

# Financialisation, Debt and Inequality – scenarios based on a stock flow consistent model

- Preliminary results for D11.05

Presentation at the  
**FESSUD annual conference 2015:**  
**Impacts of Financialisation on Society,  
Environment, and Economy**

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# Task of Deliverable D 11.05

## Exerts of the DoW

- The central objective of this work package will be to explore the possible evolutions of financialisation, the financial sector and relevant policies over a 15 to 20 year time horizon.
- Two of the eight features characterizing financialisation are explored in task 5:
  - (v) ‘financialisation is strongly associated with market mechanisms, complemented or even reinforced by policies that have underpinned rising inequality of incomes and of inequality more generally’;
  - (vi) ‘consumption has often been sustained by the extension of credit’
- The **era of financialisation** has generally been associated **with rising inequality of income and wealth**. The interplay between inequality and financial crisis will **have been explored in WP3**. [...] **Using a stock-flow consistent approach**, possible **scenarios** are explored arising from the pattern of savings imbalances between sectors and between countries.



# How we approach the task

- In WP 3 we have conducted a range of country studies.
  - almost all countries were exposed to the same trends of increasing inequality
  - But the macroeconomic performance was quite different
    - Export led mercantilist
    - Debt led private demand boom
- SFC model to show how ‚small differences‘ in institutional structures can lead to these differing results of the same trends
- Build our forecast exercise on these results



# Content of the presentation

- 1. Introduction**
2. *(Financialisation, inequality, debt and economic growth)*
3. *(Macroeconomic regimes and international imbalances)*
4. *(Literature review on SFC models dealing with financialisation and inequality)*
- 5. Model Structure**
- 6. Modeling strategy and the baseline scenarios**
- 7. Experiments**
  1. *(Scenario 1: Increased propensity to consume)*
  - 2. Scenario 2: Changes in the functional distribution of income**
  - 3. Scenario 3: Changes in the wage dispersion**
  - 4. Scenario 4: Increase wage dispersion with strong financial regulation**
  5. *(Scenario ... )*
- 8. Some preliminary conclusions / foresights**



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# MODEL STRUCTURE



# Model Structure

- Stock Flow Consistent Model
- Euro area country
  - No exchange rate
  - No central bank
- Prices level is fixed
- Growth model
- 7 Sectors
- 2 assets + productive capital stock

# Model Structure – Balance Sheet Matrix

	Worker 1	Worker 2	Rentiers	Firms	Banks	Government	Row	Sum
Deposits	+	+	+	+	-	+	+	0
Loans	-	-		-	+	-	-	0
Equities			+	-				0
fixed capital				+				+K
Net worth	-	-	-	-	0	-	-	-K
Sum	0	0	0	0	0	0	0	0

# Model Structure – Transaction Flow Matrix

	Worker 1	Worker 2	Rentiers	Firms		Banks	Gov.	RoW	Sum
				Cur.	Cap.				
Consumption	-C_W1	-C_W2	-C_R	+C					0
Investment				+I	-I				0
Gov. Cons.				+G			-G		0
Exports				+Ex				-Ex	0
Imports				-Im				+Im	0
WB	+w1 * N1	+w2 * N2		-WB					0
Depr. Allow.				-DA	+DA				
Taxes	-T_W1	-T_W2	-T_R	-T_F			+T		0
Profits			+P_Fd	-P_F	+P_Fu				0
Int. Loans	-	-		-		+	-	-	0
Int. Deposits	+	+	+	+		-	+	+	0
<b>*Sum</b>	<b>Sav</b>	<b>Sav</b>	<b>Sav</b>	<b>0Sav</b>		<b>0Sav</b>		<b>Sav = - CA</b>	



