

SYLLABUS

Name of the course:	Finance capital and financialization			
Teacher:	Tristan Auvray			
University / organisation:	Université Sorbonne Paris Nord			
Language of teaching:	English			
ECTS:	3 ECTS			
Semester (S1, S2, S3 or S4):	<input type="checkbox"/> S1	<input type="checkbox"/> S2	<input checked="" type="checkbox"/> S3	<input type="checkbox"/> S4
Teaching method(s):	<input type="checkbox"/> Lecture courses		<input type="checkbox"/> Flipped classroom	
	Other:			
Type(s) of evaluation:	<input type="checkbox"/> Sitting exam		<input checked="" type="checkbox"/> Written report	
	<input type="checkbox"/> Oral defence		<input checked="" type="checkbox"/> Group project	
	Other / comments:	<p>Students will have to work in groups of two in order to write a report dealing with the corporate governance of one listed non-financial corporation (NFC). Students have to choose their NFC by mid-October. The teacher will provide the data on ownership structure and accounting numbers (balance sheet, income statement, and cash flow statement). In addition to the academic literature on the subject, students will have to look for information about the company in its annual reports and the press.</p> <p>The report size is about 10 pages (between 25 000 and 30 000 characters including spaces) excluding bibliography and appendixes. The report will include:</p> <ol style="list-style-type: none"> 1. A literature review explaining which are the main variables of financialization of NFCs (the teacher will send the main references) 2. An analysis of the board and ownership structure of the NFC (data on board structure is available in the NFC's annual reports) 3. A study of the evolution of the corporate strategy <ol style="list-style-type: none"> i. in order to explain to what extent this evolution is related to the board and ownership structure (to understand the evolution of corporate strategy, students can also analyse transcripts of conference call between the NFC and financial analysts if the information is available on the Web) 		

SYLLABUS

		<p>ii. in order to say if the NFC is financialized according to the criteria identified in the literature review</p> <p>and, eventually, to find other important elements not included in the financialization literature but playing a critical role for shareholder value (tax haven...).</p>
<p>Expected deadline(s) for the evaluation(s)</p>	<p>Homework to be delivered for end of February 2022</p>	
<p>Expected date of final results:</p>	<p>Mid-April</p>	
<p>Summary of the content:</p>	<p>The main objective of this course is to present the industrial organization of finance capital (banks, pension funds, insurance companies, money managers) in order to explain the cause of the financialization of NFCs, i.e. the ability for shareholders to extract cash from NFCs at the expense of real investment. A special focus will be done on the hot topic of “common ownership” by institutional investors. This issue is closely related to the recent rise of the Big 3 money managers, namely Blackrock, Vanguard, and StateStreet, which have been coined “permanent universal owners” by some authors.</p>	
<p>Indicative list of lectures:</p>	<p>1) Sessions 1 and 2. - Introduction & Corporate Finance</p> <p>During these sessions, I recall the main instruments of corporate finance and I introduce some problems raised by the financialization of NFCs. I also stress some methodological issues related to academic research in political economy.</p> <p>2) Session 3 - Global Finance and Industrial Organization of Finance</p> <p>During this session, I come back on the rise of global finance which produced a particular organization of financial intermediation.</p> <p>3) Session 4 - Industrial Organization of Finance - Banks</p> <p>During this session, I present the industrial organization of banking.</p> <p>4) Sessions 5 and 6 - Industrial Organization of Finance and regulation (pension funds and insurance companies) + Historical diversities of financial regimes</p> <p>To understand global finance we have to understand, not only the banking industry, but also the regulation and organization of US pension funds and European Insurance Companies. The historical diversity of financial regimes will be also presented at the end of these lectures.</p> <p>5) Session 7 - Regulation of international accounting: a device of corporate financialization</p> <p>We will study political issues of international accounting as it influences the behavior of both financial intermediaries and NFCs toward short-termism.</p> <p>6) Sessions 8 to 12 - Corporate control and evolution of ownership structures around the world</p>	

