

Multi-Factor Evaluation of the Financialization Degree of Polish Households in the Background of the Euro Area

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Abstract:

Financialization is a term that is becoming increasingly popular in the Polish literature. One of its important aspects, which is multidimensionality, is often emphasized. It is a process whose effects are visible at all levels of the economy. The effects of financialization could be seen both at the national level and in the basic economic unit, which is a household. Firstly, the purpose of this study is to analyze changes, which in literature are considered to be symptoms of financialization in Polish households. The second, no less important goal, is to compare the level of financialization of Polish households with the level characteristic for countries belonging to the euro area.

Keywords: household financialization, humanistic economy, ethics in finance, social capital.

1. Introduction

In a general sense, financialization means the increasing role of financial motives, financial markets, financial actors, and financial institutions in the operation of the domestic and international economies [2, p. 3]. Financialization is also defined as a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production. Financial refers to activities relating to the provision of liquid capital in expectation of future interest, dividends, or capital gains [7, pp. 174-175].

Until now, this phenomenon has been mainly examined by economists, but its multilateral conditions and effects influencing various spheres of social life make sociologists, representatives of political sciences and ethicists increasingly interested in financialization. It is also the subject of journalistic works and press articles. In the Polish literature the term *finansyzacja* is sometimes used, but it seems that the term *finansjalizacja* better reflects the processual nature of this phenomenon, clearly indicating its continuity and developmental character [9, p. 210].

The global financial crisis of 2007-08 pushed households closer to the center of the discussion – though only to a certain extent. In a review of the key literature concerned with the rise of global finance prior to the crisis, Richard Degg and Mary O’Sullivan [1, p. 731] identified a number of essential works focused on financial firms, rating agencies, governance structures, and

capital account liberalization – but none that dealt with household financial activities – in an in-depth manner. Numerous pre-crisis works did warn of instability produced by exotic financial instruments based on household borrowing – and most post-crisis autopsies focused on those instruments to some degree [6, pp. 67-87].

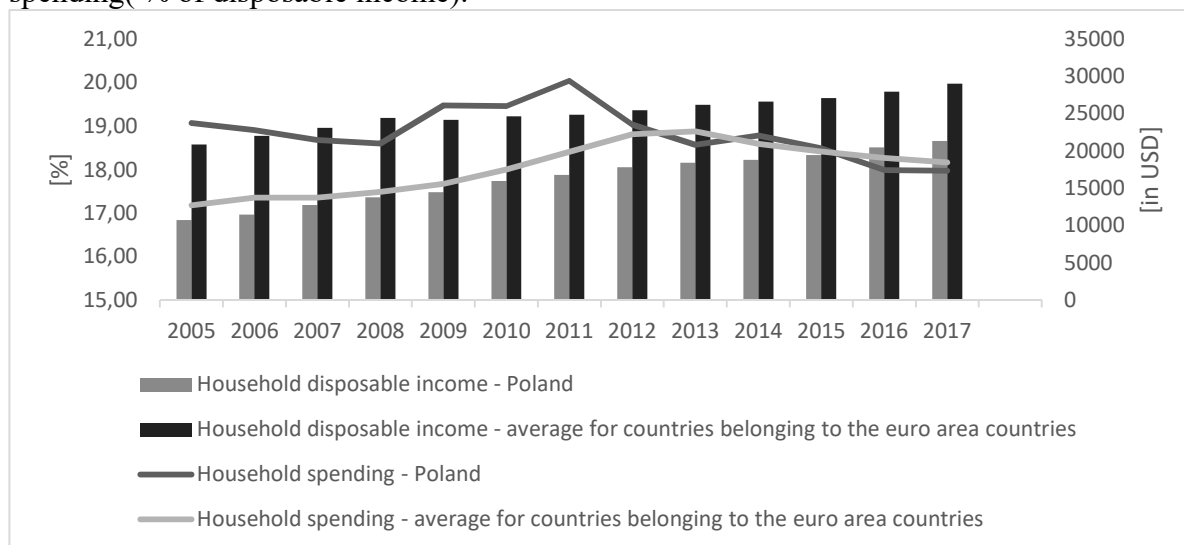
Individual people are no longer only consumers traditionally understood, but they have also become investors on a smaller or larger scale. Real estate, which previously was only assets that satisfied existential needs, have become an object of investment and a source of additional income [10, p. 5]. From a different perspective, in the matter of the financialization of everyday life, the literature also refers to the problems of low middle class income, participation in retirement plans, taking out mortgages and using other financial products offered on the market. People through active relations with the financial market make various decisions and expose themselves to a number of different risks [11, p. 38].

