Financialisation – Post-Keynesian Perspectives

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Major changes in the financial sector since early 1980s:

- Increasing degree of financial intermediation; new financial instruments
- Importance of financial factors for consumption, investment and growth
- Non-financial business increases financial activity
- Shareholder value orientation of management
- Increasing financial instability

→,Financialisation‘

‘[…] financialization means the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies’ (Epstein 2005, p. 3)

Here: more precise analysis of financialisation in Post-Keynesian distribution and growth context
1. Introduction

2. Financialisation: transmission channels and potential growth regimes
   2.1 ‘Financialisation’ and firms’ investment
   2.2 ‘Financialisation’ and households’ consumption
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2. ‘Financialisation’: transmission channels and potential growth-regimes
2.1 Financialisation and firms’ investment

PK-theory of the firm: 'growth-profit' trade-off


➔ Rise of shareholder power: 'downsize and redistribute' instead of 'retain and invest' (Lazonick/O’Sullivan 2000)

➔ Shareholders impose 'financial norm' on management (Aglietta/Breton 2001, Boyer 2000)

Rising shareholder power and investment

➔ „Preference channel“

➔ „Internal means of finance channel“
Figure 1: Shareholder value orientation and investment decisions at the firm level

Source: Hein/van Treeck (2008, p. 4)
Econometric evidence: financialisation and investment

- Share of interest and dividends in profits of non-financial business has negative effect on investment (short-termism and crowding out)

- Dividend and interest payments have a negative effect on investment, the effect of dividends being higher (shareholder value orientation)

Orhangazi (2008): USA, 1972-2003, firm-level data, non-financial firms with focus on manufacturing sector, dynamic panel estimation:
- Financial profits: negative effects on investment for large firms (short-termism and crowding out) but positive effects for small firms (internal means for real investment)
- Financial payments: negative effect on investment for whole panel
Use of operating surplus, non-financial corporations, USA, 1960-2006

Source: van Treeck/Hein/Dünhaupt 2007 (Flow of Funds, NIPA; authors’ calculations)
Proportion of different means of finance in the financing of gross capital investment, non-financial corporations, USA, 1960 - 2006

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<tr>
<td>Internal</td>
<td>1.06</td>
<td>0.90</td>
<td>0.82</td>
<td>0.93</td>
<td>0.90</td>
<td>1.01</td>
<td>1.01</td>
<td>0.93</td>
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<td>0.01</td>
<td>0.08</td>
<td>0.02</td>
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<td>-0.26</td>
<td>-0.03</td>
<td>-0.17</td>
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<td>0.17</td>
<td>0.16</td>
<td>0.16</td>
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<td>Credit</td>
<td>0.05</td>
<td>0.14</td>
<td>0.21</td>
<td>-0.03</td>
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<td>0.13</td>
<td>-0.06</td>
<td>0.07</td>
<td>0.06</td>
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<tr>
<td>from banks</td>
<td>0.10</td>
<td>0.18</td>
<td>0.23</td>
<td>0.05</td>
<td>0.14</td>
<td>0.19</td>
<td>-0.06</td>
<td>0.10</td>
<td>0.04</td>
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<tr>
<td>trade credit</td>
<td>-0.05</td>
<td>-0.04</td>
<td>-0.03</td>
<td>-0.08</td>
<td>-0.07</td>
<td>-0.06</td>
<td>0.01</td>
<td>-0.03</td>
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<tr>
<td>Other</td>
<td>-0.02</td>
<td>-0.08</td>
<td>-0.18</td>
<td>0.13</td>
<td>0.05</td>
<td>0.17</td>
<td>-0.05</td>
<td>-0.15</td>
<td>-0.07</td>
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<tr>
<td>Stat. Discrepancy</td>
<td>-0.23</td>
<td>-0.14</td>
<td>-0.09</td>
<td>-0.21</td>
<td>-0.10</td>
<td>-0.29</td>
<td>0.01</td>
<td>0.07</td>
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Note: Internal funds = retained earnings + capital consumption allowance + foreign earnings retained abroad + inventory valuation adjustment (IVA) + net capital transfers; equities = net new equity issues -- money market fund shares -- security RPs -- mutual fund shares; bonds = municipal securities + corporate bonds -- treasury securities -- agency- and GSE-backed securities -- municipal securities; credit from banks = bank loans n.e.c. + other loans and advances + mortgages -- foreign deposits -- checkable deposits and currency - time and savings deposits -- mortgages; trade credit = trade payables -- consumer credit -- trade receivables; other = miscellaneous liabilities -- miscellaneous assets + commercial paper -- commercial paper. Source: Van Treeck 2008 (Flow of Funds, table F. 102; author’s calculations)
2.2 Financial wealth, household debt and consumption

