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Finance-dominated capitalism, re-distribution of income and the requirement of wage-/income-led recovery – a Post-Keynesian/Kaleckian perspective

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The Macroeconomics of Finance-dominated Capitalism – and its Crisis (Hein 2012)

1. Re-distribution of income in favour of **shareholders (rentiers) vs. firms, firms vs. workers, managers vs. workers** (distribution channel) (see update: Hein (2014) in CJE)

2. Rising shareholder power, dividend payments and share buybacks affect **objectives and constraints of firms and hence real investment** in the negative (preference channel and internal means of finance channel)
   ➔ dampening of capital accumulation and productivity growth

3. Financial asset price booms, house price booms, and financial market liberalisation allow for **wealth-based and debt-led consumption boom**
   ➔ risk: financial fragility and over-indebtedness of private households

4. Deregulation and liberalisation of international financial markets allows for financing of persistent curren account deficits, on the one hand, and **export-led mercantilist strategies**, on the other hand
   ➔ risk: global imbalances and over-indebtedness of current account deficit countries

Table 1: Labour income share as percentage of GDP at current factor costs, average values over the trade cycle, early 1980s – 2008				
	1. Early 1980s – early 1990s	2. Early 1990s – early 2000s	3. Early 2000s – 2008	Change (3. – 1.), percentage points
Austria	75.66	70.74	65.20	-10.46
Belgium	70.63	70.74	69.16	-1.47
Germany	67.11	66.04	63.34	-3.77
Netherlands	68.74	67.21	65.57	-3.17
France	71.44	66.88	65.91	-5.53
Greece[a)]	67.26	62.00	60.60	-6.66
Ireland	70.34	60.90	55.72	-14.61
Italy	68.74	67.21	65.57	-3.17
Portugal	65.73	70.60	71.10	5.37
Spain	68.32	66.13	62.41	-5.91
Sweden	71.65	67.04	69.16	-2.48
UK	72.79	71.99	70.67	-2.12
US	68.20	67.12	65.79	-2.41
Japan[a)]	72.38	70.47	65.75	-6.64

Notes: The labour income share is given by the compensation per employee divided by GDP at factor costs per person employed. The beginning of a trade cycle is given by a local minimum of annual real GDP growth in the respective country. Shaded grey means an increase relative to the value in the previous cycle or in the first cycle.

