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Finance-dominated Capitalism and Income Distribution – Implications for an ‘Agenda of Shared Prosperity’

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Trans-Atlantic Agenda for Shared Prosperity

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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)
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)
3. Financial asset price booms, house price booms, and financial market liberalisation allow for **wealth-based and debt-financed consumption boom** → compensating for the contractive effects of financialisation → risk: financial fragility and over-indebtedness of private households
4. **Mercantilist export-led strategies** as alternative to generate demand for some countries have been made possible by financial liberalisation → risk: global imbalances

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

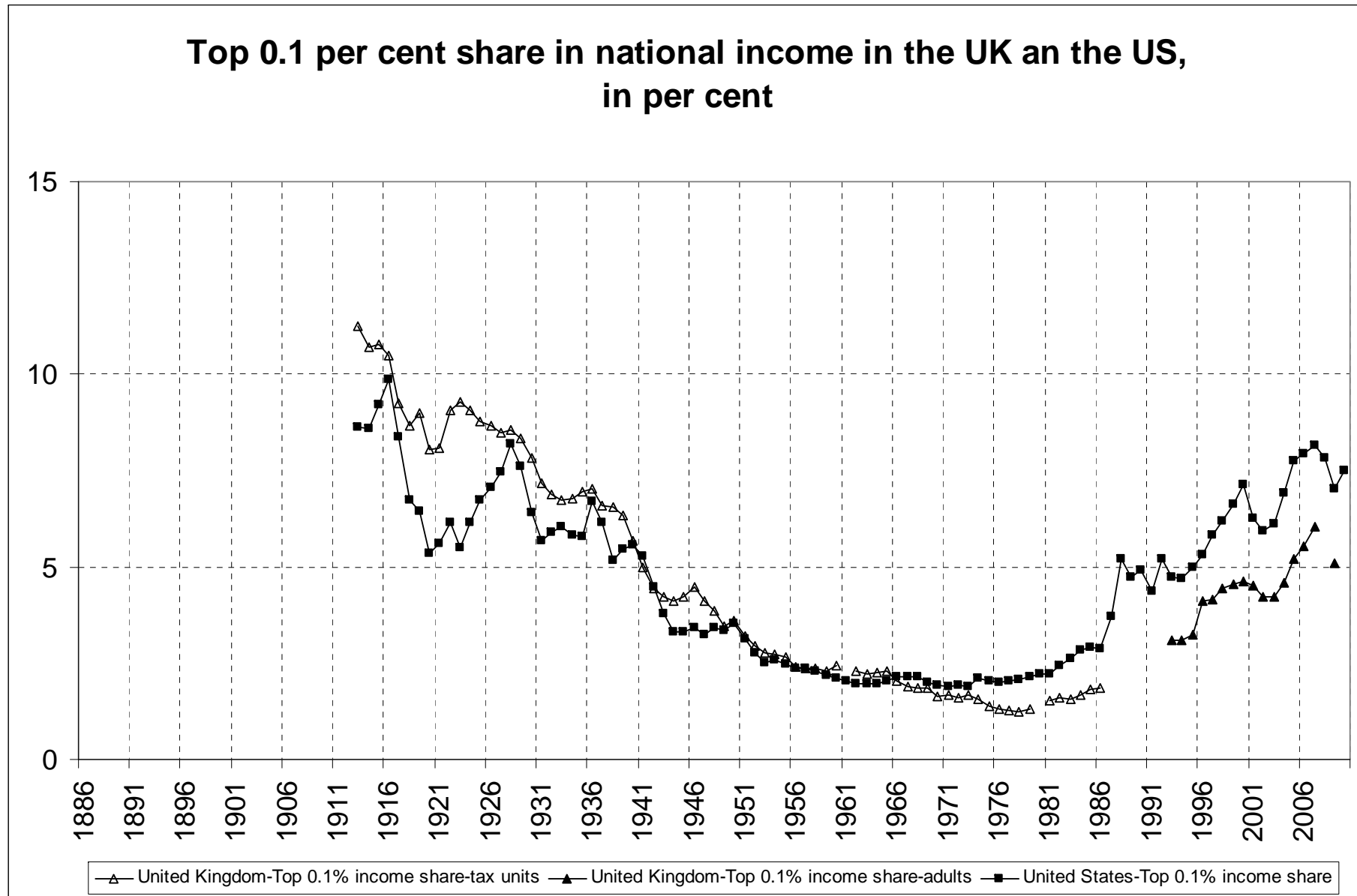
Source: European Commission (2010), author's calculations

