

Public debt, capital flows and financialization of the state in East-Central Europe

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6th FinGeo Global Seminar

Department of Geography, University of São Paulo, 15-17 May 2019



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The financialization of the state

a) The state as an actor (subject) of financialization

- financial liberalization, active support for new financial markets (Braun 2016; Engelen et al. 2011; Gabor and Braun 2016; Helleiner 1994; Krippner 2011)
- financialization of state investment policies: sovereign wealth funds (Cumming et al. 2017; Fini 2011), financial techniques in state asset and risk management (Munoz Martinez; Wang 2016)

b) The state as an object of financialization

- financialization of public sectors and services: pension systems (Biondi and Sierra 2018; Dixon and Sorsa 2009), education (Beverungen et al. 2014; Eaton et al. 2016; Engelen et al. 2014), health care (Mulligan 2016; Vural 2017), housing (Aalbers 2016; Fernandez and Aalbers 2016; Fields and Uffer 2016) and utilities (Bayliss 2014; Bresnihan 2016; Løding 2018)

Public debt

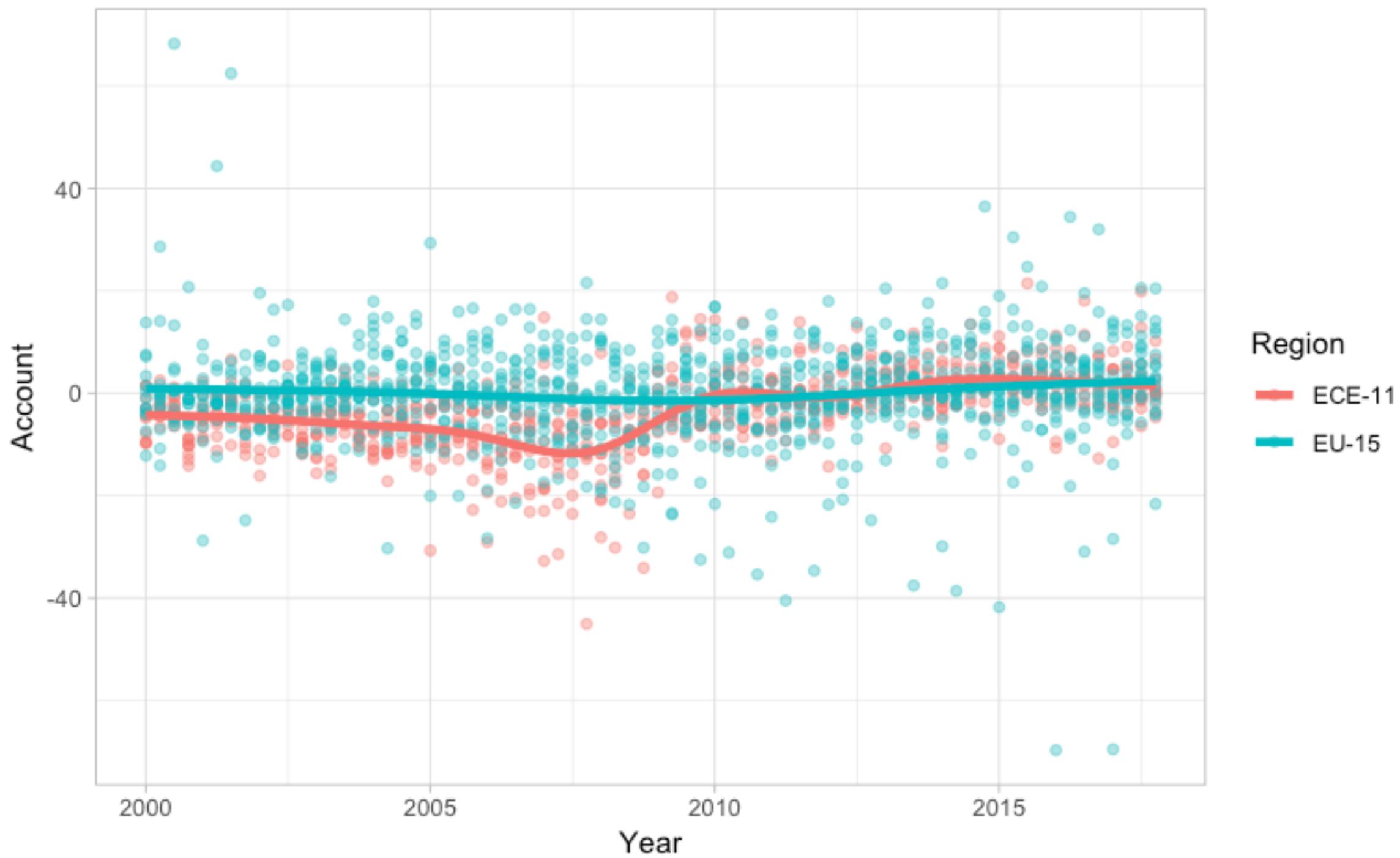
- Some accounts emphasize its special importance for state financialization, especially visible in crisis contexts (Bieling 2013; Lapavitsas et al. 2012; Overbeek 2012; Streeck 2013, 2014)
- Debt as a mechanisms of “market discipline” (Hardie 2011; Rommerskirchen 2015)
- Streeck: tax state -> debt state -> consolidation state
- financialization of sovereign debt management (Fastenrath et al. 2017; Lagna 2016; Preunkert 2017).