# Model Structure – Transaction Flow Matrix

	Worker 1	Worker 2	Rentiers	Firms		Banks	Gov.	RoW	Sum
				Cur.	Cap.				
<b>*Sum</b>	<b>Sav</b>	<b>Sav</b>	<b>Sav</b>	<b>0 Sav</b>		<b>0 Sav</b>		<b>Sav = - CA</b>	
<i>Changes in Stocks</i>									
<b>Loans</b>	+ $\Delta L_{W1}$	+ $\Delta L_{W2}$			+ $\Delta L_F$	+ $\Delta L$	+ $\Delta L_F$	+ $\Delta L_{RoW}$	0
<b>Deposits</b>	- $\Delta D_{W1}$	- $\Delta D_{W2}$	- $\Delta D_R$		- $\Delta D_F$	+ $\Delta D$	- $\Delta D_G$	- $\Delta D_{RoW}$	0
<b>Equities</b>			- $\Delta E_{h_R} * p_E$		+ $\Delta E_{s_F} * p_E$				0
<b>Sum</b>	0	0	0	0	0	0	0	0	0

# Model Structure – Production and employment

## Production

$$(1) Y = \text{Cons} + I + G + \text{Ex} - \text{Im}$$

## Employment

$$(2) N = Y / p_r$$

$$(3) N_{W1} = N * n_{W1}$$

$$(4) N_{W2} = N * (1 - n_{W1})$$

Cons = Consumption

I = Gross investment

G = Government expenditure

N = Employment

n = share in employment (ex)

# Model Structure – Distribution

## Functional Income Distribution

$$(1) \text{ WS} = 1 - \text{PS}$$

$$(2) \text{Pg\_F} = \text{PS} * \text{Y}$$

## Wage distribution

$$(3) \text{ WB} = \text{WS} * \text{Y}$$

$$(4) \text{ wa} = \text{WB} / \text{N}$$

$$(5) \text{ w}_{\text{Worker2}} = \text{wa} * \text{wm}_{\text{Worker2}}$$

$$(6) \text{ w}_{\text{Worker1}} = (\text{WB} - \text{N}_{\text{Worker2}} * \text{w}_{\text{Worker2}}) / \text{N}_{\text{Worker1}}$$

WS = Wage Share

PS = Profit Share (ex)

Pg\_F = Gross Profits

WB = Wage Bill

wa = average wage rate

$\text{wm}_{\text{Worker2}}$  = wage multiple (ex)

w = wage rate

N = employment

# Model Structure – Firms Profit Distribution

$$(1) P_{g\_F} = PS * Y$$

$$(2) \text{inet\_F} = r\_L(-1) * L\_F(-1) \dots$$

$$\dots - r\_D(-1) * D\_F(-1)$$

$$(3) T\_F = \max( t\_F * (P_{g\_F} - \text{inet\_F} - DA), 0 )$$

$$(4) P\_F = P_{g\_F} - \text{inet\_F} - DA - T\_F$$

$$(5) P_{\_Fd} = \max( P\_F * (1 - RR), 0 )$$

$$(6) DpS = P_{\_Fd} / E_{s\_F}(-1)$$

$$(7) P_{\_Fu} = P\_F - P_{\_Fd}$$

$P_{g\_F}$  = Gross Profits

$\text{inet\_F}$  = net interest payments

$r\_L$  = interest loans (ex)

$r\_D$  = interest deposits (ex)

$L\_F$  = outstanding loans

$D\_F$  = Deposits of firms

$T\_F$  = Sum of Taxes Firms

$t\_F$  = tax rate firms (ex)

$DA$  = Depreciation Allowances

$P\_F$  = net profits

$P_{\_Fd}$  = distributed profits

$RR$  = retention ratio

$DpS$  = Dividend per share

$E_{s\_F}$  = number of outstanding  
shares

$P_{\_Fu}$  = undistributed profits

# Model Structure – Capital stock

## Capital Stock

$$(1) K = K(-1) + I(-1) - DA(-1)$$

## Depreciation

$$(2) DA = \delta * K(-1)$$

## Utilization

$$(3) Y_{fc} = K / COR$$

$$(4) u = Y / Y_{fc}$$

## Investment

$$(5) I = I_{net} + DA$$

$$(6) I_{net} = gr\_K * K(-1)$$

$$(7) gr\_K = \beta_1 + \beta_2 * u(-1) + \beta_3 * PS(-1) - \beta_4 * r\_L(-1) + \beta_5 * (P\_Fu(-1) + DA(-1))/K(-1)$$