Palley (1994, 1996) in a business cycle model: Rising debt is initially stimulating aggregate demand transferring purchasing power from high income households with a low marginal propensity to consume to low income households with a high propensity to consume. But interest payments then become a burden on aggregate demand, because purchasing power is redistributed into the opposite direction.

Dutt (2005, 2006): easier access to credit facilitates credit-based consumption, but raises future interest obligations, redistributing income to wealthy households.

Bhaduri/Laski/Riese (2006): wealth effect stimulates households‘ consumption, but indebtedness increases, debt services may negatively feed back on consumption.
Econometric evidence: (financial) wealth and consumption


⇒ Marginal propensity to consume out of wealth: 4 – 7%

Davis/Palumbo (2001), USA (1995 -2000), VAR, ECM

⇒ Marginal propensity to consume out of wealth: 3 – 6.5%

Dreger/Slacalek (2007), 14 OECD countries (1979-1999), dynamic panel regression

⇒ Marginal propensity to consume out of wealth (financial+houses):
   capital-market based countries: 3.7%
   bank-based countries: 0.7%

Edison/Slok (2001), 7 OECD countries (1990-2000), VAR

⇒ Marginal propensity to consume out wealth
   Continental European countries: 1 – 3.8%
   North-America and UK: 4 – 5.2%

Ludvigson/Steindel (1999), USA (1953-1997), dynamic OLS, VAR

⇒ Marginal propensity to consume out of wealth: 3.8 – 4%

Ludwig/Slok (2004), 16 OECD countries (1960-2000), cointegrated panel estimations

⇒ effect or a rise in stock market and house prices on consumption
   capital-market based countries: 4.3%
   bank-based countries: 2.6%


⇒ effect or a rise in stock market prices on consumption: 3%
Personal wealth, debt and saving relative to disposable income, USA, 1960 - 2006

Source: van Treeck (2008) (Flow of Funds Accounts, table B.100; NIPA (Bureau of Economic Analysis), table 2.1; author’s calculations).
2.3 ‘Financialisation‘ and distribution

- ‘Downsize and redistribute‘ (Lazonick/O’Sullivan 2000) weakens bargaining power of labour,

→ declining wage share (Boyer 2000); dividend-elastic mark-up and hence rising profit share (Hein/van Treeck 2007, Hein 2008)

→ increasing gap between manager salaries and blue collar wages (Lavoie 2006, Palley 2006)

Financialisation affects

1. Distribution of profits between firms and rentiers
2. Distribution between capital and labour
3. Distribution of non-capital-income between wages and salaries
**Figure 5: Labour income share (percent of GDP at factor costs), USA, 1960 - 2007**

Figure 6: The top-0.01-percent income share and composition in the USA, 1960 - 2000

Source: Piketty/Saez (2006)
Empirical evidence: rentiers’ share of income

Argitis/Pitelis (2001): USA, UK (1965-1997)
  ➔ rising share of interest payments in profits of non-financial corporate sector until early 1990s and falling wage share in non-financial business sector in UK, but not in USA
  ➔ econometrics: nominal interest rate negatively affects share of industrial profits (together with nominal wages + bargaining power of labour unions, i.e. unemployment and strikes)

