Local Financialization, Financial Distress, and Deaths of Despair

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Motivation

- Rising U.S. mortality from suicide, drug overdoses, and alcohol-related causes
- Simultaneous expansion of finance and real estate in local economies
- **Financialization** has been a source of **increasing income and wealth inequalities**
- Question: **Does local financialization causally affect deaths of despair?**

Related Literature

- **Financialization and social outcomes**
  - Financialization reshapes economic incentives and redistributes risk toward households through **rising leverage and asset-market dependence** (Palley, 2007; Rajan, 2005; Gomes, Haliassos, & Ramadorai, 2021; Godechot, 2016)
  - During finance-led growth, erode economic security and increase exposure to **asset price volatility and debt servicing risk** (Boyer, 2000; Stockhammer, 2009, 2012; Bhaduri, Raghavendra, & Guttal, 2015; Baccaro and Pontusson, 2016)

- **Financial distress, credit markets, and health**
  - **Mortgage delinquency, foreclosure,** and **credit constraints** increase psychological distress and suicide risk (Houle and Light, 2014; Houle, 2014; Tsai, 2015; Alhenaidi and Huijts, 2019)
  - The effects persist conditional on employment and income, highlighting **financial stress as a distinct mechanism** (Houle, 2014)

Conceptual Framework

$$\begin{array}{c}\text{Local Financialization}\\ \downarrow \\ \text{Credit Market Fragility}\\ \downarrow \\ \text{Financial Distress}\\ \downarrow \\ \text{Socioeconomic Stressors}\\ \downarrow \\ \text{Mortality (Deaths of Despair)}\end{array}$$

Empirical Strategy

Two-Stage Least Squares (2SLS)

First Stage:

$$\text{Distress}_{st} = \alpha + \beta \text{Financialization}_{st} + \gamma X_{st} + \delta_s + \lambda_t + \varepsilon_{st}$$

Second Stage:

$$\text{Mortality}_{st} = \alpha + \theta \widehat{\text{Distress}}_{st} + \gamma X_{st} + \delta_s + \lambda_t + u_{st}$$

Identification Assumptions

- **Relevance:** Local financialization must predict credit market distress
- **Exclusion: Financialization affects mortality only via distress** conditional on controls and fixed effect
- **Mitigating threats to exclusion:**
  - **Rich controls** (State and year fixed effects and state-specific trends) Remove long-run deindustrialization and persistent social decline
  - **Lagged instruments** Rule out contemporaneous direct effects of financialization on mortality
  - **Pre-period financialization** $\times$ **national credit shocks** Isolates plausibly exogenous variation in local credit exposure
  - **County-level replication** Exploits localized credit distress while holding state policies fixed

Measuring Financialization

- Share of **finance insurance** in state GDP
- Share of **real estate** in state GDP
- Alternative measures:
  - FIRE employment share
  - Growth rate of financial sector value added
  - Ratio of financial sector profits to total corporate profits
  - Household debt-to-income ratio
  - Bank assets per capita or per GDP

Measuring Financial Distress

- **Mortgage delinquency** and **foreclosure rates**
- **Business lending distress** (charge-offs, insolvencies)
- Robustness:
  - Foreclosure filings per capita
  - House price collapse exposure:
    Interaction of pre-crisis leverage with national price shocks
  - Negative equity share:
    Proportion of homeowners underwater

Conclusion

- **Local financialization** causally increases mortality
- **Financial distress** is a key health-relevant macroeconomic channel
- Highlights financial structure as a social determinant of health
- **Policy implications** for financial regulation and public health