K = capital stock

I = gross investement

DA = depr. allow. = depreciation

Y<sub>fc</sub> = Y at full capacity

COR = Capital output ratio

u = utilization rate

I<sub>net</sub> = net investment

gr\_K = growth of capital stock

PS = profit share

r\_L = Loan rate

P\_Fu = retained profits

# Model Structure – Firm Finance

## External Finance Demand

$$(1) \text{exFD}_F = I - P_{Fu} - DA$$

## Share issues

$$(2) E_{\text{issued}} = \text{exFD}_F / p_E(-1) * \text{EFR}$$

$$(3) E_{sF} = E_{sF}(-1) + E_{\text{issued}}$$

## Bank Finance

$$(4) \text{BankBalance}_F = \text{BankBalance}_F(-1) \dots \\ \dots - \text{exFD}_F + E_{\text{issued}} * p_E$$

$\text{exFD}_F$  = external finance demand

$I$  = gross investement

$DA$  = depr. allow. = depreciation

$P_{Fu}$  = retained profits

$E_{\text{issued}}$  = number of shares issued

$p_E$  = equity price

$\text{EFR}$  = equity finace ratio (ex)

$E_{sF}$  = equity supplied by firms (total number outstanding shares)

Bankbalance = net balance with banks

# Model Structure – Rentier Households

## Income

$$(1) Yg\_R = D\_R(-1) * r\_D(-1) + Eh\_R(-1) * DpS$$

$$(2) T\_R = \max( t * (Yg\_R) , 0)$$

$$(3) Yd\_R = Yg\_R - T\_R$$

## Consumption

$$(4) C\_R = pc\_R * Yd\_R(-1) + pcV\_R * V\_R(-1)$$

## Wealth

$$(5) V\_R = V\_R(-1) + Yd\_R - C\_R + CG\_E$$

$$(6) CG\_E = (p\_E - p\_E(-1)) * Eh\_R(-1)$$

$Yg$  = Gross income

$D$  = Deposits

$r\_D$  = interest deposits (ex)

$Eh\_R$  = total shares held

$DpS$  = Dividend per share

$T\_R$  = Taxes paid

$t$  = tax rate (ex)

$Yd$  = disposable income

$C\_R$  = consumption

$pc\_R$  = propensity to consume out of income

$pcV\_R$  = propensity to consume out of wealth

$CG\_E$  = capital gains equity

$V\_Re$  = expected wealth

$gr\_Y$  = GDP growth







# Model Structure – Worker 2 Households

## Income

$$(1) Yg\_W2 = w2 * N\_W2 + D\_W2(-1) * r\_D(-1)$$

$$(2) T\_W2 = \max(t * (Yg\_W2), 0)$$

$$(3) Yd\_W2 = Yg\_W2 - T\_W2 - L\_W2(-1) * r\_L(-1)$$

## Consumption

$$(4) C\_W2 = pc\_W2 * Yd\_W2(-1) + \dots$$

$$\dots pcV\_W2 * V\_W2(-1)$$

## Wealth

$$(5) V\_W2 = V\_W2(-1) + Yd\_W2 - C\_W2$$

$Yg$  = Gross income

$w$  = wage rate

$N$  = employment

$D$  = Deposits

$r\_D$  = interest on deposits (ex)

$T\_W2$  = Taxes paid

$t$  = tax rate (ex)

$Yd$  = disposable income

$L$  = Loans

$r\_L$  = interest on loans

$C\_W2$  = consumption

$pc\_W2$  = propensity to consume  
out of income

$pcV\_W2$  = propensity to consume  
out of wealth

# Model Structure – Worker 1 Households

## Income

$$(1) Yg\_W1 = w1 * N\_W1 + D\_W1(-1) * r\_D(-1)$$

$$(2) T\_W1 = \max( t*(Yg\_W1) , 0 )$$

$$(3) Yd\_W1 = Yg\_W1 - T\_W1 - L\_W1(-1) * r\_L(-1)$$

## Consumption

$$(4) C\_W1 = (1-imit) * pc\_W1 * Yd\_W1(-1) \dots \\ + imit * C\_W2 + pcV\_W1 * D\_W1$$

## (5) Wealth

$$(5) V\_W1 = V\_W1(-1) + Yd\_W1 - C\_W1$$

$Yg$  = Gross income

$w$  = wage rate

$N$  = employment

$D$  = Deposits

$r\_D$  = interest on deposits (ex)

$T\_W1$  = Taxes paid

$t$  = tax rate (ex)

