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On the Future of Financialisation:

Some Lessons from FESSUD Foresight Analyses

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Abstract:

The paper offers an overall picture of the future of financialisation and of the process and mechanisms that are leading to it. The paper draws heavily on the foresight analyses done in previous tasks of WP11, in order to highlight and identify internal and external forces that are going to play a role in shaping the future of financialisation. These internal and external forces could be classified as strengths and weaknesses, or opportunities and threats respectively, in terms of their effects on the sustainability of the economy, society and natural environment.

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1. Introduction

The goal of this paper is to convey an overall picture of the future of financialisation and of the process and mechanisms that are leading to it. The paper draws heavily on the foresight analyses done in previous tasks of WP11, namely task 2 on the future expansion and proliferation of finance, task 3 on the financial regulatory future, task 4 on the relationships between finance and industry, task 5 on financialisation, debt and inequality, and task 6 on finance and economic and social reproduction. The review of these foresight analyses is done in order to highlight and identify internal and external forces that are going to play a role in shaping the future of financialisation. These internal and external forces could be classified as strengths and weaknesses, or opportunities and threats respectively, in terms of their effects on the sustainability of the economy, society and natural environment.

The paper is organised as follows. Section 2 present the FESSUD Foresight framework. Section 3 reviews the foresight analyses done in previous tasks of WP11. Section 4 concludes.

2. The FESSUD Foresight Framework

Foresight in the FESSUD project is organised around seven tasks starting in month 25 of the project (i.e. December 2013) and ending in month 60 (i.e. November 2016). Task 1 sets the terms of references for all foresight work to be done in Task 2 to 6, while Task 7 brings all the work of previous tasks together. Each of Tasks 2 to 6 represents a foresight exercise with the objective of promoting a future-intelligence-gathering and medium-to-long-term vision-building process and a set of images of a particular feature of financialisation. The foresight framework is organised around three main pillars. First, foresight tasks 2-6 and related exercises run in parallel in order to aid integration across different but related works. Second, all partners are involved in each of the tasks either as task-leader or as a team member, in order to mediate any discipline-based identity issue through continuous interactions, dialogue and team work. Third, foresight uses a variety of quantitative and qualitative methods, which offers a balanced combination of creativity, interaction, evidence and expertise. The overall objective of these three pillars is to encourage a systematic and

multidisciplinary view of the future of financialisation through active participation of each partner with its own specific knowledge and expertise across all foresight tasks and exercises.

The foresight framework prescribed a general format for each foresight task 2-6 and related exercises. They all had to be organised around three broad components. In the first part, each foresight task and related exercise had to explain the current state-of-art as far as the particular feature of the financialisation process was concerned. The second component had to deal with the future of that particular feature over a 15 to 20 year time horizon. The final component had to present the key results of the foresight exercise, and to interpret them in the light of the results of the other foresight tasks.

The objective of the first component is to present the main results of the relevant WP or WPs on which the foresight task builds on, and to explain how these results are going to inform the relevant foresight task and exercise. Figure 1 below illustrates the linkages between the work packages of the FESSUD project. The relationships between all WPs are managed and co-ordinated by WP1 (Management), which does not appear in the diagram. WP2 (Comparative Perspectives on Financial Systems in the EU) is the centre piece of the first two years of the project and explores the many facets of the financial systems in a wide range of countries and from different disciplinary perspectives. It develops a framework for comparative analysis of finance and financial systems in nation states. The application of this framework in empirical work yields important new information on national financial systems, their evolution, performance, and possible reform. The above work feeds into WP3 (Causes and consequences of the financial crisis) that deals with the nature, origin and effects of the 2007-2008 financial crisis. The results gained in WP2 and WP3, in turn, inform the work undertaken in WP4 (Regulation) on the regulation and supervision of financial institutions and financial markets. There are synergies between the policy aspects of WP4 and W9 (Financial stability and macroeconomics), which focuses on the relationship between monetary, fiscal policy and the stability of the financial sector. Furthermore, the analyses in W2 and W3 facilitate the work of WP5 (Finance and well-being) in the ways in which the financial system and the crises thereof have had an impact on social well-being.

