets, which at the same time offer comparable or higher rates of return, at the expense of their real fixed assets.

In the first decade of the 2000s a growing part of the literature on financialisation focused on increasing rates of return on financial capital over those on fixed capital and at the same time increasing acquisition of short-term financial assets by NFCs in high-income OECD countries, providing empirical evidence of a structural change in their portfolio decisions (Stockhammer, 2004a; Crotty, 2005; Dumenil, Levy, 2005; Epstein, Jayadev, 2005). Other studies suggest that also NFCs in developing countries take into account alternative financial investment opportunities when making their decisions on physical investment (Demir, 2009). All these empirical works, moreover, have demonstrated that the increasing financial activity of NFCs has had a negative effect on their real investment (Stockhammer 2004a, Orhangazi 2008, Demir 2009).

Thus, financialisation constitutes a radical change in corporate management behaviour that can produce major changes in investment demand for single firms. However, even though financial investment can be alternative to physical investment at the level of the single corporation, at the macroeconomic level the phenomenon shows a clear fallacy of composition. Indeed, financial investment only transfers liquidity from one agent to another one. Thus, it could transfer financial resources from firms with bad investment opportunities to others with better profitability prospects. From this point of view, it should have no macroeconomic effect, apart from increasing efficiency (Tobin, 1997).

There are only two possible macroeconomic effects, global and local. The former is substantially reducible to hoarding or a speculative demand for money. The latter, instead, is closely connected to capital transfers between different countries. In both cases, the macroeconomic problem does not emerge from finacialization in itself, but from its relations with other features of economic systems. From a Marxist point of view, it is real accumulation that determines the parameters on which finance runs, even though the latter can cause counter effects on the former (Itoh, Lapavitsas, 1999).

4. Liquidity holding

Hoarding money and very liquid assets by NFCs, as in Marx's theory of crisis (Scarano, 2018), could therefore be once again the first mover of decreasing aggregate investment that actually lies behind the multiform appearances of financialisation. And this phenomenon, of course, is closely connected to the role of money in business fluctuations.

The cash balance policy of enterprises was already attracting attention in the late 1920s, immediately before the Wall Street crash of 1929. At that time corporations utilised part of their previous accumulated cash balances to buy securities in the stock exchange market in order to profit from the high call loan rate. So they were accused of contributing to the boom on the stock exchange, but also of feeding the financial markets at the expense of the other markets (Scarano, 2016).

In the 1930s, corporate cash holdings were again an object of heated discussion because, according to some economists, corporations held "idle" cash (cash balances in excess of current operation needs), contributing to the stagnation of the economic system.

According to a seminal study by Lutz (1945), in the years of the Great Depression the ratio of cash plus marketable securities to payments rose sharply. This ratio diminished from 1933 to 1937, and then rose again in 1938, because of a new business contraction. According to Lutz, the ratio of cash plus marketable securities to payments showed a rise in periods of business contraction and a fall in periods of expansion, and the movement of these free liquid funds showed an inverse correlation with the profit rate of the large corporations.

Thus, according to him, in the 1930s the large manufacturing corporations held "free" liquid funds because they were hoarding money. The major reason for this was that the big corporations were largely independent of bank credit, so that their bank debts did not absorb the "surplus" cash originated through liquidation of inventories and receivables during the depression. This behaviour suggested that in a system in which companies are not largely indebted to the banks, business fluctuations may be reflected in a change in the velocity of circulation of firms' deposits.

According to Lutz, during the period of depression in the thirties, medium-sized and small corporations had a small increase in their cash holdings, because great losses and the retirement of bank debt absorbed the liquid funds that would otherwise have been accumulated. Thus in the thirties, "hoarding" was mainly a matter of large manufacturing corporations.

The corporations' cash balances were fed by partial liquidation of inventories and receivables and by the postponement of replacements for fixed equipment. Most of the additional cash was paid out mainly through distribution of dividends.

Coming back to the present, since 2002 the gross saving in the OECD corporations has been progressively exceeding their fixed investment (OECD, 2007; André et al., 2007; Scarano, 2015). Only one third of this increase in undistributed profits was generated by the non-financial sector, but this sector contributed to the increase in corporate net lending more than the financial sector.

The large-scale expansion of corporate net lending in the non-financial sector has been interpreted as partly due to the cyclical downturn since 2001 (OECD, 2007). Some econometric works, in fact, suggest a significant influence of the business cycle on the corporate net lending between 2001 and 2005 (André et al, 2007).