$Yd$  = disposable income

$L$  = Loans

$r\_L$  = interest on loans

$C\_W2$  = consumption worker 2

$C\_W1$  = consumption worker 1

$pc\_W1$  = propensity to consume  
out of income

$pcV\_W1$  = propensity to consume  
out of wealth

$imit$  = degree of emulation (ex)



# Model Structure – Government

$$(1) G = G(-1) * (1 + gr\_G)$$

$$(2) gr\_G = gr\_Y(-1) + \\ \dots (0.03 - (def\_Gov(-1) / Y(-1)))$$

$$(3) T = T\_W1 + T\_W2 + T\_R + T\_F$$

$$(4) def\_Gov = G - T + L\_Gov(-1) * r\_L(-1) - \dots \\ D\_Gov(-1) * r\_D(-1)$$

$$(5) V\_Gov = V\_Gov(-1) - def\_Gov$$

G = government expenditure  
 gr\_G = expenditure growth  
 gr\_Y = GDP growth  
 Y = GDP  
 Def\_Gov = Government deficit  
 T = total tax revenues  
 D = Deposits  
 r\_D = interest on deposits (ex)  
 L = Loans  
 r\_L = interest on loans  
 V\_Gov = Wealth

# Model Structure – Banks

$$(1) r_D = r$$

$$(2) r_L = r$$

$$(3) L = L_F + L_{W1} + L_{W2} + L_{Gov} + L_{RoW}$$

$$(4) D = D_F + D_{W1} + D_{W2} + D_R + D_{Gov} + D_{RoW}$$

$$(5) V_{Banks} = L - D = 0$$

D = Deposits

$r_D$  = interest on deposits (ex)

L = Loans

$r_L$  = interest on loans (ex)



# Model Structure – RoW

$$(1) \text{Im} = \text{plm} * Y$$

$$(2) \text{Ex} = \text{Ex}(-1) * (1 + \text{gRoW})$$

$$(3) \text{CA} = \text{Ex} - \text{Im} - r\_D(-1) * D\_RoW(-1) \dots \\ \dots + r\_L(-1) * L\_RoW(-1)$$

$$(4) V\_RoW = V\_RoW(-1) - \text{CA}$$

plm = propensity to import

Y = GDP

Ex = exports

gRoW = growth rate RoW

CA = current account

r\_D = interest on deposits

r\_L = interest on Loans

L = Loans

D = Deposits

V = Wealth

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# **BASELINE AND EXPERIMENTS**



# Baseline and experimentation strategy

- Creation of two baselines cases with same parameters except emulation
  - One case (baseline 1) without emulation effects ( $\text{imit} = 0$ )
    - Expected to tend to the export led mercantilist type of development
  - One case (baseline 2) with emulation ( $\text{imit} = 0.5$ )
    - Expected to tend to the debt led private demand type of development
  
- Expose both baselines to the same shocks
  - Increase in profit share from 0.4 to 0.5
  - Increase in wage dispersion from worker 2 wage rate 122% of worker 1 wage rate to 185%
  - Increase in wage dispersion from worker 2 wage rate 122% of worker 1 wage rate to 185% with financial constraint / regulation
  
- Comparison of the results to reflected on the impact of further increases in inequality

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# **INTRODUCING THE BASELINES**





# The Baselines compared

	Baseline 1: no emulation	Baseline 2: 50 % emulation		Baseline 1: no emulation	Baseline 2: 50 % emulation
GDP comp. to Baseline 1	100.0%	101.3%	Imports to GDP	30.0%	30.0%
Capital Stock comp. to Baseline 1	100.0%	101.3%	Exports to GDP	30.7%	30.3%
utilization rate	68.4%	68.4%	Cons. Worker 1 to GDP	19.6%	20.1%
<b>Shares in GDP</b>			Cons. Worker 2 to GDP	21.7%	21.7%
Net Investment to GDP	10.2%	10.2%	Cons. Rentier to GDP to GDP	9.0%	9.0%
Depreciation to GDP	14.1%	14.1%	<b>Net financial wealth to GDP ratios</b>		
Consumption to GDP	50.3%	50.8%	Worker 1	23.1%	6.8%
Government expenditure to GDP	24.6%	24.6%	Worker 2	114.2%	114.2%
Gross Investment to GDP	24.4%	24.4%	Rentier	108.5%	108.5%
TradeBalance to GDP	0.7%	0.3%	Firms	-127.8%	-127.8%
			Rest of the World	-29.4%	-13.1%
			Government	-88.7%	-88.7%

