Journal of
Economics and Political Economy
www.kspjournals.org
Volume 8 March 2021 Issue 1

Financialization and political economy of financial regulation in Uganda

By Jimmy ALANI †

Abstract. Firstly, in this present paper, empirical evidence obtained after employing generalized least squares technique on the relevant sample data for Uganda over the 1970 to 2016 period, shows that financialization had adverse effect on economic growth. Secondly, in Uganda during the sample period, deregulation (represented by exchange rate depreciation) enhanced financialization. Thirdly, financialization depressed investments in the country because a large fraction of investments could have been diverted away from the real sector to the financial sector. Fourthly, financialization had positive and significant effects on inflation, quantity of foreign exchange and balance of payments deficit. Lastly, empirical evidence indicates that financialization was as a result of increase in exchange rate and gold reserves, monetization of the economy, imports and movements in household disposable income relative to GDP. Results in the paper suggest the following recommendations: control of financialization through macro prudential financial regulation, reduction of balance of payments deficit, undertaking more investments in directly productive areas and control of the relative movements in disposable household consumption relative to GDP.
Keywords. Financialization, Political economy, Financial regulation.
JEL. C01, C10, G18, P16, P34.

1. Introduction

By using the GLS technique, this present paper examines the effects of political economy of financial regulation on financialization. In particular it looks into the effect of exchange rate depreciation (i.e. deregulation) on financialization and the effect of financialization on economic growth in Uganda during the period 1970 to 2016. Political economyrefers to how politics affect economic outcomes. The economy at all levels has always been subject to measures taken, or constraints imposed by political authorities. Several observers believe that the regulatory framework prevailing prior to the 2007–2008 global financial crisis was deficient because it was largely "microprudential" in nature (Borio, 2003; Borio *et al.*, 2001; French *et al.*, 2010; Goodhart *et al.*, 2009; Hanson *et al.*, 2011; Kashyap *et al.*, 2008; Saporta, 2009).

A microprudential regulation approach aims at preventing the costly failure of individual financial institutions. In contrast, a "macroprudential"

† Makerere University School of Economics, College of Business and Management Sciences (COBAMS), P.O. Box 7062, Kampala, Uganda.
☎. +44 7515 909 633 ✉. alanijimmy@gmail.com

approach seeks to safeguard the financial system as a whole. After the 2007–2008 global financial crisis, both academicians and policymakers seem to agree that financial regulation needs to move in a macroprudential direction (Hanson *et al.*, 2011). In response this agreement, the paper tends to leanmore towards a macroprudential approach. In the paper, the review of literature covers the history of international political economy of financial regulation from 1944 to the present time, theoretical literature on political economy of financial regulation, empirical literature on financial regulation and economic growth, interaction between prudential policies and other financial sector policies, theory and empirics of financialization as an outcome of deregulation, and what political economy is.

The motivation of the paper is that financialization could have been the driving force behind the economic depressions and financial crises for centuries. That is because the mathematical definition of financialization shows that the correlation between economic growth and financialization is negative. The idea that "correlation does not mean causation" makes the relationship between growth and financialization an interesting case for empirical examination within the context of political economy of financial regulation. Moreover, Battiston *et al.*, (2016) provide some empirical evidence that excessive financialization depresses economic growth because it indicates that a larger fraction of credit is directed toward unfruitful investment projects, possibly generating economic crises.

Firstly, in the paper regression results indicate that that financialization had adverse effect on economic growth in Uganda. Secondly, in Uganda during the sample period, deregulation (represented by exchange rate depreciation) enhanced financialization. Thirdly, financialization depressed investments in the country because a large fraction of investments could have been diverted away from the real sector to the financial sector. Fourthly, financialization had positive and significant effects on inflation, quantity of foreign exchange and balance of payments deficit. Lastly, empirical evidence indicates that financialization was as a result of increase in exchange rate and gold reserves, monetization of the economy, imports and movements in household disposable income relative to GDP. Results in the paper suggest the following recommendations: control of financialization through macroprudential financial regulation, reduction of balance of payments deficit, undertaking more investments in directly productive areas and control of the relative movements in disposable household consumption relative to GDP.

2. Literature review

This present section reviews literature that is relevant for the examination of "Financialization and Political Economy of Financial Regulation in Uganda." Thus, it focuses on the relationships between financialization, economic growth and financial regulation at both national and international levels. The paper defines financialization as the ratio of money supply (M2) to GDP. The paper argues: (a) it is financializationthat

causes decline in economic growth and (b) financialization occurs as a result of financial deregulation and inappropriate financial regulation. Uganda is an interesting case to examine because since 1970 financialization has been going on in the country at the expense of economic growth amidst deregulation.

Economic growth is the foremost objective in all economies in the world. Consistent with such an objective towards growth and development, financial sector policies are also undertaken to enhance the broad objective of ensuring economic growth. However, there is no agreement on the relevance of financial sector in promoting growth. For instance, eminent economists, including Nobel laureates, have sharply disagreed on this issue.

Thus, some economists and in particular Nobel laureate Merton Miller's believe in the total irrelevance of finance and they consider the assertion that "financial markets contribute to economic growth" to be a proposition too obvious for serious discussion. Meanwhile, other economists reject the idea that the finance and growth theory can be safely ignored without substantially limiting our understanding of growth.

Failure of regulation is widely accepted as one of the main causes of the crises. Therefore, reform of regulations, has become crucial for ensuring the smooth running of financial systems that is so vital for economic growth. The new regulations embodied in Basel III have more stringent requirements, particularly in terms of capital and liquidity. These rapidly evolving global standards have received support from all quarters, including developing countries.

Therefore, for the regulatory reforms to be efficient without constraining future economic growth, policymakers are required to assess the effects of financial regulation on crucial drivers of economic growth e.g. trade finance, money supply and credit availability in various enterprises. Adaption of the regulations where necessary mitigates their negative effects on economic growth, and provides additional measures to promote economic growth.

Regulation refers to some form of intervention in any activity involving among other things explicit legal control and informal peer group control by either government or an authoritative body (Ogus, 1994). There are two types of regulation: government regulation and self–regulation. Every government regulation is sometimes administered through government parastatals or agencies.

Government regulations are usually backed by statute laws established by acts of parliament or military decrees. Regulations are rules which are intended, in all stages of their application, to be interpreted and enforced by the courts. Effective laws usually prescribe punishments for non–compliance. Thus, the power of statutes generally depends on willingness of society to obey the law and in the willingness of the state to enforce the punishment for non–compliance (Uche, 2001).

2.1. International financial regulation prior to the 1944 Bretton Woods conference

On concluding World War I, most countries wanted to return to the old financial security and stable situation of pre WWI era as soon as possible. By 1926 discussions about a return to the gold standard began and all leading economies had re–establishedthe system, according to which every nation's circulating money had to be backed by reserves of gold and foreign currencies to a certain extent. But several mistakes in implementing the gold standard were made "mainly that a weakened Great Britain had to take the leading part and that a number of main currencies were overvalued or undervalued"(Dammasch, 2011).

These mistakes led to the collapse of the economic and financial relations, culminating in the Great Depression in 1929. The major reason for this was that every single country tried to increase the competitiveness of its export products in order to reduce its balance of payment deficit by deflating its currency. Such a strategy only led to success as long as a country was deflating faster and more strongly than all other nations. In fact the strategy caused an international deflation competition that caused mass unemployment, bankruptcy of enterprises, the failing of credit institutions, as well as hyper inflations in the countries concerned (Dammasch, 2011).

2.2. The origin of international financial regulation

In 1941, the Allies decided to bring about the fullest collaboration between all nations in the economic field with the objective of improving labor standards, economic advancement and social security (Roosevelt & Churchill, 1941). This new international economic regulation system became a multilateral alternative to the chaotic economic competition of the 1930s characterized by competitive currency depreciation, excessive tariff barriers, uneconomic barter deals, multiple currency practices and unnecessary exchange restrictions (Gardner, 1956). These regulations, in particular the international financial (IFR) regulations were believed to have deepened the Great Depression and ultimately contributed to the Second World War (Keynes, 1942, 1943). Therefore, there was need "to recreate a liberal world economy in which stable exchange rates and free trade were the norm" (Skidelsky, 2005; Verdier, 2013).

The gold standard that had disintegrated in the 1930s was replaced by a new international monetary system in 1944. This new international monetary system became the cornerstone of the postwar economic order (Milner & Helleiner, 1995). A stable monetary system was expected to provide the foundation for reviving international trade by abolishing discriminatory preferences and reducing tariffs and other barriers to trade. The new system was envisioned to offer a highly legalized regime based on formal treaty obligations and intergovernmental organizations as well as balanced multilateral obligations with domestic economic and social policy autonomy (Ruggie, 2017). The IMF Articles of Agreement, established an

elaborate code of conduct for international monetary relations (Lowenfeld, 2008; Verdier, 2013).

The Articles created a system of fixed exchange rates. Under this system all currencies were pegged to the U.S. dollar, and at the same time the dollar itself was pegged to gold at a rate of $35 per ounce. First, the IMF member states agreed to adopt and maintain a fixed "par value" for their currency. Thus, they expressed their individual domestic currencies in gold or dollars, and not change it unless necessary to correct a "fundamental disequilibrium" (Lowenfeld, 2008, p.623). Therefore, they accepted to fulfill this obligation, by intervening in the foreign exchange market through buying or selling their own currency near par value. Second, the article allows private persons to freely exchange their currency for current account transactions, such as international sales of goods and services (Garber, 1993; Verdier, 2013).

The article further allowed for maintaining the convertibility of the domestic currency, at least for current transactions, and was seen as essential to reviving international trade. Finally, under this system, a country that is facing a current account deficit was allowed to run out of foreign currency reserves needed to maintain its currency at par value. To address this problem, all members were expected to contribute to a fund administered by the IMF and available for lending to deficit countries, on the condition that they took steps to restore the balance of payment equilibrium. More importantly, the IMF Articles of Agreement allowed and encouraged capital controls, but they prohibited restrictions on current transactions (Garber, 1993; Verdier, 2013).