Peripheral financialization

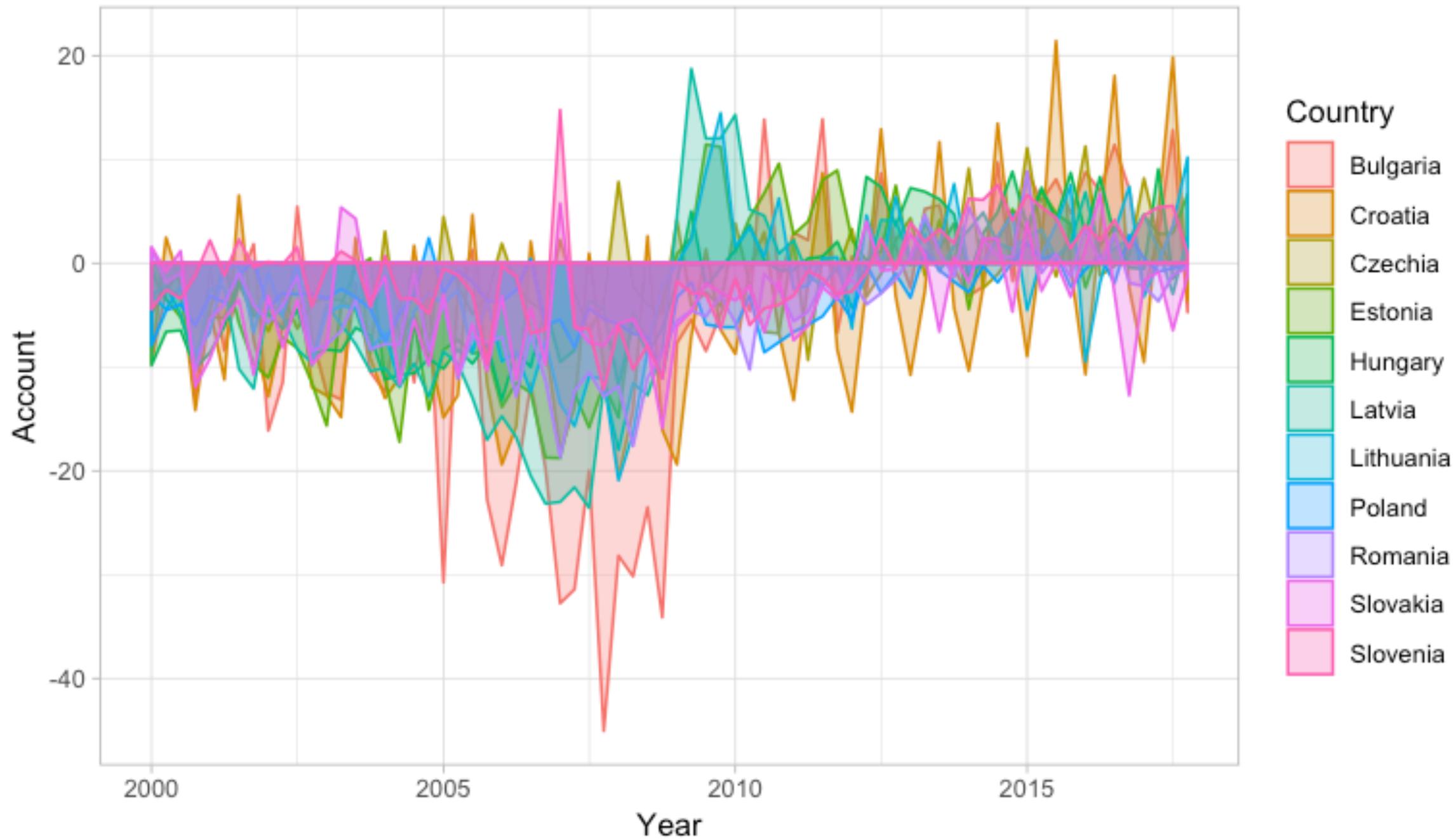
- Becker et al.'s (2010) model of peripheral financialization:
 - Extraverted (with a cyclical dynamic of capital inflows/outflows)
 - Based on interest-bearing capital
 - Supported by monetary policies of the target countries
 - Resulting in external asymmetries
 - Volatile, crisis-prone
 - In ECE, led by foreign-owned banks (see also Gabor 2010)
- Gabor (2010, 2011): capital flows and carry trade in ECE

