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FINANCIALISATION, WORKING CONDITIONS AND CONTAGION DYNAMICS IN DEVELOPING AND EMERGING ECONOMIES

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Abstract

COVID-19 has been having a severe impact on most aspects of economic and social reality across the globe. However, these effects have been unequally distributed with vulnerable people being affected the most (Ahmed et al., 2020) and the impact is magnified in developing and emerging economies (DEEs). This paper analyses the possible effects of financialisation on the contagion dynamics of COVID-19 in Developing and Emerging Economies (DEEs). Drawing on the growing political economy literature on the effects of financialisation on inequalities and working conditions, we argue that financialisation has influenced a number of social conditions, which affect the reproduction rate of COVID-19 through limiting the physical distancing possibilities. Using available epidemiological data, we provide a preliminary empirical assessment, which suggests that economies that are more financialised and have weaker labour market institutions experienced substantially longer COVID-19 waves. Interestingly, we demonstrate that the worst hit cases were the most financialised DEEs.

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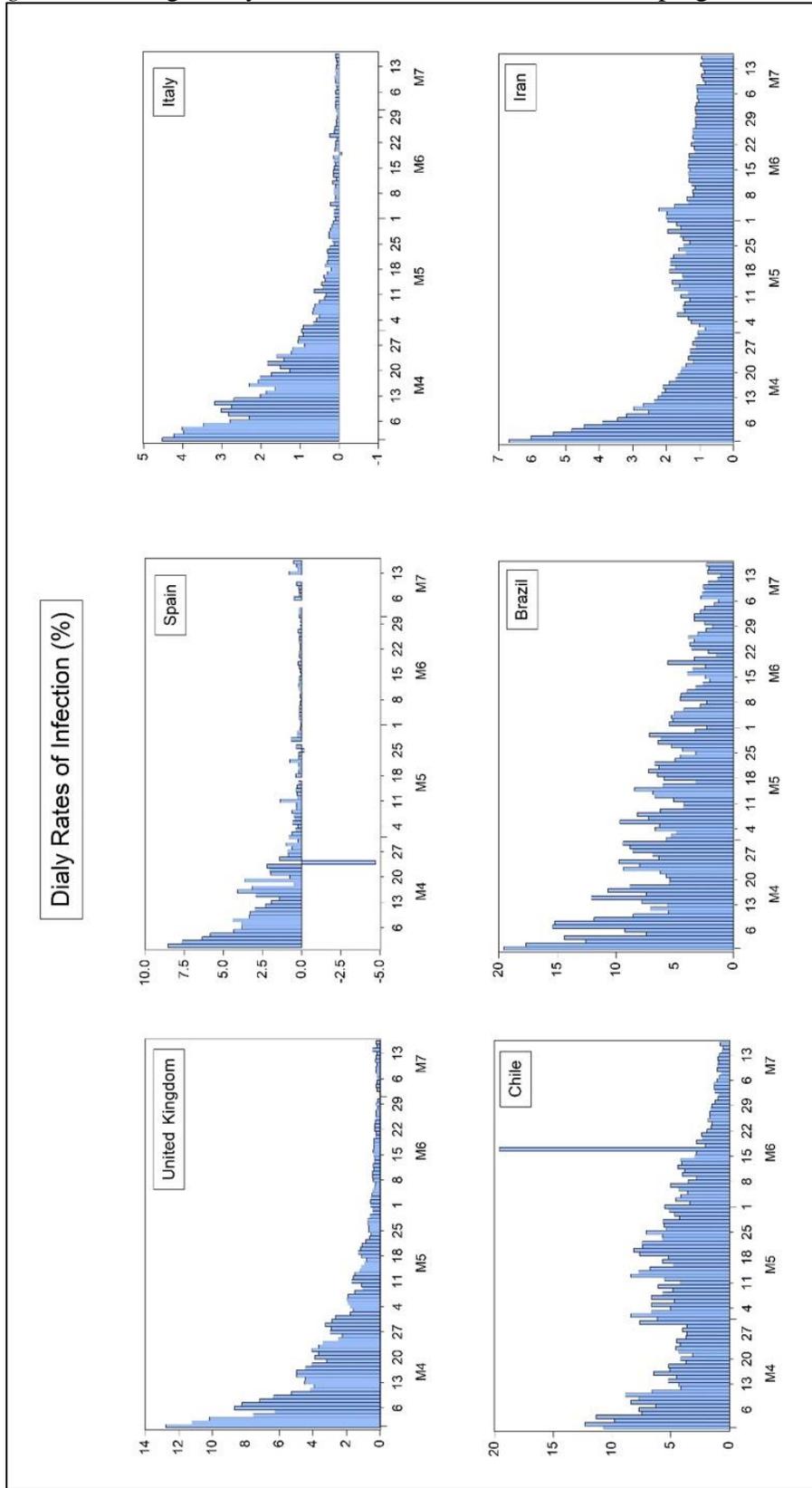
1. Introduction

COVID-19 has been having a severe impact on most aspects of economic and social reality across the globe. However, these effects have been unequally distributed with vulnerable people being affected the most (Ahmed et al., 2020) and the impact is magnified in developing and emerging economies (DEEs). This has to do with the well-known fact that health and illnesses have socioeconomic roots and are directly affected by social conditions, which vary across space and time (e.g. see Weitz 2001). The absence of a vaccine for COVID-19 has led most countries to make a number of Non-Pharmaceutical Interventions (NPIs) which include physical distancing measures.

