# Additional materials M1.
# A North Atlantic Financial Hegemony?

The present appendix focuses on the financial hegemony of the United States and Europe prior to the contemporary crisis. “Financial” refers here to the capitalist classes, financial institutions, investment abroad, and international currencies.

The main findings are: (1) Considered jointly, the two regions overwhelmingly dominated financial mechanisms worldwide; (2) It was still possible to contend that the United States were leading, in particular considering the most advanced segments of financial mechanisms and institutions (the wealthiests, the cutting edge of financial innovation...); (3) When they existed, differences to the advantage of the United States were often smaller than is thought; and (4) In various important respects, Europe was leading. (The most advanced segments of the financial sector were deeply affected by the crisis and more time will be necessary to assess post-crisis hierarchies.)

A crucial element is the tight interconnection between the two regions of the world. This is not equivalent to asserting that a fusion occurred. The “national factor” still matters on both sides of North Atlantic, but there is obviously a privileged network of relationships between the two regions when considered in comparison to the rest of the world.

## Capitalist classes: A joint U.S.-European leadership I

It is difficult to provide an overall estimate of the joint importance of U.S. and European capitalisms within the contemporary global economy. If “capitalism” refers to the ownership of capital, a broad estimate of the concentration of capital among rich families could be as high as 65 percent. In this total, the United States are leading, the U.S. capitalist classes concentrating between 30 percent and 40 percent of global wealth depending on the variable considered.

Table M1.1 shows that, in 2007, about one third of HNWIs were of U.S. nationality (and from Canada, which cannot be treated separately in this data set), and 31 percent from Europe. (Table 3.1 already showed the number of HNWIs worldwide and its upward trend.) These proportions remained about constant between 1998 and 2007. The United States are leading, but Europe comes second in the list, very close to the United States. Then, comes Asia, which progressed significantly over the last decade and nearly caught up with Europe.

Table M1.1 - High net worth individuals (millions)

| | Number | | Percent | |
|---|---|---|---|---|
| | 1998 | 2007 | 1998 | 2007 |
| United States and Canada | 2.1 | 3.3 | *35* | *33* |
| Europe | 1.8 | 3.1 | *31* | *31* |
| Asia | 1.3 | 2.8 | *23* | *28* |
| Other | 0.7 | 0.4 | *11* | *9* |
| Total | 5.9 | 9.5 | *100* | *100* |

Table M1.2 - Numbers and net worth of billionaires (2007)

| Country | Number | Percent | Net Worth (billions of dollars) | Net Worth (percent) |
|---|---|---|---|---|
| United States | 469 | *41.7* | 1 611 | *36.8* |
| Europe | 195 | *17.3* | 866 | *19.8* |
| Asie | 187 | *16.6* | 740 | *16.9* |
| Other | 274 | *24.4* | 1 165 | *26.6* |
| Total | 1 125 | *100.0* | 4 381 | *100.0* |

Turning to billionaires, as in Table M1.2, the same joint leadership of the United States and Europe is manifest, but the percentage of U.S. citizens among the wealthiest is even larger. The number of U.S. billionaires is 469, almost 42 percent of billionaires in the world. They concentrate 37 percent of the total wealth of the group. In 2007, 46 percent of billionaires with a wealth between \$1 and \$2 billion were of U.S. nationality. Then in the list came Europe, but with much lower percentages, with Asia at a small distance.

## Large financial institutions: A joint leadership II

The main observations here are: (1) When the largest financial institutions are considered, the domination of U.S. and European institutions worldwide is clearly established; (2) Between the two leaders, comparative powers are balanced; (3) Asia is not far behind Europe, sometimes before; and (4) Comparing countries or stock exchanges individually, the United States and the Nyse are almost always leading.