FIGURE 1 near here

Figure 1 also shows that WP6 (Finance, development and global governance) deals with the impact of the changing global financial and monetary system on developing and emerging economies (e.g. Brazil, China and India), and it has important areas of commonality with WP5. WP6 is also closely related to WP7 (Finance, environment and sustainability) in terms of concerns with sustainable development, and governance structures which are supportive of sustainable finance and sustainable development. Importantly, WP7 also draws on the understandings of the financial system gained in WP2 and WP8 (Finance, real economy and the State). The structure and ownership of the financial sector, and its impact on the real economy is at the heart of WP8. The analyses of WP2 and WP3 are relevant here, as are the findings of WP5, in the sense that WP8 covers issues of governance and public provisioning. WP9 on finance and macroeconomic stability is also related with the findings of WP3 as well as governance issues from WP6 and WP8. More generally, there are overlaps between WP9 and the policy aspects of all WPs the work packages, since all WPs focuses on finding ways to achieve a more sustainable financial system. For the sake of simplicity, WP10 (Dissemination and impact), WP11 (Foresight) and WP12 (Synthesis and conclusions) are not represented in the diagram, but they are very important. WP10 supports the dissemination of the work of all these work packages, while WP12 presents a synthetic view of all the work and results of the FESSUD project. Finally, WP11 (Foresight) is the centre piece of the last two years of the project in the sense that it builds on all the work done in WPs 2 to 9 in order to explore the possible evolutions of financialisation, the financial sector and relevant policies over a 15 to 20 year time horizon.

FIGURE 2 near here

The objective of the second component of the foresight framework is to build on the main results of the relevant WP/WPs of FESSUD in order to explore the possible evolutions of financialisation, the financial sector and relevant policies over a 15 to 20 year time horizon. Figure 2 explains how each foresight task is related to the different WPs of the FESSUD project. Task 1 sets the framework of the entire foresight

analysis. From this perspective it provides inputs to Tasks 2 to 6. At the same time, each of these tasks play an important role in the definition and evolution of the foresight framework, hence they provide feedback to Task 1. Since WP6, WP7 and WP8 are not covered by any specific task in the FESSUD project, Task 1 also has the additional goal of making sure that the results coming from these WPs enter in each foresight tasks 2 to 6. Tasks 2, 3, 4, 5 and 6 are the core of the foresight analysis. They draw on different WPs and investigate different aspect of the future of financialisation. They all feed in Task 7, which brings together the result of the entire foresight analysis.

3. FESSUD Foresight Analyses

The objective of this Section is to discuss the main outcome of the foresight analyses done in previous tasks of WP11, namely task 2 on the future expansion and proliferation of finance, task 3 on the financial regulatory future, task 4 on the relationships between finance and industry, task 5 on financialisation, debt and inequality, and task 6 on finance and economic and social reproduction.

3.1 The future expansion and proliferation of finance

The main goal of this Task is to evaluate the current expansion and proliferation of finance and financial markets in the near future (circa to year 2025). Drawing on the theoretical and empirical analyses offered mainly in WP2 but also in other WPs, this task uses a Delphi foresight method, a semi-quantitative foresight method which usually involves two rounds of polling of experts on both qualitative of quantitative questions. The Delphi questionnaire was prepared by asking WP leaders to send questions that on the basis of their work would be of interest to explore in this foresight exercise. WP leaders were also asked to propose six experts, three from their team, and three from outside the project drawing on their network of colleagues and advisers. Twenty-six draft questions were initially received, which after further discussion and inputs made the final list of 33 questionnaire questions. For each question a closed list of possible (2-5) answers was provided, though the experts had also the possibility of offering comments and opinions. The proposed list of experts counted 114 individuals, of which 77 were experts external to the FESSUD project and 34 were internal experts. The questionnaire questions covered several subjects, including the main causes of the 2007-2008 financial crisis, the probability of a new

financial crisis, the evolution of the banking and financial systems, future developments for financial and non-financial agents, the performance of the macro-economy, and the prospects for fiscal and monetary policies. Some questions were especially designed in order to explore the foreseeable evolution of financialisation in Europe.