Meanwhile, the Bretton Woods system "strongly encouraged closed national financial markets, with limited capital flows, and open markets for trade in goods." The international capital flows were needed for reconstruction and development, and they were expected to occur primarily through official channels, not private investment (Arner, & Buckley, 2010; Garber, 1993; Verdier, 2013).

2.3. International financial regulation, 1958–1968

The Bretton Woods system was established by the 1944 Articles of Agreement to design a new international monetary order for the post war at a global conference organized by the US Treasury at the Mount Washington Hotel in Bretton Woods, New Hampshire at the height of World War II. The Bretton Woods system was established to avoid protectionism, the perceived problems of the interwar period. Protectionism involved devolution of international trade from multilateralism to bilateralism and autarky, beggar thy neighbor devaluations "currency wars", hot money flows and unstable exchange rates (Taylor, 2015), and to provide a framework of monetary and financial stability to foster global economic growth and the growth of international trade (Bordo, 2017).

Due to a number of overwhelming obstacles, it took about fifteen years to get the Bretton Woods system (BWS) fully operational. Most countries operated their international trade through bilateralism except the United States. Meanwhile, there were pervasive exchange controls on international trade and every country negotiated a series of bilateral agreements with each of the trading partners. Due to a shortage of international reserves countries used exchange controls and bilateralism. Dollar shortage was the second problem facing the BWS.

By the end of World War II while dollar reserves were depleted in the rest of the world, the US held two thirds of the world's monetary gold stock and gold. In particular at the end of 1946 amidst dollar shortage the major European industrial countries set overvalued official parities. Meanwhile, the IMF pressured its members to declare par values as soon as possible and if the exchange rate chosen was inappropriate, it could be corrected later (Bordo, 2017; Triffin, 1957). Between 1948 and 1952 the Marshall Plan attracted approximately $13 billion in grants and loans to Western Europe. The Economic Cooperation Act of 1948, created the Marshall Plan.

This act was designed to help the European countries expand their economies, restore their export capacity, and, preserve political stability by creating economic stability. The need to simplify bilateral clearing and pave the way to multilateralism gave rise to the establishment of the European Payments Union (EPU) in 1952 under the auspices of the OEEC (Organization of European Economic Cooperation) (Milward *et al.*, 1990). The EPU worked under the basic principle of a commercial bank clearing house. Thus, at the end of every month, each member would clear its net debit or credit position against all of its members with the EPU, with the Bank for International Settlement (BIS) acting as its agent. Consequently, The EPU became the center of a worldwide multilateral settlement area. The process of multilateralism continued until eight European countries declared their currencies convertible for current account transactions on December 27, 1958 (Bordo, 2017; Garber, 1993, p.431).

Third, the IMF, by intention, was not well equipped to deal with the postwar reconstruction problems. Almost all the structural balance of payments assistance in this period was provided by the Marshall Plan and other U.S. aid including the Anglo–American loan of 1945. Somehow the U.S. replaced the IMF. So new institutions such as the OEEC and existing institutions such as the BIS emerged as competing sources of international monetary authority because the Fund did very little to speed up the process of achieving multilateralism. Thus, the Fund's image got severely impaired by three events during the pre–convertibility period (Mundell, 1969a; Bordo, 2017).

The first event happened when France devalued the franc in 1948 and created a multiple exchange rate system and violated Article IV, section 5 of the Articles. As a result France was then denied access to the Fund's resources until 1952. But the Fund's actions had little effect since France

had access to Marshall Plan aid. The second event that occurred was the sterling devaluation of September 1949. In this event the Fund was given only twenty four hours advance notice which also violated Article IV section 5.

Thus exposing the Fund's inability to deter a major power from following its sovereign interest. Third event occurred when Canada floated its currency in 1950, thus violating the Articles. Consequently, Canada did not return to the par value system until 1961 and in contrast to the Fund's warnings. Meanwhile Canada freely floated its currency leading to only limited swings, thus making the Canadian economy perform better than it did when it was part of the par value system (Bordo *et al.*, 2010; Bordo, 2017).

Fourth, the Fund's system was unable to solve emerging perceived liquidity problems of the 1960s due to inadequate resources e.g. international reserves required to finance the growth of real output and trade and avoid deflation. The difference between the growth of international reserves and the growth in the world's monetary gold stock was met largely by an increase in the official holdings of U.S. dollars resulting from U.S. balance of payments deficits (Mundell, 1969, p.481)

The final event regarding the Bretton Woods system was the decline of sterling as a reserve currency. Right from the start it was expected that sterling would play an important role in the postwar period. When World War II came to an end, Britain had a massive balance of payments deficit in gold and dollars. Thus, Britain had an outstanding sterling debt of 3.7 billion poundsamassed by borrowing from the British Empire, most of which was made inconvertible into dollars (Bordo, 2017). The 1946 Anglo American loan of $3.75 billion from the U.S. and $1.25 billion from Canada enabled Britain to ratify the Bretton Woods Articles and restore current account convertibility in dollars.

On July 15, 1947 Britain's Current account convertibility was restored and quickly followed by a run on sterling, thus leading to rapid depletion of the UK's reserves as well as the suspension of convertibility on August 20, 1947. Consequently, the depletion of reserves and the devaluation of sterling in 1949 greatly weakened sterling's credibility as a reserve currency. The devaluation of 1949 was important for the system because it and Marshall Plan aid (by both boosting trade liberalization and removing political uncertainty) helped move key European countries from a current account deficit to a surplus which was important for the eventual restoration of convertibility. It was also important because it revealed a basic weakness with the adjustable peg arrangement and speculation against parity (Bordo, 2017; Friedman, 1953).

2.4. International financial regulation, 1968 to 1971

Starting from 1965 inflation became the key factor that led to the breakdown of the BWS in the center country, the United States. Beginning in 1965 inflationary policy continued until the early 1980s. Meanwhile, in

the 1970s this policy was known as the Great Inflation. The shift in policy reflected the accommodation of growing fiscal deficits; a strategy referred to as fiscal dominance (Leeper & Walker, 2011). The Vietnam War was the major driving force behind the rising expense and deficits. The fiscal pressure led to accommodative monetary policy through the "Even Keel" policies that the Federal Reserve was using to stabilize interest rates during Treasury funding operations. This operation hampered the Fed capacity to tighten monetary policy and offset inflationary pressure (Meltzer, 2011; Williamson, 2015).

On devaluing sterling in November 1967 pressure mounted against the dollar via the London gold market. As a result from December 1967 to March 1968, the Gold Pool lost $3 billion in gold with the U.S. share at $2.2 billion (Bordo *et al.*, 2019; Solomon, 1976). Due to such pressure the Gold Pool was disbanded on March 17, 1968 and a two-tier arrangement put in its place. The monetary authorities of the Gold Pool agreed neither to sell nor to buy gold from the market and would transact amongst themselves at the official $35 price. In the following three years the U.S. put considerable pressure on other monetary authorities to refrain from converting their dollar holdings into gold (Bordo, 2017).

Meanwhile the period 1968–1969 was characterized by currency crises in France and Germany leading to devaluation in France and a temporary float and then revaluation in Germany taking the pressure temporarily off the U.S. In 1970 U.S. interest rates fell in response to rapid monetary expansion and the U.S. balance of payments mushroomed to $9 billion. The deficit exploded to $30 billion by August 1971. The dollar flood increased the reserves of the surplus countries during and caused inflation. German money growth doubled from 6.8 % to 12% in 1971 and the German inflation rate increased from 1.8% in 1969 to 5.3% in 1971 (Meltzer, 1991, p.73). In April 1971 the dollar inflow to Germany reached $3 billion. On May 5 1971 the Bundesbank suspended official operations in the foreign exchange market and allowed the deutsche mark to float. Similar actions by Austria, Belgium, the Netherlands and Switzerland followed (Bordo, 2017; Solomon, 1976).

In April 1971, the U.S. balance of trade turned to a deficit for the first time. The decision to suspend gold convertibility by President Richard Nixon on August 15 1971 was triggered by French and British intentions in early August to convert dollars into gold. The U.S. decision to suspend gold convertibility ended a key aspect of the Bretton Woods System. The remaining part of the system, the adjustable peg was abandoned by March 1973. The Bretton Woods system collapsed for three basic reasons. First, the inflationary US monetary policy was inappropriate for the key currency of the system. Thus, the inflationary pressure from 1965 to 1971 was strong enough to trigger a speculative attack on the world's monetary gold stock in 1968, leading to the collapse of the Gold Pool (Garber, 1993, p.461-485).

Once the system had evolved into a de facto dollar standard after the collapse of the Gold Pool, the obligation of the United States was to

maintain price stability. Instead it conducted an inflationary monetary policy that ultimately destroyed the system. Indeed the Bretton Woods System was based on rules in particular monetary and fiscal policies consistent with the official peg. But the U.S. violated this rule after 1965 (Bordo, 2017,p.84; Garber, 1993).

Second, the surplus countries were increasingly unwilling to adjust and absorb dollar balances and revalue their currencies. This reflected basic differences in the underlying inflation rates that they were willing to accept. The growing gap between the sovereign interests of the United States and the other major powers reflected the decline in U.S. power. At the same time as U.S. power declined relative to the continental countries European countries and Japan the G10 lost effectiveness and no other focal points of power emerged. Last, the collapse of the Bretton Woods System involved two major design flaws: (a) the gold dollar/gold exchange system which placed the United States under threat of a convertibility crisis; and (b) the adjustable peg (Bordo, 2017).

2.5. International financial regulation after 1971

During the Bretton Woods monetary system, the first problem BWS faced was the distinction between capital and current transactions that was difficult to implement and that caused significant "leakage" and compromised the effectiveness of capital controls (Milner & Helleiner, 1995, p.44-48). The second difficulty was an extensive market developed for deposits and loans of U.S. dollars held outside the United States, the so called "Eurodollars." The Eurodollar market increasingly circumvented attempts to control capital movements, as well as U.S. domestic regulation of reserve requirements (Clendenning, 1970, p.162-168; Frieden, 1987, p.68-71; McCracken & Dam, 1983, p.99-100). The third problem was the persistent U.S. current account deficits that led to massive accumulation of U.S. dollars abroad. Ultimately this problem destroyed the fixed exchange rate system that had functioned as planned until the late 1960s (Lowenfeld, 2008, p.624; Verdier, 2013).