Public debt under peripheral financialization

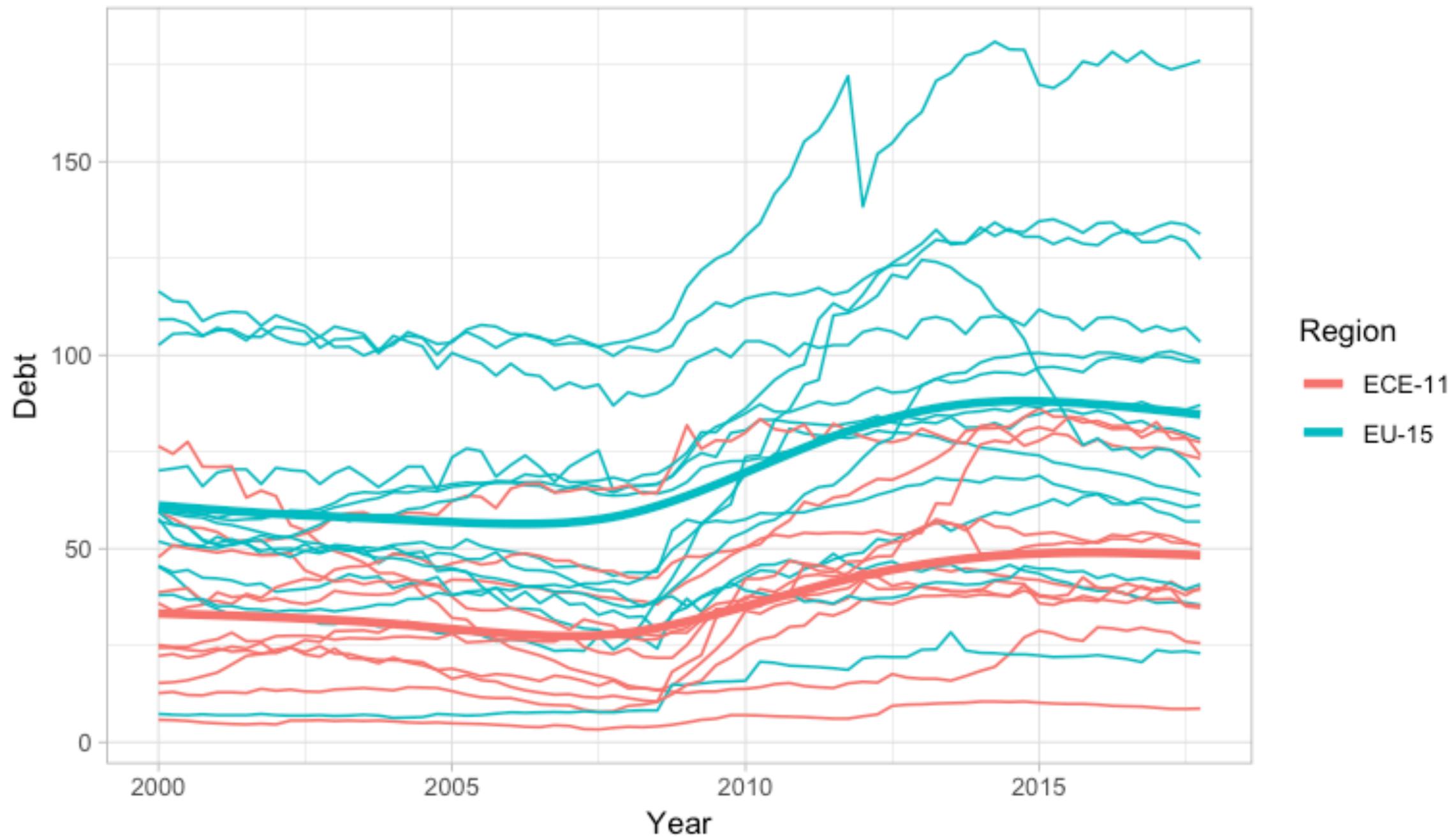
- So far a marginal, undeveloped issue in the literature
- However, the implicit assumption seems to be that:
 - a) the inflows of interest-bearing will result in an expansion of public debt, and
 - b) the reduction/reversal of capital inflows in the aftermath of crisis will result in a stagnation or even reduction of public debt



