

# Inequalities: why does it matter for both the demand and supply side?

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## Outline

- A Post-Kaleckian Feminist Model: short run and long run
  - Onaran, Oyvat, Fotopoulou 2017
  - Demand and supply side effects of inequality and public spending
- Empirical findings of labour market and fiscal policy mix
  - Obst, Onaran, Nikolaidi 2017
- Income inequality, wealth concentration and the Great Recession
  - Goda, Onaran, Stockhammer 2016
- Frequently asked questions:
  - Long run feasibility and non-linearity of effects?
  - (Wage led growth in the age of globalisation?)
- Policy relevance?

## Post-Kaleckian Feminist Model: short run and long run

Onaran, Oyvat, Fotopoulou 2017

Open economy with 2 sectors: “social sector” & the rest of the economy  
and male and female workers and capital

- Effect of income distribution (wages vs profits and male vs female wage gaps) on consumption, investment, and net exports
- Effect of public spending in physical vs social infrastructure
- Demand side effect in the short run and long run
- Long run supply side effect on productivity
  - wages, demand, public spending → productivity↑ → moderates the effect of wages on the profit share
- Demand and productivity affect employment of men and women

What is the effect of a decline in wages on demand and growth ?

- Neoclassical/'mainstream'
    - Positive; wages merely as a cost item
  - Structuralist/demand-led/Post-Kaleckian general model
    - Dual role of wages: demand & cost
    - Income distribution → demand → aggregate output
  - + & - effects on aggregate demand
    - consumption: the relative size of the consumption differential out of wage vs. profit income
    - + investment: the sensitivity of investment to profits vs demand
    - + net exports: the sensitivity of net exports to unit labor costs (price elasticity of exports; labour intensity of exports)
- Long run: rise in productivity moderates the effect of wages on the profit share
- Total effect on demand is ambiguous
- + : profit-led demand
  - : wage-led demand

## Summary findings (Onaran, Oyvat, Fotopoulou 2017)

- Equality is not only a desirable social goal in itself but may also contribute to economic growth and development via
  - Demand side effects on growth and investment: Short and long run
  - Supply side via effects on productivity: Long run
- Consumption  $\uparrow$  as equality  $\uparrow$ 
  - Not just the level but also composition of consumption may change
  - more income in the hands of women  $\rightarrow$  household spending on children's education and health...  $\uparrow$
  - Social infrastructure = positive function of gender equality
- Private investment  $\uparrow$  as social infrastructure  $\rightarrow$  productivity  $\uparrow$  & demand  $\uparrow$ 
  - Public + household spending in social infrastructure
- wage share  $\uparrow$  & gender gaps  $\downarrow$   $\rightarrow$  upward convergence &  $\uparrow$  equality
  - $\rightarrow$  higher growth in a wage-led economy
  - Wage-led growth = Equality-led growth

## Short-term demand vs. long run potential growth and productivity

- Long Run: productivity increases when wages, demand and investment increase.
- Productivity needs investment but 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 many countries (Obst, Onaran, Nikolaidi 2017)
- inequality→lower productivity & potential growth
- Low road labour market policies and low wages also lead to low productivity in LR
- High road labour market policies and high wages → high productivity in LR

Policy mix: public investment, progressive taxation, Increasing equality

Obst, Onaran, Nikolaidi 2017

- Multi-country EU15 model
- public investment  $\uparrow$  by 1% of GDP
- + wage share  $\uparrow$  by 1%
- + more progressive taxation (tax on capital  $\uparrow$  1%, tax on labour  $\downarrow$  1% )
- Demand is wage-led in Europe
  - The impact of wage policies is positive but small
- the overall stimulus becomes much stronger with fiscal expansion.
  - Full employment requires public investment; in particular in the long run after accounting for productivity effect of wages (Onaran, Oyvatt, Fotopoulou 2017)
- The effects are stronger if policies are implemented simultaneously in all the EU countries. (also G20 evidence, Onaran and Galanis 2014)
- need for wage and fiscal policy coordination
- $\rightarrow$ 6.7% higher GDP in the EU15, 4.5% higher GDP in the UK,

...Policy mix:

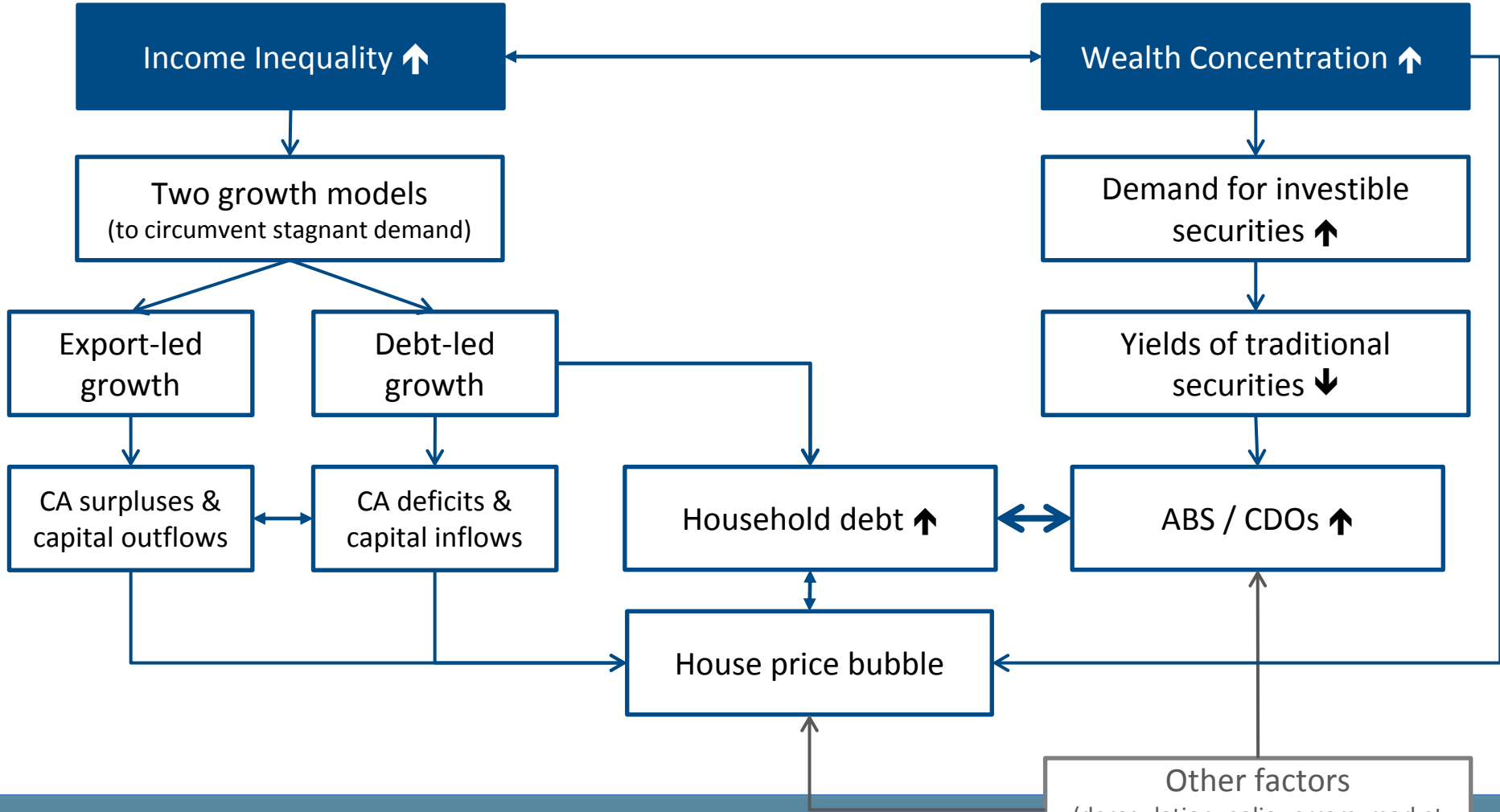
public investment, progressive taxation, Increasing equality

Obst, Onaran, Nikolaidi 2017

- Private investment increases by 2.3% as a ratio to GDP in the EU, and by 0.9% in the UK
  - 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 0.1% in the UK
- Impact on inflation is very modest
  - a 1%-point rise in the wage share  $\rightarrow$  1.5%  $\uparrow$  in prices in the EU, and 2%  $\uparrow$  in prices in the UK
-



# Distributional issues at the root of the Great Recession



Other factors  
(deregulation, policy errors, market failures, boom thinking)