Household financialization can be defined in two ways. The first approach says that the financialization of households manifests itself primarily in the increasing sale of financial products to all households [3, pp. 575-601]. According to the second approach, households come to embrace a more proactive and entrepreneurial management of their finances to capitalize on the opportunities these products present. In other words, they begin to think more financially. They conceive of their wealth as deployable assets. They embrace risk and trade stocks. They use leveraged equity to fund investments and consumption expenditures [5, pp. 120-144].

A growing level of financialization among households is undoubtedly due to an increase in the average monthly income per individual member. Increasing level of disposable income (fig. 1), both in Poland and in the countries belonging to the euro area, makes households take one of the necessary decisions concerning the form of investing free financial resources. It seems obvious that the more money available to household members, the greater their propensity to risk. A wealthy household will more often choose more risky forms of investing free capital. They are aware of potentially higher profits, and a potential loss will not deprive them of the possibility of further existence. In the literature, this behavior is considered one of the manifestations of financialization.

In the scientific literature, the expression “financialization of daily life” thus covers remarkably diverse situations. It signals the description of a world in which individuals find themselves constrained by the faceless private actor called finance, where their desires are greatly shaped by this same actor, as is their inclusion in society, which, through the term “financial inclusion”, is itself increasingly associated with their inclusion in finance. The definition of this expression, however, remains relatively vague: for some, it refers to the presence of money or of a formal financial institution in a space that has previously been given to community trade; for others, the term is used to designate changes in the modes of financing certain public actions and policies, or to point out the need for households to manage their money by using complex financial products [8, pp. 28-29].

Figure 1. Household disposable income, gross adjusted, (in US dollars/capita) and household spending(% of disposable income).



Source: Own study based on OECD National Accounts Statistics: National Accounts at a Glance.

2. General Characteristics of the Empirical Research

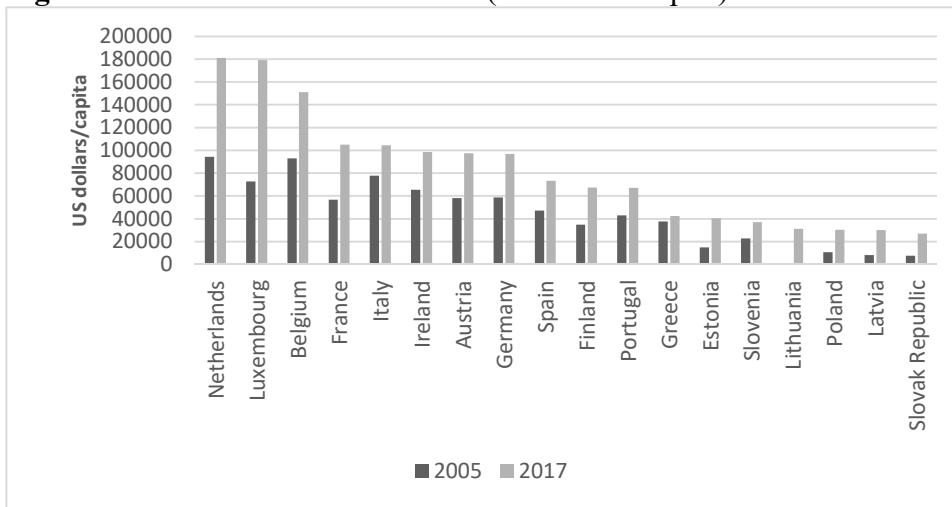
The purpose of this study is an attempt to answer the question whether household financialization is a process which, although to a small extent, concerns Polish households, or it is still a phenomenon which poses no threat to the Polish economy? Another equally important goal of the article is to measure the level of financialization of Polish households by means of a multifactorial development analysis and a summary of the obtained results in relation to the countries belonging to the euro area. The article formulates two hypotheses. The first of them assumes that the process of financialization is a phenomenon whose level is increasing among Polish households. The second says that the level of financialization in Poland is at a much lower level than in the countries using the single currency. In order to verify the hypotheses described above, such indicators as the level of households' financial assets, the share of their individual components in the total structure, as well as the debt level of the described entities have been used. The conducted research has allowed to draw conclusions about whether financialization threatens Polish households in any way. A comparative analysis has also been conducted, and the results obtained for Polish households compared with those for households in the countries that are members of the euro area. A detailed description of the variables adopted for the research and the methods for determining the synthetic indicator is provided later in this work. In order to analyze and make proper conclusions, data from 2005-2017 have been used. The source of the empirical data for the study have been the information published by the OECD. Due to the incompleteness of such data, the analysis has omitted two countries belonging to the euro area. They are Malta and Cyprus.