Following the Delphi methodology, and in order to improve the quality of the polling results, the questionnaire was sent twice to experts. In the first round 51 questionnaire were returned. A report was prepared, which contained some group statistics, like indicators of central trend and dispersion, as well as general qualitative information obtained from opinions and comments of the experts. The report and questionnaire was then sent back to the experts. In the second and final round 49 questionnaire were returned, which indicates a final rate of participation of 43%. Out of these 49 questionnaire, 27 were from internal experts and 22 were from external experts. The bullet points list below indicates some of the main results of the Delphi analysis:

- 92% of experts think that before the 2008 crisis, academic economists overestimated the benefits of the financial system
- 94% of experts thought that the financial crisis was due to a combination of wrong regulation and excessive size of the financial system
- 73% of experts think that regulation of the financial system was based on wrong economic models
- 43% experts think that current size of the financial system will remain unchanged, and 45% think that it will increase
- 100% of experts think that financial institutions exert a strong influence on regulators, leading to rules and norms that consolidate the power of financial sector
- 63% of experts think that this influence will remain in the next 5 to 10 years, and 22% think that the influence will increase
- 88% of experts think that non-bank financial system will cause a financial crisis in the next 5 to 10 years (probability > 50%)
- 94% of experts think that strong growth of non-bank financial system will remain in the near future (probability > 50%)
- 94% of experts think that importance of banks in the financial system will decline in the near future (probability > 50%)

- 66% of experts think that Basel regulations concerning liquidity and capital arrangements will not lead to a more robust financial system
- 93% of experts think that European banking union will promote a larger concentration of the banking sector
- For 42% of experts, developed countries will not separate commercial and investment banks
- For 66%, only some developed countries will introduce new forms of control on non-bank financial institutions
- For 60%, only some developed countries will introduce controls on over-the-counter derivatives
- For 66%, only some developed countries will introduce controls on off-balance sheet operations
- For 54%, only some developed countries will introduce controls on offshore financial centres
- For 52%, only some developed countries will introduce limits to leveraging of financial institutions
- 67% of experts think the declining trend of locally-oriented saving and cooperative banks will remain
- 90% of experts think that central banks in developed economies will explicitly adopt financial stability as an objective

3.2 The regulatory future

The main goal of this task is to identify future challenges for prudential regulation, including the potential ability of regulation to prevent the next financial crisis. The task draws on the work done in WP4, and it builds on the insights of Henry Kaufman and Hyman Minsky. WP4 concluded that the Single European Act recognised the importance of financial integration in the creation of the single internal market. The Maastricht Treaty focused on rapid monetary integration, namely a common currency for a common market, rather than political integration. Financial regulations thus concentrated on a common currency, the Euro, rather than the creation of a common internal financial market. However, the 2008 financial crisis highlighted the risks of this dual approach and led to concentration on common financial regulations such as the single rule books through mandatory Regulations, rather than Directives which had

permitted substantial variation in implementation in national regulations and supervisory practices. This shift in approach creates new problems, as imposed common standards may accentuate difficulties due to differences in the size and structure of national financial systems, which has originally led to differences in the national regulatory responses. Furthermore, this shift may also discourage other countries seeking to join the Eurozone. Finally, the work in WP4 highlighted that the potential for innovation in digital provision of means and systems of payments suggest both the possibility of greater national divergence in financial structure and greater integration of financial systems, which make common regulations less effective and efficient in promoting financial stability.

