

Manuscript

Asymmetric Effects on Public Social Spending and Financialization.

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Abstract

Purpose: We investigate the asymmetric relationship between the public social spending (PSS) and its determinants in the Eurozone over the period 1995q1-2023q4.

Methodology: Within the financialization literature we follow the theoretical endogenous nexus of the PSS with the financial fragility hypothesis (FFH) and the finance-led growth regime. The nonlinear autoregressive distributed lag (NARDL) model and cointegration has been applied for this purpose.

Results: the analysis suggests that (1) the selected as representative determinants of each one of the three stages of the FFH affect asymmetrically in the long run (as well as in the short-run) the dependent PSS, while more often, significantly larger effects were the negative changes of them; (2) the asymmetric shocks of explanatory increase PSS gently in many cases, but also decrease it strongly in others; (3) thus, it is proved the “automatic stabilizer” role of the PSS, whereas the contrary was not rejected, that is, the PSS was also used as a “counter-automatic stabilizer” tool; (4) this leads to “ratchet effects”, but it is unclear if we have an upward or rather a downward ratcheting effect; hence, it’s clear the drift of PSS, which rather seems to decline over time; (5) the financialization of the PSS phenomenon is revealed and discussed by relevant economic interpretations we’ve offered for determinants like the credits to non-financial corporations, the domestic borrowing from abroad and the snowball effect; they all had long-run effects of negative changes on PSS, with asymmetric dynamics towards a new equilibrium at an horizon between 4 and 16 quarters. Policy implications are straightforward and discussed.

Originality: We contribute to the financialization literature by analysing for the first time, as far as we know, the endogenous nonlinear long- and short-run dynamics of the PSS based on a comprehensive model of the FFH and the finance-led growth regime.

Keywords: public social spending; financialization; Minsky’s extended financial instability hypothesis; Eurozone’s fragility hypothesis; NARDL modelling and asymmetric effects.

JEL Codes: F36; F44; F62; G28; H12; H55; H63; I38

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