3. The Results of the Empirical Research

In reference to the first figure, which was presented in the first part of the article, the amount of income that is available to the household members is constantly increasing; it can therefore be assumed that their financial assets are also growing. Household financial assets include: currency and deposits; securities other than shares; loans; shares and other equity; net equity of households in life insurance reserves; net equity of households in pension funds; prepayments of premiums and reserves against outstanding claims; and other accounts receivable This assumption is also confirmed by the conducted research. Each of the surveyed countries is characterized by the above tendency (fig. 1). The countries that recorded the highest increase in the level of savings are The Netherlands, Luxembourg, and Belgium. The countries such as Poland, Latvia and Slovakia have

the lowest level of financial assets. It is worth emphasizing, however, that despite the lower values achieved by the mentioned countries, the dynamics of changes in this indicator remains at a satisfactory level. For example, the financial assets of Polish households have increased their value almost threefold over the last twelve years (2.8).

Figure 2. Household financial assets (US dollars/capita).



Source: Own study based on OECD National Accounts Statistics: National Accounts at a Glance.

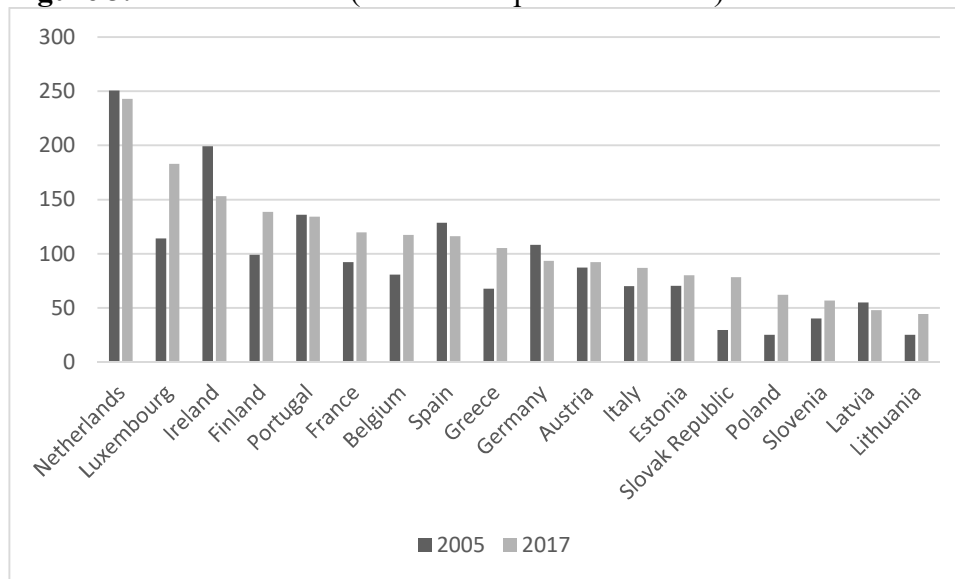
The essence of financialization is not the increase in savings by itself. A symptom that may show a deepening process is changes in the structure of free cash being saved for the future. The table below presents the changes that took place in the savings structure of the studied countries over the period taken in consideration. It turns out, that even though for some researchers, the increase in the level of financialization is something obvious, in some countries it is not entirely unequivocal. It is noteworthy that only nine out of the seventeen analyzed countries recorded a decrease in cash and deposits, which are considered ones of the safest forms of investing free cash in contrast to more risky ones. Only in 8 countries an increase in the value of shares and other equity in the savings structure can be noted.