The challenges raised by the innovation in digital provision of means and systems of payments for prudential regulation is the main goal of this task. The foresight work builds on the insights of Henry Kaufman, who warned about the risks of intensive competition in financial markets, and the "Financial Instability Hypothesis" of Hyman Minsky.

> [While] there are arguments to be made … for opening up the banking system to greater competition. …. there are meaningful differences between the efficient allocation of goods and services through intense competition, and intense competition among financial markets and intermediaries. In the nonfinancial world, intensive competition encourages innovation and improved delivery of goods and services. In the financial world, intensive competition encourages lower profit margins for intermediaries, along with the search for investment and lending opportunities with higher profit margins – opportunities that typically entail greater risk, which can endanger not merely the banking institutions but the well-being of the larger society (Kaufman, 2000, pp. 201-202; as quoted in Kregel, 2016, p. 3).
>
> If regulation is to remain effective, it must be reassessed frequently and made consistent with evolving market and financial structures. … [any] supervisory and regulating structure for banking and finance that is in place not only reflects institutional features of the economy stretching back over at least 150 years, it also reflects the understanding, i.e. the economic theory, of how our type of economy works that ruled at the time when the bits and pieces of this structure was first put in place (Minsky, as quoted in Kregel, 2016, p. 3).

The foresight work in this task highlights that the combination of innovations and competition in the provisions of financial services create a potential for financial system that will require a new functional regulatory approach. It also offers an alternative view of the nature and origin of money and banks, namely the broadly defined Post Keynesian theory of endogenous money (Fontana, 2010), which emphasises the liquidity creation and payment system services by banks and the risks posed by new technology and innovation in mobile payment systems and “peer to peer” lending platforms.

According to the theory of endogenous money, when banks as a whole accommodate the demand for loans of creditworthy borrowers, they automatically create loans, which can circulate as means of payment in the economy. Putting it slightly different, banks now no longer acts as intermediaries or brokers like in the neoclassical theory, where they make payments on behalf of their customers by organising the payment system or clearing system. According to the endogenous money theory, banks issue liabilities which are means of payments. Banks are therefore dealers or creator of liquidity, as aptly described over a century ago by the British financial journalists Hartley Withers:

> Most of the money that is stored by the community in the banks consists of book-keeping credits lent to it by its bankers. It is usually supposed that bankers take money from one set of customers and then lend it to other customers; but in most cases the money taken by one bank has been lent by itself or another bank. … [t]he greater part of the banks’ deposits consist, not of cash paid in, but of credits borrowed. For every loan makes a deposit (Withers, 1906, p. 46 and p. 51; as quoted in Kregel, 2016, pp. 6-7; see also Realfonzo, 1998).

Hyman Minsky also stressed that bank liabilities are used and held as means of payment because borrowers have debts denominated in those same liabilities, and thus they have to extinguish those liabilities.

> As the 21st century approaches, the only reason why banks are special is that they operate the "ultimate" payment system within economies (the proximate payment mechanism is now often a credit card). There are now alternatives to banks for all but the provision of the ultimate payment mechanism function. Because banks operate the ultimate payments mechanism, those liabilities of banks which serve as the "medium of exchange" also serve as the standard in

which domestic public and private debts are denominated (Minsky, 1995; as quoted in Kregel, 2016, p. 11).

The distinction between intermediaries/brokers of liquidity and creator/dealers of liquidity is then used to assess the challenge raised by recent innovations in the payment systems (e.g. new mobile payment systems) or and in non-bank clearing houses like p2p (pear-to-pear) systems. For instance, current existing alternative payment systems like Pay Pal or Google Wallet at the moment simply link the debit or credit accounts of sellers and buyers, namely they act as intermediaries or brokers between the regulated, insured bank accounts of their customers. However, in theory this does not prevent that in the near future some of these online payment services to become brokers or creator or of liquidity. As long as they have the trust of a large portfolios of customers, Pay Pal may become as a "bank proper".