A first indicator is the nationality of the 16 so-called Large and Complex Financial Institutions (LCFIs), as in the list established by the Bank of England for the year 2004: 7 are U.S. institutions and 9 European institutions. They are:

| | | | |
|---|---|---|---|
| ABN Amro | (the Netherlands) | HSBC | (U.K.) |
| Bank of America | (U.S.) | JPMorgan Chase | (U.S.) |

| | | | |
|---|---|---|---|
| Barclays | (U.K.) | Lehman Brothers | (U.S.) |
| BNP Paribas | (France) | Merrill Lynch | (U.S.) |
| Citigroup | (U.S.) | Morgan Stanley | (U.S.) |
| Crédit Suisse | (Switzerland) | RBS | (U.K.) |
| Deutsche Bank | (Germany) | Société Générale | (France) |
| Goldman Sachs | (U.S.) | UBS | (Switzerland) |

Given the recent financial turmoil, the list has already been considerably altered. Some failed (Lehman Brothers) or where purchased (Merrill Lynch). One was purchased prior to the crisis (ABN Amro). The majority was saved by loans or equity, financed by governments. Only HSBC and Deutsche Bank did not receive helps.

The largest mutual or pension funds are U.S. institutions. Their assets are managed by asset managers worldwide (jointly with other assets). Among the 500 largest asset managers, 216 are U.S. institutions (Table M1.3). As of 2007, they manage 42 percent of the total assets of the 500. But European institutions manage 44 percent of these assets, the total for the two regions amounting to 86 percent! Thus, the assessment here is the same as for LCFIs. When considered jointly, the United and Europe overwhelmingly dominate, while a balance is reached between the two regions of the world.

Table M1.3 - Top 500 asset managers worldwide (end of 2007)

| | Number | Assets (trillions of dollars) | Assets (percent) |
|---|---|---|---|
| United States | 216 | 28.87 | *41.6* |
| Europe | 170 | 30.31 | *43.7* |
| Asia | 48 | 5.47 | *7.9* |
| Other | 66 | 4.77 | *6.9* |
| Total | 500 | 69.42 | *100.0* |

Stock markets provide a different assessment. Table M1.4 shows the respective shares, as percentages of global stock-market capitalization, of various regions of the world.[1] After culminating at 52 percent in 2001, U.S. markets account for about one third of global capitalization in 2007, with Asia next in the list. The share of Asia declined from 1994 to 2001

1. In terms of capitalization, the Nyse is almost four times larger than each of its followers in the list, by declining order of capitalization: Tokyo, the Euronext, the Nasdaq, or London. Then, come Shanghai and Hongkong. Considering the Nyse and the Nasdaq jointly, the U.S. leadership remains overwhelming in terms of amounts outstanding. The picture is different concerning capital raised.

Table M1.4 - Shares of domestic market capitalization and shares of new equity capital raised (percent)

| | Domestic market capitalization | | | New capital raised |
|---|---|---|---|---|
| | 1994 | 2001 | 2007 | 2007 |
| United States | *34.7* | *52.0* | *31.8* | *17.0* |
| Europe | *24.6* | *28.7* | *26.1* | *28.4* |
| Asia | *33.5* | *13.4* | *29.4* | *29.8* |
| Other | *7.2* | *5.9* | *12.8* | *24.9* |
| Total (percent) | *100.0* | *100.0* | *100.0* | *100.0* |
| Total (trillions of dollars) | 14.50 | 26.60 | 62.75 | 0.902 |

and then rose to 2007, as an effect of the combined decline of Japan and the rise of China, India, Korea... during the 2000s.[2]

Table M1.4 also shows that Europe is still at the origin of a large share of the issuance of new equity, slightly less than 30 percent, almost at the same level as Asia, while the United States only reach 17 percent. Although the Nyse group appears as the first issuer for equity, it is closely followed by the Euronext and London, in sharp contrast to the dramatic leadership of New York in terms of market capitalization. Then, comes Hongkong.

The picture is again distinct concerning international bonds, that is, bonds sold by banks of various countries. Europe dominates both the United States and Asia. First in the list is Luxembourg followed by London, Korea, and the Euronext.