  ➔ rise in profit rate of nonfinancial corporations since early 1980s is due to rise in net real interest payments. Profit rate excluding net real interest payments remains constant in France and increases only slightly in USA

  ➔ share of rentiers‘ income (profits of financial sector + interest income of non-financial sector and households( + capital gains)) in GDP has increased at the expense of the wage share in GDP in most countries in the 1980s until early 1990s

  ➔ share of rentiers‘ income (profits of financial sector + interest income of non-financial sector and households) corrected for inflation in GDP has increased in most of the countries during the 1980s(mostly until the early 1990s); major reason: increasing real interest rates and weakened labour bargaining power
2.4 'Financialisation' and the macroeconomic regime


1. 'Finance-led growth' regime:
   ➔ Overall positive effect on demand, profits and capital accumulation, due to high propensity to consume out of rentiers’ income

2. 'Profits without investment' regime:
   ➔ Positive effect on demand and profits, but negative effect on capital accumulation, due to high propensity to consume out rentiers’ income, but weak accelerator effects on investment

3. 'Contractive' regime
   ➔ Restrictive effects on the rates of capacity utilisation, profit and accumulation due to lower rentiers’ propensity to consume, strong effect of shareholder value orientation and liquidity drain on firms’ investment

Problem of these models: no explicit effects on debt- and equity-capital ratios or on debt-income ratios and related feedbacks!

1. ‘Finance-led growth’, relying on strong effects of Tobin’s q on investment, strong wealth effect in consumption function

2. ‘Profits without investment’ regime if coefficient on Tobin’s q is weak or close to zero

3. ‘Contractive’ regime with no effect of Tobin’s q

- Doubts regarding positive effect of Tobin’s q on investment in an era of ‘financialisation’. Empirical support: Medlen (2003)
- Effects of redistribution between capital and labour?
- Instability deriving from financial structure?
Investment, profits, and share prices, USA, 1960 – 2006, 1980 = 100

Source: van Treeck (2008) (NIPA, table 1.10; Fixed Assets Tables, table 5.9; author’s calculations).
3. ‘Financialisation’ in a simple comparative static, stock-flow consistent distribution and growth model
1. ‘Financialisation’ is assumed to affect distribution between firms and rentiers in the short run, and distribution between capital and labour through a dividend-elastic mark-up in firms’ price setting in the medium run.

2. Firms’ investment is affected through the ‘preference channel’ and the ‘internal means of finance channel’.

3. Consumption is influenced via distribution of dividends in the short run and via a reduction in the labour income share in the medium run.

4. The development of firms’ outside finance-capital ratio is endogenised in order to check the medium-run stability and viability of the potential accumulation regimes.
3.1 The basic model

Pricing and distribution

(1) \( p = [1 + m(e)]w_a \)
\( m > 0, \frac{\partial m}{\partial e} \geq 0 \)  
Mark-up pricing

(2) \( h = \frac{\Pi}{pY} = 1 - \frac{1}{1 + m(e)}, \)
\( \frac{\partial h}{\partial e} \geq 0 \)
Profit share

(3) \( r = \frac{\Pi}{pK} = \frac{\Pi}{pY} \frac{Y}{Y^v} \frac{Y^v}{K} = hu \frac{1}{v} \)
Profit rate

p: price, m: mark-up, e: rentiers' rate of return, w: nominal wage rate, a: labour coefficient, h: profit share, \( \Pi \): profits, real income, r: rate of profit, K: capital stock, \( Y^v \): full capacity output, u: rate of capacity utilisation, v: capital-potential output-ratio
Financing of capital stock and rentiers’ income

