

Policies for an investment and equality-led sustainable development in Ireland and Europe

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*based on Tori and Onaran 2017 and Obst, Onaran, and Nikolaidi 2017
joint FEPS-ECLM-TASC-GPERC project*



Key challenges of 21st century defines the priorities of economic policy

- full employment, equality, ecological sustainability
- Multiple crises requires to mobilize all the tools of policy
- a comprehensive mix of
 - fiscal and monetary policy
 - public investment in social and physical infrastructure
 - industrial policy
 - labour market policy

Financialization, inequality, private investment, productivity

- link between profits-investment has been broken in the last 3.5 decades
- Despite increasing profits private investment remained weak
- Private investment/GDP in the UK is among the lowest in G7
- The non-financial companies' financial activities → private investment ↓
 - firms directed their profits to financial speculation
 - Interest payments+dividends and financial revenues (Tori and Onaran, 2017)
 - NFCs investment in Europe would have been 27% higher without the rise in interest and dividend payments, 10% higher without increasing financial incomes.
 - In Ireland in large NFCs, investment rate would have been 14% higher without the rise in financial payments. there is a positive impact of financial incomes only on the small NFCs

... inequality, private investment, productivity

- Increasing profits does not always lead to higher private investment
 - Investment is more sensitive to demand and lower wages
->low demand
 - Investment is not profit-led in Ireland and other European countries (Obst, Onaran, Nikolaidi, 2017)
- Financialization + inequality
 - lower productivity & potential growth
 - No puzzle

Policy mix:
public investment, progressive taxation, Increasing equality
Obst, Onaran, Nikolaidi 2017

- increase public investment by 1% of GDP
- + wage share by 1%
- + more progressive taxation (1% higher tax on capital and 1% lower tax on labour)
- The impact of wage policies is positive but small
- the overall stimulus becomes much stronger with fiscal expansion.
- The effects are stronger if policies are implemented simultaneously in all the EU countries.
- need for wage and fiscal policy coordination
- →6.7% higher GDP in the EU15, 2.9% higher GDP in Ireland

...Policy mix:
public investment, progressive taxation, Increasing equality
Obst, Onaran, Nikolaidi 2017

- Private investment increases by 2.3% as a ratio to GDP in the EU, and by 1.4% in Ireland
 - Public spending crowds in private investment, it does not crowd out
 - >Demand
 - >improved business environment
- Budget balance improves by 0.9% as a ratio to GDP in the EU, and 0.05% in Ireland
- Impact on inflation is very modest
 - a 1%-point rise in the wage share → 1.5% ↑ in prices in the EU, and 0.9% ↑ in prices in Ireland
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What are the key policy lessons?

- Addressing these challenges needs high investment, and reestablishing the broken link between investment and profits, which requires
 - The state to lead the way by public investment in key sectors and infrastructure
 - Changes in corporate governance to create incentives for long term investment and disincentives for short termist speculation, reinstate the broken link between investment and profits
 - Taming financialization; regulating finance
 - Decreasing inequality; labour market policies for wage-led growth for sustainable demand as opposed to fragile debt led demand

A wage-led development strategy for sustainable development

- Labour market policies targeting the top, middle, and bottom of the wage distribution
- Role of the state in institution building
- Pre-distributive policies
 - Increase the bargaining power of labour via
 - reregulating the labour market –no zero hours
 - improving the union legislation,
 - increasing the coverage of collective bargaining
 - Close gender wage gaps (Onaran, Oyvat, Fotopoulou 2016)
 - sufficiently high minimum wages / living wage
 - regulating high/executive pay by enforcing pay ratios

Conclusion

- Equitable and sustainable development needs **green** and **purple** public investment, progressive taxation and **pay rise** for both women and men!
- Advice:
- Take care of full employment, decent pay for women and men, equality, and ecological sustainability, and the budget will take care of itself.

- References:
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Policy mix 1: A simultaneous 1%-point fall in π and a 1%-point increase in κ_g

Policy mix 2: A simultaneous 1%-point fall in t_w and a 1%-point increase in t_r

Policy mix 3: A simultaneous 1%-point fall in π , a 1%-point increase in κ_g and 1%-point fall in t_w and a 1%-point increase in t_r

%-point change in output (dY/Y)

%-point change in output (dY/Y)

%-point change in output (dY/Y)

%-point change in private investment (dI/Y)

%-point change in primary budget balance (dPB/Y)

A

B

C

D

E

A

6.47

1.47

7.94

3.63

1.25

B

2.65

0.64

3.29

0.98

0.38

DK

4.66

1.20

5.85

2.00

0.82

FIN

10.15

1.89

12.04

5.92

1.19

F

3.56

1.26

4.82

0.84

0.69

D

5.33

1.44

6.77

2.02

1.28

GR

13.45

1.84

15.29

7.35

0.12

IRL

2.40

0.52

2.91

1.41

0.05

I

3.19

0.62

3.81

0.87

0.41

L

3.73

0.88

4.61

7.96

0.47

NL

8.88

2.12

11.00

4.24

1.33

P

6.37

1.66

8.03

5.10

0.89

E

13.01

3.14

16.15

7.24

2.59

S

8.35

1.56

9.90

6.38

0.70

UK

3.38

1.09

4.47

0.94

0.13

EU15*

5.35

1.37

6.72

2.30

0.86