The measures taken and their effectiveness in reducing or halting the contagion dynamics of COVID-19 differ both across and within countries. Measures vary across countries for a variety of reasons related to the level of infections, the financial potential of states to implement NPIs and the political willingness to do so given possible negative economic effects. The effectiveness is related to both the timing of NPIs being imposed (Di Guilmi et al., 2020) and the ability of individuals to engage in physical distancing. For example, in general it is easier for highly skilled high-income earners to work from home or to afford not to work for longer periods as compared to less skilled, lower income earners.

The combination of these two factors contribute to different levels of contagion (captured by the growth rate of confirmed cases) which can be observed. Figure 1 highlights this type of inequality. In most advanced and developing countries, measures were imposed between early March and early April. As we can see in this sample, since then, in DEEs the growth rate of confirmed daily cases is higher which shows that the impact in these countries has been more severe.

Figure 1: Contagion Dynamics – Advanced versus Developing Economies



In general, the observed inequality in the reduction of the growth rate of new confirmed cases is related to different social conditions, which can be attributed to a number of reasons and policies over (at least) the last forty years (see Galanis and Hanieh 2020). We show the effects of social conditions to the contagion dynamics, by identifying two types of social factors that influence the contagion dynamics. First, the ability of the state to support individuals when imposing NPIs. Second, individuals' ability to physically distance themselves for given NPIs. Thus, to better understand contagion dynamics differentials across space it is fundamental to examine what determines these social conditions. In recent decades, several studies explore how globalisation and the rise of finance globally has affected inequalities and social conditions in advanced and developing economies, widening the gap between the Global South and North (e.g. Rodrik 1997, Bonizzi et al. 2019, Fernandez and Aalbers 2020). This paper focuses on the relationship between contagion dynamics, social conditions, and the financialisation process in DEEs.

Drawing on the recent literature on the financialisation, we explain how the financialisation of non-financial firms and household have worsened social conditions by influencing both types of factors mentioned above. On the one hand, the financialisation of non-financial firms has increased overhead financial costs and the share of financial profits, which induces less labour intensive production techniques and wage cuts to counterbalance their worsening financial positions (e.g. Krippner 2005, Stockhammer 2004, Lazonick and O'Sullivan 2000, Froud et al. 2000). On the other hand, the financialisation of households has increased the financial commitments of households, inducing the self-discipline of the working class (Langley 2007, Wood 2017). This leads workers to avoid aggressive negotiations for higher or stable wages and not demanding better working conditions, on the fear of unemployment. As noted by Argitis and Dafermos (2013), financialisation tends to widen inequalities more in economies with weaker labour market institutions. Given that DEEs tend to have weaker labour market institutions (Freeman 2008), while they are becoming more financialised, recent studies have shown that negative effects of financialisation are particularly pronounced in developing regions (e.g. Gouzoulis and Constantine 2020a,b). Furthermore, financial globalisation has led to an increase in external debt and a decrease in public spending, has influenced the second type by putting barriers to the ability of governments to implement NPIs. All things considered, different degrees of financialisation between advanced

and developing, as well as between financialised and non-financialised developing economies, can potentially explain differences in contagion dynamics.

As a means of exploring this argument, we examine whether our theoretical predictions are broadly aligned with early data. More specifically, we scrutinise whether the rate of new confirmed cases in more financialised DEEs is relatively higher when measures are taken. As a first step, we focus on few of the worst hit developing economies in terms of COVID-19 infections: Chile, South Africa, Jordan, Iran, Brazil, Colombia, India, Indonesia, Mexico, Kenya, and Kazakhstan. Then, we use domestic credit to the private sector and domestic credit to the private sector by banks, to classify them in terms of degrees of financialisation.¹ Plotting the daily growth rates of infections for all case studies, shows that the COVID-19 infections waves tend to be longer in the more financialised developing economies. As a further step, we pick the two most financialised economies of our sample, Chile and South Africa, and compare them with two less financialised countries, Mexico and Iran. Our findings show that the growth rates of daily infections has been persistently higher in Chile and South Africa. This implies that, indeed, the negative impact of financialisation on social conditions has significant explanatory power for contagion dynamics differentials.

The rest of this paper is structured as follows. Section 2 describes the baseline epidemiological model and how social conditions are key determinants of infection growth, thus, argues that exploring their determinants is key for a better understanding of contagion dynamics. Section 3 discussed the expanding political economy literature on the effects of financialisation on industrial relations and inequalities, arguing that in more financialised developing economies (either in terms of households or firms or both) where labour market institutions are weaker, workers are more vulnerable, thus, more likely to be riskier and ignore physical distancing rules. Section 4 provides a descriptive empirical analysis of this argument showing that the more financialised DEEs are experiencing longer COVID-19 waves. Finally, Section 5 concludes by discussing the key political economy implications that emerge and why future studies should employ a political economy analysis of contagion dynamics.

¹ Needless to say, private debt is a simple proxy for financialisation and does not capture all dimensions of the phenomenon. However, given data availability limitations for other proxies for developing economies, this is the only reliable option.