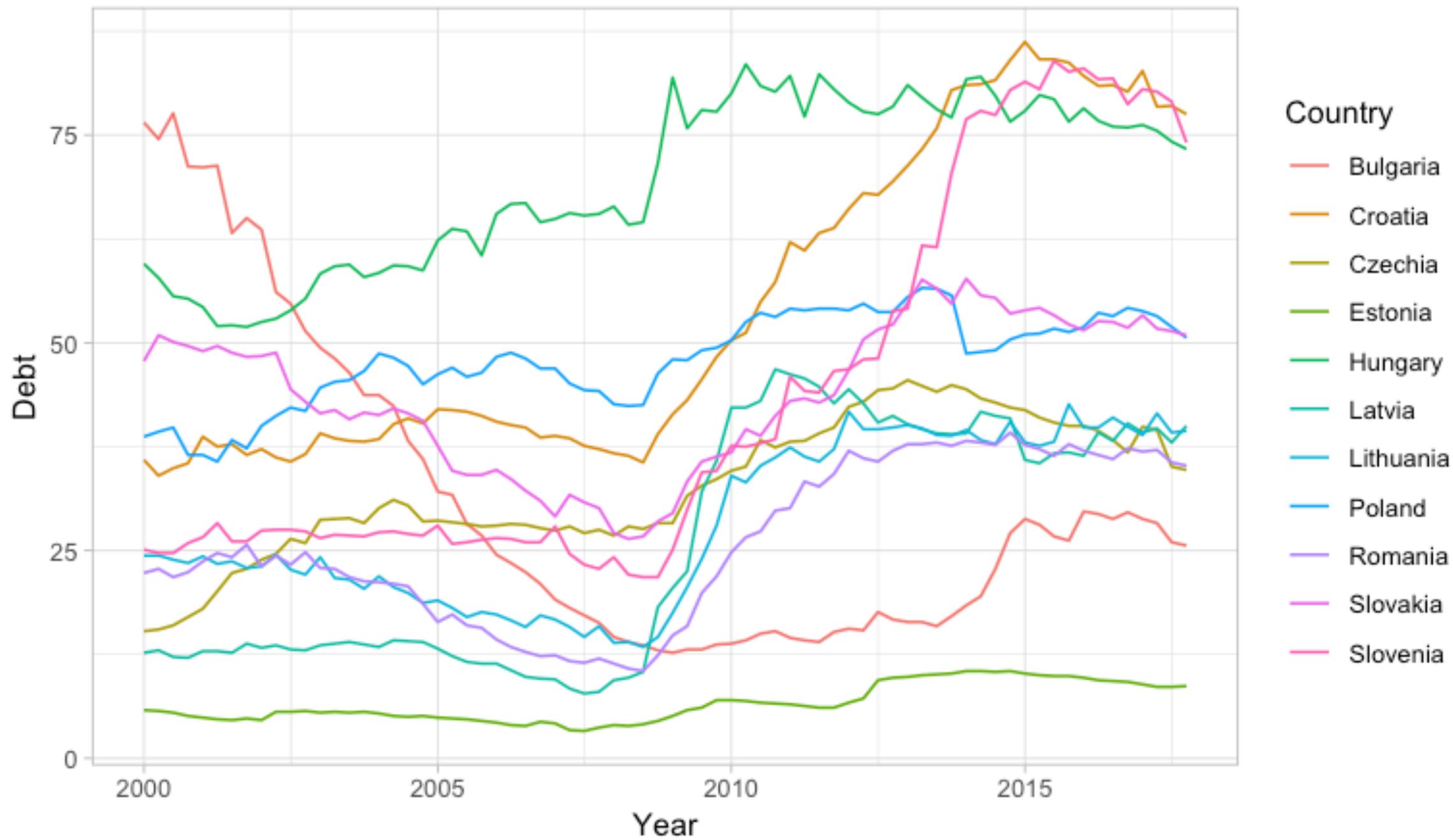
ECE-11 2000-2017



DEBT 2000-2017



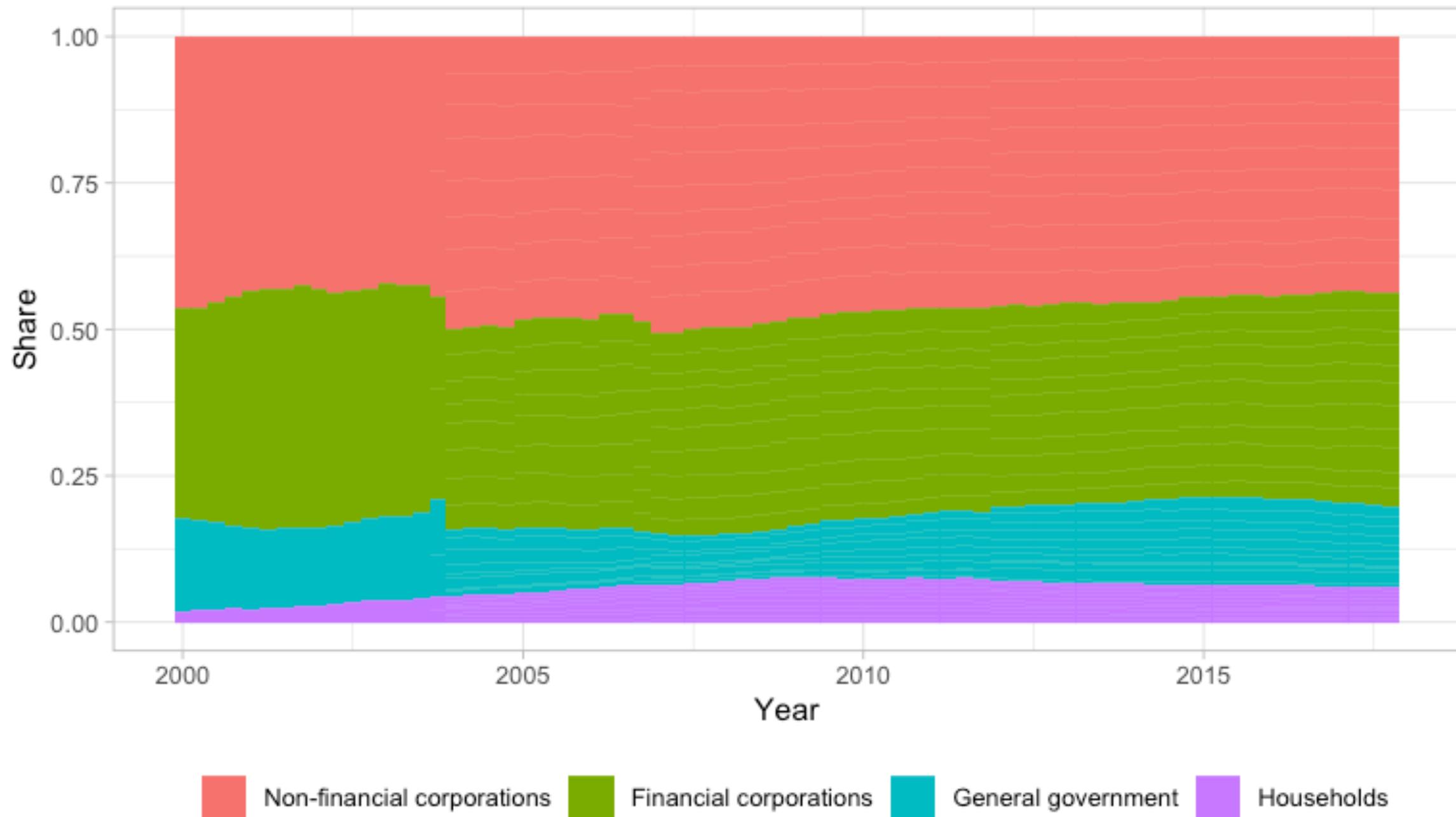
ECE-11 2000-2017



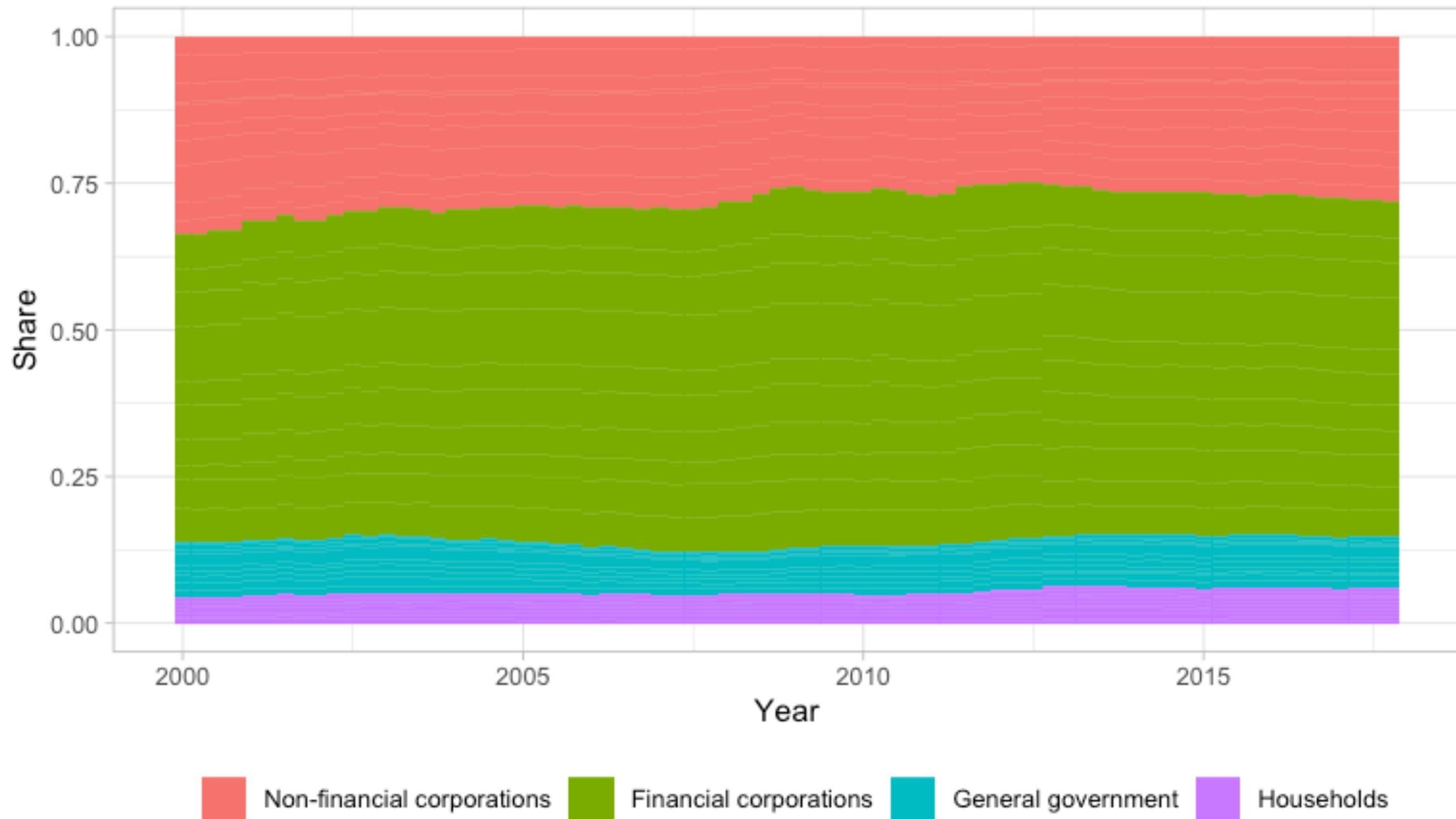
REGION + PERIOD / INDICATOR	r	p-value
EU-15 + ECE-11, 2000-17	0.01285994	$p \geq 0.05$
EU-15, 2000-17	-0.2122633	$p \leq 0.05$
EU-15, 2000-08	-0.09971765	$p \leq 0.05$
EU-15, 2009-17	-0.3241402	$p \leq 0.05$
ECE-11, 2000-17	0.2678475	$p \leq 0.05$