SYLLABUS

	<ul style="list-style-type: none"> - The five last lectures focus on the political, sociological, and economic issues of the debate about the separation of ownership and control. I will present the economic theories of corporate control which focus on board and ownership structures. The political issues about corporate elites rely on board network analysis. The sociological “conception of control” is useful to understand the evolution of corporate strategies toward financialization. - I will stress both the myth of the ownership dispersion thesis around the world, i.e. the strong persistence of controlling shareholders, and the additional rise of institutional investors in ownership structures of non-financial corporations. - I will come back on the debate about institutional investors, short-termism, and financialization. - A special focus will be done on the recent concentration of the Big 3 money managers. Do their stability and common ownership in many NFCs signal the end or a new stage of financialization? <p><i>NB: I can supervise Master theses on any of these topics. I strongly encourage students to focus on the hot topic of common ownership by large institutional investors for which there is a lot of research perspectives because of the economic and political importance of this subject.</i></p>
<p>Short bibliography:</p>	<p><i>All the references I give are either a source for this course or a suggestion for complementary readings. A * indicates priority reading.</i></p> <p>Corporate finance</p> <p>Any handbook on corporate finance: e.g. Vernimmen, P., Quiry, P., Dalocchio M., Le Fur, Y., Salvi, A., 2018, <i>Corporate Finance, Theory and Practice</i>, Fifth Edition, Wiley, see especially:</p> <ul style="list-style-type: none"> - *Section II, Part III, "Financial Securities", p. 345-467, especially chapters 20, 22 and 25 on bonds, equity, and selling securities - Section IV, Part I, p. 587-636, on capital structure policies <p>Or regarding debt instruments, the reference for US bond money managers is Marcia Stigum & Tony Crescenzi, 2007, <i>Stigum's money market</i>, 4th edition, The McGraw-Hill Companies</p> <p>Hecht, J., 2014, “Is net stock issuance relevant to capital formation? Comparing heterodox models of firm-level capital expenditures across the advanced and largest developing economies”, <i>Cambridge Journal of Economics</i>, 38(5), 1171-1206.</p> <p>Tirole J., 2006, <i>The Theory of Corporate Finance</i>, Princeton University Press, 2nd chapter, p. 75.</p> <p>Global finance</p> <p>Deeg Richard and O’Sullivan Mary, 2009 “The Political Economy of Global Finance,” <i>World Politics</i>, 61: 4, 731-763</p> <p>Gabor, D., 2020, “Critical macro-finance: A theoretical lens”. <i>Finance and Society</i>, 6(1), 45-55.</p>



JOINT MASTER

SYLLABUS

Morin, F., 2013, *A world without Wall Street?*, Seagull Books. Or in French: *Un monde sans Wall Street*, Seuil.

Industrial organization of finance

Any handbook on Money, Banking, and Finance: e.g. Cecchetti, S. & Schoenholtz, K., 2021, *Money, Banking, and Financial Markets*, 6th edition, The McGraw-Hill Companies.

- *See especially Part III “Financial Institutions”

-The website of the authors: <https://www.moneyandbanking.com/> and [some of their posts](#) on Financial Institutions

Banks

Any handbook on banking: e.g. Berger, A, Molyneux, P, Wilson, J (eds.), *The Oxford Handbook of Banking*, from the 1st edition (2012) to the 3rd (2019): good chapters of the 1st edition have been removed in next editions.

*Gabor, D., 2015, “The IMF’s Rethink of Global Banks: Critical in Theory, Orthodox in Practice”, *Governance*, 28(2), 199-218.

Hardie I. et Howarth, D. (eds.), 2013, *Market-based banking and the international financial crisis*, Oxford University Press, Oxford.

*Hardie I., Howarth D., Maxfield S., Verdun A., 2013, “Banks and the False Dichotomy in the Comparative Political Economy of Finance”, *World Politics*, Vol. 65, N° 4, pp. 691-728.

Morin, F. 2015 (in French), *L’hydre mondiale. L’oligopole bancaire*, Lux Editeurs.

Pension funds

Montagne, S., 2013, “Investing prudently: How financialization puts a legal standard to use”. *Sociologie Du Travail*, 55, e48-e66.