The dollar holdings eventually exceeded U.S. gold reserves, thus triggering a crisis of confidence. As a result the U.S. gold reserves plummeted because the foreign central banks requested redemption of their dollar holdings. Consequently, in 1971 President Nixon abolished the gold convertibility of U.S. dollars (Nixon, 1971). By 1973, after all the major industrialized countries had abandoned the fixed rate system, several attempts to reestablish it failed (Lowenfeld, 2008, p.624-33). From 1973 onwards the IMF member states were free to choose their exchange rate regime and were free to change it at any time they wanted (IMF, 1945). Meanwhile, floating rates alleviated the need for capital controls to protect foreign exchange reserves (Obstfeld, 2002, p.125-132). During the 1970s and 1980s period, virtually all industrialized countries abolished fixed exchange rates, and later encouraged others to follow suit (Milner & Helleiner, 1995; Verdier, 2013).

The collapse of the fixed rate system gave rise to financial globalization. Since then a clear, long term trend of increasing international capital flows has persisted. The floating exchange rate regime created an enormous foreign exchange market that grew from a negligible amount in the late 1950s (Milner & Helleiner, 1995) to a daily turnover of about $4 trillion in 2010 (Bank for International Settlements, 2010); only a small fraction of it was for trade (Milner & Helleiner, 1995).

Greater foreign exchange and interest rate volatility drove the development of global derivatives markets. Foreign exchange and interest rate derivatives still dominated these markets, with $523 trillion out of the $601 trillion national amount outstanding in 2010-up from $68 trillion in 1998, the first year for which Bank for International Settlements (BIS) statistics were available (Bank of International Settlements, 2000, 2010, 2011).

In the 1970s the Eurodollar market grew exponentially and was composed of large deposits of dollars from oil exporters (often lent on to Latin America) (Frieden, 1987, pp.68–71). Meanwhile, between 1960 and 1977, the international activities of banks increased rapidly from less than ten U.S. banks branches overseas, with assets of less than $4 billion in 1960; to more than 100, with assets of $230 billion in 1977 (Woolcock *et al.*, 2001). On the other hand, the external assets of banks from forty one BIS reporting countries further rose from $687 billion in 1977 to $30.1 trillion in 2010 (BIS, 1977, 2011).

By 2013 debt and equity markets had also become global. International debt securities outstanding grew from $896 billion in March 1987 to $27.7 trillion in 2010; international equity issues for BIS reporting countries went from $1.7 billion in 1983 to $708 billion in 2010 (Bank for International Settlements, 2010). Altogether, the size of financial markets relative to the world economy has increased steadily (Stulz, 2005). Thus, in 2007 the global financial assets amounted to 343% of the world's GDP (Lund & Roxburgh, 2009, pp.8–9).

2.6. Global financial regulation since 1980

Financial globalization has been growing since 1980. Cross border capital flows grew from US$0.5 trillion in 1980 to a peak of US$11.8 trillion in 2007 (Lund & Roxburgh, 2009). Financial globalization has been generated mainly by cross border banks, especially in developing countries (Claessens, 2017). Thirty banks have now been identified as systemically important on a global level (G–SIBs) and they are important nodes of global finance. The collapse of any of these banks would have significant repercussions on financial markets, governments and citizens in many countries (Jones & Knaack, 2016).

When the Basel Committee of Banking Supervisors was created forty years ago, it was possible to divide the world of global finance into two distinct groups of countries. The first group was the relatively small core group of countries housing major financial centers such as New York,

London, Hong Kong, Tokyo and Frankfurt. The second group was composed of many more peripheral countries with much smaller financial sectors. The financial systems of the core countries were tightly interconnected. Past links between the financial systems of core countries and the rest of the world were nowhere near as they are today. Although a relatively small number of countries still accounts for the bulk of the global finance (Bank for International Settlements, 2016; IMF, 2017), three important shifts have emerged (Jones & Knaack, 2016).

First, the financial sectors of the world's largest and fastest–growing developing countries are so important that they are now part of the core. Foreign banks were overwhelmingly headquartered in OECD countries in the 1990s in the past decade. But in the recent past the world has experienced the cross–border expansion of banks headquartered in developing countries. For instance, China is the home jurisdiction to 4 of the 10 largest banks on earth, with operations in over 40 countries (Alexander, 2011). Meanwhile, emerging market economies account for a 12% share of the global shadow banking sector (Jones & Knaack, 2016; Sfadia *et al.*, 2014).

Second, developing countries are far more interconnected to the financial core and to each more than 40 years ago. Privatization and liberalization in the 1980s and 1990s, caused the presence of foreign banks presence to increase and by 2007 they accounted for more than half of the market share in 63 developing countries. Developing countries now have a higher level of foreign bank presence than industrialized countries.

This makes the developing counties particularly vulnerable to financial crises and regulatory changes in other jurisdictions. This dramatic interconnectedness was more powerful during the 2007–2008 global financial crisis, than in the previous crises. However, the crisis affected all types of countries around the world (Claessens, 2017). The majority of foreign banks remain headquartered in North America and Western Europe. Meanwhile, banks from emerging markets and developing countries are playing an increasingly important role, accounting for 26% of foreign banks in 2007. In Sub–Saharan Africa for instance, pan–African banks are now operating in 36 countries and play a more important role on the continent than long–established European and US banks (Jones & Knaack, 2016; Mecagni *et al.*, 2015).

Third, OECD countries have lost their monopoly as the only hub of financial innovation. Disruptive technologies especially in the retail financial sector, are being invented in developing countries. Consumers in OECD countries still rely on credit and debit cards as their primary payment platform. Meanwhile, consumers in China use their cell phones for a wide range of quotidian payments and even investment services. By 2016 China's AliPay digital payment service had 450 million users, several times the amount of PayPal worldwide. In 2015, AliPay reached a peak processing volume of 85.900 transactions per second, compared to 14.000 transactions per second for Visa. Meanwhile, the largest American peer–to–

peer lending company, Lending Club, issued around $16bn in loans over the last five years. This amount is meagre when compared to over $100bn in loans issued by its Chinese equivalent Ant Financial in the same period (Chen, 2016; Jones & Knaack, 2017).

2.7. Theoretical literature on the political economy of financial regulation

Wittman (1977) advances the normative theory of financial regulation. The normative theory of regulation states that regulators should encourage healthy competition where practicable and minimize the costs of information asymmetry by obtaining information and thereafter providing operators with needful incentives to improve their business performance. This theory suggests that financial regulators can further provide a viable price structure that may improve economic efficiency and establish regulatory systems that are in tune with transparency, predictability, legitimacy, and credibility of such a regulatory process.

The normative theory of regulation ensures a cost–benefit analysis of various regulatory instruments employed by monetary authorities (Igbinosa *et al.*, 2017). Generally, reforms (i.e. regulations) have emerged in response to the challenges occurring in the financial systems worldwide such as systemic crisis as well as globalization, technological innovations and the global financial crisis. The financial sector is composed of the banking sector, capital markets and non–bank financial institutions. The financial sector in any industry aim s at increasing monetary management, risk management and asset holding capacities of the corporate institutions. Thus reforms (i.e. regulations) often seek to proactively strengthen the financial system, prevent systemic crisis, strengthen market mechanisms and instill ethical standards (Igbinosa *et al.*, 2017; Omankhanlen, 2012).

Battiston *et al.*, (2016) believes that traditional economic theory cannot explain or predict, the near collapse of the financial system and its long-lasting effects on the global economy. The occurrence of 2008 crisis has increasing generated interest in using ideas from complexity theory to make sense of economic and financial markets. The actual use of complexity models and results remains at an early stage even though concepts, such as tipping points, networks, contagion, feedback, and resilience have entered the financial and regulatory arena.

The liberal approach to economics was first began by Smith (1904). His central theorem rests upon three main factors as the key to wealth and prosperity: (a) Freedom, where individuals have the right to produce and exchange, products, labor and capital as they wish; (b) Competition, where individuals have the right to compete in the production and exchange of goods and services; and (c) Justice, where the actions of individuals must be just and honest according to the rules of society. These three factors would lead to a natural harmony of interest between workers, landlords and capitalists, without the need for state intervention. Smith (1904) calls this natural harmony the invisible hand (Ramanathan & Teng, 2017).

Neo Classical economists believe that a capitalist market economy could deviate from its equilibrium (in terms of level of output and employment). But the deviation is accepted as a temporary phenomenon since markets would eventually be able to restore the equilibrium. The Neo Classical Economists argue that government intervention is neither necessary nor desirable since it would likely create instability. Thus, both Classical and Neo Classical economists believe that the invisible hand can stabilize the markets. But that belief was challenged during the Global Financial Crisis (GFC) of 2008 (Ramanathan & Teng, 2017).

During the post GFC 2008 era Keynesian economics gained prominence due to the fact that market economies became inherently unstable, thus resulting in fluctuations in aggregate output and employment. Advocates of Keynesian economics were aware of the need for discretionary monetary and fiscal policies (Modigliani *et al.*, 1977; Tobin, 1996). Since that time Keynes (1939) advanced "The General Theory of Employment, Interest and Money" the role of the state in macro-economic policy, has been evolving. For instance, in the 1950s and 1960s, economists believed in the capacity of governments to correct market failure. However, in the 1970s and 1980s the government's role in restoring equilibrium in the market became doubtful. Thus, there was a gradual shift towards the belief that the market itself could restore equilibrium. Belief in free markets reached its peak during the 1990s and 2000s until the GFC in 2008 erupted (Ramanathan & Teng, 2017).