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# **EXPERIMENT 1: INCREASE IN THE PROFIT SHARE**



# Experiment 1: increase in the profit share

	Without Emulation		With Emulation	
	Baseline 1	higher profit share	Baseline 2	higher profit share
GDP compared to Baseline	100%	95.0%	100%	94.7%
Capital Stock compared to Baseline 1	100%	99.5%	100%	99.2%
utilization rate	68.4%	65.3%	68.4%	65.3%
<b>Shares in GDP</b>				
Net Investment	10.2%	10.7%	10.2%	10.7%
Depreciation	14.1%	14.8%	14.1%	14.8%
Consumption	50.3%	47.3%	50.7%	47.6%
Government expenditure	24.6%	24.9%	24.5%	24.8%
Gross Investment	24.4%	25.5%	24.3%	25.5%
TradeBalance	0.7%	2.3%	0.3%	2.0%

# Experiment 1: increase in the profit share

	Without Emulation		With Emulation	
	Baseline 1	higher profit share	Baseline 2	higher profit share
Cons. Worker 1	19.64%	16.36%	20.07%	16.72%
Cons. Worker 2	21.71%	18.10%	21.71%	18.10%
Cons. Rentier	8.98%	12.82%	8.98%	12.82%
<b>Net financial wealth to GDP ratios</b>				
Worker 1	23.14%	19.30%	6.80%	5.70%
Worker 2	114.25%	95.20%	114.20%	95.20%
Rentier	108.54%	158.60%	108.50%	158.60%
Firms	-127.78%	-87.80%	-127.80%	-87.80%
Rest of the World	-29.43%	-96.60%	-13.10%	-83.00%
Government	-88.71%	-88.70%	-88.70%	-88.70%

# Summary of the results for increased profit share

- qualitatively the same developments for both experiments
  - Slow down in growth for a sustained period and lower GDP level in the steady state
  - A shift of GDP composition away from consumption towards investment
  - Improvement in the trade balance
  - Improvement of financial balance of firms and rentiers, deterioration of workers and RoW
  
- Stronger negative effect in Baseline 2 scenario

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# **EXPERIMENT 2: INCREASE IN WAGE DISPERSION**



# Experiment 2: Increase in wage dispersion

	Without Emulation		With Emulation	
	Baseline 1	higher wage dispersion	Baseline 2	higher wage dispersion
GDP compared to Baseline	100%	98.8%	100%	110.7%
Capital Stock compared to Baseline 1	100%	98.8%	100%	110.7%
utilization rate	68.4%	68.4%	68.4%	68.4%
<b>Shares in GDP</b>				
Net Investment	10.2%	10.2%	10.2%	10.2%
Depreciation	14.1%	14.1%	14.1%	14.1%
Consumption	50.3%	49.9%	50.8%	53.7%
Government expenditure	24.6%	24.6%	24.6%	24.6%
Gross Investment	24.4%	24.4%	24.4%	24.4%
TradeBalance	0.7%	1.1%	0.3%	-2.6%

# Experiment 2: increase in wage dispersion

	Without Emulation		With Emulation	
	Baseline 1	higher wage dispersion	Baseline 2	higher wage dispersion
Cons. Worker 1	19.6%	15.3%	20.1%	19.0%
Cons. Worker 2	21.7%	25.7%	21.7%	25.7%
Cons. Rentier	9.0%	9.0%	9.0%	9.0%
<b>Net financial wealth to GDP ratios</b>				
Worker 1	23.1%	18.0%	6.8%	-135.6%
Worker 2	114.3%	135.0%	114.2%	135.0%
Rentier	108.5%	108.5%	108.5%	108.5%
Firms	-127.8%	-127.8%	-127.8%	-127.8%
Rest of the World	-29.4%	-45.1%	-13.1%	108.5%
Government	-88.7%	-88.7%	-88.7%	-88.7%