Specifically relevant to the issue of financial hegemony is the comparative role played by banks internationally. Here, the domination of European banks is obvious. This role can be assessed using data concerning the stocks of international assets held by banks of various nationalities. As shown in Figure M1.1, the share of such assets held by U.S. banks has always been considerably smaller than the share of European banks, and a downward trend prevails. (A considerable share of European banks' external activity concerns European countries.) The share of U.S. banks is smaller than that of German banks since 1992, Swiss banks since 2002, French banks since 2003, and U.K. banks since 2004, and larger than Japan since 2004.

2. Recently, Asia stock exchanges gained relative importance. Between the end of 2006 and the end of 2007, the capitalization of the Nyse rose 1 percent, while Chinese and Indian centers "exploded" (Shanghai, +303 percent, Shenzhen, +244 percent, Bombay, +122 percent), and also São Paulo (+93 percent)...

## The cutting edge of financial mechanisms: U.S. leadership

U.S. leadership appears much stronger in this field. This sector was, however, severely affected by the crisis. It is the pre-crisis situation that is considered below.

Hedge funds provide a first example. As of the end of 2006, among the 100 largest funds, 76 are of U.S. nationality. They manage $775 billion out of $1 004 billion for the top 100. The next country in the list is the United Kingdom, with 19 funds, managing $196 billion. Among these 100, 43 are located in New York, and 19 in London.[3]

In a similar manner, U.S. financial institutions were leading participants in the boom of securitization. Already, Table 13.3 showed the issuance of private-label ABSs. Relevant to the investigation here is that, in 2006, 77 percent of the new issuances were realized by U.S. financial institutions (and still 69 percent in 2007 but only 18 percent in 2008).

## Direct investment abroad: A joint leadership III

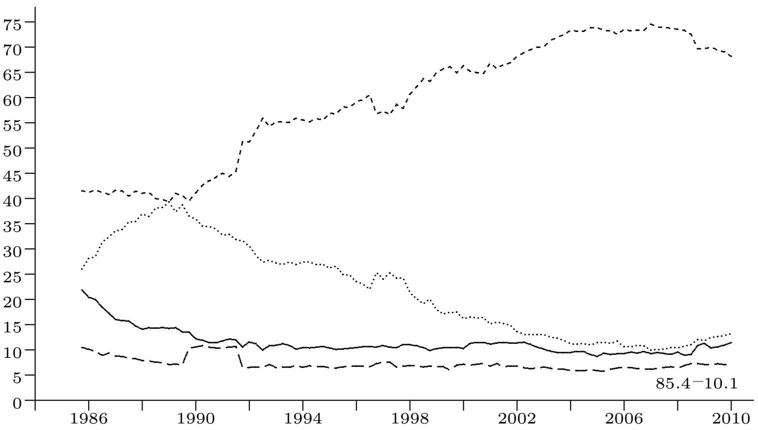
Again, considered jointly, the U.S. and European economies overwhelmingly dominate DIA worldwide. About 70 percent of total DIA originate from the two regions jointly considered. Figure M1.2 breaks down the flows of DIA according to their origination. U.S. transnational corporations make considerable direct investment in the rest of the world (——), but not as much as Europe, however, for which DIA flows are large and increasing (– –). As in the case of the external assets of banks, these European investments partly reflect the growing interconnection between European economies. Figure M1.2 reveals, however, that European DIA remains larger than U.S. DIA when reciprocal investment among the 15 European countries are excluded (⋯⋯).

A majority of the largest corporations worldwide, financial or nonfinancial, are U.S. or European corporations. This is shown in Table M1.5, based on Forbes' classification of the 2000 largest corporations. (The classification uses a "composite score based on [*the*] ranking for sales, profits, assets, and market values".) The variable considered in the first column is the profits realized in 2007 by corporations of various regions of the world. The table also indicates the percentage that these profits represent in the total profits of the 2000 corporations. The table provides also indicate the number of corporations and their market capitalization. U.S. and European corporations garnered two thirds of total profits. There was no leadership of U.S. corporations, with 37 percent of profits realized by European corporations and 29 percent for U.S. corporations.