2.8. Empirical literature on financial regulation and economic growth

Empirically evidence has strongly established the effect of financial systems on growth. Due to difficulties in directly measuring efficiency in the financial sector, a large number of empirical studies have relied on measures of size or structure to provide evidence of a link between financial system development and economic growth (Levine, 2005). Meanwhile, nearly all studies based on macro or sector level data find that financial development, measured as the size of financial intermediation or of external finance relative to GDP, has a significant positive effect on growth.

This effect is either direct via productivity, or indirect via its effect on the buildup of physical and knowledge capital (Pelgrin, Schich, & Serres, 2002). Generally, findings show that even though the majority of these studies cover a broad range of developed and developing countries, the results of financial development affecting growth have been found to hold. Also the sample is limited to OECD countries (Leahy *et al.*, 2001; Pelgrin, Schich, & Serres, 2002).

Mwega (2014) investigates the potential tradeoffs between regulations and stability of Kenya's financial sector and their implications for inclusive growth in the following areas: (i) size and growth of the financial sector relative to LICs and MICs; (ii) implications of a mixture of local banks (some of which have spread to neighboring countries), foreign banks and

development finance institutions; (iii) evolution and macroeconomic implications of financial innovations and inclusion; (iv) cost and access to credit, especially to SMEs; (e) prudential regulations; and (f) management of capital flows in the context of large current account deficits, mainly financed by short-term net capital inflows such that their easy reversibility could potentially generate a currency crisis.

Mwega (2014) among other things concludes that: (1) the financial sector is one of the drivers of growth in Kenya, at least in the short-run. On an annual basis, the financial sector growth has consistently outpaced the real GDP growth since 2009. (2) The high current account deficit has mainly been financed by short term net capital inflows. These capital inflows have typically accounted for more than 50% of total financial flows. The easy reversibility of these inflows increases the risk of a "sudden stop" as a shift in market sentiments creates a flight away from domestic assets (O`Connell *et al.,* 2010). This could lead to depletion of reserves and sharp currency depreciations Mwega (2014).

Igbinosa *et al.* (2017) use error correction model (ECM) and time series data for the period 1993 to 2014 to examine financial regulation and banking sector performance in Nigeria. They attempt to determine the impact of reforms on banking sector performance as well as assess the connection between capital adequacy and banking sector performance. Their empirical findings indicate that during the sample period financial regulation significantly affected the banking sector performance while financial regulation had both short run and long run dynamic relationships with the banking sector performance in Nigeria. They conclude that during the sample period capital adequacy negatively affected banking sector performance but was not statistically significant.

Sløk *et al.* (2007) perform output and productivity regressions on a sample of around 25 countries and industries by entering 16 countries in each regression and a similar number of industries having a time series dimension. Their results indicate that financial system regulation has a statistically significant influence on output and productivity growth, in particular via the impact on industrial sectors relying more heavily on external sources of funding. The economic impact is also found to be non–negligible. Furthermore, the analysis suggests that reforms that would align regulations in banking in countries with the most restrictive stance to the OECD average could be associated with an increase in annual GDP growth ranging from ¼% to ½% for a significant period of time.

2.9. Theory and empirics of financialization as an outcome of deregulation

The term "financialization" began in the 1970s and it has been widely used to describe changes in the financial markets over the period of deregulation. Financialization refers to the process by which the volume and significance of financial instruments and contracts has grown relative to the economy (in particular real output) as a whole.Financialization may

better be defined as "The increase in financial market activity that does not improve, and may impair the efficiency of capital intermediation (i.e. net cost to the economy) by the financial sector." (Turbeville, 2013).

According to Levine (2005) most economists were already persuaded, by a voluminous empirical literature to believe that with ample qualification and due caution, finance and financial markets do contribute to economic growth. Nobel Laureate financial economist Miller (1998: 14) finds the proposition that financial markets enhance economic growth to be "almost too obvious for serious discussion."

But Demirguc-Kunt *et al.,* (2017) argue that greater financialization is to be integral to both 'growth' and 'inclusive growth', and they conclude that 'financial inclusion allows people to make many everyday financial transactions more efficiently and safely and expand their investment and financial risk management options by using the formal financial system. To them this is especially relevant for people living in the poorest 40 percent of households (Demirguc-Kunt *et al.,* 2017). Similarly, Shiller (2013) argues that to extend the good life to more people requires not to shrink finance nor restrain financial innovation (Storm, 2018).

However, financialization underwrites neoliberal narratives and discourses which emphasize individual responsibility, risk taking and active investment for the benefit of the individual alone within the 'neutral' or even 'natural' constraints imposed by financial markets and financial norms of creditworthiness (Kear, 2013; Palma, 2009). With time, financialization turns into a 'technique of power' to maintain a particular social order (Palma, 2009; Saith, 2011), in which the delicate task of balancing competing social claims and distributive outcomes is offloaded to the 'invisible hand' operating via anonymous, 'blind' financial markets (Krippner, 2011; Krippner, 2005; Storm, 2018). During the social regulation regime, income and wealth becomes more concentrated in the hands of the rentier class (Goda *et al.,* 2017; Saith, 2011). As a result, productive capital accumulation gives way before the increased speculative use of the 'economic surplus of society' in pursuit of 'financial-capital' gains through asset speculation (Davis & Kim, 2015). Such an outcome removes the driving force of the 'real' economy, and firms react by holding back investment, using their profits to pay out dividends to their shareholders and to buy back their own shares (Lazonick, 2014). Because the rich own most financial assets, anything that causes the value of financial assets to rise rapidly makes the rich richer (Storm, 2018; Taylor *et al.,* 2015). Battiston *et al.,* (2018) provide empirical evidence on the patterns of increasing financialization in the EU in the last two decades. They analyze possible adverse effects of financialization on several objectives of the EU 2030 agenda, including inclusive growth, innovation, inequality and financial stability.

First, they find that excessive financialization depresses economic growth because it implies that a larger fraction of credit is directed toward unfruitful investment projects, possibly generating economic crises (e.g. via

housing price bubbles). Second, they find that financialization has negative impact on innovation because the separation between actors taking risks from innovation and actors extracting rents from innovation implies lower share of reinvested profits (e.g. via short-termism and share buybacks).

Third, they find that financialization contributes to inequality by strengthening top earners bargaining power in terms of higher wages and lower taxation, as well as by burdening public budgets with fiscal assistance to financial institutions in time of crisis. Fourth, they find that financialization may lead to financial instability by increasing both the leverage of interconnected financial institutions and the risk of mispricing of large asset classes. For example the dynamics of leverage and mispricing of mortgage backed securities was mirrored in the 2008 financial crisis (Battiston *et al.*, 2018).

2.10. Interaction between prudential policies and other financial sector policies

Financial stability is a necessary condition to achieve other objectives of financial sector policies as well as growth and macroeconomic stability. But it is not a sufficient condition for attaining these objectives. Meanwhile, prudential policies (Basel II, Basel II.5, Basel III and the Core Principles for Effective Banking Supervision) can deliver financial stability. As a result, these policies can facilitate growth and other objectives of financial sector policies (Sinha, 2011).

Otherwise, other policies will have to be implemented to balance numerous considerations such as growth imperatives, the flow of credit to disadvantaged and preferred sectors, consumer protection, financial inclusion and equity, etc. At times, it becomes extremely problematic to balance these considerations. In case of inadequate care, other financial sector policies may impact financial stability negatively. For instance, allowing excessive credit growth to finance GDP growth without controlling the build-up of systemic risk in some areas of the economy may have serious consequences on financial stability. A loose monetary policy for an extended period may result in substantial financial sector imbalances and cause economic/financial crises (Sinha, 2011).

Flawed financial regulation may cause rapid monetary growth and slowdown economic growth, increase the indebtedness of households, lower their standards of living, and destabilize the banking system wholly or party. Yet, flawed financial regulation may cause the subprime crisis, an attribute of a seriously flawed financial inclusion and consumer protection policy. Meanwhile, substantial dependence on a few large financial institutions for financial services may lead to moral hazard issues i.e. the "too-big-to-fail" syndrome. Therefore, it is important that a set of sound financial sector policies (including prudential policies) be followed to deliver the various objectives for instance economic growth against the backdrop of financial stability (Sinha, 2011).

2.11. What is political economy?

The paper examines the influence of financial regulation on financialization and economic growth within the context of political economy. Political economyrefers to how politics affect economic outcomes. This question comes about whenever people are interested in economics itself. By1848, the principles of political economy, what in fact we now call ''economics'' was generally referredto as ''political economy'' (Groenewegen, 2008, pp.904–907). As a terminology political economy to a great extent reflected thebelief that economics was not really separable from politics. Political economy arose from thewidespread view that political factors are crucial in determining economicoutcomes. As a discipline economics historically viewed political forces as influencing economic outcomes and determining political influence. The economy at all levels has always been subject to measures taken, or constraints imposed by political authorities (Vanberg, 2018).

Economists abstracted from political and institutional factorswith the division of economics and political science into distinct disciplines. To a great extent motivations for this separation arose from the desire for methodological progress and for a more rigorous technique foreconomic analysis. As the neoclassical economics developedstress was on the principleof optimization by consumers and firms subject to well–defined constraints and a market environment, while deliberately downplaying more amorphous political factors. With the development of neoclassical economics; economic determinants not easily formalized were seen as largely belongingto otherdisciplines. However, economics was once called political economy, and economics is the social science that deals with the production, distribution, and consumption of material wealth and with thetheory and management of economic systems or economies (Serrat, 2011).

Interest in the question of how politics affects economic outcomes maythus appear new to someone trained solely in modern neoclassical economics; in fact, it is not. Of late, there really has been an explosion inthe number of papers looking at the effect of politics on economicoutcomes. Leading journals are filled with articles on the political economy of various economic phenomena. In short, political economy falls into the special class of issues that seem quite old and musty and at the same time quite young andfresh. In brief, political economy investigates theinteraction of political and economic processes in a society (Serrat, 2011).

The new political economy is not just a resurrection of anearlier approach to economics. It is characterized by a strong interestin the question of how politics affects economic outcomes. At the same time the newpolitical economy is defined more by its way of approaching this question. In particular it is defined in large part by its use of the formal and technicaltools of modern economic analysis to examine the importance of politics foreconomics. Thus modern economic analysis employs the formal mathematical approach. Meanwhile, it is also conceptual, viewing political

phenomena in terms of optimization, incentives, constraints, et cetera (Frey, 1991).

