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The Latest REM **Working Papers**

Research in Economics and Mathematics (REM) circulates research, notably by its affiliated members, as working papers intended for professional and public discussion and comment. The papers have not been peer reviewed.

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Events

10th UECE Conference on Economic and Financial Adjustments, ISEG/UL – Lisbon School of Economics and Management/University of Lisbon, **July 22, 2022** (in the rooms and online). **5 June 2022**, submission deadline.

Keynote speakers:
Xavier Debrun (National Banl of Belgium**)**; Cecilio Tamarit (University of Valencia**)**

Papers presented at the conference can be considered for the Special Issue of the *European Journal of Political Economy*, according to selected topical guidelines to be set up.

REM **Working Papers**

60%, -4% and 6%, a tale of thresholds for EU fiscal and current account developments, António Afonso, José Carlos Coelho, *Working Paper 0196-2021*
We study the relationship between the budget balance and the current account balance for European Union (EU) countries, using quarterly data from 1995 to 2020. Through the use

of panel Granger causality tests and a panel SUR model, we conclude that the relationship is bi-directional for the EU panel as a whole. Furthermore, we find that in Eurozone countries, before 2010, for those countries with an average current account balance-to-GDP ratio outside the range of -4 to 6%, and also in countries whose average debt-to-GDP ratio is greater than 60%, the impact of the budget balance on the current account balance is greater. Conversely, in non-Eurozone countries, after 2010, in countries with a current account balance-to-GDP ratio of -4 to 6%, and also in countries with an average debt-to-GDP ratio of less than 60%, the impact of the fiscal balance on the current account balance is less relevant.

Protection of natural and social resources. A political economy approach, Donatella Gatti, *Working Paper 0195-2021*

This paper studies the set-up (following a voting process) of institutional arrangements related to the protection of natural and social resources in a context of inequalities and environmental challenges. To analyze how institutional and legislative protection arises, three socioeconomic groups are considered: the educated bourgeoisie, the working classes and the financial elite. Groups are differentiated according to the following divides. Individuals belonging to the financial elite only rely on capital incomes: they invest on firms running either polluting or non-polluting activities. Individuals belonging to the first two groups are differentiated on the following levels: the demand for redistribution (from the working class) and the claims for environment-friendly legislation in relation with clean transport means (by the educated bourgeoisie). We study the institutional framework chosen by individuals under different assumptions concerning the political vote: disjoint majority versus coalition voting. The main result is that -in reaction to the financial elite being the unique winner of the disjoint majority vote- a people's green coalition can emerge, whose redistributive and green choices run against the preferences of the financial elite. This leads to the "greening" of the financial elite, which in turn isolates the working classes in the political arena.

How inequality drives growth: an investigation of the transmission channels for OECD countries, José Carlos Coelho, José Alves, *Working Paper 0194-2021*

This paper assesses the relationship between inequality and growth for 34 advanced OECD countries between 1990 and 2019 using recent Gini coefficients from Solt (2020) database and through a dynamic panel technique of two-step system GMM (Generalized Method of Moments). We find that the Gini coefficient of disposable income has a positive and significant impact, at a 10% level of significance, on subsequent economic growth over the five-year period. This result is explained based on the fiscal policy and saving channels, and also through the role of investment. More specifically, inequality translates into lower shares of public consumption and direct taxation on GDP, which boosts economic growth. Furthermore, inequality encourages saving and stimulates investment, which results in greater growth of the income per capita level.

Minimizing Ruin Probability Under Dependencies for Insurance Pricing, Jorge Braga de Macedo, R.L. Gudmundarson, M. Guerra, A. B. de Moura, *Working Paper 0193-2021*

In this work the ruin probability of the Lundberg risk process is used as a criterion for determining the optimal security loading of premia in the presence of price-sensitive demand for insurance. Both single and aggregated claim processes are considered and the independent and the dependent cases are analyzed. For the single-risk case, we show that the optimal loading does not depend on the initial reserve. In the multiple risk case we account for arbitrary dependency structures between different risks and for dependencies between the probabilities of a client acquiring policies for different risks. In this case, the optimal loadings depend on the initial reserve. In all cases the loadings minimizing the ruin probability do not coincide with the loadings maximizing the expected profit.