[a)] adjusted to fit in 3 cycle pattern

Source: European Commission (2010), author’s calculations

Gini coefficient before taxes for households' market income

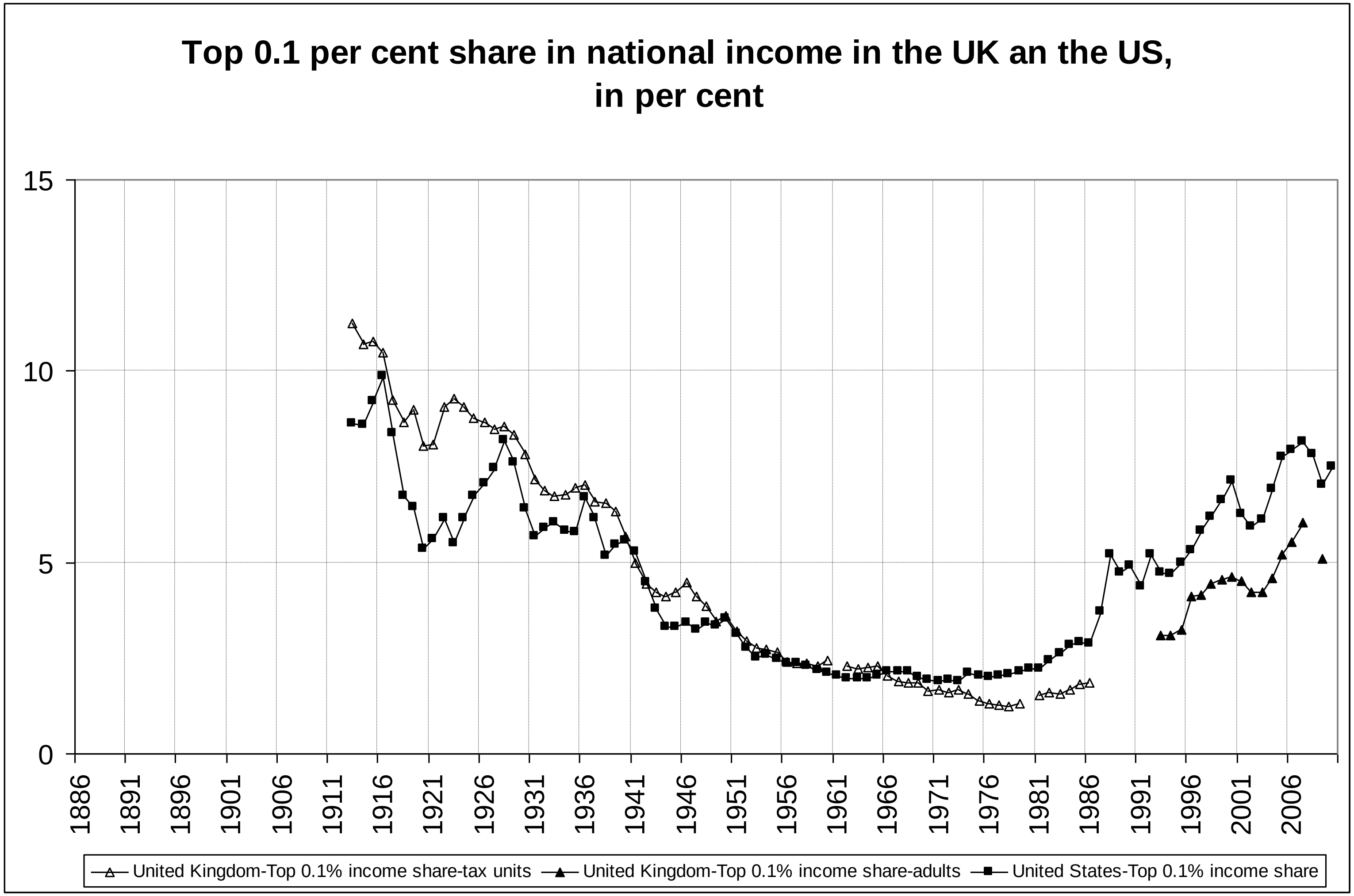
Country	mid-80s	around 1990	mid-90s	around 2000	mid-2000s	late 2000s	Change from mid-80s/around 1990/mid 90s until late 2000s
Austria	..	..	..	..	0.433	0.472	..
Belgium	0.449	..	0.472	0.464	0.494	0.469	0.020
Finland	0.387	..	0.479	0.478	0.483	0.465	0.078
France	..	..	0.473	0.490	0.485	0.483	0.010
Germany	0.439	0.429	0.459	0.471	0.499	0.504	0.065
Greece	0.426	..	0.446	0.466	0.454	0.436	0.010
Ireland	..	..	..	..	..	..	..
Italy	0.420	0.437	0.508	0.516	0.557	0.534	0.114
Netherlands	0.473	0.474	0.484	0.424	0.426	0.426	-0.047
Portugal	..	0.436	0.490	0.479	0.542	0.521	0.085
Spain	..	..	..	..	..	0.461	..
Sweden	0.404	0.408	0.438	0.446	0.432	0.426	0.022
UK	0.419	0.439	0.453	0.512	0.500	0.506	0.087
US	0.436	0.450	0.477	0.476	0.486	0.486	0.050
Japan	0.345	..	0.403	0.432	0.443	0.462	0.117

Gini coefficient after taxes for households' disposable income							
Country	mid-80s	around 1990	mid-90s	around 2000	mid-2000s	late 2000s	Change mid-80s/around 1990 until late 2000s
Austria	0.236	..	0.238	0.252	0.265	0.261	0.025
Belgium	0.274	..	0.287	0.289	0.271	0.259	-0.015
Finland	0.209	..	0.218	0.247	0.254	0.259	0.050
France	0.300	0.290	0.277	0.287	0.288	0.293	-0.007
Germany	0.251	0.256	0.266	0.264	0.285	0.295	0.044
Greece	0.336	..	0.336	0.345	0.321	0.307	-0.029
Ireland	0.331	..	0.324	0.304	0.314	0.293	-0.038
Italy	0.309	0.297	0.348	0.343	0.352	0.337	0.028
Netherlands	0.272	0.292	0.297	0.292	0.284	0.294	0.022
Portugal	..	0.329	0.359	0.356	0.385	0.353	0.024
Spain	0.371	0.337	0.343	0.342	0.319	0.317	-0.054
Sweden	0.198	0.209	0.211	0.243	0.234	0.259	0.061
UK	0.309	0.354	0.336	0.352	0.331	0.342	0.033
US	0.337	0.348	0.361	0.357	0.38	0.378	0.041
Japan	0.304	..	0.323	0.337	0.321	0.329	0.025