2.12. Motivation

The motivation of the paper is that financialization could have been the driving force behind the economic depressions and financial crises for centuries. That is because the mathematical definition of financialization shows that the correlation between economic growth and financialization is a negative.

The idea that "correlation does not mean causation" makes the relationship between growth and financialization an interesting case for empirical examination within the context of political economy of financial regulation. Moreover, Battiston *et al.*, (2018) provide some empirical evidence that excessive financialization depresses economic growth because it implies that a larger fraction of credit is directed toward unfruitful investment projects, possibly generating economic crises.

3. Methodology

3.1. Theoretical framework

According to (Karwowski, Shabani, & Stockhammer, 2016) financial deregulation encourages financialization. Financialization is defined as the process whereby the financial sector (financial: markets, institutions and elites) rather than the real sector controls economic policy and economic outcomes. Financialization elevates the financial sector relative to the real sector (Haruna, 2012) and transfers income from the real sector to the financial sector (Palley, 2007).

In other words financialization (F) can be viewed as the ratio of the monetary sector (moneysupply $M_2 = M_n$) relative to the real sector i.e. GDP(Y) and is given by

$$F = M_n/Y. \tag{1}$$

Thus transforming Equation (1) into logarithmic form provides

$$\log(Y) = \log(M_n) - \log(F). \tag{2}$$

Therefore, Equation (2) indicates a negative relationship between financialization and output.

Tori & Onaran (2018) estimates the effects of financialization on physical investment in the UK using panel data based on balance sheets of publicly listed non–financialcompanies supplied by Worldscopefor the period 1985–2013. They find robust evidence of an adverse effect of (a) financial payments(interests and dividends) and (b) financial incomes on the rate of accumulation. Their findings support the "financialization thesis" that the increasing orientation of the non-financial sectortowards financial activities

ultimately leads to lower physical investment, hence to stagnant or fragile growth.

Thus the financialization thesis that financialization (F) has adverse effect on investment (I) can be represented as given by Equations 3 and 4.

$$I = F^{-\alpha}. \quad (3)$$

or

$$\log(I) = -\alpha \log(F). \quad (4)$$

In logarithm the national income model may be written as

$$Y = e^{u} C_n^{\beta_1} I^{\beta_2} G^{\beta_3} X^{\beta_4} M^{-\beta_5}. \quad (5)$$

or

$$log(Y) = \beta_1 \log(C_n) + \beta_2 \log(I) + \beta_3 \log(G) + \beta_4 \log(X) - \beta_5 \log(M) + \log(u). \quad (6)$$

Where $\beta_1, \beta_2, \beta_3, \beta_4, -\beta_5$ are all parameters, (C_n) is household consumption, $(I)$is investment, (G) is government spending, (X) is level of exports, (M) is level of imports and (u) is the disturbance term.

Therefore, substituting Equation 4 in Equation 6 provides:

$$log(Y) = \beta_1 \log(C_n) - \alpha\beta_2 \log(F) + \beta_3 \log(G) + \beta_4 \log(X) - \beta_5 \log(M) + \log(u). \quad (7)$$

Hence, Equation 3.6 implies that financialization has adverse effects on economic growth.

3.2. Data sources and data types

Data for Uganda covering the period 1970 to 2016 were collected from the World Bank on annual quantities of the following variables: gross domestic product (Y), household consumption expenditure (C_n), investment spending (I), government spending (G), exports (X), imports(M), exchange rate (ER), population size (P_o), general price level (P), money supply (M_n), and exchange rate and gold reserves (RAG). Out of the relevant variables and the respective estimators, annual quantities were estimated for these variables: household disposable income (Y_d), quantity demanded of exchange rate (Q),balance of payments deficits (B_d) and financialization (F).

3.3. Generalized least squares method

The generalized least squares (GLS) method is an efficient estimation technique that can be used to estimate the parameters $(\hat{\beta})$ and variances $[Var(T^{-1})]$ for the model given by

$$y = X\beta + u \quad (8)$$

Where X denotes a matrix of explanatory variables, $y$represents a vector for the independent variable and $u$is a vector of error terms. Thus pre–multiplying Equation 7 by T^{-1} transforms this equation to a GLS equation given by

$$T^{-1}y = T^{-1}X\beta + T^{-1}u \tag{9}$$

Thus in matrix notation $\hat{\beta}$can be expressed as

$$\hat{\beta}_{GLS} = (X'T^{-1}X)^{-1}X'T^{-1}y. \tag{10}$$

Therefore in matrix notation ($Var(\hat{\beta}_{GLS})$can be expressed as

$$Var(\hat{\beta}_{GLS}) = (X'T^{-1}X)^{-1}. \tag{11}$$

Where T is symmetric idempotent positive definite.

3.4. Econometric tests

Relevant regressions were performed after making sure that time series data for each of the variables were stable. Some of the variables were made stable by dividing each of them by an appropriate numeraire. For each of the 13 regression results the coefficient of determination was very high mainly due to the application of the national income model in some regressions and generally the use of the GLS method. The t tests conducted show that the coefficients of elasticity of each of the variables in the respective regression results was greater than the corresponding critical t value from the t distribution table. Thus each of the variables in the regressions results had significant influence on the respective independent variables.

The F statistic for each of the 13 regression results indicates that the independent variables from each of the respective variables had joint effect on each of the respective independent variables. Thus, implying that each of the respective F statistic appearing in the respective regression results was greater than the corresponding critical F value from the F table.

The Durbin–Watson (DW) tests conducted indicate that each of the 13 regressions was free from serial correlation. Finally, the test for heteroskedasticity, H_T statistic for each of the 13 regressions was less than the critical t value from the t table. Implying that each of the 13 regressions reported was free from heteroskedasticity. Hence, results from the twelve regressions were found to be adequate for drawing reliable conclusions.

4. Results and discussion of results

Broad money (M2) or stock of liquid liabilities (M3) expressed as a ratio of GDP is a measure of importance of the financial sector or financial depth i.e. financialization (Fasianos *et al.*, 2018). In the paper broad money (M2) is denoted by (Mn) i.e. money supply in nominal terms and is one of the

variables used in conducting empirical analysis. Results in Table 1 indicate that in Uganda during the 1972 to 2016 period, a 1% increase in financialization growth was responsible for 0.04% decline in economic growth per annum on average ceteris paribus. That is because financialization (a) elevates the importance of the financial sector relative to the real sector, (b) transfers income from the real sector to the financial sector, and (c) increases income inequality and generates wage stagnation (Palley, 2007).

Table 1. *Effect of Financialization on Economic Growth in Uganda*

Dependent Variable: (d(log(Y))/d(d(log(Y/Po))))/d(d(Y^2))		
Variable	Coefficient	t-Statistic
(d(log(Cn))/d(d(log(Y/Po))))/d(d(Y^2))	0.53	5.11
(d(log(F))/d(d(log(Y/Po))))/d(d(Y^2))	-0.4	-3.79
(d(log(G))/d(d(log(Y/Po))))/d(d(Y^2))	0.45	10.02
(d(log(X))/d(d(log(Y/Po))))/d(d(Y^2))	0.23	12.31
d(log(M))/d(d(log(Y/Po))))/d(d(Y^2))	-0.27	-11.23
R-squared: 0.99998	F-Statistic: 415236	Sample Period: 1972-2016
Adjusted R-squared: 0.99998	D.W. Statistic: 1.74	HT: 0.00 N: 43

On comparing Tables 1 and 2, it can be discerned that financialization seems to have transferred resources from the household sector to the government and foreign sectors in Uganda.

Table 2. *Effect of Investment Spending on Economic Growth in Uganda*

Dependent Variable: (d(log(Y))/d(d(log(Y/Po))))/d(d(Y^2))		
Variable	Coefficient	t-Statistic
(d(log(Cn))/d(d(log(Y/Po))))/d(d(Y^2))	0.682	8.69
(d(log(I))/d(d(log(Y/Po))))/d(d(Y^2))	-0.4	-3.79
(d(log(G))/d(d(log(Y/Po))))/d(d(Y^2))	0.184	3.86
(d(log(X))/d(d(log(Y/Po))))/d(d(Y^2))	0.082	4.23
(d(log(M))/d(d(log(Y/Po))))/d(d(Y^2))	-0.084	-2.89
R-squared: 0.99999	F-Statistic: 755346	Sample Period: 1972-2016
Adjusted R-squared: 0.99999	D.W. Statistic: 2.18	HT: 0.00 N: 43

Similarly, on comparing Tables 3 and 2, it can be deduced that financialization seems to have transferred resources from the directly productive sectors to the government and sector in Uganda during the 1972 to 2016 period ceteris paribus.

Table 3. *Effect of Financialization on Economic Growth in Uganda*

Dependent Variable: (d(log(Y))/d(d(log(Yd/RAG))))/d(d(Y^2))		
Variable	Coefficient	t-Statistic
(d(log(RAG))/d(d(log(Yd/RAG))))/d(d(Y^2))	0.30	4.18
(d(log(F))/d(d(log(Y/Po))))/d(d(Y^2))	-0.03	-3.93
(d(log(G))/d(d(log(Y/Po))))/d(d(Y^2))	0.57	22.94
(d(log(Bd))/d(d(log(Y/Po))))/d(d(Y^2))	-0.23	-17.63
R-squared: 0.99994	F-Statistic: 205997	Sample Period: 1972-2016
Adjusted R-squared: 0.99993	D.W. Statistic: 1.8	HT: 0.02 N: 43

Comparison of Tables 1 and 4 shows clearly that one of the root causes of financialization is monetization. Thus the effect of monetization on economic growth seems to have been transmitted through financialization. That could be the reason why the influence on financialization on economic growth is exactly equal to the influence of monetization on economic growth in Uganda. Of course, during the 1972 to 2016 period a 1% increase in monetary growth or growth in financialization was associated with 0.04% decrease in economic growth in the country ceteris paribus. The term monetization refers to conversion of an asset into cash for example "equity monetization refers to the conversion of an equity position(generally, common shares) into cash" (Hayward, 2003).