(4) \[ pK = B + E^R + E^F \]  
Finance of capital stock

(5) \[ \gamma = \frac{B + E^R}{pK} \]  
Outside finance-capital ratio

(6) \[ \phi = \frac{E^F}{pK} \]  
Inside finance-capital ratio

(7) \[ \Pi = \Pi^F + R \]  
Total profits

(8) \[ R = e(E^R + B) \]  
Rentiers‘income

B: debt, \( E^R \): equity held by rentiers, \( E^F \): equity held by firms, \( \Pi^F \): retained profits, R: rentiers‘ income
Saving, investment and goods market equilibrium

Saving function

(9) \[ \sigma = \frac{S}{pK} = \frac{\Pi - R + s_R R}{pK} = r - (1 - s_R)e^\gamma, \quad 0 < s_R \leq 1 \]

Investment function

(10) \[ g = \frac{I}{pK} = \alpha + \beta u + \tau h - \theta e^\gamma, \quad \alpha, \beta, \tau, \theta \geq 0, \]

Goods market equilibrium

(11) \[ g = \sigma, \]

Stability condition

(12) \[ \frac{\partial \sigma}{\partial u} - \frac{\partial g}{\partial u} > 0 \quad \Rightarrow \quad \frac{h}{v} - \beta > 0. \]
Goods market equilibrium:

\begin{align*}
(13) \quad u^* &= \frac{\alpha + \tau h + e\gamma(1 - s_R - \theta)}{\frac{h}{v} - \beta}, \\
(14) \quad r^* &= \frac{\frac{h}{v}[\alpha + \tau h + e\gamma(1 - s_R - \theta)]}{\frac{h}{v} - \beta}, \\
(15) \quad g^* &= \frac{\frac{h}{v}(\alpha + \tau h) + e\gamma\left[\beta(1 - s_R) - \theta \frac{h}{v}\right]}{\frac{h}{v} - \beta}.
\end{align*}
3.2 Short-run effects of ‘financialisation’ and increasing shareholder power
(profit share + financial structure constant)

‘Preference channel’: negative effects of increasing shareholder power

because: \( \frac{\partial u}{\partial \alpha} > 0 \), \( \frac{\partial r}{\partial \alpha} > 0 \) and \( \frac{\partial g}{\partial \alpha} > 0 \).

‘Internal means of finance channel’: ambiguous effects

\[
\begin{align*}
(13a) \quad & \frac{\partial u^*}{\partial e} = \frac{(1-s_R - \theta)\gamma}{\frac{h}{v} - \beta}, \\
(14a) \quad & \frac{\partial r^*}{\partial e} = \frac{\frac{h}{v} (1-s_R - \theta)\gamma}{\frac{h}{v} - \beta}, \\
(15a) \quad & \frac{\partial g^*}{\partial e} = \frac{\gamma \left[ \beta (1-s_R) - \theta \frac{h}{v} \right]}{\frac{h}{v} - \beta}.
\end{align*}
\]
Table 2: Short-run cases for a change in the rentiers’ rate of return

<table>
<thead>
<tr>
<th></th>
<th>‘Normal’ case</th>
<th>‘Intermediate’ case</th>
<th>‘Puzzling’ case</th>
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<tbody>
<tr>
<td>$1-s_R &lt; \theta$</td>
<td>1$-s_R &lt; \theta$</td>
<td>$\theta &lt; 1-s_R &lt; \frac{\theta h}{v \beta}$</td>
<td>$\frac{\theta h}{v \beta} &lt; 1-s_R$</td>
</tr>
<tr>
<td>$\frac{\partial u}{\partial e}$</td>
<td>–</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>$\frac{\partial r}{\partial e}$</td>
<td>–</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>$\frac{\partial g}{\partial e}$</td>
<td>–</td>
<td>–</td>
<td>+</td>
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</table>
Table 3: Short-run accumulation regimes under the conditions of ‘financialisation’ and rising shareholder power