Table 1. Structure of savings in the selected countries belonging to the euro area and Poland (in%).
Source: The author's own work based on OECD National Accounts Statistics: National Accounts at a Glance.

		2005	2008	2011	2014	2017	2017/2005 (in %)
Austria	Currency and deposits	42.60	44.50	42.60	40.30	40.74	-4.37
	Securities other than shares	6.61	8.78	8.70	6.99	4.94	-25.31
	Shares and other equity	18.39	16.64	18.78	21.33	22.88	24.39
Belgium	Currency and deposits	27.30	30.50	29.60	29.80	29.73	8.90
	Securities other than shares	10.95	10.05	10.20	6.30	3.54	-67.72
	Shares and other equity	23.31	22.58	25.10	27.52	26.98	15.78
Estonia	Currency and deposits	22.50	22.70	30.10	26.80	28.67	27.42
	Securities other than shares	0.29	0.76	0.24	0.16	0.23	-22.11
	Shares and other equity	62.83	63.39	54.28	56.44	51.59	-17.89
Finland	Currency and deposits	31.10	39.70	38.10	30.70	30.26	-2.70
	Securities other than shares	1.78	2.14	2.64	1.97	1.20	-32.53
	Shares and other equity	36.41	29.90	31.78	36.79	38.92	6.89
France	Currency and deposits	30.00	30.40	29.30	28.80	27.37	-8.77
	Securities other than shares	2.16	2.23	2.03	1.73	1.07	-50.49
	Shares and other equity	22.43	17.86	18.18	20.51	22.80	1.65
Germany	Currency and deposits	35.20	39.40	39.80	39.10	39.25	11.51
	Securities other than shares	7.67	6.35	5.39	3.77	2.57	-66.50
	Shares and other equity	12.47	9.44	8.93	9.90	10.85	-12.95
Greece	Currency and deposits	50.70	71.20	79.60	69.40	60.91	20.14
	Securities other than shares	11.08	9.00	5.25	1.31	1.21	-89.05
	Shares and other equity	24.60	6.90	3.59	19.13	26.66	8.39
Ireland	Currency and deposits	35.80	42.80	40.70	37.10	36.84	2.91
	Securities other than shares	0.06	0.06	0.07	0.12	0.06	8.93
	Shares and other equity	21.92	16.22	15.49	13.81	12.09	-44.83
Italy	Currency and deposits	23.60	29.10	31.30	30.90	30.88	30.85
	Securities other than shares	19.05	21.27	20.70	13.70	6.91	-63.73
	Shares and other equity	28.25	24.33	18.47	22.61	24.11	-14.66
Latvia	Currency and deposits	46.60	33.50	32.60	37.10	32.17	-30.97
	Securities other than shares	0.06	0.13	0.62	0.84	0.81	1363.64
	Shares and other equity	16.85	22.33	6.01	21.42	24.18	43.54
Luxembourg	Currency and deposits	52.00	55.00	52.60	49.90	45.91	-11.71
	Securities other than shares	6.02	11.16	11.17	7.61	4.26	-29.31
	Shares and other equity	15.71	11.56	11.99	13.90	22.75	44.88
Netherlands	Currency and deposits	21.40	22.40	21.50	19.10	16.82	-21.40
	Securities other than shares	1.89	1.79	1.06	0.47	0.32	-83.35
	Shares and other equity	14.00	11.90	9.80	8.41	11.15	-20.35
Poland	Currency and deposits	37.60	46.60	48.30	46.00	47.11	25.29
	Securities other than shares	1.29	0.96	0.65	0.28	0.51	-60.16
	Shares and other equity	32.77	19.60	17.78	19.72	20.43	-37.66
Portugal	Currency and deposits	38.80	41.80	43.80	43.40	43.81	12.91
	Securities other than shares	5.00	5.19	5.79	4.09	3.43	-31.30
	Shares and other equity	20.47	20.70	19.77	20.86	23.52	14.91