## Long run feasibility, non-linearity of effects, politics? Kalecki on “Political Aspects of Full Employment” 1943

- “the maintenance of full employment would cause social and political changes which would give a new impetus to the opposition of the business leaders. Indeed, under a regime of permanent full employment, the 'sack' would cease to play its role as a 'disciplinary' measure. The social position of the boss would be undermined, and the self-assurance and class-consciousness of the working class would grow. ... It is true that profits would be higher under a regime of full employment than they are on the average under *laissez-faire*... But 'discipline in the factories' and 'political stability' are more appreciated than profits by business leaders. *Their class instinct tells them that lasting full employment is unsound from their point of view, and that unemployment is an integral part of the 'normal' capitalist system.*”
- Will the sensitivity of investment to profits change as employment $\uparrow$ ? (Onaran 2016)

## In the long run?

- Keynes: “in the long run we are all dead”
  - save capitalism from capitalism itself
- Can policy save capitalism from capitalism itself?
- **Marx**: profit squeeze? Limits to capitalism?
- **Kalecki**: Full employment not consistent with capitalism
- **Ecological economists** (e.g. Victor, Jackson): Limits to growth?
  - Managing with lower growth?
    - shorter working hours?
    - Keynes, 1930, “Economic Possibilities for our Grandchildren”: “Three-hour shifts or a fifteen-hour week may put off the problem for a great while.”
  - **Green jobs**
- **Feminist economics**: Care crisis and ecological crisis need **purple jobs**
- Synthesising Keynes, Kalecki, Marx, Feminism, Ecological Economics

## **Policies for the empowerment of the many**

- Aims: full employment, equality, ecological sustainability
  - inclusive and sustainable development,
  - Rising share of labour in national income
  - gender equality
  - poverty alleviation
  - decent job creation
- implications for policy in both developed and developing countries
- 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
  - Financial regulation and corporate governance

## ...public investment

- Physical infrastructure: **green** investment
  - Public transport, renewable energy, housing (building and insulation)
  - Wind, tidal, solar, bio NOT carbon capture, nuclear, fracking
  - Ecological deficit
- Social infrastructure: **Purple** investment
  - education, health and social care, child care
  - care deficit
  - Both direct and indirect impact on productivity
    - Educated and healthy workforce
    - Female labour force participation↑
      - » socializing the invisible, unpaid domestic care work
    - Social security → more innovative and productive workers
  - **improve pay and working conditions** in these industries
  - More jobs with lower Carbon emissions
    - labour intensive services
    - Purple and green are complementary (Ilkkaracan 2013)

## A equality-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
  - sufficiently high minimum wages / living wage
  - regulating high/executive pay by enforcing pay ratios

... policies for an equality-led and sustainable development

- Technological change?
  - Shorter working time in parallel with the growth in productivity with wage compensation for the lower income groups.
    - Compared to the 19th century, we are all working part-time today.
    - More equal countries have shorter working hours. (Schor, 2010)
    - shortening of hours → higher hourly productivity
- shorter working hours → gender equality
  - Shorter hours with wage compensation → a narrowing of gender wage gaps.
  - should address daily care responsibilities, and work-life balance based on gender equality in the division of labour in the household;
    - e.g. daily working hours as opposed to more holidays or longer weekends.

## How to finance?

- Progressive tax policy on income and wealth
- Borrowing
  - Borrow to spend in both physical and social infrastructure –redefine fiscal policy rule
- Monetary policy
  - Bank of England can use Quantitative Easing to buy government bonds to finance public investment
- National Investment Bank
- More equality –supports the budget too



# Conclusion

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

## Wage-led growth in the age of globalization?

- Inconsistency of the Macro vs. Micro rationale
  - Firm vs. aggregate/national
  - National vs. regional/global level
- the limits of strategies of international competitiveness based on wage competition in a highly integrated global economy
- Economic globalization may make small open economies more likely to be profit-led
- But political globalization → race to the bottom in labour share
  - international competitiveness effects are eliminated
  - makes economies more likely to be wage-led
- The world as a whole is wage-led, because we do not trade with Mars
- Globalization is not a barrier to wage-led development policies.  
→ importance of wage and fiscal policy coordination
- Avoid beggar thy neighbour policies
- Space for domestic-demand led & more equal growth
  - Alternative to pure export-led growth in the developing countries
- If developed economies do not cooperate: south-south cooperation
- Wage-led development is an option also in a single wage-led economy, but effects are stronger if coordinated

- BE POLICY LEADER

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