<table>
<thead>
<tr>
<th>Effect via management’s animal spirits</th>
<th>‘Contractive’ regime</th>
<th>‘Profits without investment’ regime</th>
<th>‘Finance-led growth’ regime</th>
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<td>weak/strong</td>
<td></td>
<td>weak</td>
<td>weak</td>
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<tr>
<th>Effect via rentiers’ rate of return</th>
<th>‘normal’ case</th>
<th>‘intermediate case’</th>
<th>‘puzzling’ case</th>
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</table>
Short-run effect of increasing shareholder power

'Contractive' regime:
negative effect of decreasing animal spirits + negative effect of increasing rentiers' rate of return (high rentiers' propensity to save, high responsiveness of investment with respect to internal funds) ➔ paradox of profits

'Profits without investment' regime:
negative effect of decreasing animal spirits + negative effect of increasing rentiers' rate of return on capital accumulation, but positive effect on capacity utilisation and profits, overcompensating negative effect via animal spirits (low rentiers' propensity to save, low responsiveness of investment with respect to internal funds and to demand) ➔ micro-macro-identity

'Finance-led growth' regime:
negative effect of decreasing animal spirits + positive effect of increasing rentiers' rate of return overcompensating the negative effect via animal spirits (low rentiers' propensity to save, low responsiveness of investment with respect to internal funds and high responsiveness with respect to capacity utilisation) ➔ paradox of growth
3.3 Medium equilibrium and stability

- dividend-elastic mark-up and profit share
- outside finance-capital ratio endogenous

\[
\Delta \left( E^R + B \right) = s_R e \left( E^R + B \right) \tag{16}
\]

\[
\frac{\Delta \left( E^R + B \right)}{E^R + B} = s_R e . \tag{17}
\]

\[
\hat{\gamma} = \frac{\Delta \left( E^R + B \right)}{E^R + B} - \hat{K} = s_R e - g . \tag{18}
\]

Equilibrium outside finance-capital ratio:

\[
\gamma^* = \frac{s_R e \left( \frac{h}{v} - \beta \right) - \frac{h}{v} (\alpha + \tau h)}{e \left[ \beta \left( 1 - s_R \right) - \theta \frac{h}{v} \right]} . \tag{19}
\]
Medium-run stability if: \( \frac{\partial \hat{\gamma}}{\partial \gamma} < 0 \).

\[
(20) \quad \frac{\partial \hat{\gamma}}{\partial \gamma} = -e^{\left[ \beta(1-s_R) - \theta \frac{h}{v} \right]} \frac{h}{v} - \beta.
\]

\[
(20') \quad \frac{\partial \hat{\gamma}}{\partial \gamma} < 0 \text{ if: } \beta(1-s_R) - \theta \frac{h}{v} > 0
\]

\[ \iff 1-s_R > \theta \frac{h}{v} \beta. \]

\( \Rightarrow \) condition for short-run ‘puzzling case’!
Medium-run stability requires a positive relationship between the rate of capital accumulation and the outside finance-capital ratio.

\[(15b) \quad \frac{\partial g^*}{\partial \gamma} = e^\left[\beta(1-s_R) - \theta \frac{h}{v}\right] \frac{h}{v} - \beta,\]

\[(15b') \quad \frac{\partial g^*}{\partial \gamma} > 0 \text{ if: } \beta(1-s_R) - \theta \frac{h}{v} > 0\]

\[\Leftrightarrow 1 - s_R > \theta \frac{h}{v} \beta.\]
3.4. Medium-run effects of 'financialisation' and rising shareholder power

Change in the rentiers' rate of return and the equilibrium outside finance-capital ratio:

\[
(19a) \quad \frac{\partial \gamma^{*}}{\partial e} = \frac{s_R \left( \frac{h}{v} - \beta \right) - \gamma \left[ \beta (1 - s_R) - \theta \frac{h}{v} \right] + \frac{\partial h}{\partial e} \frac{1}{v} \left[ e(\theta \gamma + s_R) - \alpha - 2 \tau h \right]}{e \left[ \beta (1 - s_R) - \theta \frac{h}{v} \right]}.
\]

\[
\frac{\partial \gamma^{*}}{\partial e} > 0, \text{if: } \beta (1 - s_R) - \theta \frac{h}{v} > 0,
\]