# Summary results for increased wage dispersion

## Without emulation

- Contractive effect, lower GDP level
- Reduced share of consumption in GDP
- Improved trade balance
- W2 balance improved
- W1 balance deteriorated
- RoW balance deteriorated

## With emulation

- Expansionary effect, higher GDP level
- Increased share of consumption in GDP
- Deteriorating trade bal.
- W2 balance improved
- W1 balance becomes negative
- RoW balance improved

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# **EXPERIMENT 2.1: INCREASE IN WAGE DISPERSION IN BASELINE 2 WITH FINANCIAL CONSTRAINTS**



# Experiment 2.1: Increase in wage dispersion in Baseline 2 with financial constraints

## Changed consumption function of Worker 1 households

$$(1) \quad C\_W1D = (1-imit) * pc\_W1 * Yd\_W1(-1) + imit * C\_W2 + pcV\_W1 * D\_W1$$

Consumption demanded defined as before

$$(2) \quad C\_W1 = z99 * C\_W1D + z100 * (C\_W1D - (C\_W1D - Yd\_W1(-1)) * L\_W1(-1)/Yd\_W1(-1)/PrudRat)$$

$$(3) \quad z99 = 1 \text{ iff } C\_W1D < Yd\_W1; \text{ else } 0$$

$$(4) \quad z100 = 1 \text{ iff } C\_W1D > Yd\_W1; \text{ else } 0$$

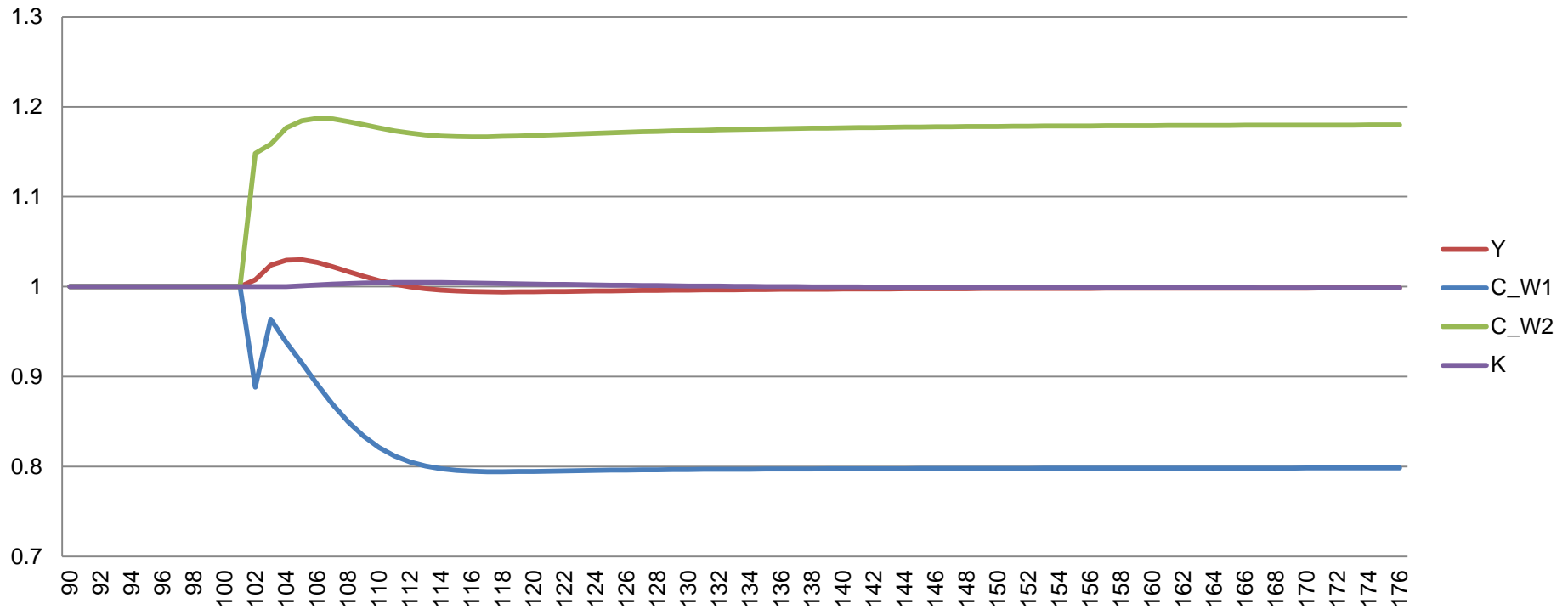
if consumption below income → Actual consumption = demanded consumption

if consumption above income →

Actual consumption = demanded consumption - penalty (depending on debt to income ratio and a prudential ratio)

