

# The Impact of Fiscal Policy, Inequality, Financialisation and the Housing Market on Growth

❖ **Research Question:** What are the drivers of economic growth?

Sub-questions:

- what are the factors driving consumption?
- what are the factors driving investment?
- what are the factors driving net exports?

❖ **Theoretical contribution:** to develop a demand-led macroeconomic model with single equation specifications for each of the three GDP components: consumption, investment and net exports. The model will incorporate:

- The income distribution between wages and profits;
- The government sector - through taxes on labour income, capital income and wealth, and exogenous government consumption and investment expenditures;
- The wealth distribution.

❖ **Empirical contribution:** econometrically test the model through a survey study of the UK economy using secondary data.

❖ **Preliminary results on Household Consumption**

The Consumption function:

$$C = c_0 + c_w(1-t_w)W + c_r(1-t_r)R + c_{pw1}(1-t_{pw})PW_1 + c_{pw99}(1-t_{pw})PW_{99}$$

$$0 < c_r < c_w < 1 \text{ and } 0 < c_{pw99} < c_{pw1} < 1$$

Dependent Variable: DLOG(HHC)				
Method: Least Squares				
Date:	12/13/18	Time:	21:51	
Sample (adjusted):	1989Q2	2017Q4		
Included observations: 115 after adjustments				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.003067	0.000949	3.23098	0.0017
DLOG(COE_NET)	0.262093	0.054345	4.822723	0
DLOG(PW1_NET)	0.02265	0.016326	1.387378	0.1683
DLOG(PW99_NET(-1))	0.071832	0.031146	2.306324	0.0231
DLOG(COE_NET(-2))	0.162175	0.064551	2.512351	0.0135
DLOG(R_NET(-2))	0.075512	0.023529	3.209375	0.0018
DLOG(COE_NET(-3))	0.099311	0.051381	1.932834	0.056
DLOG(COE_NET(-6))	-0.18681	0.063842	-2.92608	0.0042
DLOG(R_NET(-6))	-0.05395	0.022685	-2.37816	0.0192
DLOG(COE_NET(-8))	-0.19192	0.051159	-3.75143	0.0003
DLOG(PW99_NET(-8))	0.081889	0.037337	2.193277	0.0305
R-squared	0.448364	Mean dependent var	0.005178	
Adjusted R-squared	0.395322	S.D. dependent var	0.008363	
S.E. of regression	0.006503	Akaike info criterion	-7.14221	
Sum squared resid	0.004399	Schwarz criterion	-6.87965	
Log likelihood	421.6771	Hannan-Quinn criter.	-7.03564	
F-statistic	8.453018	Durbin-Watson stat	2.252391	
Prob(F-statistic)	0			

Preliminary results indicate no long-run relationship between the explanatory variables and the dependent variable. An increase in the wage bill, the profit bill and the wealth of the bottom 99% appears to have short-run statistically significant effects on consumption, whereas the same cannot be said of the net wealth of the top 1%, which has a statistically insignificant effect.

❖ **Methodological contribution:**

- What kind of data ought to be used in empirical estimations?
- Usually National Accounts data.
- But that includes imputations such as imputed rentals of owner-occupiers and Financial Intermediation Services Indirectly Measured (FISIM).
- Imputed rentals - people who own a house are treated as if they paid a monthly rent to themselves.
- FISIM – the difference between interest rates paid on deposits and interest rates charged on loans is treated as a purchase of financial intermediation services. But is this production or is it a charge banks can exhort from consumers because they have a monopoly on money creation?
- What if we take these imputations out of GDP and Consumption figures?
- Imputations lead to an underestimation of GDP and Consumption growth in the UK because of inflation rate differentials.

