

Welcome to the latest edition of *SAFE Update*, the Leibniz Institute SAFE digital newsletter. In this issue, we focus on the financial priorities for Germany's next federal government and look at research into stock market capitalization.

We hope you find this newsletter of interest and would welcome your feedback to the editorial team at newsletter@safe-frankfurt.de.

Focus: Financial priorities for Germany's next government



Green finance and financial stability as must-haves

After September's federal election, there has been gradual progress towards forming a new government. Whether the current negotiations lead to the formation of an administration or not, however, what is certain is that Germany's next governing coalition will have to address the megatrends of climate change and digitalization. What implications do these trends have for the financial sector?

Here, the SAFE Policy Letter No. 91 highlights seven priorities for the incoming federal government:

- developing a regulatory package to safeguard global commons such as the climate;
- an initiative to build the necessary data sets and standards for targeted sustainability design in financial markets;
- a regulatory roadmap to record, enable, and structure digitalization in the financial system, completing the banking union by creating a single supervisory regime;
- breaking the "doom loop" between sovereigns and banks in Europe by limiting the extent to which banks may hold bonds issued by their own national governments;
- a serious attempt to create a single European capital market with integrity in U.S.-style supervision based on the SEC model;
- and finally, a banking and a capital markets union as essential building blocks for a fundamental reform of pensions, with higher participation among all demographics in the performance of the German economy.

Researchers at SAFE emphasize that, taken together, green finance and financial stability are the two absolute must-haves for the next German government in order to counter climate change and meet the requirements of transforming the financial system in a European context. This includes regulatory and financial market policy measures fostering legislation and supervision with a view to tackling future crises better.

[Find the SAFE Policy Letter No 91. here \(in German\).](#)



The Big Bang: Stock Market Capitalization in the Long Run

by Kaspar Zimmermann, Advanced Researcher in the SAFE Department Macro Finance, and Dmitry Kuvshinov, Universitat Pompeu Fabra.

In their research paper "The Big Bang: Stock Market Capitalization in the Long Run", forthcoming in the *Journal of Financial Economics*, the authors introduce a new long-run cross-country dataset on stock market size and its determinants and use it to examine the trends and drivers of stock market growth. These data consist of annual series of stock market capitalization, equity issuances, stock prices, listed firms' dividends, profits, and discount rates in 17 advanced economies between 1870 and 2016.

According to the results, two central developments can be observed. First, stock market capitalization grew in line with gross domestic product in all advanced economies up to the 1980s. Second, the subsequent decades saw a "big bang" of market-cap-to-GDP ratios, which tripled and remained persistently high in almost all countries, despite two major equity crashes in the early 2000s as the dot-com bubble burst and with the global financial crisis of 2008/2009. The paper notes that, while pre-1980s stock market growth was driven by equity issuances, the post-1980s expansion was driven by rising stock prices as issuances simultaneously slowed. As a key driver for post-1980s market capitalization growth, the authors identify a profit shift towards listed firms.

The profit shift away from other parts of the economy observed was driven by higher profit margins for listed corporations, which were made possible, at least in part, by two global trends that brought about substantial declines in firms' costs: drops in interest rates and ever lower corporate taxes. The authors document how, across major economies, both interest and tax expenses declined significantly after the 1980s. In a country-by-country comparison, the analysis also shows a growing global importance for the US equity market at the expense of the United Kingdom and France in the long term.

[Find the research paper here](#)

#SAFEtheDate



Outlook

SAFE and the Institute for Banking and Financial History are jointly organizing the conference "Banking & the State" on 9 November 2021. Held online, the event will focus on the increasing importance of the state's involvement in the finance sector since the global financial crisis and the COVID-19 crisis, the reasons behind it, and an evaluation of the effects. [Register here for the conference.](#)

Review

In a SAFE Policy Web Seminar, Harvard economist Benjamin Friedman discussed the religious roots of capitalism with SAFE Senior Policy Fellow Hans-Helmut Kotz, philosopher and social scientist Lisa Herzog from the University of Groningen, and economist Harald Hagemann. To get a notion of how certain creeds have influenced traditional schools of economic thought and thus shaped contemporary economics, [read the follow-up report and rewatch the session here.](#)

Handpicked

Image



Tatiana Farina, Head of the SAFE Policy Center, recommends *Think Again* by organizational psychologist and Wharton professor Adam Grant:

"Adam Grant's recent book 'Think Again' is a very engaging read and invites one to rethink and unlearn. His insights are great for everything from conversations at family dinners with that cousin who doesn't quite see the world as you do through to policy meetings and research debates. From his top journal papers to TED talks, Adam talks about how to move away from ideology or judging to truly approaching life in scientific mode – even if you are an academic."

News & Latest

- **News:** [SAFE Director Jan Krahen sees initial successes but also open issues in reforming BaFin](#)
- **Video:** [All sessions of the 8th SAFE Asset Pricing Workshop, organized by SAFE and the Deutsche Bundesbank](#)
- **SAFE Finance Blog:** [The role of disclosure in green finance \(by Sebastian Steuer and Tobias Tröger\)](#)
- All [upcoming events](#) and [SAFE publications](#)

FOLLOW US

   
[Twitter](#)[Facebook](#)[LinkedIn](#)[YouTube](#)

Leibniz Institute for Financial Research SAFE

Sustainable Architecture for Finance in Europe

Scientific Director: Prof. Dr. Jan Pieter Krahen

Deputy Scientific Director: Prof. Dr. Uwe Walz

Administrative Director: Dr. Muriel Büsser

Theodor-W.-Adorno-Platz 3 | 60323 Frankfurt a. M. | Germany

Phone: +49 69 798 30080 | Fax: +49 69 798 30077

newsletter@safe-frankfurt.de | [SAFE website](#) | [SAFE on Twitter](#) | [SAFE on LinkedIn](#)

Your registered email address:

kretz@safe-frankfurt.de

[Unsubscribe](#) | [Manage your subscriptions](#)

 [Logo Leibniz](#)