The main conclusion of the work in this task is that left to competition in the private sector the various competing systems will eventually be dominated by the largest client base. The Schumpeterian result will be a single dominant payments provider which links the maximum number of clients. And once this critical size is achieved, it will not only be able to displace regulated banks as providers of the payment system. When a payments provider is transformed from broker to dealer, it will produce the same risks and require regulation just as existing banks. It will be able to provide credit creation in the absence of regulatory or policy control. Therefore, functional regulation is essential to keep in control financial instabilities under control, and avoid major financial crises.

3.3 The relationships between finance and industry

The main goal of this task is to analyse the evolving and complex relationship between finance and industry in order to assess the claim that at a systematic level financialisation has been located in terms of the dominance of finance over industry. The tasks deconstructs the link between finance and industry into four "conceptually based foresight" essays, namely (1) the political economy of the impact of finance on industry; (2) finance and long-term investment; (3) the intimate link between finance, corporate governance (CG), and corporate social responsibility (CSR); and finally (4) the future of financialisation and finance capital. The task draws on the work done in the Work Package 2 and Work Package 8.

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The first essay revisits the well-established political economy literature on the relation between finance and industry, including the celebrated Finance Capital book by Rudolf Hilferding (1910):

> Hilferding drew on the Marxian notion that there are different types of capitals, notably industrial and financial with the shared objective to extract surplus, but with divisions as to how to distribute it. The key message from Hilferding's book was that overtime the emergent financial interests and capital will tend to be fused with industrial capital leading to a new category that he defined as Finance Capital-where finance differs from financial in that it includes both financial and industrial capital (Anthopoulos *et al*., 2016, p. 4).

The essay also analyses the work of Stephen Hymer (1971) that complements the book of Hilferding. Hymer argued that the process of collusion and fusion between financial and industrial capital occurs not only within countries, but also globally through so called multinational corporate capital. Finally, drawing on Argitis and Pitelis (2001, 2006; see also Brancaccio and Fontana 2013, 2016), the essays shows that the current New Consensus Macroeconomics (NCM) and its macroeconomic policy implications, especially inflation targeting policies adopted by central banks, have played no small role in fostering the dominant role of financial interests over industrial interest. For this reasons, the essay defends a rigid distinction between financialisation and finance capital, where the former refers to the dominance of financial capital, whereas the latter recalls the conclusions of the works by Hilferding and Hymer on the fusion between financial and industrial capital.

The second essay provides an in depth overview of the main macroeconomic groups funding long term investment, together with an analysis of the different forms and levels of long term investment. The essays starts with a useful definition of long term investment:

> Long-term investment is spending on tangible (such as roads, hospitals) and intangible assets (such as education, research and development) that can expand the productive capacity of an economy (...) This includes residential real estate, commercial real estate and other structures, equipment and software, infrastructure, education, and research and development (G30, 2013, p. 7; as quoted in Anthopoulos and Pitelis, 2016, p. 4)

The essay shows that there is a clear concerns among academics and policy makers alike about the fact that financialisation has gone hand-in-hand with an increasing emphasis on short-term objectives at the expenses of long-term growth and wealth creation. The essay argues that long term investment is a necessary precondition for abating the currently dominating tendencies towards stagnation. However, notwithstanding the existence of great opportunities and new potential funding actors, together with a significant amount of liquid savings available worldwide, the essay highlights the role of regulatory constraints and perverse incentives that seem still to favour short term over long term funding. For this reason, the essay calls for the creation of supranational institutions and policies in order to channel funds for long term investment and sustainable development.

The third essay examines the relationship between Corporate Governance (CG), Corporate Social Responsibility (CSR), and financialisation. It starts with an insightful analysis of the meaning and nature of CG, before offering a political economy assessment of the main theories of CG. Similarly, it offers a discussion of the meaning and nature of CSR.