2. Social Foundations of Contagion Dynamics

The most widely used epidemiological framework initiated by Kermack and McKendrick (1927), splits individuals into different compartments according to relevant health condition categories and models the contagion dynamics by studying the transition rates between the different compartments. In its simplest form, three compartments are assumed: Susceptible (S), Infected (I) and Removed (R) individuals, where R includes both recovered and deceased.

This model, splits individuals into different compartments according to relevant health condition categories and models the contagion dynamics by studying the transition rates between the different compartments. In its simplest form, three compartments are assumed: Susceptible (S), Infected (I) and Removed (R) individuals, where R includes both recovered and deceased. The contagion dynamics of an epidemic is captured by the relative probability of the transition from S to I and I to R and this is also known as the *reproduction number* and captures how many people will become infected on average due to a single infectious individual. While the transition from I to R depends crucially on the epidemiological characteristics of the disease, the transition from S to I, which captures the probability of a susceptible individual getting infected, also has a social component.

The social component is due to the fact that the probability of getting infected is equal to the (average) number of contacts a person has times the probability of infecting another individual when contacted. Hence, a reduction of the average number of contacts across individuals will lead to the probability of infection and to a reduction of the reproduction rate, which is why NPIs are being imposed. This leads to the well-known fact in fields like Sociology of Health, Social Medicine or Social Epidemiology, that the possibility of a reduction of the reproduction rate is greatly influenced by a number of social conditions, which vary across the globe. These conditions include the nature of work and employment relations, provision and quality of housing (Galanis and Hanieh, 2020), level of welfare provision, and the levels of poverty.

Comparatively worse conditions mean that for a given level of NPIs individuals will be able to reduce their average number of contacts less compared to individuals who live under comparatively better conditions. For example, informal labour may not be able to receive the same

amount of financial support through the state and go to work. Similarly, bad quality housing (e.g. flat/house shares) typically involve a higher number of contacts. This means that, in general, we expect that in DEEs there will be on average a comparatively higher reproduction number (shown in figure 1) and a higher death rate, which means a much higher level of deaths. However, given that social conditions and political decisions vary also across DEEs, the contagion dynamics will also vary.

We can group the different relevant social conditions into two types of factors, which capture, on the one hand, the relative ability of individuals to physically distance or isolate themselves if needed and, on the other hand, a state's ability to impose certain level of NPIs. These types are the level of social and economic inequalities, and governments' potential for public spending. The first type is an outcome of the conflict between different social groups, while financial pressures due to debt repayments significantly influence the second. As we argue below, the financialisation-welfare state-employment relations nexus influences both types of factors. Hence, taking this link into account, our paper does not only contribute to the development literature but also to the relevant social epidemiology literature.

3. Social Conditions and the Financialisation of DEEs

The rise of finance since the early 1980s has inspired a body of work that examines how the institutional complementarities between financialisation of non-financial sectors, welfare state retrenchment, and labour market institutions influence social conditions, including employment relations and inequalities. Consequently, given that the state of industrial relations and inequalities play a central role for physical distancing decisions at the individual level and state's capacity to impose NPIs, financialisation is an important missing factor in the analysis of contagion dynamics.

In general, the financialisation of economy and society has negative effects on social conditions, which are relevant for epidemics, especially in economies with weak labour market institutions through five channels: (a) real investment; (b) corporate governance; (c) the financialisation of households (d) the rise in financial profits of non-financial firms and (e) reductions in government spending related to the international aspects of financialisation. DEEs tend to have weaker labour market institutions (Freeman 2008), while their financial systems develop faster due to

globalisation and domestic government policies, thus, the negative impact of financialisation is substantial. Below, we review the key arguments in the literature and relevant empirical studies on emerging economies, which are related to both workers' bargaining power and states' possibility of public spending.

3.1 Rising Financial Payments and the Financialisation of Real Investment

Regarding the *financialisation of real investment*, during periods of economic stability, firms become more optimistic, thus, they want to invest more. As their desired investment rate rises faster than retained profits, they decide to become riskier and increase their debt ratios in order to cover this funding gap (Minsky, 1986). The additional sources of investment funding do increase investment in the short-run leading to a boom period. However, the accumulation of corporate debt increases debt service commitments, hence, firms gradually save a rising portion of their retained profits in order to repay their debt which eventually decreases their investment expenditure in the medium/long-run. The subsequent decrease in investment expenditure, due to the deteriorating financial position of firms and banks, and prospects for sustainable economic growth leads to a slowdown in accumulation which results in rising unemployment. The decrease in demand for labour increases the competition in the labour market, creating downward pressures on wages, which eventually harms effective demand further. Alternatively, another straightforward way for firms to counterbalance their deteriorating financial position due to debt accumulation is to cut down other overhead costs.

As suggested by Hein (2007) and Argitis and Dafermos (2013), in economies with weaker labour market institutions, it is likely that this will be done by squeezing wages. In this respect, given a pro-capital environment, firms have the power to incorporate their debt service commitments into their price mark-ups, i.e. shift functional income distribution towards capital. In terms of working conditions and contagion, the lowest the income of households is, the higher is the incentive to work under dangerous conditions.

