

Financialization, inequality and fiscal tightening: not so ambiguous in the data

Alex Izurieta, Pierre Kohler and Juan Pizarro

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Limits of financialization and inequality were spotted early on

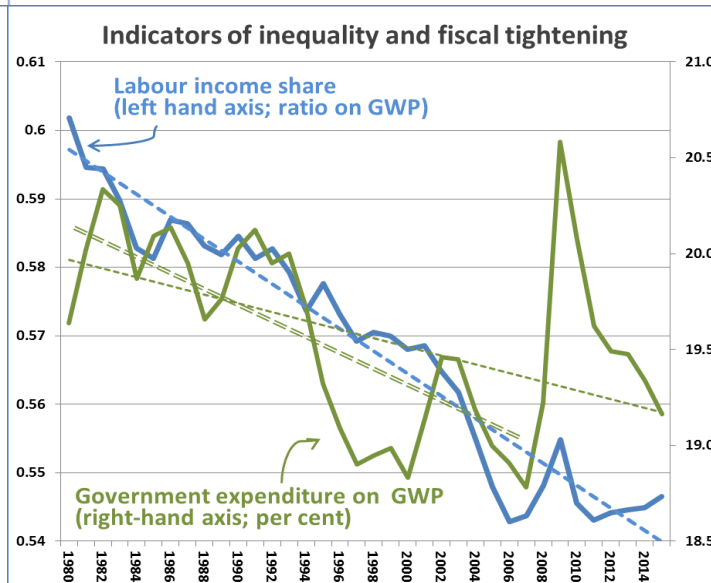
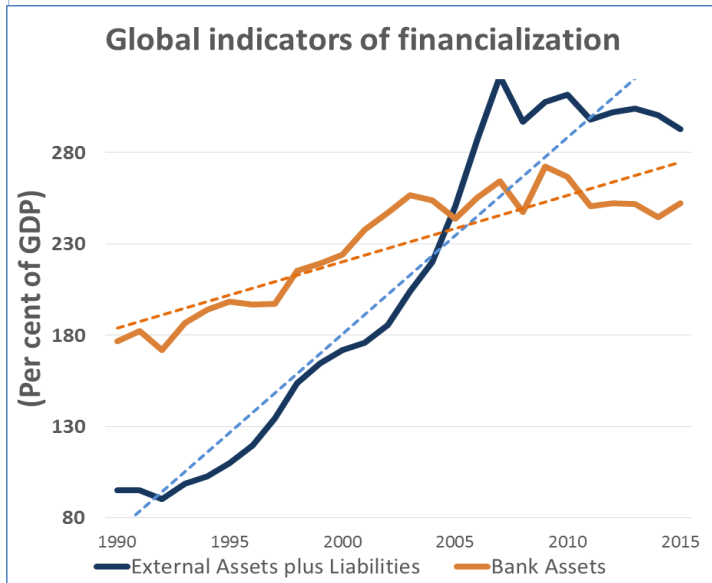
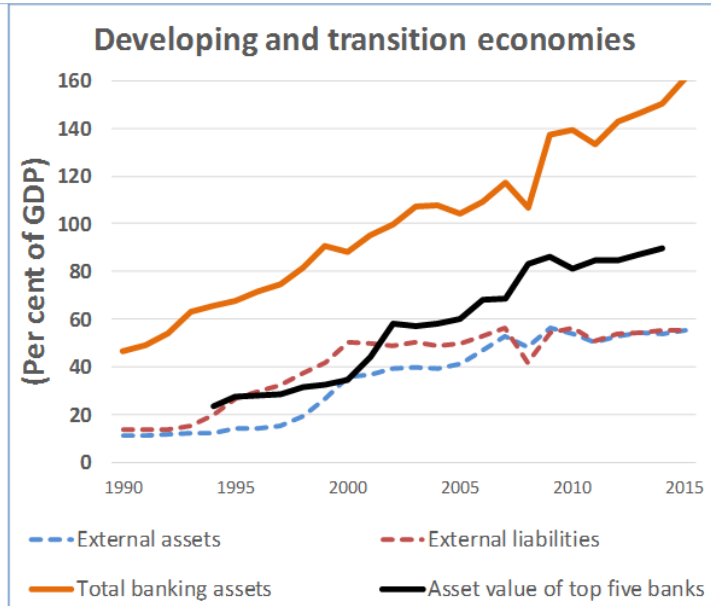
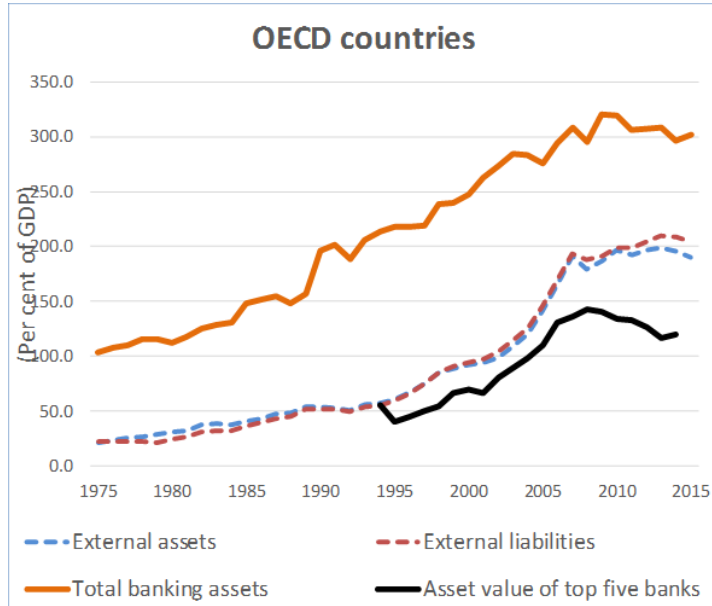
- **CP Kindleberger:** spectacular booms, credit squeezes, market crashes and debt depression
- **JM Keynes:** under-consumption and speculation
- **HP Minsky:** financial innovation, de-regulation, stability and instability
- **JK Galbraith:** financial euphoria/dementia, mass disillusion, crash and desperation, social and economic damage
- **More recent academic papers** have revisited the empirical and theoretical links between financialization, inequality, instability and the fiscal stance