Table 4. *Effect of Monetization on Economic Growth in Uganda*

Dependent Variable: (d(log(Y))/d(d(log(Y/Po))))/d(d(Y^2))		
Variable	Coefficient	t-Statistic
(d(log(Cn))/d(d(log(Y/Po))))/d(d(Y^2))	0.30	4.18
(d(log(Mn))/d(d(log(Y/Po))))/d(d(Y^2))	-0.03	-3.93
(d(log(X))/d(d(log(Y/Po))))/d(d(Y^2))	0.57	22.94
(d(log(M))/d(d(log(Y/Po))))/d(d(Y^2))	-0.23	-17.63
R-squared: 0.99999	F-Statistic: 381668	Sample Period: 1972-2016
Adjusted R-squared: 0.99999	D.W. Statistic: 1.77	HT: 0.00 N: 43

The paper finds that deregulation estimated in terms of exchange rate depreciation had adverse effects on economic growth in Uganda during the 1972 to 2016 period. That is because according to results in Table 5 a 1% rise in exchange rate depreciation translates into a decline of 0.03% in economic growth per annum on average ceteris paribus.

Table 5. *Effect of Financialization on Economic Growth in Uganda*

Dependent Variable: (d(log(Y))/d(d(log(Y/ER))))/d(d(Y^2))		
Variable	Coefficient	t-Statistic
(d(log(Cn))/d(d(log(Y/ER))))/d(d(Y^2))	0.46	8.30
(d(log(ER))/d(d(log(Y/ER))))/d(d(Y^2))	-0.03	-8.39
(d(log(G))/d(d(log(Y/ER))))/d(d(Y^2)	0.52	17.17
(d(log(X))/d(d(log(Y/ER))))/d(d(Y^2))	0.24	25.40
(d(log(M))/d(d(log(Y/ER))))/d(d(Y^2))	-0.22	-12.89
R-squared: 0.99997	F-Statistic: 323023	Sample Period: 1972-2016
Adjusted R-squared: 0.99997	D.W. Statistic: 2.01	HT: 0.00 N: 43

In the paper attempts are made to estimate annual quantities of foreign exchange by making use of results in Table 6. The exchange rate elasticity coefficient of money supply is used to generate the annual quantities of exchange rate available in the domestic market by using the estimator (formula) $Q = M_n/ER^{0.958992}$. The implication of this finding is that deregulation in terms of exchange rate depreciation is responsible for the monetary expansion.

Table 6. *Measurement of Exchange Rate Elasticity of Money Supply*

Dependent Variable: (d(d(log(Mn)))/d(d(log(M/RAG))))/d(d(Mn^2))		
Variable	Coefficient	t-Statistic
(d(d(log(ER)))/d(d(log(M/RAG))))/d(d(Mn^2))	0.95	899233.78
	R-squared: 0.96	Sample Period: 1972-2016
Adjusted R-squared: 0.96	D.W. Statistic: 2.14	HT: 0.02 N: 45

Results in Table 7 indicate that a 1% increase in financialization gave rise to 2.20% increase in the amount of foreign exchange rate in the domestic market during the 1972 to 2016 period in Uganda ceteris paribus.

Table 7. *Effect of Financialization on of Quantity of Exchange Rate in Uganda*

Dependent Variable: log(Q)/d(d(Q^2))		
Variable	Coefficient	t-Statistic
log(F)/d(d(Q^2))	2.198	18.60
	R-squared: 0.88	Sample Period: 1972-2016
Adjusted R-squared: 0.88	D.W. Statistic: 2.04	HT: 0.06 N: 45

According to Thomson & Dutta (2015, p.9), free capital movements across countries (i.e., financial deregulation) have caused dramatic exchange rates volatility. For example in the 2000s, capital flows movement was from developing economies, instead of the other way round. That could have been the reason why at the beginning of 2008, the IMF changed to the option of accepting capital controls (i.e. financial regulation).Thus for the case of Uganda capital outflows denoted by minus log(Q) could have resulted in exchange rate depreciation during the 1975 to 2016 period. Meanwhile, as portrayed by Table 8, a 1% increase in financialization was associated with on average 0.62% increase per annum in exchange rate depreciation during the sample period, ceteris paribus.

Table 8. *Effect of Financialization on Exchange Rate Depreciation in Uganda*

Dependent Variable: (d(log(ER))/d(Y))/d(d(ER^2))		
Variable	Coefficient	t-Statistic
(d(log(Q))/d(Y))/d(d(ER^2))	-1.0619	-811.52
(d(log(F))/d(Y))/d(d(ER^2))	0.6223	114.30
(d(log(G))/d(Y))/d(d(ER^2))	2.1542	129.33
(d(log(X))/d(Y))/d(d(ER^2))	0.6186	148.71
(d(log(M))/d(Y))/d(d(ER^2))	-2.8307	-93.80
R-squared: 0.999993	F-Statistic: 1310333	Sample Period: 1975-2016
Adjusted R-squared: 0.999992	D.W. Statistic: 2.07	HT: 0.00 N: 41

From Table 9, it can be discerned that increase in growth of movement in household disposable income relative to GDP resulted into unprecedented yearly increase in financialization in Uganda during the 1975 to 2016 period, ceteris paribus. Of course a 1% increase in growth of movement in household disposable income relative to GDP resulted into approximately 283% increase in financialization in the country during the sample period, ceteris paribus. The main reason for this movement could have been increase in access of households to credit followed by

consumption boom arising from financialization as it was in the US during the 1990s (Stockhammer, 2012).

Table 9. *Effects of Exchange Rate and Gold Reserves, Quantity of Exchange Rate andMovements of Household Disposable Income Relative to GDP on Financialization*

Dependent Variable: (d(d(log(F)))/d(d(F^2))		
Variable	Coefficient	t-Statistic
(d(d(log(RAG)))/d(d(F^2))	0.07	16.54
(d(log((Q)))/d(d(F^2))	0.87	33.84
(d(d(log(Yd/Y)))/d(d(F^2))	283.33	13.77
R-squared: 0.98	F-Statistic: 949	Sample Period: 1972-2016
Adjusted R-squared: 0.98	D.W. Statistic: 1.89	HT: 0.38 N: 45

In Uganda during the 1975 to 2016 to some extent financialization contributed to inflation. During the given period a 1% increase in financialization resulted in 0.12% increase in inflation. Meanwhile, a 1% rise in household consumption brought about 0.84% increase in inflation, ceteris paribus. Thus the influence of financialization on inflation was less of a problem when compared to the influence of consumption on inflation.

Table 10. *Effect of Financialization on Inflation in Uganda*

Dependent Variable: (d(log(P))/d(Y))/d(d(P^2))		
Variable	Coefficient	t-Statistic
(d(log(Q))/d(Y))/d(d(P^2))	0.239	10.66
(d(log(F))/d(Y))/d(d(P^2))	0.124	16.10
(d(log(RAG))/d(Y))/d(d(P^2))	0.119	14.82
(d(log(Cn))/d(Y))/d(d(P^2))	0.835	2.91
R-squared: 0.99	F-Statistic: 1707	Sample Period: 1975-2016
Adjusted R-squared: 0.99	D.W. Statistic: 2.12	HT: 0.09 N: 41

Deindustrialization is a process caused by reduction or disappearance of entire industrial capacity and activities in the country (Rodrik, 2016). Deindustrialization translates into financialization. Due to deindustrialization the local industries fail to produce the required goods and services, thus leading to high demand and huge import bill for imports. In the case of Uganda, as given in Table 11, during the 1975 to 2016 period a 1% increase in import growth resulted to 13% growth in financialization per annum on average, ceteris paribus.

Table 11. *Effects of Quantity of Exchange Rate and Balance of Payments Deficit on Financialization*

Dependent Variable: (d(log(F/X))/d(Y))/d(d(F^2))		
Variable	Coefficient	t-Statistic
(d(log(Q/X))/d(Y))/d(d(F^2))	1.012	210.08
(d(log(M/X))/d(Y))d(d(F^2))	13.073	52.32
R-squared: 0.9998	F-Statistic: 161881	Sample Period: 1975-2016
Adjusted R-squared: 0.9998	D.W. Statistic: 2.17	HT: 0.03 N: 41

This present paper finds that financialization depresses physical investments. In particular, the paper finds that in Uganda during the 1972 to 2016 period 1% increase in financialization depressed economic growth by 0.75% yearly on average. Similarly, Tori & Onaran (2018) estimate the effects of financialization on physical investment in theUK using panel data from Worldscope based on balance–sheetsof publicly listed non–financialcompaniesfor the period 1985–2013. They find robust evidence of an adverse effect of financial payments (interests and dividends) as well as financial incomes onthe rate of accumulation. Their findings support the "financialization thesis" that the increasing orientation of the non–financialsector towardsfinancial activities ultimately leads to lower physical investment, and consequently to stagnant or weak growth.

Table 12. *Effect of Financialization on Investment Spending in Uganda*

Dependent Variable: (d(log(I))/d(d(log(X/PO))))/d(d(I^2))		
Variable	Coefficient	t-Statistic
(d(log(MN))/d(d(log(X/Po))))/d(d(I^2))	1.15	118358
(d(log(F))/d(log(d(X/Po))))/d(d(I^2))	-0.75	-231
0-squared: 1.00000	F-Statistic: 1.39×10^{10}	Sample Period: 1972-2016
Adjusted R-squared: 1.00000	D.W. Statistic: 2.11	HT: 0.0001 N: 45

The liberalization of capital (i.e. deregulation of financial) markets increases capital inflows, but mayalso lead to appreciation in exchange rates, as witnessed in many developing countries inrecent years, which drove down their export demands and increased imports, leading to persistent balance of payments deficit (Garcia, 2015; Siddiqui, 2017). In Uganda capital inflows has tended to increase the availability of foreign exchange rate and gold reserves (RAG) which tended to ease and speed up importation more rapidly than the rate of exports, thus leading to the sustained balance of payments deterioration. From Table 13 it can be verified that a 1% increase in RAG in Uganda during the 1972 to 2016 period resulted in 0.09% increase on average in the balance of payments deterioration. But financialization is over nine times more effective than RAG in speeding up the rate of importation for the case of Uganda during the sample period.