While empirical studies on this dimension of financialisation are limited mainly to advanced economies (e.g. Hein and Schöder 2011), two recent papers by Gouzoulis and Constantine (2020a,b) estimate the effects of total private indebtedness on the wages shares in emerging

economies from different geographical regions and show that financial liberalisation in Chile and Iran have played a pivotal role for rising income inequality since the late 1970s. The common thread to both economies is the deregulated labour markets with informal employment and short-term contracts being the norm, and the liberalised financial market, which have led to excessively high private debt levels - both corporate and household.

3.2 Shareholder Value Orientation and the Financialisation of Corporate Governance

The growth and rising influence of financial markets have created a divide between firm ownership and management inducing the *financialisation of corporate governance*. The income of shareholders is directly linked to the value of the company shares they hold; thus, it is of their interest to keep the share prices to the highest possible level in order to maximise dividend payments, independent of real investment and profitability. In this regard, they exhibit pressure on firm managers to act accordingly. In the absence of enough private demand for shares, the straightforward way to retain high stock prices is to buy back shares of the company in order to internally increase the demand. To achieve that consistently substantial funding resources are needed. Hence, firm managers are likely to increase firms' corporate debt ratios in order to buy back shares and pursue the maximisation of shareholder value, i.e. dividend payments.

According to Lazonick and O'Sullivan (2000), Froud et al. (2000), and Thompson (2003), this process is characterised as the rise of short-termism in corporate governance. The core difference between the two forms of corporate financialisation is the initial incentive to increase corporate indebtedness: here it is the rise and the influence of the shareholder class that induces firms to take on more debt, rather than firms' optimism and desire to invest more and more. As discussed earlier, when firms are more powerful relative to labour, they incorporate debt service commitments into their price mark-ups, i.e. squeeze wages to improve their financial position. As this wage share reduction decreases consumption, a recession is likely to occur.

The transition of the financial systems of DEEs from coordinated bank-based (debt-driven) to liberal capital market-based (asset-driven) has been explored by Lee (2012) for East Asia, Powell (2013) for Mexico, and Kaltenbrunner and Karacimen (2018) for Brazil. Demir (2007) uses micro-level data and shows that the growth of capital markets in a range of emerging economies has

decreased long-term investment and capital accumulation and induced short-termist investment decisions which are commonly associated with worsening social conditions for working class households. Hanieh (2016) centres on the growth of market-based finance in the Arab economies, where, unlike other more globalised regions, Gulf-based finance capital plays a central role in the process. Similarly, Ho and Marois (2019) examine the development and socio-economic impact of asset market and management companies in China, given the dominant role of the state. Gouzoulis and Constantine (2020c) use econometric analysis to explore the distributional effects of financialisation liberalisation in China since 1978 and they report that it has mainly benefited the upper-middle class at the expense of the bottom 50 per cent of the population. Therefore, the assetisation of the financial markets in DEEs is linked to rising inequalities, which, in turn, provide additional incentives for working class households to accept working under dire conditions and compromise in terms of health conditions.

3.3 Labour's Bargaining Power and the Financialisation of Households

A significant part of the political economy literature has focused on the connection between the *accumulation of household debt*, workers' loss of bargaining power, and higher inequality. The argument that inequality may be exacerbated due to rising household indebtedness first appeared within the Foucauldian cultural political economy literature (Froud et al. 2002; Langley, 2007). The key thesis here is that financialisation has transformed investor identities, inducing working class' self-discipline and loss aversion behaviour due to its dependence on finance. Rising debt commitments make workers more insecure about defaulting on their debt, therefore they avoid endangering their employment by negotiating more aggressively for higher wages.

Needless to say, country-specific institutional complementarities are fundamental for this channel. According to Schwartz and Seabrooke (2008) and Wood (2017) in statist-developmental economies, like Sweden for example, the disciplinary effects of mortgage debt accumulation are likely to be modest as indebted homeowners are more protected by the state since housing is perceived as a social right. Similarly, Argitis and Dafermos (2013) claim that in economies with wide bargaining coverage workers are protected, thus, they are able to act more aggressively against employers and demand higher wages to improve their worsening financial position. In economies with weaker labour power resources, the disciplinary effect of household indebtedness

will be stronger, inducing income inequality. Darcillon (2015), Kollmeyer and Peters (2019), and Meyer (2019) provide econometric evidence that the expansion of the financial sector in advanced markets has contributed to the labour's declining bargaining power and the weakening of union structures during neoliberalism.

Lately, the DEE financialisation literature has also expanded on issues related to household indebtedness. Yet, this part of the literature remains limited. For example, dos Santos (2013) presents evidence that household indebtedness has increased substantially in middle-income economies as a means of accessing healthcare, housing, and education. In an attempt to classify and distinguish empirically between different financialisation processes, Karwoski and Stockhammer (2017) compare and contrast the DEE financialisation experience with the Anglo-Saxon models of financialisation. Their key findings suggest that Asian economies have been more exposed to financial flows and private indebtedness has increased substantially during the last decades, DEEs in Africa (and especially South Africa) have experienced a significant household debt boom, while Latin America has been less financialised as compared to the rest regions examined. Finally, econometric studies on the effects of household debt on inequality in emerging economies are very limited, with the recent study of Gouzoulis and Constantine (2020a) showing that total private indebtedness (including household debt) decreased the wages share of Chile since the late 1970s provides some support for this channel.