However, the rise in net lending is the result of two different tendencies: falling corporate investment and increasing corporate saving share. The weakness in corporate investment, compared with GDP, can usually be largely the consequence of the business cycle, but other causes, more structural in nature and thus longer-lasting, have been detected in the progressive decline of the relative price of capital goods, in lower depreciation rates, in lower growth trends and increasing net foreign investment abroad.

If growing corporate cash balances might seem relatively trivial after the financial crisis of 2007-2009, its beginning seven years before the crisis was a warning signal that, in 2012, led the 'Economist' to write about "hoard instinct" and "dead money" (The Economist, 2012).

Corporations usually utilise their gross savings for depreciation, new investment, acquisitions, paying off debts and share repurchases. The change in the cash balance should normally be just the residual after spending. However, they can also hold liquid balances for precautionary, speculative and transactional reasons. The precautionary motive obviously prevails when they fear unforeseen fluctuations.

After the financial crisis, companies were certainly keen to accumulate more substantial cash balances to face up to the credit crunch. But most of companies were waiting to invest and make acquisitions because of uncertainty following the crisis. The beginning of the phenomenon, as from the early 2000s, suggests that uncertainty in the non-financial sectors really came to dominate the global economic scene as from the burst of the 90s bubble.

5. The role of globalization

Free movements of capital, therefore, can play a major role in this scenario from two different points of view.

If real investment depends on the term structure of interest rates over the full range of financial and real investment opportunities, then real investments in the developed countries also depend on the differential between their rates of returns and the rates of returns on real investments in the developing or emerging countries. However, this differential does not only act by means of FDI, but also by means of the possibility of financial investment in foreign securities, associated with real investment in foreign countries. Financial globalization, multiplying the potential range of financial

instruments available to big corporations' portfolios and creating new ways to indirectly access the high profits produced in the emergent markets, can play a major role in changing the portfolio composition. Moreover, the managers of "financialised non-financial corporations" can decide to substitute direct national real investments with financial investments in foreign corporations, thus also obtaining a greater liquidity for their portfolios.

However, this kind of investment does not necessarily have to go through the acquisition of equity, but can also be made by acquiring debt securities. Thus, decreasing capital controls can influence the very structure of countries' external liabilities, leading to substitution of FDI with equity inflows and external debt, which can, in turn, have a sizeable impact on the financial stability of debtor countries, significantly raising currency mismatch and making them more vulnerable to financial contagion (OECD, 2012b).

Furthermore, financial investments by non-financial corporations are usually very different from the traditional forms of takeover and corporate holding because their profitability depends not only on the ratio between profits and invested capital, but also on the terms of capitalisation of the expected future profits realised through the financial markets. Thus, the growing liquidity of non-financial corporations' portfolios can contribute to heightening the usual volatility of the rates of return on financial assets as well as the vulnerability to contagion-induced financial shocks (OECD, 2012a). Moreover, countries with a large financial sector have a riskier financial account structure, compared, for instance, with commodity-exporting countries, which show a safer financial account structure.

All this obviously increases the overall uncertainty of financial investment profitability itself. And this growing uncertainty, in turn, leads to a greater tendency to money hoarding by non-financial corporations, which reduces the mass of real investment directly or indirectly financed by them.

6. Conclusions

Thus, ultimately, even though the interest rate can play a minor role in explaining real investment, in a world in which corporation managers behave as financial investors, the term structure of interest rates can play a major role at the firm level in determining investment in capital goods as a share of companies' portfolios. This structure will obviously depend on the available financial alternatives and the risk premiums that prevail in their markets.

However, the "risk premiums" in imperfect markets are not necessarily the statistic measure of the riskiness of loans and contributions of capital, as mainstream theory assumes, but can rather be the result of the power relations between financial capital and industrial capital, as classical economists and Marx himself thought. Thus, the average rate of return on financial assets can be the measure of the comparative profitability in utilising capital in a financial or productive way.

From this point of view, the major variable in explaining investment decisions is not the interest rate on money markets, strictly controlled by central banks, but rather the

average "risk premium" as a measure of the average profitability in financed real activities. And this measure is closely correlated with Tobin's q.

Of course, at the macroeconomic level, in closed economies, the average profitability can only have effects in capital movements from one sector to another, in direct or financial form, but cannot explain the absolute level of real investment. In open economies, however, the differences in average profitability between different countries can matter, reducing capital sources for real investment in one country by means of capital transfers, in direct or financial forms, towards other countries.

Moreover, in portfolio choices by corporations, beside the rates of return, the liquidity degree of the assets can also be a very important determinant, in close connection with business fluctuations. Thus, portfolio choices by corporations also mainly depend on the uncertainty degree of their economic environment, which can induce hoarding phenomena that are, ultimately, the real prime mover of decreasing aggregate investment.