Stable case: \hspace{1cm} (19a') \hspace{1cm} s_R \left( \frac{h}{v} - \beta \right) + \frac{\partial h}{\partial e} \frac{1}{v} (s_R e - \alpha - 2 \tau h) \hspace{1cm} \text{and:} \hspace{1cm} \frac{\partial h}{\partial e} \frac{1}{v} e > \gamma.

\[
\frac{\partial \gamma^{*}}{\partial e} < 0, \text{if: } \beta (1 - s_R) - \rho s_R \frac{h}{v} < 0,
\]

Unstable case: \hspace{1cm} (19a'') \hspace{1cm} s_R \left( \frac{h}{v} - \beta \right) - \gamma \left[ \beta (1 - s_R) - \theta \frac{h}{v} \right] + \frac{\partial h}{\partial e} \frac{1}{v} e(\theta \gamma + s_R) \hspace{1cm} \text{and:} \hspace{1cm} \frac{\partial h}{\partial e} \frac{1}{v} > \alpha + 2 \tau h.$
Effect of a change in the rentiers’ rate of return on the medium-run equilibrium rate of capital accumulation

\[(21) \quad g^* = s_R e\]

\(\Rightarrow\) ,warranted rate‘ of capital accumulation:
rate of capital accumulation required for a constant outside finance-capital ratio

\[(21a) \quad \frac{\partial g^*}{\partial e} = s_R > 0\]

1. Medium-run stability/short-run ‘finance-led‘ growth regime:
g* rises when e increases and medium-run equilibrium is attained; falling ,animal spirits‘ and effects of falling wage share can only modify adjustment process but not prevent it, as long as stability condition is maintained.

2. Medium-run instability/short-run ,contractive‘ or ,profits without investment‘ regimes:
g* falls when e rises, new equilibrium will not be reached

\(\Rightarrow\) ,knife edge‘ instability of g and γ, reinforcing each other

\(\Rightarrow\) ,paradox of outside finance‘: rising (falling) γ in the face of falling (rising) g
Medium-run ‘unstable‘ case:

‘Knife edge‘ instability of $g^{**}$ and $\gamma^*$

short-run ‘contractive‘ or ‘profits without investment‘ regimes and the ‘paradox of outside finance‘

(18) \[ \dot{\gamma} = \frac{\Delta(E^R + B)}{(E^R + B)} - \dot{K} = s_\text{R} e - g = g^{**} - g^* \]

(15) \[ g^* = \frac{\frac{h}{v}(\alpha + \tau h) + e\gamma \left( \beta(1-s_\text{R}) - \theta \frac{h}{v} \right)}{\frac{h}{v} - \beta} \]

$g^* < g^{**} \Rightarrow \Delta\gamma > 0 \Rightarrow \Delta g^* < 0 \Rightarrow \Delta\gamma > 0 \Rightarrow \Delta g^* < 0 \ldots$

$g^* > g^{**} \Rightarrow \Delta\gamma < 0 \Rightarrow \Delta g^* > 0 \Rightarrow \Delta\gamma < 0 \Rightarrow \Delta g^* > 0 \ldots$

Decreasing animal spirits will reinforce cumulative instability

Falling wage share will reinforce if accumulation is wage-led, and it will dampen it if accumulation is profit-led without being able to prevent it.
Effect of a change in 'animal spirits' on medium-run equilibrium outside finance-capital ratio and capital accumulation

\[
\frac{\partial \gamma^*}{\partial \alpha} = \frac{-\frac{h}{v}}{\beta(1-s_R)-\theta \frac{h}{v}}
\]