(See forthcoming Trade and Development Report 2017, chapter 5)

This study widens the scope:

- Global databases: financialization measures (BoPS, IFS, bank's databases), income distribution (GICP), fiscal variables (UNSD and GFS), fiscal stance (UN GPM)**
- Finding 1: Financialization leads to worsening income distribution**
- Finding 2: Financialization induces adjustments in the fiscal stance**
- Finding 3: Trade and investment agreements accelerate the pace of financialization... and its consequences**

Global stylized patterns



Exh1a: financialization and the Gini

FINANCIALIZATION & INCOME DISTRIBUTION: impact on GINI

GLS regression, cross section weights
Sample (unbalanced) 1970 - 2015

Number of obs = 2776
F(5, 2770) = 795.47
Prob > F = 0.0000
R-squared = 0.5827
Root MSE = .17283

lgini	Coef.	Robust Std. Err.	t	P> t	Variable definitions
lfinanratio	.0181688	.0039979	4.54	0.000	financialization ratio
lgdppcrworld	-.0172307	.004	-4.31	0.000	relative income p.c.
lagtr	-.0792156	.0113251	-6.99	0.000	total govt expenditure
developed	-.2420584	.0130103	-18.61	0.000	developed ctry dummy
developing	.1078232	.0115554	9.33	0.000	developing ctry dummy
_cons	-.9416224	.01788	-52.66	0.000	const (adjusted below)

[cross section weights skipped]

Exh1b: financialization and the 'Palma ratio'

FINANCIALIZATION & INCOME DISTRIBUTION: impact on 'Palma Ratio'

GLS regression, cross section weights
 Sample (unbalanced) 1970 - 2015

Number of obs = 2780
 F(5, 2774) = 913.53
 Prob > F = 0.0000
 R-squared = 0.5845
 Root MSE = .39587

	Coef.	Robust Std. Err.	t	P> t	Variable definitions
lpalmaratio					
lfinancratio	.0546674	.0094223	5.80	0.000	financialization ratio
lgdppcrworld	-.0516157	.0094856	-5.44	0.000	relative income p.c.
lagtr	-.1356746	.028743	-4.72	0.000	total govt expenditure
developed	-.4972591	.0280602	-17.72	0.000	developed ctry dummy
developing	.3271738	.0271956	12.03	0.000	developing ctry dummy
_cons	.694767	.0423243	16.42	0.000	const (adjusted below)