References

Aglietta M. (2000), "Shareholder value and corporate governance: some tricky questions", *Economy and Society*, 29, 1, 146–59.

Aglietta M. Breton R. (2001), "Financial systems, corporate control and capital accumulation", *Economy and Society*, 30, 4, 433–66.

Allen F., Gale D. (2000), *Comparing Financial Systems*, The MIT Press, Cambridge (Ma), London.

André C. et al. (2007), "Corporate Net Lending: A Review of Recent Trends", OECD Economics Department Working Papers, 583, OECD Publishing.

Baran P., Sweezy P.M. (1966), *Monopoly Capital. An Essay on the American Economic and Social Order*, Monthly Review Press, New York.

Becht M., Bolton P., Roell A. (2002), "Corporate governance and control", in Constantinides G., Harris M., Stulz R. (eds.), *Handbook of the Economics of Finance*, North-Holland, Amsterdam.

Berle A. Jr., Means G. (1932), *The Modern Corporation and Private Property*, Commerce Clearing House, Chicago.

Boyer R (2000), "Is a finance-led growth regime a viable alternative to Fordism? A preliminary analysis", *Economy and Society*, 29, 1, 111–45.

Brainard W.C., Tobin J. (1968), "Pitfalls in financial model building", *American Economic Review*, 58, 99-122.

Caballero R.J. (1999), "Aggregate investment", in Taylor J.B., Woodford M. (eds.), *Handbook of Macroeconomics*, vol. 1B, Elsevier, Amsterdam, 813-862.

Clark J.M. (1917), "Business acceleration and the law of demand: a technical factor in economic cycles", *Journal of Political Economy*, 25, 217-235.

Crotty J. (1990), “Owner-manager conflict and financial theories of investment instability: a critical assessment of Keynes, Tobin and Minsky”, *Journal of Post Keynesian Economics*, 12, 4, 519–542.

Crotty, J. (2005), “The neoliberal paradox: the impact of destructive product market competition and ‘modern’ financial markets on nonfinancial corporation performance in the neoliberal era”, in Epstein G. (Ed.), *Financialization and the World Economy*, Edward Elgar, 77–110.

Davis L.E. (2017), “Financialization and investment: a survey of the empirical literature”, *Journal of Economic Surveys*, 00, 0, 1–27.

Demir F. (2009), “Financial liberalization, private investment and portfolio choice: Financialization of real sectors in emerging markets”, *Journal of Development Economics*, 88, 314–324.

Duménil G., Lévy D. (2005), “Costs and benefits of neoliberalism: a class analysis” in Epstein G. (Ed.), *Financialization and the World Economy*, Edward Elgar, 17–45.

Eichner A., Kregel J. (1975), “An essay on post-Keynesian theory: a new paradigm in economics”, *Journal of Economic Literature*, 13, 4, 1293–1314.

Epstein G.A., Jayadev, A. (2005), “The rise of rentier incomes in OECD countries”, in Epstein G. (Ed.), *Financialization and the World Economy*, Edward Elgar, 46–74.

Fligstein N. (1990), *The Transformation of Corporate Control*, Harvard University Press, Cambridge, MA.

Grahl J., Teague P. (2000), “The Régulation School, the employment relation and financialization”, *Economy and Society*, 29, 1, 160–178.

Hall R.E, Jorgenson D.W. (1967), “Tax policy and investment behaviour”, *American Economic Review*, 57, 3, 391-414.

Hayashi F. (1982), “Tobin's Marginal q and Average q: A Neoclassical Interpretation”, *Econometrica*, 50, 1, 213-224

Itoh M., Lapavitsas C. (1999), *Political Economy of Money and Finance*, Palgrave MacMillan, London.

Jorgenson D.W. (1963), “Capital Theory and investment behaviour”, *American Economic Review*, 53, 2, 247-259.

Keynes J. M. (1937), “The General Theory of Employment,” *Quarterly Journal of Economics*, 51, 2, 209–23.

Lapavitsas C. (2011), “Theorizing Financialization”, *Work, employment and society*, 25(4), 611–626.

Lavoie M. (2014), *Post-Keynesian Economics: New Foundations*, Edward Elgar, Northampton (MA).

Lazonick W., O’Sullivan M. (2000), “Maximizing shareholder value: a new ideology for corporate governance”, *Economy and Society*, 29, 1, 13–35.

Lazonick W. (2012), “The Financialization of the U.S. Corporation: What Has Been Lost, and How It Can Be Regained”, *Seattle University Law Review* , 36, 857-909.