3.4 Financial Profits of Non-Financial Firms

The last key feature of financialised growth models is the *rising financial profits of non-financial firms*. Financial liberalisation allows firms, on the one hand, to be able to obtain cheaper business credit to fund their real investments and, on the other hand, to expand their activity to financial investments. Krippner (2005), Tomaskovic-Devey and Lin (2011), Lapavitsas and Mendieta-Muñoz (2019) show that in recent decades the share of financial profits over the total profitability of non-financial enterprises is increasing. Lin and Tomaskovic-Devey (2013) conceptualise this aspect in terms of its impact on labour-intensive production processes. More specifically, when a rising number of non-financial firms is able to extract profits through less labour-intensive investment, gradually production and capital accumulation become detached from labour inputs. This makes labour less important for profitability and induces the emergence of a socially and economically fragile growth model with high unemployment and underemployment.

Since financial profits data availability is poor, even for advanced economies, existing papers centre on Western economies (Lin and Tomaskovic-Devey 2013, Alvarez 2015). However, Guschanski and Onaran (2017) provide some indirect evidence by showing that financial integration has decreased the Korean, Mexican, Turkish, Brazilian, Chinese, Indonesian, and Indian wage shares between 1995 and 2009. Moreover, Stockhammer (2017) shows that financial globalisation has reduced the labour shares both in advanced and emerging economies using panel data techniques.

3.5 International Aspects and effects on Government Spending

An increasing part of the literature regarding the financialization process in DEEs focuses on the international aspects of the process and on the relationship between political economy issues and actions related to investments in financial products (Kaltenbrunner, 2010, 2015). A number of papers within this strand link the international aspects of the financialisation process in DEEs with the various states' ability for public spending, hence related to the second type of conditions mentioned above.

Drawing on three case studies (Turkey, Brazil and Lebanon), Hardie (2012) argues that the level of borrowing depends on the degree of financialisation, with ability to borrow decreasing with degree of financialisation. Hence, financialisation makes borrowing more costly which then allows for lower levels of government spending. Correa and Vidal (2012) argue that the financialisation process in Latin American countries has led to a number of policies that have reduced public spending. Correa et al (2012) argue that financialisation in Mexico has had a negative impact in both workers' bargaining power and social spending.

4. Contagion Dynamics and Financialisation of DEEs: A Comparison

As argued in the previous section, the financialisation of advanced and developing economies has had an impact on social conditions, which are relevant to the reproduction dynamics and the severity of COVID-19. Such effects are more pronounced in economies with weaker labour market institutions, and, typically, the labour markets of DEEs are substantially less coordinated even as compared to liberal advanced varieties of capitalism. Based on that, we expect that after NPIs took place, the growth rate of confirmed daily cases in the more financialised DEEs, would be - on

average - relatively higher and/or fall more slowly. In order to get some preliminary insights, we categorise a group of developing markets in terms of their degree of financialisation, Then, we identify whether the dates when measures had been imposed are close enough such that the comparison of the different rates makes sense.

Table 1 reports two proxies of financialisation: “Domestic credit to private sector” and “Domestic credit to the private sector by banks” (both as a share of a country’s GDP) and the dates that measures were taken; and the dates when measures were imposed in different countries. The countries chosen are the ones where COVID-19 related data exist and the order of the countries is decreasing in terms of the average of the two proxies of financialisation. Regarding the timing of NPIs, we note that these were imposed roughly at the same time across countries in mid to late March with the earliest being 13/3 in Chile and the latest 26/3 in South Africa. Figure 2 shows the daily rate of confirmed cases across countries. The rate of growth of confirmed daily cases