*O’Sullivan Mary, 2000, “Pension Fund Socialism or Plus ça Change?: Retirement Provision and Corporate Governance in the United States”, *Année de la Régulation*, 2000, 47-87.

Insurance companies

*Bank of England, 2014, “Procyclicality and structural trends in investment allocation by insurance companies and pension funds”, A Discussion Paper by the Bank of England and the Procyclicality Working Group.

IMF, 2016, “The Insurance Sector—Trends and Systemic Risk Implications”, *Global Financial Stability Report*, April, p. 87-118.

Money Managers

*Arjaliès, D.-L., Grant, P., Hardie, I., MacKenzie, D., Svetlova, E., 2017, *Chains of Finance, How Investment Management is Shaped*, Oxford University Press (See 1st chapter especially, “Investment Management and the Investment Chain”)



JOINT MASTER

SYLLABUS

Epstein, G., 2019, "The asset management industry in the United States", *Financing for Development series*, No. 271 (LC/TS.2019/81), Santiago, Economic Commission for Latin America and the Caribbean

On the political economy of accounting

*Bignon, Vincent and Biondi, Yuri and Ragot, Xavier, 2009, "An Economic Analysis of Fair Value: Accounting as a Vector of Crisis", Cournot Centre for Economic Studies, *Prisme*, No. 15, URL: <http://ssrn.com/abstract=1474228>

Biondi, Y, 2011, The Pure Logic of Accounting: A Critique of the Fair Value Revolution, *Accounting, Economics, and Law: A Convivium*. Volume 1, Issue 1.

Haas Jerome, 2013, "Towards a Comprehensive Appraisal of Global Accounting Harmonization: About the "Desirability" of IFRS", *Accounting, Economics and Law: A Convivium*, 3(2), 53-68.

*Zeff Stephen A., 2012, "The Evolution of the IASC into the IASB, and the Challenges it Faces", *The Accounting Review*, 87(3), 807-837.

Historical diversities of financial regimes

Auvray, T., Dallery, T., 2019, "Une histoire des relations finance-industrie aux États-Unis : origines et remèdes à la financiarisation des entreprises", *Entreprises & Histoire*, n° 94, p. 30-49 (in French).

*Toporowski, J., 2020, "Financialisation and the periodisation of capitalism: appearances and processes", *Review of Evolutionary Political Economy*, Vol 1, n°2, pp. 149-160.

*Whalen, C., 2001, "Integrating Schumpeter and Keynes: Hyman Minsky's Theory of Capitalist Development", *Journal of Economic Issues*, Vol. 35, pp. 805-823.

Corporate control and evolution of ownership structures

On the separation of ownership and control

Economics:

*Auvray T. and Brossard O., 2016, "French connections: interlocking directorates and ownership network in an insider governance system", *Revue d'économie industrielle*, No. 154, pp. 177-206.

*Berle A.A. and Means G.C., 1932, *The modern corporation and private property*, The Macmillan Company, 396 p., book 1, chapter 5.

*Mizruchi Mark S, 2004, "Berle and Means revisited: The governance and power of large U.S. corporations", *Theory and Society*, 33, 579-617.

Tirole J., 2006, *The Theory of Corporate Finance*, Princeton University Press, 1st chapter.

Sociology - corporate elites:

Mizruchi Mark S., 1992, *The structure of corporate political action*, Harvard University Press.



JOINT MASTER

SYLLABUS

*Mizruchi Mark S., 1996, "What Do Interlocks Do? An Analysis, Critique, and Assessment of Research on Interlocking Directorates", *Annual Review of Sociology*, 22, pp. 271-298.

Mizruchi Mark S., 2013, *The fracturing of the American Corporate Elite*, Harvard University Press

Sociology - "conceptions of control":

*Dobbin, F., & Zorn, D., 2005, "Corporate malfeasance and the myth of shareholder value", *Political Power And Social Theory*, (17), 179-198.

Fligstein, N., 1993, *The Transformation of Corporate Control*, Harvard University Press.

Fligstein, Neil, 2001, *The Architecture of Markets: An Economic Sociology of Twenty-First-Century Capitalist Societies*, Princeton University Press, especially chapters 6, 7, & 8.