[cross section weights skipped]

Exh2a: financialization and government expenditure in G & S

G Government expenditure G&S		dlog(G)			value	probabilit	
unit root test		Fisher ADF			422.1	0.000	
coefficients			coeff	t-stat	description		
	log(G(-1))	-0.223		7.7	error correction		
	dlog(YGR)	0.193		3.9	government revenue		
	log(LX\$(-1)/VV\$(-1))	-0.006		2.3	external liabilities		
	log(R\$(-1)/VV\$(-1))	0.007		2.1	exchange reserves		
	log(rx(-1))	0.034		3.3	real exchange rate		
	log(VV(-1))	0.226		7.5	real GDP		
statistics		value	t-stat		value	t-stat	
	constant	-0.367	3.4	residual ar(1)	0.333	6.6	
	se	0.051					
fixed effects							
SA	0.09058	FR	0.06063	CA	0.05729	OPA	0.04134
EU	0.04133	OCR	0.03606	CN	0.03481	ZA	0.03362
UK	0.03021	AU	0.02668	BR	0.02583	OWA	0.02008
OCA	0.01327	KR	0.01152	OEU	0.01136	DE	0.01093
IT	0.00091	JP	-0.00067	ONA	-0.00237	OAF	-0.00671
US	-0.00912	RU	-0.01492	OAM	-0.03009	OEA	-0.03905
IN	-0.04190	TR	-0.04930	AR	-0.06286	MX	-0.09293
OSA	-0.09615	ID	-0.10037				

Exh2b: financialization and government transfers and subsidies

YGTI Transfers and interest		dlog(YGTI)			value	probabilit
unit root test		Fisher ADF			618.1	0.000
coefficients			coeff	t-stat	description	
	log(YGTI(-1))	-0.057	4.4	error correction		
	log(YGR(-1))	0.052	3.4	revenue		
	d(ILX\$/VV\$)	-0.082	8.0	capital inflows		
	dlog(VV)	0.654	7.5	GDP growth		
	d(NU/NL)	1.778	6.8	change in unemployr		
statistics		value	t-stat		value	t-stat
	constant	0.034	0.5	residual ar(1)	-0.051	1.2
	se	0.142				
fixed effects						
	IN 0.04093	US 0.03711	IT 0.02393	AR 0.02383		
	TR 0.02237	JP 0.02207	FR 0.02070	DE 0.02029		
	EU 0.01960	UK 0.01725	RU 0.01140	ONA 0.01006		
	AU 0.00842	KR 0.00773	BR 0.00598	CA 0.00350		
	OAM 0.00319	OEU 0.00204	OWA -0.00037	OSA -0.00449		
	MX -0.00877	OEA -0.01124	OPA -0.01666	ID -0.02216		
	OCA -0.02923	SA -0.03153	OAF -0.03943	ZA -0.03989		
	OCR -0.04532	CN -0.05132				

Exh2c: financialization and government revenues

YGR Government revenue		dlog(YGR/VV)				value	probabilit
unit root test				Fisher ADF		594.3	0.000
coefficients				coeff	t-stat	description	
		log(YGR(-1)/VV(-1))		-0.098	4.6	error correction	
		log(B\$/VV\$)		0.007	2.5	exchange reserves	
		d(IX\$/VV\$)		-0.024	2.3	capital inflows	
		dlog(rx(-1))		0.040	1.9	real exchange rate of	
		dlog(VV)		0.800		GDP growth	
statistics		value	t-stat			value	t-stat
	constant	-0.128	4.6	residual ar(1)		0.145	3.8
	se	0.065					
fixed effects							
FR	0.06912	IT	0.06080	DE	0.05322	EU	0.04825
CA	0.04454	UK	0.04068	OEU	0.03990	OPA	0.03811
RU	0.03740	OCA	0.03149	JP	0.02661	US	0.02350
AU	0.01944	BR	0.01212	OWA	0.00226	TR	-0.00031
ZA	-0.00203	AR	-0.00218	SA	-0.00640	ONA	-0.01133
OCR	-0.01180	KR	-0.02076	MX	-0.02264	OAM	-0.02577
OAF	-0.04691	OEA	-0.06073	IN	-0.07613	CN	-0.08590
ID	-0.08696	OSA	-0.08762				