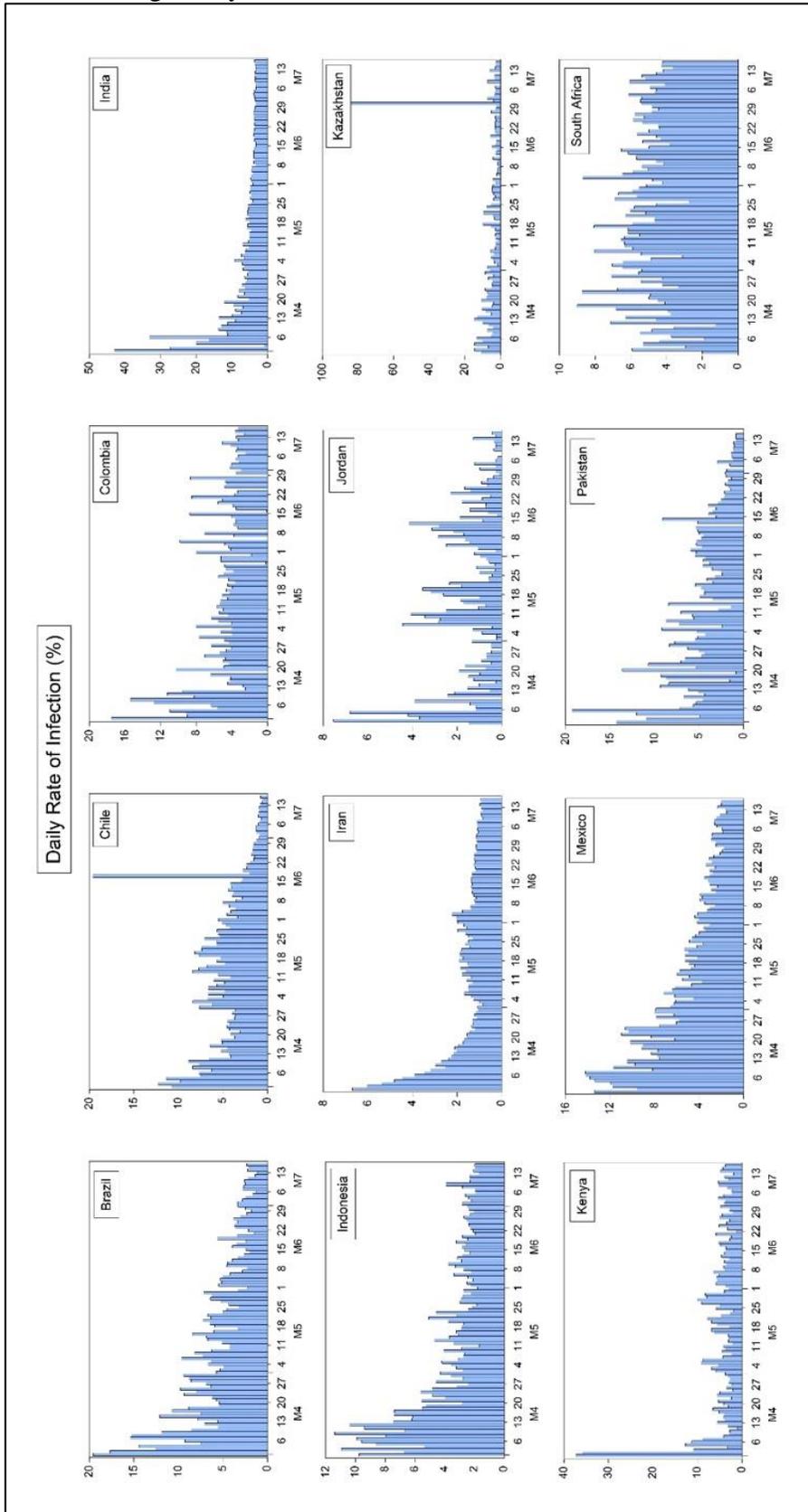
Table 1: Degrees of Financialisation and dates of NPIs in DEEs

	Domestic credit to the private sector (% of GDP)	Domestic credit to the private sector by banks (% of GDP)	Date of NPIs imposed
Chile	122.54	86.08	13 March 2020 (Reuters, 2020)
South Africa	138.78	66.72	26 March 2020 (Guardian, 2020)
Jordan	78.23	78.15	18 March 2020 (Al-Monitor, 2020)
Iran	66.06	66.06	14 March 2020 (Garda, 2020)
Brazil	63.73	63.73	17 March 2020 at Santa Catarina (Martins, 2020); 24 March 2020 at São Paulo (Soares, 2020)
Colombia	51.45	51.43	25 March 2020 (Gamba, 2020)
India	50.04	50.04	25 March 2020 (India Today, 2020)
Indonesia	37.75	32.48	15 March 2020 (Caratri, 2020)
Mexico	36.88	28.78	23 March 2020 (Sheridan, 2020)
Kenya	27.55	27.51	15 March 2020 (Njeru, 2020)
Kazakhstan	24.47	21.37	16 March 2020 (Radio Free Europe, 2020)

Pakistan	18.09	17.96	24 March 2020 (The Statesman, 2020)
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Notes: Values are for 2019. The only exceptions are Iran and South Africa, where values are from 2016 and 2018, respectively. This due to the lack of more recent data.
Source: World Bank Indicators

Figure 2: Contagion Dynamics in Financialised and Non-Financialised DEEs



Based on this categorization, figure 2 shows that, in general, countries with higher numbers in both columns have higher growth rates of daily infections and the rates fall less fast - if at all. In order to show this more clearly below we compare the two most financialised with two of the less financialised economies. As shown in Figure 3, despite the daily rates of infection in Mexico has been substantially higher than those of South Africa. However, since early May, the highly financialised South Africa has surpassed Mexico with no signs of a declining trend. Similarly, as reported in Figure 4, the daily rate of infection in the financialised economy of Chile has been approximately double as compared to the less financialised Iran. The rates converged as late as the end of June.