Table 13. *Effects of Exchange Rate and Gold Reserves, and Financialization on Balance of payments Deficit*

Dependent Variable: (log(Bd)/d(I))/d(d((M/X)^2))		
Variable	Coefficient	t-Statistic
(log(RAG)/d(I))/d(d((M/X)^2))	0.09	6019
(log(F)/d(I))/d(d((M/X)^2))	0.11	99.86
R-squared: 0.999999	F-Statistic: 615	Sample Period: 1972-2016
Adjusted R-squared: 0.999999	D.W. Statistic: 2.13	HT: 0.09 N: 45

5. Conclusion

In Uganda during the 1972 to 2016 period, financialization growth was responsible for the decline in economic growth. Financialization seems to

have transferred resources from the household sector to the government and foreign sectors in Uganda. Similarly, financialization seems to have transferred resources from the directly productive sectors to the government sector in Uganda during the 1972 to 2016 period. One of the root causes of financialization is monetization. Thus the effect of monetization on economic growth seems to have been transmitted through financialization. That could be the reason why the influence on financialization on economic growth was found to be exactly equal to the influence of monetization on economic growth in Uganda. The paper further finds that deregulation estimated in terms of exchange rate depreciation had adverse effects on economic growth in Uganda during the 1972 to 2016 period.

Deregulation in terms of exchange rate depreciation was also responsible for the monetary expansion in Uganda. Increase in financialization gave rise to increase in the amount of foreign exchange rate in the domestic market during the 1972 to 2016 period in Uganda. Thus for the case of Uganda capital outflows could have resulted in exchange rate depreciation during the 1975 to 2016 period. Meanwhile, increase in financialization was associated with exchange rate depreciation during the sample period. Furthermore, increase in growth of movement in household disposable income relative to GDP resulted into unprecedented yearly increase in financialization in Uganda during the 1975 to 2016.

Moreover, in Uganda during the 1975 to 2016 to some extent financialization contributed to inflation. Meanwhile, growth in household consumption also brought about inflation in the country. But the influence of financialization on inflation was less of a problem when compared to the influence of consumption on inflation.

Deindustrialization translates into financialization. Due to deindustrialization the local industries fail to produce the required goods and services, thus leading to high demand and huge import bill for imports of essential goods and services. In the case of Uganda, during the 1975 to 2016 period increase in import growth caused growth in financialization. Furthermore, the paper finds that financialization depressed physical investments and consequently constrained economic growth. In Uganda capital inflows has tended to increase the availability of foreign exchange rate and gold reserves (RAG) which tended to ease and speed up importation more rapidly than the rate of exports, thus leading to the sustained balance of payments deterioration. Meanwhile, financialization is found to have been over nine times more effective than RAG in speeding up the rate of importation for the case of Uganda during the sample period.

Results in the paper suggest the following recommendations: control of financialization through macroprudential financial regulation, reduction of balance of payments deficit, undertaking more investments in directly productive areas and control of the relative movements in disposable household consumption relative to GDP.

Note

Paper was accepted for presentation at the Economic Society of South Africa (ESSA) Conference during 3–5 September 2019 in Johannesburg, South Africa.

References

Alexander, P. (2011). Top 1000 World Banks 2011. *The Banker*, *July*, 7–13.

Arner, D.W., Ross, P., & Buckley, R.P. (2010). Redesigning the architecture of the global financial system. *MELB Journal of International Law*, 11, 185–188.

Bank for International Settlements. (2010). Triennial Central Bank Survey Report on global foreign exchange market activity in 2010. In *Finance* (Issue December). [Retrieved from].

Bank for International Settlements. (2016). *Statistical release: BIS international banking statistics at end-June 2019*. April, 1–10. [Retrieved from].

Bank of International Settlements. (2000). *International Banking And Financial Market Developments Monetary and Economic Department*. February.

Battiston, S., Farmer, J.D., Flache, A., Garlaschelli, D., Haldane, A.G., Heesterbeek, H., Hommes, C., Jaeger, C., May, R., & Scheffer, M. (2016). Complexity theory and financial regulation. *Science*, 351(6275), 818–819. doi. 10.1126/science.aad0299

Battiston, S., Guerini, M., Napoletano, M., & Stolbova, V. (2018). Financialization in EU and the effects on growth, inequality and financial stability. *Isigrowth Wp*, 36, 1–22.

Bond, P., Garcia, A. (2015). *BRICS: An Anti–Capitalist Critique*. Pluto Press.

Bordo, M., Dib, A., & Schembri, L. (2010). Canada's pioneering experience with a flexible exchange rate in the 1950s: (Hard) lessons learned for monetary policy in a small open economy. *International Journal of Central Banking*, 6(3), 51–99. doi. 10.3386/w13605

Bordo, M., Monnet, E., & Naef, A. (2019). The gold pool (1961-1968) and the fall of the Bretton Woods System: Lessons for Central Bank cooperation. *Journal of Economic History*. doi. 10.1017/S0022050719000548

Bordo, M.D. (2017). The second era of globalization is not yet over: An historical perspective. In *Federal Reserve Bank of Dallas, Globalization and Monetary Policy Institute Working Papers*, Economics Working Paper No.17103. doi. 10.24149/gwp319

Borio, C. (2003). Towards a macroprudential framework for financial supervision and regulation? *CESifo Economic Studies*, 49(2), 181–215. doi. 10.1093/cesifo/49.2.181

Borio, C., Furfine, C., & Lowe, P. (2001). Procyclicality of the financial system and financial stability: issues and policy options. *BIS Papers Chapters*, 1(1), 1–57.

Chen, L. (2016). From fintech to finlife: the case of fintech development in China. *China Economic Journal*, 9(3), 225–239. doi. 10.1080/17538963.2016.1215057

Claessens, S. (2017). Global banking: Recent developments and insights from research. *Review of Finance*, 21(4), 1513–1555. doi. 10.1093/rof/rfw045

Clendenning, E.W. (1970). *The Euro–Dollar Market*. Clarendon Press.

Dammasch, S. (2011). The System of Bretton Woods: A lesson from history. *Qualitative Social Work*, 36(5), 1–15.

Davis, G.F., & Kim, S. (2015). Financialization of the economy. *Annual Review of Sociology*, 41, 203–221. doi. 10.1146/annurev-soc-073014-112402

Demirguc-Kunt, A., Klapper, L., & Singer, D. (2017). Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence. *Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence*. doi. 10.1596/1813-9450-8040

Fasianos, A., Guevara, D., & Pierros, C. (2018). Have we been here before? Phases of financialization within the twentieth century in the US. *Review of Keynesian Economics*, 6(1), 34–61. doi. 10.4337/roke.2018.01.03

French, K.R., Baily, M.N., Campbell, J.Y., Cochrane, J.H., Diamond, D.W., Duffie, D., Kashyap, A.K., Mishkin, F.S., Rajan, R.G., Scharfstein, D.S., Shiller, R.J., Shin, H.S., Slaughter, M.J., Stein, J.C., & Stulz, R.M. (2010). The squam lake report: Fixing the financial system. In *The Squam Lake Report: Fixing the Financial System*. Princeton University Press. doi. 10.1111/j.1745-6622.2010.00284.x

Frey, B.S. (1991). Alt, James F. and Kenneth E. Shepsle (eds.): Perspectives on Positive Political Economy. Cambridge: Cambridge University Press 1990. *Kyklos*, 44(4), doi. 10.1111/j.1467-6435.1991.tb01800.x

Frieden, J.A. (1987). Banking on the world: The politics of American international finance. In *Banking on the World: The Politics of American International Finance*. Harper and Row. doi. 10.4324/9781315692180

Friedman, M. (1953). *The Case for Flexible Exchange Rates*. University of Chicago Pmess. doi.

10.4324/9780203482155-17

Garber, P.M. (1993). The collapse of the Bretton Woods fixed exchange rate system. *In* M.D. Bordo & B. Eichengreen (Eds.), *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform*. University of Chicago Press.

Goda, T., Onaran, Ö., & Stockhammer, E. (2017). Income Inequality and Wealth Concentration in the Recent Crisis. *Development and Change*, 48(1), 3–27. doi. 10.1111/dech.12280

Goodhart, C.A.E., Brunnermeier, M.K., Persaud, A., Crockett, A., & Shin, H. (2009). *The Fundamental Principles of Financial Regulation*. International Center for Monetary and Banking Studies.

Groenewegen, P. (2008). The new Palgrave Dictionary of Economics Online 'political economy' *In* M.M. & P.N.J. Eatwell (Ed.), *Public Choice*. The Macmillan Press Limited.

Hanson, S.G., Kashyap, A.K., & Stein, J.C. (2011). A macroprudential approach to financial regulation. *Journal of Economic Perspectives*, 25(1), 3–28. doi. 10.1257/jep.25.1.3

Haruna, M.A. (2012). Financialization and economic growth in Nigeria: A Granger causality test. *International Journal of Advanced in Management and Social Sciences*, 1(2), 161–178.

Hayward, P.D. (2003). Monetization, Realization, and Statutory Interpretation. *Canadian Tax Journal*, 51(5), 1761–1824.

Igbinosa, S., Sunday, O., & Babatunde, A. (2017). Empirical Assessment on Financial Regulations and Banking Sector Performance. *Journal of Central Banking Theory and Practice*, 6(3), 143–155. doi. 10.1515/jcbtp-2017-0024

International Monetary Fund. (1945). *Article of Agreement of the International Monetary Fund*. International Monetary Fund. [Retrieved from].

International Monetary Fund. (2017). *IMF Report 2017*. [Retrieved from].

Jones, E., & Knaack, P. (2017). FCA think piece: The future of global financial regulation. *Paper Prepared for FPA Future Horizon Conference, April*, 1–24. [Retrieved from].

