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FINANCIAL STRUCTURE AND ECONOMIC DEVELOPMENT

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The study of national financial systems was not one of Professor Paul Baran's preoccupations. Nevertheless, he did take a strong position on some financial matters, including, for example, the hazards of inflation for capitalism and the disutility of capitalist financial institutions for socialism. While these were, for him, marginal interests, we would nevertheless like to offer this essay in his memory.

As countries rise along the scale of wealth and income, their financial structures usually become increasingly rich in financial assets, institutions, and markets. We describe this financial accumulation in the first section below. There is a brief discussion, in the second section, of the relationship between real accumulation and financial accumulation.

Substantial differences in financial accumulation persist between countries even after appropriate allowance for wealth and income effects. Several reasons are suggested in the third section. What is perhaps the most important reason is reserved for the following section. This has to do with the fact that there are alternative techniques available to each country for mobilizing its economic surplus, and the financial technique is only one of them. The financial technique is not equally attractive everywhere, at each level of wealth and income, on reasonable criteria of social benefit and cost.

I. COMPARATIVE FINANCIAL ACCUMULATION

During economic development, as their incomes per capita increase, countries usually experience more rapid growth in financial assets than in national wealth or national product. [1]

1. The measurements we use for relative growth in financial assets, tangible assets, and income are based consistently on nominal values except when deflated values are mentioned explicitly. Financial assets include all intangible assets—claims against both nonfinancial spending units (primary securities) and financial institutions (indirect securi-

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