

## **Financialization, Securitization and Central Banking: in USA and Euro-Area**

### **Abstract**

The increasing role of Finance in the world economy often referred to as 'financialization' has been associated with the influence of neo-liberalist and mainstream policies, which have been ruling since the 1980s, on the basis of the 'laissez-faire economy', characterized by deregulation, and the rapid growth of financial innovations. Furthermore, monetary theory and policy ruled by mainstream economists have limited the role of central bank to one instrument (short-term interest rate) one objective (Inflation Targeting) with the concept of long-run neutrality of money, rather than focusing on financial stability and financial matters, which led to a less effective monetary policy. All of which have been identified by post-Keynesian economists as the roots of the current financial crisis and it has been recognized as liable for the increasing importance of Financialization; particularly financial innovations such as 'Securitization', which played a crucial role in producing the current financial crisis.

For these reasons this study analyses the dramatic increase in securitisation activity in the US and Euro- area since the 1980s. Moreover it investigates how Securitisation activity development has strengthened the capacity of banks' balance sheet to supply new loans which affect the effectiveness of monetary policy through its transmission mechanism. Therefore in a period of rapid changes in the financial structure and financial innovations the efficacy of central bank actions has to be re-examined, and its role as a 'Bank of Banks' should be identified.

**Key words:** Financialization, Financial Crisis, Financial Innovations, Securitization, Central Banking, Transmission mechanism.

**JEL Classifications:** E44, E52, E58, G12, G21, G28,

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This paper is part of my ongoing PhD thesis entitled as 'An Alternative Framework of Central Banking From a Post Keynesian Perspective'.