Karwowski, E., Shabani, M., & Stockhammer, E. (2016). *Financialization: Dimensions and Determinants,* Post Keynesian Economics Study Group Working Paper, No.1619. [Retrieved from].

Kashyap, A.K., Rajan, R.G., & Stein, J.C. (2008). Rethinking capital regulation. *Proceedings - Federal Reserve Bank of Kansas City Symposium on "Maintaining Stability in a Changing Financial System"*, Jackson Hole, September 2008, 46.

Kear, M. (2013). Governing homo subprimicus: Beyond financial citizenship, exclusion, and rights. *Antipode*, 45(4), 926–946. doi. 10.1111/j.1467-8330.2012.01045.x

Keynes, J.M. (1939). *The Genera Theory of Employment, Interest and Money*. Kings College Cambridge.

Krippner, G. (2011). *Capitalizing on Crisis: The Political Origins of the Rise of Finance*. Harvard University Press.

Krippner, G.R. (2005). The financialization of the American economy. *Socio-Economic Review*, 3(2), 173–208. doi. 10.1093/SER/mwi008

Lazonick, W. (2014). Profits without prosperity: Stock buybacks manipulate the market and leave most Americans worse off. *Harvard Business Review*, 46–55.

Leahy, M., Schich, S., Wehinger, G., Pelgrin, F., & Thorgeirsson, T. (2001). Contributions of Financial Systems to Growth in OECD Countries. In *OCDE Economic Department Working Papers*, No.280. [Retrieved from].

Leeper, E., & Walker, T. (2011). *Perceptions and Misperceptions of Fiscal Inflation*. Edward Elgar

Levine, R. (2005). Finance and Growth: Theory and Evidence (Handbook Chapter 12). In P. Aghion & S. N. Durlauf (Eds.), *Handbook of Economic Growth* (Vol. 1, Issue SUPPL. PART A).

Lowenfeld, A.F. (2008). *International Economic Law* (Second Edi). Oxford University Press.

Lund, S., & Roxburgh, C. (2009). *Global capital markets: Entering a new era,* McKinsey Global Institute, September 2009.

McCracken, P.W., & Dam, K.W. (1983). The rules of the game: Reform and evolution in the international monetary system. *Journal of Money, Credit and Banking,* 15(1), 35-45. 10.2307/1992153

Mecagni, M., Marchettini, D., & Maino, R. (2015). Evolving banking trends in Sub-Saharan

Africa. *Evolving Banking Trends in Sub-Saharan Africa*. doi. 10.5089/9781513598246.087

Meltzer, A.H. (2011). Politics and the Fed. *Journal of Monetary Economics*, 58(1), 39–48. doi. 10.1016/j.jmoneco.2010.09.009

Milner, H., & Helleiner, E. (1995). States and the reemergence of global finance: From Bretton Woods to the 1990s. In *International Journal*, 51(1), 45-55. doi. 10.2307/40203765

Milward, A.S., Kaplan, J.J., & Schleiminger, G. (1990). The European payments union: Financial diplomacy in the 1950s. *The Economic History Review*, 43(4), 767-768. doi. 10.2307/2596773

Modigliani, F., Steindel, C., Hymans, S.H., & Juster, F.T. (1977). Is a tax rebate an effective tool for stabilization policy? *Brookings Papers on Economic Activity*, 1977(1), 175. doi. 10.2307/2534259

Mundell, A.R. (1969). The International Monetary Fund. *Journal of World Trade Law*, 3, 455–497.

Mwega, F.M. (2014). *Financial Regulation in Kenya: Balancing Inclusive Growth with Financial Stability*. ODI Working Paper. [Retrieved from].

Nixon, R. (1971). *Address to the Nation Outlining a New Economic Policy: "The Challenge of Peace."* [Retrieved from].

O`Connell, S., Maturu, B. O., Mwega, F.M., Ndung'u, N.S., & Ngugi, R.W. (2010). *Capital Mobility, Monetary Policy, and Exchange Rate Management in Kenya: Policies for Prosperity.* C. S. Adam, P. Paul Collier, & N. S. Ndung'u (Eds.). Oxford University Press.

Obstfeld, M. (2002). Globalization and capital mobility in historical perspective. *In* M.D. Bordo, A.M. Taylor, & J.G. Williamson (Eds.), *Revista de Economía*, 9(1), 155-185.

Ogus, A. (1994). *Regulation: Legal Form and Economic Theory*. Clarendon Press.

Omankhanlen, A.E. (2012). The financial sector reforms and their effect on the Nigerian economy. *Economy Transdisciplinarity Cognition*, 15(2), 45–57.

Palley, T.I. (2007). *Financialization: What it is and Why it Matters*. [Retrieved from].

Palma, J.G. (2009). The revenge of the market on the rentiers. Why Neo-Liberal reports of the end of history turn out to be premature. *Cambridge Journal of Economics*, 33(4), 829–69.

Pelgrin, F., Schich, S., Serres, A. (2002). Increases in business investment rates in OECD countries in the 1990s: How much can be explained by fundamentals? *OECD Economics Department Working Paper*. doi. 10.1787/18151973

Ramanathan, S., & Teng, K.K. (2017). Political economy of financial market Regulation - An emerging Asia perspective. *Institutions and Economies*, 9(2), 15–33.

Rodrik, D. (2016). Premature deindustrialization. *Journal of Economic Growth*, 21(1), 1-33. doi. 10.1007/s10887-015-9122-3

Roosevelt, F.D., & Churchill, W. (1941). Atlantic Charter. In *Lillian Goldman Law Library*. Yale Law School.

Ruggie, J.G. (2017). International regimes, transactions, and change: Embedded liberalism in the postwar economic order. *International Political Economy*, 36, 171–207. doi. 10.4324/9781315251950-16

Saith, A. (2011). Inequality, imbalance, instability: Reflections on a structural crisis. *Development and Change*, 42(1), 70–86. doi. 10.1111/j.1467-7660.2011.01705.x

Saporta, V. (2009). The role of macroprudential policy. *Bank of England Discussion Paper*, *November*. [Retrieved from].

Serrat, O. (2017). Political Economy Analysis for Development Effectiveness. *Knowledge Solutions*. doi. 10.1007/978-981-10-0983-9_21

Sfadia, A., Filingeri, J., & Llc, C. (2014). Global Shadow Banking Monitoring Report 2014. *Financial Stability Board*, *November*, 2–4. [Retrieved from].

Shiller, R. J. (2013). Finance and the good society. In *Finance and the Good Society*. Princeton University Press. doi. 10.1080/10848770.2014.965549

Siddiqui, K. (2017). Financialization and economic policy: The issue of capital controls in developing countries. *World Review of Political Economy*, 8(4), 564–590. doi. worlrevipoliecon.8.4.0564

Sinha, A. (2011). Financial sector regulation and implications for growth. *CAFRAL-BIS International Conference on Financial Sector Regulation for Growth, Equity and Financial Stability* No.62.

Skidelsky, R. (2005). Keynes, globalisation and the Bretton Woods institutions in the light of changing ideas about markets. *World Economics*, 6(1), 15–30.
Sløk, T., Kobayakawa, S., Vartia, L., & de Serres, A. (2007). Regulation of financial systems and economic growth in OECD countries. *OECD Economic Studies*, 71, 39-70. doi. 10.1787/eco_studies-v2006-art10-en
Smith, A. (1904). An Inquiry into the nature and causes of the wealth of nations. *In* E. Cannan (Ed.), *Readings in Economic Sociology*. Library of Economics and Liberty. doi. 10.1002/9780470755679.ch1
Solomon, R. (1976). *The International Monetary System, 1945–1976: An Insider's View*. Harper and Row.
Stockhammer, E. (2012). Financialization, income distribution and the crisis. *Investigation Economics*, 71(279), 39–70.
Storm, S. (2018). Financialization and economic development: A debate on the social efficiency of modern finance. *Development and Change*, 49(2), 302–329. doi. 10.1111/dech.12385
Stulz, R.M. (2005). The limits of financial globalization. *Journal of Finance*, 60(4), 1595–1638. doi. 10.1111/j.1540-6261.2005.00775.x
Taylor, J.B. (2015). Recreating the 1940s founded institutions for today's global economy. *Remarks upon Receiving the Truman Medal for Economic Policy*, Kansas City Missouri on 14th October 2015.
Taylor, L., Omer, O., & Rezai, A. (2015). Wealth concentration, income distribution, and alternatives for the USA. *SSRN Electronic Journal*. doi. 10.2139/ssrn.2667880
Tobin, J. (1996). *Full Employment and Growth: Further Keynesian Essays on Policy*. Edward Elgar.
Tori, D., & Onaran, Ö. (2018). The effects of financialization on investment: Evidence from firm-level data for the UK. *Cambridge Journal of Economics*, 42(5), 1393–1416. doi. 10.1093/CJE/BEX085
Triffin, R. (1957). *Europe and the Money Muddle. New Haven*. Yale University Press.
Turbeville, W. (2013). *Financialization and a New Paradigm for Financial Markets*.
Uche, C.U. (2001). The theory of regulation: A review article. *Journal of Financial Regulation and Compliance*, 9(1), 67–80. doi. 10.1108/eb025063
Vanberg, V.J. (2018). *Individual choice and social welfare: Theoretical foundations of political economy*. [Retrieved from].
Verdier, P. H. (2013). The political economy of international financial regulation. *Indiana Law Journal*, 88(4), 1405–1474.
Williamson, S.D. (2015). Current federal reserve policy under the lens of economic history: A review essay. *In* O. Humpage (Ed.), *SSRN Electronic Journal*. Cambridge University Press. doi. 10.2139/ssrn.2646154
Wittman, D. (1977). Prior regulation versus post liability: The choice between input and output monitoring. *The Journal of Legal Studies*, 6(1), 193–211. doi. 10.1086/467567
Woolcock, M., Braithwaite, J., & Drahos, P. (2001). Global business regulation. *Contemporary Sociology*, 30(6), 626-627. doi. 10.2307/3089030