Overall, a conclusion similar to that concerning the capitalist classes is reached. As of 2007, U.S. and European large corporations, considered

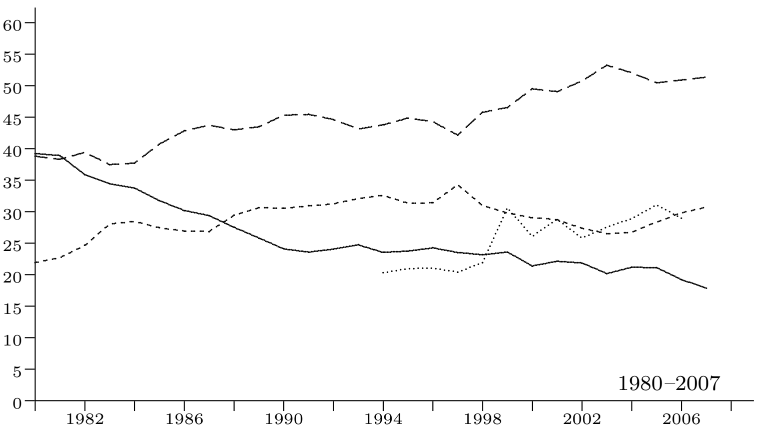
3. Hedge Fund 100 Ranking —Firms, Alpha magazine, http://www.alphamagazinerankings.com/hf100/rankings1.asp.

Figure M1.1 Shares of external bank assets by the nationality of ownership of banks (percent in the global external assets of banks worldwide): U.S., Europe, Asia, and Others




United States: (——)
Europe: (-----)
Asia: (········)
others: (— —)

Figure M1.2 Direct investment abroad outstanding from various regions of the world (percent of global DIA)




United States: (——)
Europe (15) (total): (— —)
other: (-----)
Europe (15) (reciprocal investment excluded): (········)

In this figure, Europe is made of the 15 major countries, excluding or not their reciprocal direct investments.

Table M1.5 - Forbes' 2000 largest corporations worldwide: Profit, number, and market value (2007)

| | Profits (billions of dollars) | Profits (percent) | Number | Market Value (billions of dollars) |
|---|---|---|---|---|
| United States | 681 | *28.9* | 598 | 12 613 |
| Europe | 878 | *37.3* | 512 | 11 322 |
| Asia | 420 | *17.8* | 567 | 9 044 |
| Other | 378 | *16.1* | 323 | 5 629 |
| Total | 2357 | *100.0* | 2000 | 38 608 |

jointly, are leading. Among the 2000 largest corporations, 66 percent are either U.S. or European. For the first 200, the percentage is 74 percent. For the 20 largest, it reaches 90 percent. European capitalism is, in this respect, very close to U.S. capitalism, sometimes led and sometimes leading, although the nationality of the top transnational corporations is predominantly U.S.

## Currencies: The dominance of the dollar

A last element in the overall assessment of the financial hegemony of the U.S. economy is the domination of the dollar. Overall, there is no questioning the fact that the dollar remains the major currency on exchange markets. Table M1.6 shows the proportions of the major currencies on foreign-exchange markets in 2007. (Since two currencies are involved in each transaction, the sum of the percentage shares of individual currencies totals 200 percent.) The hegemony of the U.S. dollar is striking, with exchanges in euro amounting to only 43 percent of exchanges in dollars. This leading role of the dollar does not alter the fact that one third of exchanges are realized in the United Kingdom, twice more than in the United States (Table M1.7).

## Partners across the Atlantic

As is well known, a large share of foreign investment corresponds to reciprocal investment among the leading capitalist economies. This is particularly true between the United States and Europe. Thus, these two regions are not only the two financial giants worldwide, but they are also closely interconnected.