ECE-11, 2000-08	0.202622	$p \leq 0.05$
ECE-11, 2009-17	-0.008482218	$p \geq 0.05$
ECE-Baltics, 2000-17	0.4309693	$p \leq 0.05$
ECE-Baltics, 2000-08	0.3233942	$p \leq 0.05$
ECE-Baltics, 2009-17	-0.219256	$p \leq 0.05$
ECE-Visegrád, 2000-17	0.2539804	$p \leq 0.05$
ECE-Visegrád, 2000-08	-0.3167165	$p \leq 0.05$
ECE-Visegrád, 2009-17	0.3581354	$p \leq 0.05$
ECE-South, 2000-17	0.2967626	$p \leq 0.05$
ECE-South, 2000-08	0.1948364	$p \leq 0.05$
ECE-South, 2009-17	0.1401762	$p \geq 0.05$

GEO/TIME	2007 avg.*	2017 avg.
Bulgaria	5.41%	6.48%
Croatia	19.95% (2012)	21.48%
Czechia	7.49%	8.54%
Estonia	1.62%	3.34%
Hungary	12.07%	14.34%
Latvia	4.44%	11.91%
Lithuania	5.40%	14.43%
Poland	14.74%	17.33%
Romania	6.68%	16.47%
Slovakia	16.44%	19.23%
Slovenia	9.41%	21.01%
ECE-11 avg.	9.42%	14.05%

ECE-11, liabilities by sector, 2000-2017



EU-15, liabilities by sector, 2000-2017



Conclusions

- Public debt dynamics is related to financial flows dynamics under peripheral financialization, but in a more indirect, complex manner than a simple linear correlation
- The state as the debtor of last resort: pushes for an increase rather than a reduction of public debt after crises and flows reversals
- Shaped by unique national-level conditions -> need for in-depth case studies, beyond comparative analysis of quantitative data