Exh2d: financialization and indirect tax rates

rtx Indirect taxes less subsidies		dlog(1+rtx/100)			value	probabilit	
unit root test				Fisher ADF	500.9	0.000	
coefficients			coeff	t-stat	description		
		log(1+rtx(-1)/100)	0.108	4.9	error correction		
		d((ILPIP\$(-1)+ILOIP\$(-1))/VV\$(-1))	0.005	2.3	portfolio inflows		
		XE\$(-1)/(rx(-1)*VV(-1))	-0.013	1.9	energy exports		
		d(XE\$/(rx*VV))	-0.026	2.6	change in energy exp		
statistics		value	t-stat		value	t-stat	
	constant	0.011	5.9	residual ar(1)	0.159	3.3	
	se	0.010					
fixed effects							
RU	0.01034	BR	0.00735	TR	0.00518	FR	0.00455
IT	0.00334	OCA	0.00326	UK	0.00305	EU	0.00291
CA	0.00272	AU	0.00187	SA	0.00183	DE	0.00004
OAM	-0.00007	OPA	-0.00033	ONA	-0.00066	CN	-0.00084
MX	-0.00084	OCR	-0.00114	ZA	-0.00191	OEU	-0.00192
AR	-0.00209	JP	-0.00228	KR	-0.00257	OAF	-0.00322
OEA	-0.00325	OWA	-0.00391	US	-0.00396	ID	-0.00405
IN	-0.00544	OSA	-0.00795				

Exh3a: trade & investment agreements and financialization

TRADE AND INVESTMENT TREATIES & FINANCIALIZATION: impact after 'signature'

GLS regression, cross section weights
Sample (unbalanced) 1972 - 2015

Number of obs = 3657
F(118, 3538) = 148.40
Prob > F = 0.0000
R-squared = 0.8243
Root MSE = .40459

lfinancratio	Coef.	Robust Std. Err.	t	P> t	Variable definitions
gdppcrworld_1	.0304728	.0014275	21.35	0.000	relative income p.c.
exportsr_1	.6083748	.2371264	2.57	0.010	export ratio on GDP
dlapt0_2	.1021429	.0303271	3.37	0.001	GDP growth rate
trades_1	.7910286	.1462133	5.41	0.000	trade in services share
bits_usa	.0697465	.03871	1.80	0.072	BIT w/US entry in force
bits_fra	.1589512	.0344649	4.61	0.000	BIT w/FR entry in force
bits_ita	.1974082	.030574	6.46	0.000	BIT w/UK entry in force
bits_jpn	.1637967	.0423554	3.87	0.000	BIT w/JP entry in force

[cross section weights skipped]

Exh3b: trade & investment agreements and financialization

TRADE AND INVESTMENT TREATIES & FINANCIALIZATION: impact after 'entry in force'

GLS regression, cross section weights
Sample (unbalanced) 1972 - 2015

Number of obs = 3657
F(118, 3538) = 157.29
Prob > F = 0.0000
R-squared = 0.8252
Root MSE = .40354

lfinanratio	Coef.	Robust Std. Err.	t	P> t	Variable definitions
gdppcrworld_1	.0308034	.0014144	21.78	0.000	relative income p.c.
exportsr_1	.5287	.237204	2.23	0.026	export ratio on GDP
dlapt0_2	.110758	.0294811	3.76	0.000	GDP growth rate
trades_1	.7751359	.1473021	5.26	0.000	trade in services share
bitef_usa	.0754451	.0336267	2.24	0.025	BIT w/US entry in force
bitef_fra	.1599907	.0301323	5.31	0.000	BIT w/FR entry in force
bitef_gbr	.23835	.034085	6.99	0.000	BIT w/UK entry in force
bitef_jpn	.1179003	.0441523	2.67	0.008	BIT w/JP entry in force

[cross section weights skipped]

Reverting financialization and its consequences: policy options

- Financial re-regulation**
- Income distribution and employment policies**
- Proactive fiscal stance**
- Cautious approach to trade and investment agreements**