Figure 3: Contagion Dynamics – South Africa versus Mexico

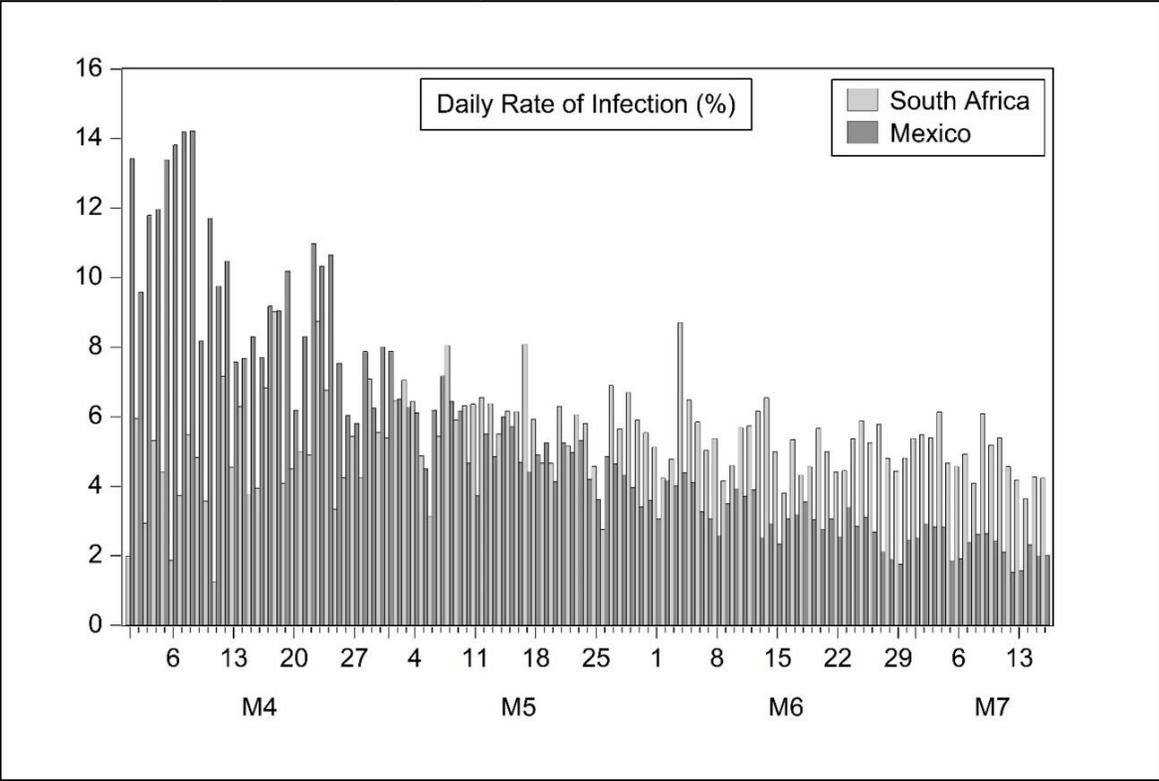
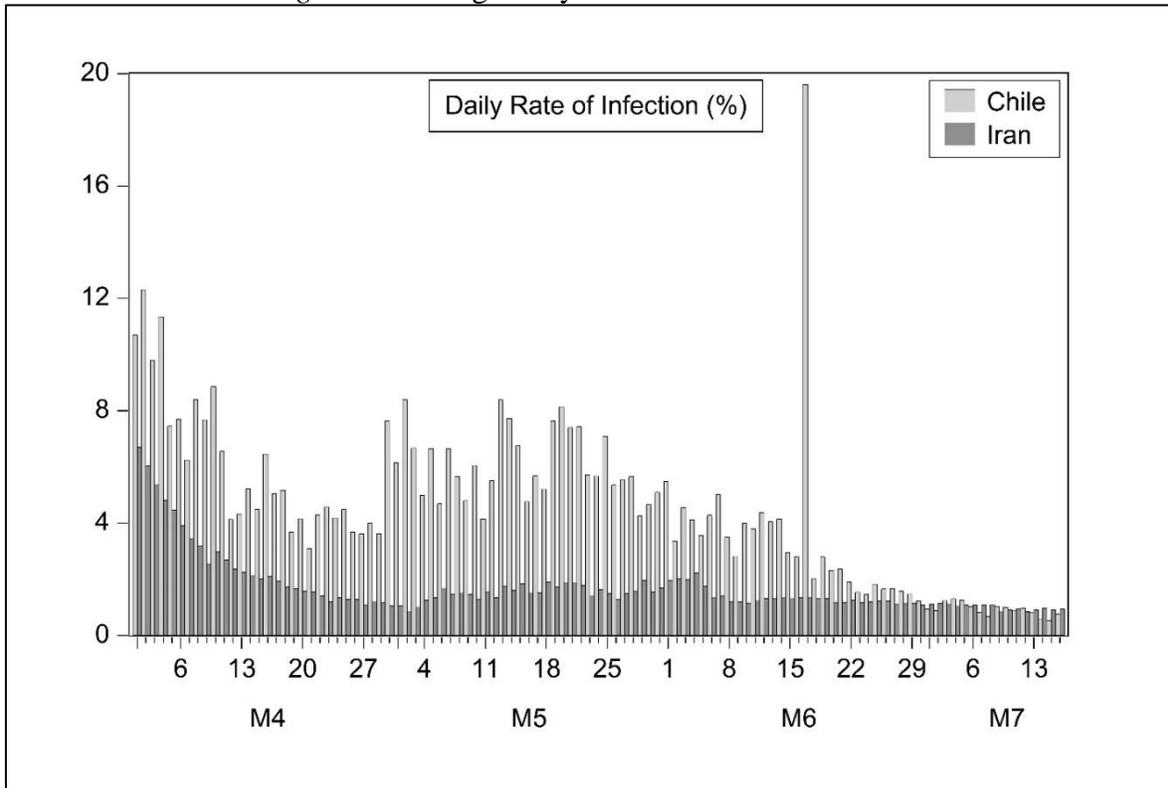


Figure 4: Contagion Dynamics – Chile versus Iran



5. Conclusion and Discussion

Our analysis highlighted two aspects of the relationship between financialisation and contagion dynamics in DEEs. First, the importance of socio-economic conditions for contagion dynamics during pandemics like the current COVID-19 pandemic. Second, the negative impact of financialisation on labour's bargaining power and on public spending, both of which leading to deterioration of relevant social conditions.

