

# FINANCIAL CONSUMPTION AND THE COST OF FINANCE: MEASURING FINANCIAL EFFICIENCY IN EUROPE (1950–2007)

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## **Abstract**

This paper proposes a quantitative evaluation of the financial sector from 1950 to 2007 in Germany, France, the UK, and Europe more broadly. Three main facts are revealed. First, the ratio of domestic financial intermediaries' income to GDP increases continuously in all the countries over the period, even during the 1990s and the 2000s, contrary to the national accountant evaluation. Second, comparing financial income to the quantity of intermediated assets, the analysis shows that the unit cost of financial intermediation does not decrease over the period, except in France. In addition, because European unit cost decreased after the 1990s while it remained stable in the US, the unit cost increased more in the US than in Europe over the whole period. Third, an econometric investigation shows that (i) the increase in nominal interest rates during the 1970s and the 1980s is positively correlated to unit cost and (ii) the joint development of financial wealth management, credit intermediation, and the securities industry during the 1990s and the 2000s coincides with higher unit cost values. (JEL: E2, G2, N2)

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