Medium-run stability: \[\beta(1-s_R)-\theta \frac{h}{v} > 0 \Rightarrow \frac{\partial \gamma^*}{\partial \alpha} < 0\]

Medium-run instability: \[\beta(1-s_R)-\theta \frac{h}{v} < 0 \Rightarrow \frac{\partial \gamma^*}{\partial \alpha} > 0\]

\[
\frac{\partial g^{**}}{\partial \alpha} = 0
\]
### Table 4: Effects of increasing ‘financialisation’ and rising shareholder power in the short and the medium run

<table>
<thead>
<tr>
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<th>‘Contractive’ regime</th>
<th>‘Profits without investment’ regime</th>
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<tr>
<td></td>
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<td>$\beta(1 - s_R) - \theta \frac{h}{v}$</td>
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**Short run**

- **Rentiers’ rate of return, profit share and outside finance-capital ratio (short run)**
  
  | $\frac{\partial h}{\partial e}$ | $\frac{\partial \gamma}{\partial e}$ | 0 | 0 | 0 |

- **Animal spirits and goods market equilibrium**
  
  | $\frac{\partial u^*}{\partial \alpha}$ | $\frac{\partial r^*}{\partial \alpha}$ | $\frac{\partial g^*}{\partial \alpha}$ | + | + | + |

- **Rentiers’ rate of return and equilibrium rates of capacity utilisation and profit**
  
  | $\frac{\partial u^*}{\partial e}$ | $\frac{\partial r^*}{\partial e}$ | – | + | + |

- **Rentiers’ rate of return and equilibrium rate of capital accumulation**
  
<p>| $\frac{\partial g^*}{\partial e}$ | (15a) | – | – | + |</p>
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<td><strong>Medium run</strong></td>
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<td>Rentiers’ rate of return and profit share</td>
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<td>Stability of equilibrium outside finance-capital ratio</td>
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<td>Rentiers’ rate of return and equilibrium outside finance-capital ratio</td>
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<td>Rentiers’ rate of return and equilibrium rate of capital accumulation (‘warranted rate’)</td>
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<td>Animal spirits and equilibrium outside finance-capital ratio</td>
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3.5 Summary of main model results

Financialisation and rising shareholder power:

1. Effects on investment: 'preference channel' and 'internal means of finance channel'
2. Effects on consumption: distribution between firms and rentiers and between capital (firms+rentiers) and labour + wealth based consumption
3. Effects on distribution: falling wage share and increasing inequality of wages and salaries

Potential regimes in PK flow and SFC literature:
1. 'Finance-led growth' regime
2. 'Profits without investment' regime
3. 'Contractive' regime
Simple SFC distribution and growth model

Short run
(dividend inelastic profit share, constant outside finance-capital ratio):
- 'Contractive' regime, 'profits without investment' regime and 'finance-led growth' regime are possible
- Fallacies of composition in 'contractive' ('paradox of profits') and 'finance-led growth' ('paradox of growth') regimes

Medium run
(dividend elastic profit share, endogenous outside finance-capital ratio)
- Stable 'finance-led-growth' regime is possible: low rentiers' propensity to save, low elasticity of firms' investment with respect to internal funds and high elasticity with respect to demand + weak effect of shareholder power on managements' preferences + weak redistribution at the expense of labour
- Short-run 'contractive' and 'profits without investment' regimes turn unstable
  ➔ 'knife-edge instability of capital accumulation and outside finance-capital ratio'
  ➔ 'paradox of outside finance': rising shareholder power triggers falling rates of capital accumulation and rising outside finance-capital ratio.

 ➔ Although goods market equilibrium may be stable, financial structure generates instability in 'contractive' and 'profits without investment' regimes.
• Integrating household debt into the model (a la Bhaduri/Laski/Riese, Dutt or Palley) might increase instability potential.

• Other forces may contain instability: monetary and fiscal policies,…

➔ Further analysis required: interaction of goods, financial and labour markets, effects of ‘financialisation‘ on productivity growth
THE END