Slovak Republic	Currency and deposits	66.70	60.70	63.60	61.10	60.41	-9.43
	Securities other than shares	0.51	0.24	2.09	1.35	3.51	589.02
	Shares and other equity	0.30	0.38	0.40	0.54	0.90	198.67
Slovenia	Currency and deposits	50.40	48.00	50.20	49.00	49.29	-2.20
	Securities other than shares	1.81	1.39	1.33	0.66	0.40	-78.13
	Shares and other equity	24.43	25.17	21.69	22.15	22.72	-7.01
Spain	Currency and deposits	36.40	46.80	47.00	42.90	39.17	7.61
	Securities other than shares	2.13	2.25	4.76	1.75	0.84	-60.50
	Shares and other equity	30.81	23.53	23.05	25.57	27.56	-10.55

Figure 3. Household debt (% of net disposable income).



Source: Own study based on OECD National Accounts Statistics: National Accounts at a Glance.

Household financialization can also be analyzed from the perspective of the debt of the described units. The increasing level of this indicator shows that this process is becoming more and more widespread. A growing part of income is allocated to repayment of debt, which results in an increase in financial costs (due to interest payments) in the total amount of expenses. The countries where the debt ratio was at its highest are The Netherlands, Luxembourg, and Ireland. Compared to most of the euro area countries, Poland was a state with a relatively low level of debt (it was in fourth place from the end). It is worth noting that almost all countries recorded an increase in the level of debt over the years 2005-2017.

4. The Multi-factor Analysis of the Financialization Process Level

In order to compare easier the degree of financialization of the Polish households to the countries belonging to the euro area, a synthetic measure has been calculated. This indicator makes it possible to assess to what extent the households are affected by the above phenomenon. For the purposes of this article, the degree of household financialization is assessed through the prism of features that have been divided into two groups. The first of them collects variables according to the structure of savings accumulated by household members, while the second one combines some features reflecting the level of debt. Out of the six selected variables, each of them may be of a different nature. In this article, the degree of financialization is characterized by five stimulants and one destimulant (table 2). Stimulants are those financial indicators whose growth is a positive trend in the development of the phenomenon, and in this case, it shows an increasing level of financialization. On the other hand, destimulants are indicators whose decline is a positive trend in the development of the phenomenon. The share of cash and deposits in the total number of financial

assets in the analyzed case is the only destimulant in which decreasing values should be considered as a sign of increasing financialization.

Table 2. Partial indicators used in the algorithm of the synthetic indicator of the level of household financialization (FINHH).