# Experiment 2.1: Increase in wage dispersion with financial constraints

## Differences from Baseline 2 with financial constraints after an increase of wage dispersion



# Experiment 2.1: Increase in wage dispersion with financial constraints

	Baseline 2	higher wage dispersion	higher wage dispersion - with financial regulation
GDP compared to Baseline 2	100%	110.70%	99.87%
Capital Stock compared to Baseline 2	100%	110.70%	99.87%
utilization	68.39%	68.39%	68.39%
<b>Shares in GDP</b>			
Net Investment	10.24%	10.24%	10.24%
Depreciation	14.13%	14.13%	14.13%
Consumption	50.76%	53.67%	50.69%
Government expenditure	24.56%	24.59%	24.59%
Gross Investment	24.36%	24.36%	24.36%
TradeBalance	0.32%	-2.62%	0.36%



# Experiment 2.1: Increase in wage dispersion with financial constraints

	Baseline 2	higher wage dispersion	higher wage dispersion - with financial regulation
Cons. Worker 1	20.1%	19.0%	16.1%
Cons. Worker 2	21.7%	25.7%	25.7%
Cons. Rentier	9.0%	9.0%	9.0%
<b>Net financial wealth to GDP ratios</b>			
Worker 1	6.8%	-135.6%	-12.3%
Worker 2	114.2%	135.0%	135.0%
Rentier	108.5%	108.5%	108.5%
Firms	-127.8%	-127.8%	-127.8%
Rest of the World	-13.1%	108.5%	-14.7%
Government	-88.7%	-88.7%	-88.7%

# Summary results for increased wage dispersion with financial constraint

## Without financial constraints

- Expansionary effect, higher GDP level
- Increased share of consumption in GDP
- Deteriorating trade bal.
- W2 balance improved
- W1 balance becomes negative
- RoW balance improved

## With financial constraints

- Initial expansionary effect, then contractive effect, lower GDP level
- Reduced share of consumption in GDP
- Improved trade balance
- W2 balance improved
- W1 balance becomes negative
- RoW balance deteriorated



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# **CONCLUSIONS AND FORESIGHTS**





# Conclusions / Foresight

- In the face of further increasing **functional income inequality** the model suggests
  - For each individual country a shift towards the export led mercantilist type of development
    - Contractive effects in the transitional phase,
    - lower levels of GDP, lower utilization rate and
    - a relative shift of demand towards investment expenditure and exports
      - if world demand growth is unaffected by the slow down

# Conclusions / Foresight II

- In the face of further increasing **personal and wage income inequality** the model suggests
  - For individual countries where emulation effects play an important role a tendency towards the **private debt led demand type** of development
    - Expansive effects in the transitional phase,
    - a higher long run GDP level,
    - a relative shift of demand towards consumption,
    - deteriorating trade balance,
    - Potentially unsustainable debt accumulation in lower income household sector and deteriorating international investment position.
  - Each countries where emulation effects are only of minor importance or the access to debt for low income households is restricted (already high debt levels, prudential regulation, balance sheet recessions) a tendency towards the **export led type of development**
    - depressive effects in the transitional phase,
    - a lower long run GDP level,
    - a relative shift of demand towards exports,
    - Improving trade balance,
    - High export dependence and improving international investment position



# Conclusions / Foresight III

- Two potential scenarios for the Euro Area:
  - Scenario 1:
    - Sufficiently high number of countries can follow the private demand led type of development
      - Growth for a sustained period, also for export led countries, and balanced EA external accounts, but ...
        - » ... increasing debt balances within countries may lead to financial instability
        - » ... Imbalances within the Euro area will rise again
  - Scenario 2:
    - More countries follow or **have to** follow the export led type of development
      - Growth in the Euro Area will be weak, Euro area as a whole will turn export dependend and be a drag on world growth

# Thank you for your attention