Note: Gini coefficient is based on equivalised household income
Source: OECD (2012), author's calculations

Considerable in increase in top 0.1 (and top 1) per cent share in US and UK …

Figure 2a

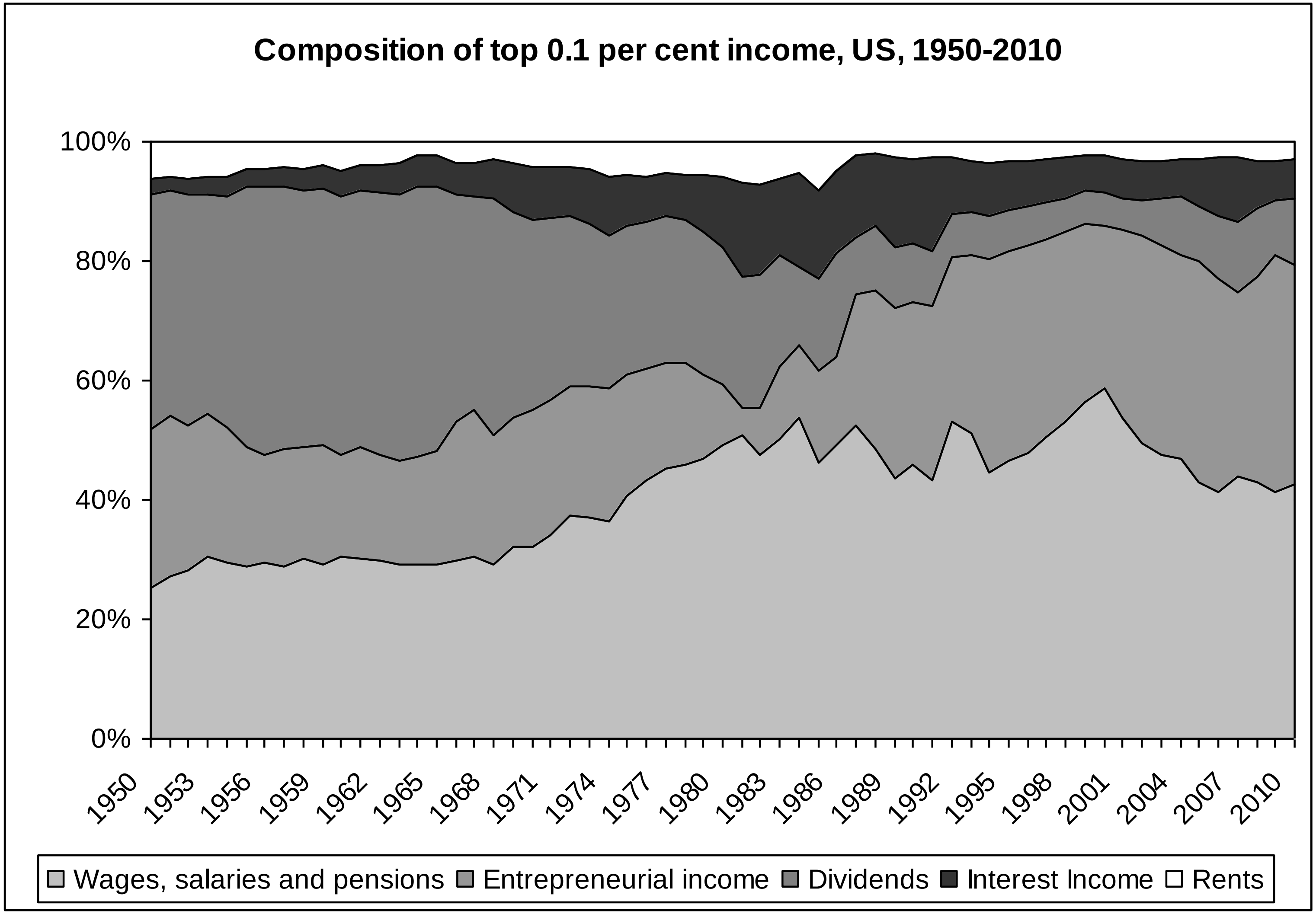


Data source: Alvaredo *et al.* (2012)

