FESSUD

FINANCIALISATION - ECONOMY - SOCIETY - SUSTAINABLE DEVELOPMENT

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CAUSES AND CONSEQUENCES OF THE FINANCIAL CRISIS

September 2016

1970 | 1980 | 1990 | 2000 | 2007 | 2010 | 2020 | 2030

FINANCIAL SECTOR | GOVERNEMENT | SOCIAL

Increasing share of income going to profits at the expense of wages

Expansion of finance | **Deregulation** | **Increasing income inequality**

Financial & non-financial companies

- Rising of financial assets investments because of higher rate and rapid return
- Rising dividend payments and share buybacks to raise shareholder value
- Preference of management for short term financial instead of real investment
- Pressure for further deregulation & income redistribution

› Growing financial sectors
› Rising claims on financial profits

Perverse incentives
because of deregulation and dominance of finance

Governments & banks

- Shift to neoliberal economic policies in the US and many other countries
- Innovation, lobbying and internationalization of finance

International deregulation

› Increasing financial integration
› Rising current account imbalances
› More volatile international capital flows

US expansive monetary policy
2001 collapse of Internet bubble lead to a recession => US Federal reserve responded with that money policy

debt-fuelled growth

Working & middle class

- Compensate falling and stagnating income by borrowing

› Debt-finance consumption
› Rising gross indebtedness

Failure of complex securities
› Allowed for credit expansion and predatory lending
› Spread the problems throughout the international financial system

Failure of risk management
Inadequate measures, over-confidence in numerical models, etc.

Fundamental & structural factors
FESSUD research conclusions (WP3)

Symptoms & amplifiers
Mainstream explanations

Crisis

Short-run stabilization solutions
› Allow public deficits and debt to relaunch demand
› Rebalance and stabilization between mature and catchingup economies

Re-regulation of financial sector
Orienting the sector towards financing real economy activities

1. More transparency
2. Incentives to focus on longrun growth
3. Contain systematic instability (credit control, etc.)

Reorientation of macroeconomic policies towards stabilizing domestic demand

1. Central banks target low real interest rates to promote real economic activity and act as a lender of last resort for governments
2. Income and wage policies to stabilize inflation
3. Fiscal policies aim at full employment and a roughly balanced current account

Re-creation of international monetary & economic policy coordination

Redistribution of income
From top to bottom & from capital to labour

1. Downsizing of finance
2. Re-organization and re-regulation of labour markets
3. Government social and tax policies

Solutions for more resilient financial & economic growth