Levine R. (2003), “More on Finance and Growth: More Finance, More Growth?”, *Federal Reserve Bank of St. Louis Review*, 85, 4, 31-46.

Lowenstein R. (2004), *Origins of the Crash: The Great Bubble and Its Undoing*, Penguin Books.

Lutz F. A. (1945), *Corporate Cash Balances, 1914-43: Manufacturing and Trade*, NBER.

Mayer C. (1988), "New issues in corporate finance", *European Economic Review*, 32, 1167-1189.

Meyer J.R., Kuh E. (1957), *The investment Decision: An Empirical Study*, Harvard University Press, Cambridge (Ma).

Minsky H. P. (1975), *John Maynard Keynes*, McGraw-Hill, New York.

Minsky H. P. (1986), *Stabilizing an Unstable Economy*,Yale University Press, New Haven.

OECD (2007), *Economic Outlook*, 82.

OECD (2012a), "International Capital Mobility: Which Structural Policies Reduce Financial Fragility?", *OECD Economic Policy Papers*, 2.

OECD (2012b), "International Capital Mobility: Structural Policies to Reduce Financial Fragility?", *OECD Economics Department Policy Notes*, 13.

Orhangazi Ö. (2008), "Financialisation and Capital Accumulation in the Non-Financial Corporate Sector: A Theoretical and Empirical Investigation on the US Economy: 1973–2003", *Cambridge Journal of Economics*, 32, 863–886.

Sawyer M. (2017), "Financialization and Economic and Social Performance", in Gemzik-Salwach A., Opolski K. (eds.), *Financialization and the Economy*, Taylor and Francis.

Scarano G. (2015), "Corporate Savings and the 2007-2009 Financial Crisis: A Warning for the European Banking Union", in Calciano F., Fiordelisi F., Scarano G. (eds.), *The Restructuring of Banks and Financial Systems in the Euro Area and the Financing of SMEs*, Palgrave Macmillan, London, New York.

Scarano G. (2016), "Connections between corporate governance, corporate savings and business cycles in the economic literature around the Great Depression", Dipartimento di Economia Università degli studi Roma Tre, *Working papers*, 207.

Scarano G. (2018), "The dialectical view of real and financial crises in Marx's thought", Dipartimento di Economia Università degli studi Roma Tre, *Working papers*, 233.

Scarano G. (2019), "Capital accumulation and corporate portfolio choice between liquidity holdings and financialisation", Dipartimento di Economia Università degli studi Roma Tre, *Working papers*,243.

Shaikh A. (2016), *Capitalism: Competition, Conflict, Crises*, Oxford University Press, New York.

Shleifer A., Vishny R. (1997), "A survey of corporate governance", *Journal of Finance*, 52, 737-783.

Singh A. (2007), "Capital account liberalization, free long-term capital flows, financial crises, and economic development", in Anwar Shaikh A. (ed.), *Globalization and the Myths of Free Trade*, Routledge, New York.

Skott P. (1989), *Conflict and Effective Demand in Economic Growth*, Cambridge University Press, Cambridge.

Stiglitz J. (2002), *Globalization and Its Discontents*, W. W. Norton & Company, New York, London.

Stiglitz J. (2004), "Capital-Market Liberalization, Globalization, and the IMF", *Oxford Review of Economic Policy*, 20,1, 57–71.

Stockhammer E. (2004a), "Financialisation and the Slowdown of Accumulation", *Cambridge Journal of Economics*, 28, 719–741.

Stockhammer E. (2004b), *The Rise of Unemployment in Europe. A Keynesian Approach*, Edward Elgar, Cheltenham, UK, Northampton, MA, USA.

Stockhammer E. (2006), "Shareholder value orientation and the investment-profit puzzle", *Journal of Post Keynesian Economics*, 28, 2, 193-215.

The Economist (2012), «Dead money», November 3rd.

Tinbergen J. (1939), "A method and its application to investment activity", *Statistical Testing of Business Cycle Theories*, vol. 1, Economic Intelligense Service, Agathon Press, New York.

Tirole J. (2006), *The Theory of Corporate Finance*, Princeton University Press, Princeton and Oxford.

Tobin J. (1969), "A general equilibrium approach to monetary theory", *Journal of Money, Credit and Banking*, 1, 15-29.

Tobin, J. (1997), "Comment", in Pollin R. (ed.), *The Macroeconomics of Savings, Finance and Investment*, University of Michigan Press, Ann Arbor.

Tornell A. (1990), "Real vs. financial investment: can Tobin taxes eliminate the irreversibility distortion?", *Journal of Development Economics*, 32, 419–444.