… but less so in Germany, Netherlands, France, Italy, Portugal, Ireland, Spain, Japan and Sweden

‚Working rich‘ in US, …

Figure 3a



Data source: Alvaredo *et al*. (2012)

and also in Spain, the Netherlands and Germany, but not (yet) in Italy and France

Table 3: Financialisation and the gross profit share – a Kaleckian perspective

Stylized facts of financialisaton (1.-7.) and neo-liberalism (8.-9.)	**Determinants of the gross profit share (including (top) management salaries)** Mark-up: 1. Degree of price competition in the goods market	2. Bargaining power and activity of trade union	3. Overhead costs and gross profit targets	4. Price of imported raw materials and semi-finished products	5. Sectoral composition of the domestic economy
1. Increasing shareholder value orientation and short-termism of management	…	+	+	…	…
2. Rising dividend payments	…	…	+	…	…
3. Increasing interest rates or interest payments	…	…	+	…	…
4. Increasing top management salaries	…	…	+	…	…
5. Increasing relevance of financial to non-financial sector (investment)	…	+	…	...	+
6. Mergers and acquisitions	+	...	…	...	...
7. Liberalisation and globalisation of international finance and trade	–	+	…	+/–	+/–
8. Deregulation of the labour market	…	+	…	…	…
9. Downsizing of government	…	+	...	…	+

Notes: + positive effect on the gross profit share, – negative effect on the gross profit share, … no direct effect on the gross profit share

Evidence

(reviewed in Hein 2014)

1. Change in sectoral composition of the economy

➔ Dünhaupt (2012) on Germany and US, Detzer et al. (2013) on Germany

2. Overhead costs and gross profit targets

➔ Top management salaries: Buchele/Christiansen (2007), Glyn (2009), Tomaskovic-Devey/Lin (2013) for the US, Atkinson (2009) for the UK, Dünhaupt (2011) for Germany and the US, OECD (2012, Chapter 3) for Canada, France, Italy, Japan, the Netherlands and the US

➔ Interest rates: Dumenil/Levy (2005) on US, Hein/Schoder (2011) on US and Germany

➔ Rentiers' income more broadly, in particular dividends: Epstein/Power (2003), Epstein/Jayadev (2005), Dünhaupt (2013) on broad country sets, Dünhaupt (2012) on US and Germany

3. Bargaining power of trade unions

➔ Dünhaupt (2013), Tomaskovic-Devey/Lin (2013), Kristal (2010), Stockhammer (2009; 2013a; 2013b) on broad country sets

Alternative to ‘debt-led consumption boom’ and ‘export-led mercantilist’ types of development:

➔ **Wage- or income-led recovery**
(ILO 2012, Lavoie/Stockhammer (eds.) 2013)

Three main causes for fall in labour income share have to be addressed:

1. Bargaining power of trade unions
2. Overhead costs (top management salaries) and profit claims of financial wealth holders
3. Sectoral composition of the economy

Wage- or income-led recovery should also rely on:

1. Containment of wage dispersion (legal minimum wages, …)
2. Reduction of inequality in distribution of disposable income (progressive taxation, social policies)

➔ **to be embedded in ‘Keynesian New Deal at the Global and the European Level’ (Hein/Mundt 2013, Hein/Truger 2011; 2012/13)**

Keynesian New Deal at the Global and European level

1. Re-regulation of the financial sector

Effects on distribution via downsized financial sector, reduction in top management salaries and profit claims of financial wealth holders, and improved bargaining power of trade unions

2. Re-orientation of macroeconomic policies

- Monetary policies: targeting low interest rates and financial stability
- Fiscal policies: progressive taxation and social policies + short- and long-run stabilisaton of aggregate demand at stable inflation high employment and roughly balanced current account (G-T = S-I)
- Wage policies: follow wage norm (productivity growth + inflation target) in order to stabilise target inflation and wage share, compress wage structure by legal minimum wage etc.

3. Re-construction of international macroeconomic policy co-ordination

- Symmetric adjustment of current account imbalances
- Prevention of ‚export-led mercantilist' strategies and the related pressure on wage claims

THE END