Table M1.8 describes these flows of reciprocal investment: (1) from Europe to the United States; (2) from the United States to Europe; and (3) the net flows (the former minus the latter). The table also shows the total flows between the rest of the world and the United States, for

Table M1.6 - Currency distribution of foreign exchange market turnover (daily average, April 2007)

| | (percent) |
|---|---|
| U.S. dollar | *86.3* |
| Euro | *37.0* |
| Japanese yen | *16.5* |
| Pound sterling | *15.0* |
| Swiss franc | *6.8* |
| Australian dollar | *6.7* |
| Other currencies | *31.7* |
| All currencies | *200* |

Table M1.7 - Geographical distribution of foreign exchange market turnover (daily average, April 2007)

| | (billions of dollars) | (percent) |
|---|---|---|
| Total | 3 989 | *100.0* |
| United States | 664 | *16.6* |
| Europe | 2 192 | *55.0* |
| Other | 1 133 | *28.4* |
| Europe | | |
| United Kingdom | 1 359 | *34.1* |
| Switzerland | 242 | *6.1* |
| France | 120 | *3.0* |
| Other Europe | 471 | *11.8* |
| Other | | |
| Japan | 238 | *6.0* |
| Singapore | 231 | *5.8* |
| Hongkong | 175 | *4.4* |
| Australia | 170 | *4.3* |
| Other/other | 319 | *8.0* |

Table M1.8 - Flows of reciprocal investment between the United States and Europe (yearly average, 2003-2007)

| | (billions of dollars) | (percent of U.S. GDP) | (percent of total) |
|---|---|---|---|
| Increase in foreign-owned U.S. assets | | | |
| Total | 1552 | *12.3* | *100.0* |
| Europe | 701 | *5.5* | *45.2* |
| Other | 851 | *6.8* | *54.8* |
| Increase in U.S.-owned foreign assets | | | |
| Total | 883 | *7.0* | *100.0* |
| Europe | 558 | *4.4* | *63.2* |
| Other | 325 | *2.6* | *36.8* |
| Net increase in foreign-owned U.S. assets | | | |
| Total | 669 | *5.4* | *100.0* |
| Europe | 143 | *1.1* | *21.4* |
| Other | 526 | *4.2* | *78.6* |

comparison. (Annual flows of investment are considered instead of stocks of assets as in Figure 10.2.)

One can observe in Table M1.8 that Europe provides a yearly average flow of financing of $701 billion to the U.S. economy, that is, 5.5 percent of U.S. GDP. This flow amounts to 45 percent of total foreign investment toward the United States. The reciprocal relationship is even more spectacular, since almost 63 percent of U.S. investment abroad is directed toward Europe. A considerable share of this investment is foreign direct investment. The relationship is asymmetrical, since Europe appears as a "net" contributor to the financing of the U.S. economy. But only slightly more than 20 percent of U.S. net foreign financing comes from Europe.

## The rise and decline of Japan

The emphasis placed on the United States and Europe, as the two financial giants, is at odds with the thesis, popular 15 or 20 years ago, of the constitution of a "triad". Some of the data presented in this chapter retrospectively support this thesis for the period in which it was formulated, but times have changed.

In the late 1980s or early 1990s, the Japanese economy and financial institutions could be judged impressive. Asia meant actually Japon. Table M1.4 shows that the share of Japan in the total market capitalization worldwide was as high as 33 percent in 1990. The same is true of Japan's share in the external assets of banks worldwide, as in Figure M1.1. The share of the country in the external assets of banks in the world reached about 39 percent, a figure similar to that attained by Europe. The data concerning DIA do not confirm these observations, since in 1990 Japanese DIA only accounted for 12 percent of global DIA, nonetheless about the same percentage as the United Kingdom but far less than the United States. The trend was, however, still upward.

These data converge, however, to the same observation: the dramatic set back of the comparative importance of Japan's financial institutions after 1990. Japan's market capitalization within stock markets fell from 33 percent to 7 percent between 1990 and 2007. The same is true of the external assets of banks: a fall from 39 percent to 7 percent. Last for DIA, the percentage fell from 12 percent to 4 percent. A further expression of this decline is given below in Figure M1.3, where the currencies in which bonds are issued is considered, showing a maximum in the role of the yen in 1995.)

Other indicators confirm that Japan comparative position in global finance does not match its position as a major economy. Among the 16 LCFIs, none is Japanese. Overall, nothing of a financial "triad".

Figure M1.3 Issuance of international bonds and notes, by currency: U.S. dollar, euro, pound sterling, yen, and other