> The term Corporate Governance (CG) is usually understood as the framework of rules, relationships, systems and processes by which a company/corporation is directed and controlled. CG aims at facilitating effective, entrepreneurial and prudent management in order to deliver enduring success to the company (Pitelis *et al*. 2016, p. 4).
>
> CSR is a complex and multidimensional concept, and dependent on situational factors (i.e. definitions may vary depending on the generation and the society). Rahim, drew upon the following definitions from the World Business Council for Sustainable Development…: "[...] the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large (Rahim 2013)"; and the Business for Social Responsibility …: "Achieving commercial success in ways that honour ethical values and respect people, communities, and the natural environment (Rahim 2013)". The author concluded that some common characteristics and elements can be identified, i.e. that companies are required to take into consideration the social, environmental,

> and economic impacts of their operations as well as to be responsive to the their stakeholders' needs and expectations (Pitelis *et al*. 2016, p. 11; and Rahim 2013, as quoted in Pitelis *et al*. 2016).

The essay emphasises that CG and CSR share several features, and hence they should be considered and analysed as two sides of the same coin. In this way, CG and CSR are naturally linked to the fundamental notion of sustainable wold-wide value creation, which - the essay claims - is at heart of the financial performance of firms, and of the long-run sustainability of the economy, society and environment, more generally. After reviewing different theories of value creation and value capture, the essays concludes by calling for the creation of a supra-national organisation that recognises and places sustainable wold-wide value creation at the centre-stage of current national and international policy initiatives.

The fourth and final essay brings together all previous work of this task. It speculates on the way that financialisation and finance capital could evolve in the near future. It highlights the disappearance of the working class and the middle classes. It anticipates an increasing role for production vis-à-vis finance in the western countries, as well the expansion of new markets in Africa. For this reason, the essay anticipates a return to finance capital/multinational corporate capital, where industrial capital and financial capital are combined in a more balanced way than today, though possibly with even more unequal and divisive consequences for the economy and the society:

> The future of financialisation can only be seen in the context of the future of capitalism. That requires a conceptual framework and understanding of the shifting global landscape and global political economy. Having sketched what we see as the major such developments, we have concluded that over time financialisation will evolve into a global elite-controlled new economy with greater fusion between financial and industrial as well as new forms of capital with the support of government, and involving the continuous pauperisation of the majority of the global population. We have discussed possibilities and means of addressing this dystopian trend and expressed little optimism about their feasibility and likelihood, except in the short run where some return to fiscal policy and infrastructural investments appear to be sine qua non for systemic survival. How lasting these will be only time will show (Pitelis and Anthopoulos 2016, p. 37).

The main overall conclusion of the essays of this task is that financialisation as it is known today is unlikely to exist in the near future; the reason being that it is grounded on a particular economic structure, namely wealth creation in Asian countries (e.g. China) that through the financialisation process has been linked to wealth extraction in western countries (e.g. USA). As wealth creation in China/Asian countries slows down, then wealth extraction and hence financialisation have to adapt too, possibly leading to pressure in the short to medium-run for a return of Keynesian fiscal policies at the global level in order to avoid long-run stagnation tendencies.

3.4 Financialisation, debt and inequality

The main goal of this task is to explore through the use of stock-flow consistent models the interplay between financialisation, inequality, financial regulation, and the occurrence of different demand-led regimes of economic growth in future. The task draws on the extensive work done in WP 3 on the causes and consequences of the global financial crisis in 2007-2008 (GFC) and the implications for a more resilient financial and economic system. The ground-breaking and far-reaching conclusions of WP 3 are worthy to present and discuss in full (Hein, 2015, 2016; Hein *et al.* 2015,)
According to the work done in WP3, there are two fundamental structural processes that have characterised financialisation from early 1980 till now, namely (1) the massive redistribution of income from labour (especially from low income households) to capital together with the rising concentration of wealth, and (2) the deregulation of the financial and economic system. These two fundamental structural processes have generated deep contradictions and major imbalances within countries and among different countries. The growing role of the financial system, rising claims on financial profits, weak investment in capital stock, and rising gross indebtedness of firms and households, especially rising debt-financed consumption, count among the major imbalances within the national economies. At the international level, increasing financial integration, rising current account imbalances, and volatile international financial flows are some of the most severe features of these deep contradictions and major imbalances. These domestic and international imbalances were the direct causes of the GFC, and together with the fundamental structural processes that have triggered then, are still the main problem for the future of modern economies.