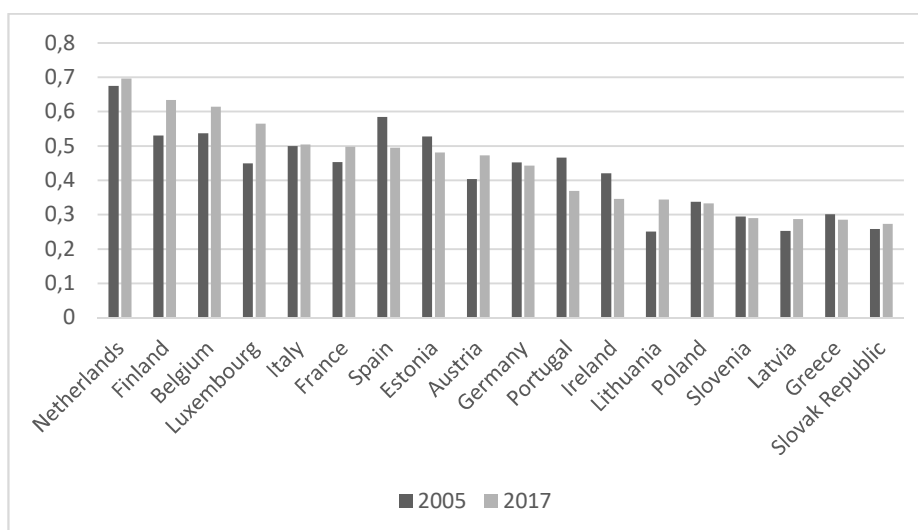
Analysis Area	Variable (feature)	Nature of variable
Structure of household savings	X ₁ - Currency and deposits, % of total financial assets,	destimulant
	X ₂ - Shares and other equity, % of total financial assets,	stimulant
	X ₃ - Mutual fund shares, % of total financial assets,	stimulant
	X ₄ - Investment rate of households, % of fixed capital formation / gross disposable income,	stimulant
Household debt level	X ₅ - Gross det-to-income ratio of households, % of loans, liabilities / gross disposable income	stimulant
	X ₆ - Credit / deposit ratio	stimulant

In order to show the level of household financialization six features have been selected, divided into two groups. The first group includes such variables as Currency and deposits, % of total financial assets, Shares and other equity, % of total financial assets, Mutual fund shares, % of total financial assets, Investment rate of households, % of fixed capital formation / gross disposable income. All of them reflect the way of shaping household savings. The second group covers variables characterizing debt level. The selection of such and not different factors has not been casual. Household financialization is reflected in the fact that the financial sphere is becoming increasingly common in the daily life of its members. What is more, household financialization is not locating of savings in the safest forms but searching for new, more risky ones.

The values of the synthetic indicator thus calculated, showing the level of financialization, prove that the distance between Polish households and those belonging to the euro area is still quite large. The research conducted for the purposes of this article has shown that the countries with the highest degree of financialization are The Netherlands, Finland, and Belgium. Poland, with an index of just over 0.3, is the fifth country from the end. Interestingly, four countries from the euro area have an even lower rate of financialization level than Poland.

In order to characterize the dynamics of the multidimensional phenomenon of financialization, not all countries have recorded its progress. In some countries, the years 2005-2017 were the time of a decline in the level of financialization (these countries include Poland). In nine cases its increase can be noted.

Figure 4. A synthetic indicator measuring the level of Poland's financialization process against the background of the euro area countries.



Source: Own study.

5. Conclusions

The financialization process is a dynamic and multifaceted phenomenon. Due to this fact, it is difficult to measure accurately the level of this phenomenon. This can be particularly difficult for households, often associated with a lack of access to relevant data. However, based on the analysis, the following conclusions can be made:

- Changes in the level of financialization of Polish households can be noticed; in most cases, however, these are changes showing that the level of financialization process of Polish households is nevertheless decreasing slightly.
- The level of financialization of Polish households is at a much lower level than in most of the euro area countries. It is worth emphasizing, however, that it is not the lowest.
- In the future, it is possible to extend the synthetic measure and add other variables characterizing the level of financialization, such as: the amount of financial interest, the ratio of mortgages taken for investment purposes or for housing purposes. However, it should be borne in mind that these data are difficult to access
- It can be considered almost certain that financialization is an inevitable process. It is worth emphasizing, therefore, that in the interest of individuals as well as the general public, striving to have sufficiently high knowledge in the field of universally understood finances seems to be almost a necessity. Without sufficient knowledge in this field, an individual can succumb easily to pressure from the environment and manage their personal finances in a too risky manner.
- Many aspects of household financialization can have negative effects on the stability and financial security of households. As in the macroeconomic sphere, financialization is treated as the causative agent of financial crises [4, p. 299-311].
- However, the research has shown that household financialization is not a major threat now. This process does not show any sharp upward trends, and in some countries, there is a downward trend.

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