On the evolution of ownership structures around the world

Ownership concentration:

Barca, F., and M. Becht (eds.), 2001, *The Control of Corporate Europe*. Oxford University Press, New York.

Carney, R. W., and T. B. Child, 2013, "Changes to the ownership and control of East Asian corporations between 1996 and 2008: The primacy of politics," *Journal of Financial Economics*, 107(2), 494-513.

Claessens, S., S. Djankov, and L. H. P. Lang, 2000, "The separation of ownership and control in East Asian Corporations," *Journal of Financial Economics*, 58(1/2), 81-112.

Faccio, M., Lang L., 2002, "The ultimate ownership of Western European corporations," *Journal of Financial Economics*, 65(3), 365-395.

Holderness C.G., 2009, "The Myth of Diffuse Ownership in the United States", *Review of Financial Studies*, vol. 22, no 4, p. 1377-1408.

*La Porta, R., F. Lopez-de-Silanes, and A. Shleifer, 1999, "Corporate Ownership Around the World," *Journal of Finance*, 54(2), 471-517.

Zeitlin Maurice, 1974, "Corporate Ownership and Control: The Large Corporation and the Capitalist Class", *The American Journal of Sociology*, Vol. 79, No. 5, pp. 1073-1119.

Institutional investors:

*Davis, G. F. (2008). A new finance capitalism? Mutual funds and ownership reconcentration in the United States. *European Management Review*, 5(1), 11-21.

*Fichtner, J., 2020, The rise of institutional investors. In P. Mader, D. Mertens & N. van der Zwan (Eds.), *The Routledge international handbook of financialization* (pp. 265-275). Abingdon: Routledge.

Goyer, M, 2011, *Contingent Capital: Short-term Investors and the Evolution of Corporate Governance in France and Germany*, Oxford University Press.



JOINT MASTER

SYLLABUS

*Morin, F., 2000, "A Transformation in the French Model of Shareholding and Management," *Economy and Society*, 29(1), 36-53.

O'Sullivan, M. 2007. Acting out institutional change: understanding the recent transformation of the French financial system. *Socio-Economic Review*, vol. 5, no. 3, 389-436

OEE-IODS, 2013, "Who owns the European economy? Evolution of the ownership of EU-listed companies between 1970 and 2012", Final report submitted to the European commission.

On the rise of the Big 3 or new permanent universal owners:

*Auvray, T., Durand, C., Rabinovich, J., Rikap, C., (2021), "Corporate financialization's conservation and transformation: from Mark I to Mark II", *Review of Evolutionary Political Economy*, Vol.2, forthcoming.

Azar, J. (2020). The Common Ownership Trilemma. *The University of Chicago L. Rev.*, 87(2), 263-296

*Bebchuk, Hirst (2019), "The Specter of the Giant Three", *Boston University Law Review*, vol. 99, p. 721-741.

Braun, B. (2016). From performativity to political economy: index investing, ETFs and asset manager capitalism. *New Political Economy*, 21(3), 257-273.

Elhauge, E., (2016), Horizontal Shareholdings, *Harvard Law Review*, Vol. 129:1267-1317.

*Fichtner, J., & Heemskerk, E. M. (2020). "The New Permanent Universal Owners: Index funds, patient capital, and the distinction between feeble and forceful stewardship". *Economy and Society*, 1-23.

Fichtner, J., Heemskerk, E. M., & Garcia-Bernardo, J. (2017). "Hidden power of the Big Three? Passive index funds, re-concentration of corporate ownership, and new financial risk". *Business and Pol.*, 19(2), 298-326.

Haberly, D., MacDonald-Korth, D., Urban, M., & Wójcik, D. (2019). "Asset management as a digital platform industry: A global financial network perspective". *Geoforum*, 106, 167-181.

Jahnke, P. (2019). "Ownership concentration and institutional investors' governance through voice and exit". *Business and Politics*, 21(3), 327-350.

Financialization

*P. Mader, D. Mertens & N. van der Zwan (Eds.), *The Routledge international handbook of financialization*. Abingdon: Routledge.

For this course and your report, I will send a file with the many references on corporate financialization.