We have argued that financialisation provides non-financial firms additional sources of profitability and/or increases their overhead costs. In the former case, labour inputs become less important for profitability, thus, wages fall with the decrease in the demand for labour. In the latter case, firms become keen to implement cost-cutting and downsizing to counterbalance their worsening financial positions, if they have sufficient power over labour. Typically, the cost-cutting process includes *worsening working conditions, lower pay, and declining social welfare provision*

(including healthcare). Interestingly, all four key areas are linked to physical distancing conditions and welfare provision, which are key for contagion dynamics.

On the one hand, rising corporate indebtedness either to perform long-term investment or for short-term speculative investment increases interest and debt repayments for non-financial firms. On the other hand, the financialisation of real estate has increased dramatically rent and property prices in advanced and many emerging economies. One way to decrease overhead costs is to invest less in the workplace and working conditions.

Space is one key aspect of workplace quality, which becomes more and more expensive with the property boom. Hence, that provides firms incentive to invest in smaller (thus, cheaper) workplaces. That translates to big numbers of people working in small spaces. This is particularly important in manufacturing and labour-intensive industries where work cannot be performed remotely. Given the emergence of GVCs in recent decades, usually the labour-intensive part of production takes place in lower income emerging economies. Consequently, it is likely that the effects of pandemics will be stronger in emerging, labour-intensive, financialised economies in which financialisation contributes to worsening working conditions.

Based on the relevant literature, we showed that the most common approach for non-financial firms to improve their deteriorating financial position due to rising debt payments is to cut or freeze wages. This means that an increasing number of workers will approach or even go below the subsistence level and the savings of working class households will be minimised. This process increases the so-called *cost of job loss*, which is the differential between the average wage level and the unemployment and other welfare benefits level.

More coordinated labour markets usually provide higher unemployment benefits and opportunities to work in public employment of last resort programmes, thus, the cost of job loss is usually lower as compared to more liberal economies. Given that in many emerging economies, labour market institutions remain less developed, even compared to liberal western economies, the cost of job loss is dramatically higher. As a consequence, and since manual jobs that dominate emerging

markets cannot be performed remotely, workers are likely to risk going to work - even if that is a less safe environment - on the fear of losing their job.

According to UN (2017), the average household size in emerging economies is substantially larger as compared to Europe and North America. Households in regions like Africa, the Middle East, South Asia, and - to some extent - Latin America are constituted of four or more people, while European and North American households typically include less than three members.

As mentioned above, an increasingly important channel of financialisation is the real estate sector. The main consequence of this process for the working class is the rise of mortgage indebtedness and the boom in property prices. This makes larger residences unaffordable for a larger proportion of households, which is particularly important for households of larger size. These effects escalate further in economies where social housing is limited or absent. While in Europe and North America social housing investment rose after WWII and declined since the emergence of Neoliberalism in the late-1970s, in less developed regions it has remained historically unsolved despite it has been discussed for decades (e.g. Jaycox 1977). As Karwoski and Stockhammer (2017) report, the financialisation of the housing sector is expanding in a growing number of developing economies.

In the context of contagion dynamics, the process of housing financialisation in emerging economies has two important implications. First, emerging housing bubbles and the lack of social housing induces households to become indebted, which, as argued by Froud et al. (2002) and Langley (2007), decreases the bargaining power of labour. Missing rent or mortgage payments includes the danger of becoming homeless, thus, the cost of job loss is rising, which provides increased incentive to risk working in a less safe environment. Second, alternatively, expensive housing due to financialisation may incentivise part of large families to live in smaller residences instead of borrowing. Larger groups of people who live in smaller residencies do not allow implementing any necessary physical distancing rules, thus, the risk of contagion increases. Consequently, regulating the financial sector is critical not only for macroeconomic reasons, but also in terms of public health, especially during pandemics and epidemics, which are more common in DEEs.

Overall, given data limitations due to the ongoing situation, the aim of this paper is to report some key stylised facts about the financialisation-inequalities-pandemic nexus and outline a general framework for future research building on the key role of social conditions for contagion dynamics. Needless to say, our analysis is not meant to be a detailed causality analysis about how the financialisation of developing economies worsens working conditions, decreases the bargaining power of workers, and leads to more severe epidemics. Future studies should examine whether COVID-19 increased inequalities in specific sectors in the context of Global Value Chains and to what extent certain sectors whose positional power is lower and/or are more financialised have been hit more severely.

As more data become available, ultimately, it is important to estimate the drivers of the COVID-19 contagion dynamics and analyse them across different varieties of capitalism in order to understand what kind of institutional complementarities have been proven more efficient. This approach calls for a new agenda for developing economies focused not only on growth, but also on sustainable development through improved working conditions, more egalitarian income distribution, and wider public healthcare access.

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