The historical analysis and the theoretical work done in first part of WP 3 also illustrates very clearly how the structural processes mentioned above have generated national and international major imbalances, which have led to the GFC first, and then the current period of economic stagnation. The redistribution of income from labour, especially from low income households to capital has - through e.g. the marginal propensity to consume - had a negative impact on the income-financed consumption component of aggregate demand as well as on the investment component of aggregate demand. This potentially could have had extremely adverse effects on economic growth. The deregulation of the financial system provided an escape route to the situation, and as a result two short-run to medium-run dynamic economic growth regimes emerged. These two growth regimes were either driven by increasing debt-led consumption demand or by rising exports, and hence current account surpluses.

The second part of WP 3 builds on the historical analysis and the theoretical work done and offers three sectoral studies, namely of the residential housing market, the energy market, and the currency market, and several country studies. The latter are of particular importance for the foresight analysis of task 5, and hence discussed below.

The financial balances of the main macroeconomic groups (private household sector, financial and non-financial corporate sectors, government sector, external sector), as well as the main demand-led drivers of economic growth (private consumption, public consumption, private investment, public investment, net exports) were distinguished in order to derive an original and very valuable typology of different aggregate demand regimes. This typology was then used in order to identify the type of economic development followed by eleven EU countries (Estonia, France, Germany, Greece, Hungary, Italy, Poland, Portugal, Spain, Sweden, UK) as well as four non-EU countries (Japan, South Africa, Turkey, US). The main demand-led drivers of economic growth indicate the contribution of the different components of aggregate demand to the rate of growth of each country, where the financial balances of the main macroeconomic groups specify how aggregate demand is financed. Three aggregate demand regimes were identified, namely the debt-led private demand boom regime, the export-led mercantilist regime, and the domestic demand-led regime.

The debt-led private demand boom regime is characterised by negative financial balances of the private household sector, in some countries accelerated by

> corporate deficits and thus deficits of the private domestic sectors as a whole, positive financial balances of the external sector, hence current account deficits, high growth contributions of private domestic demand, and of private consumption demand in particular, as well as negative growth contributions of the balance of goods and services. In the trade cycle before the crises, we find this regime in the US, the UK and Spain, among other countries. These countries were the world demand engines before the crisis, mainly relying on increasing household debt (Hein, 2016, p. 4).
>
> The export-led mercantilist regime is characterised by positive financial balances of the domestic sectors as a whole [i.e. private household sector, financial and non-financial corporate sectors, and government sector], hence negative financial balances of the external sector, and thus, current account surpluses. The growth contributions of domestic demand are rather small or even negative in certain years, and growth is mainly driven by positive contributions of the balance of goods and services, and hence rising net exports. In the trade cycle before the crises we find this regime in Germany and Sweden, among other countries. These countries were free-riding on dynamic world demand generated by the debt-led private demand boom countries, in particular (Hein, 2016, p. 4).
>
> Finally, we have in between the two extremes the domestic demand-led regime. It is characterised by positive financial balances of the private household sector, as well as of the external sector, and hence, current account deficits. Here it is usually the government and, to a certain degree, the corporate sector, that are running deficits. We have positive growth contributions of domestic demand without a clear dominance of private consumption, and negative growth contributions of the balance of goods and services. In the trade cycle before the crises, we find this regime in France, among other countries (Hein, 2016, p. 4).

These three short-run to medium-run dynamic economic growth regimes discussed above emerged as a result of the interaction between the institutional features of the countries analysed and the two fundamental structural processes that have characterised financialisation from early 1980 till now, namely the massive redistribution of income from labour (especially from low income households) to