| 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 |

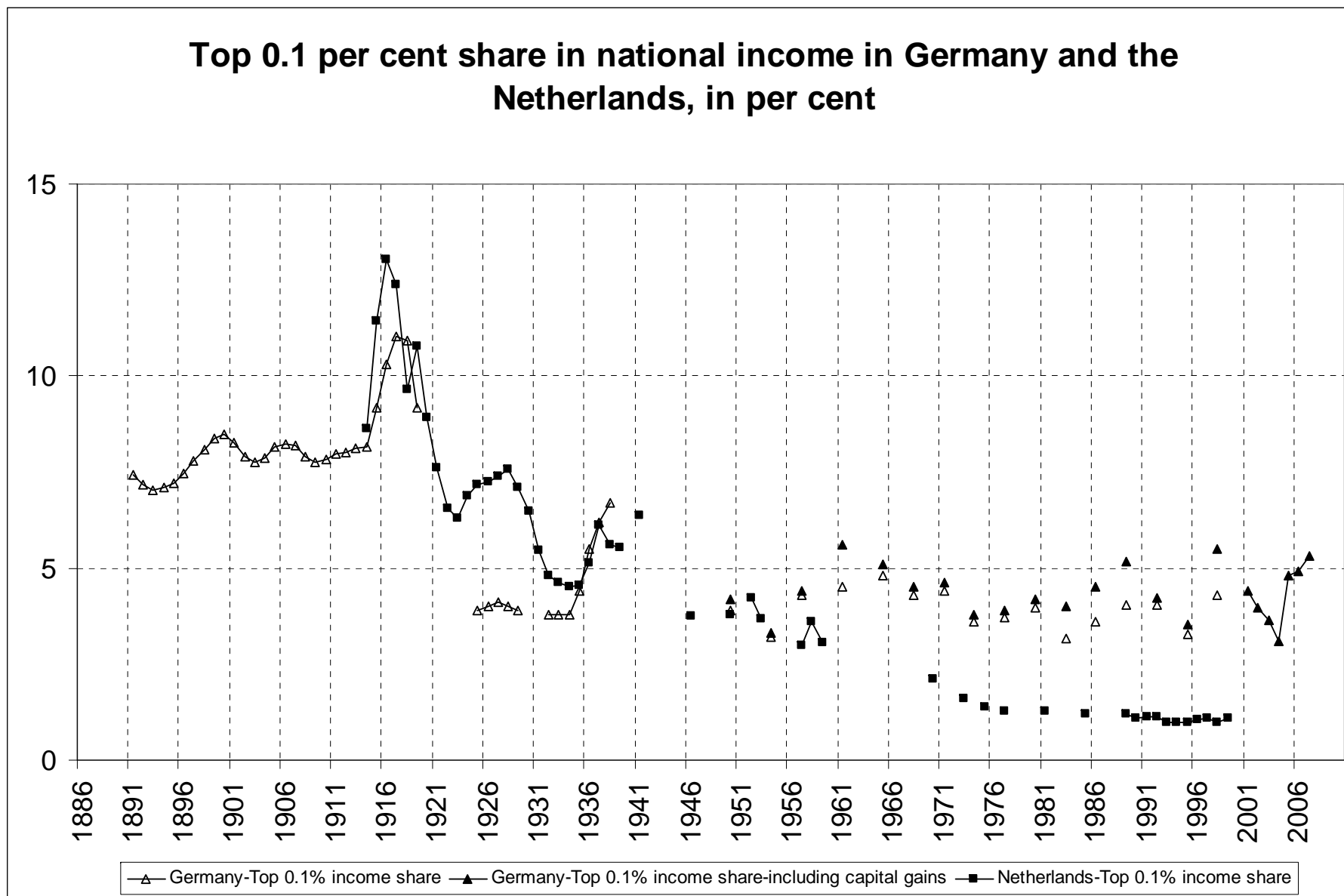
Note: Gini coefficient is based on equivalised household income
Source: OECD (2012), author's calculations

Figure 2a



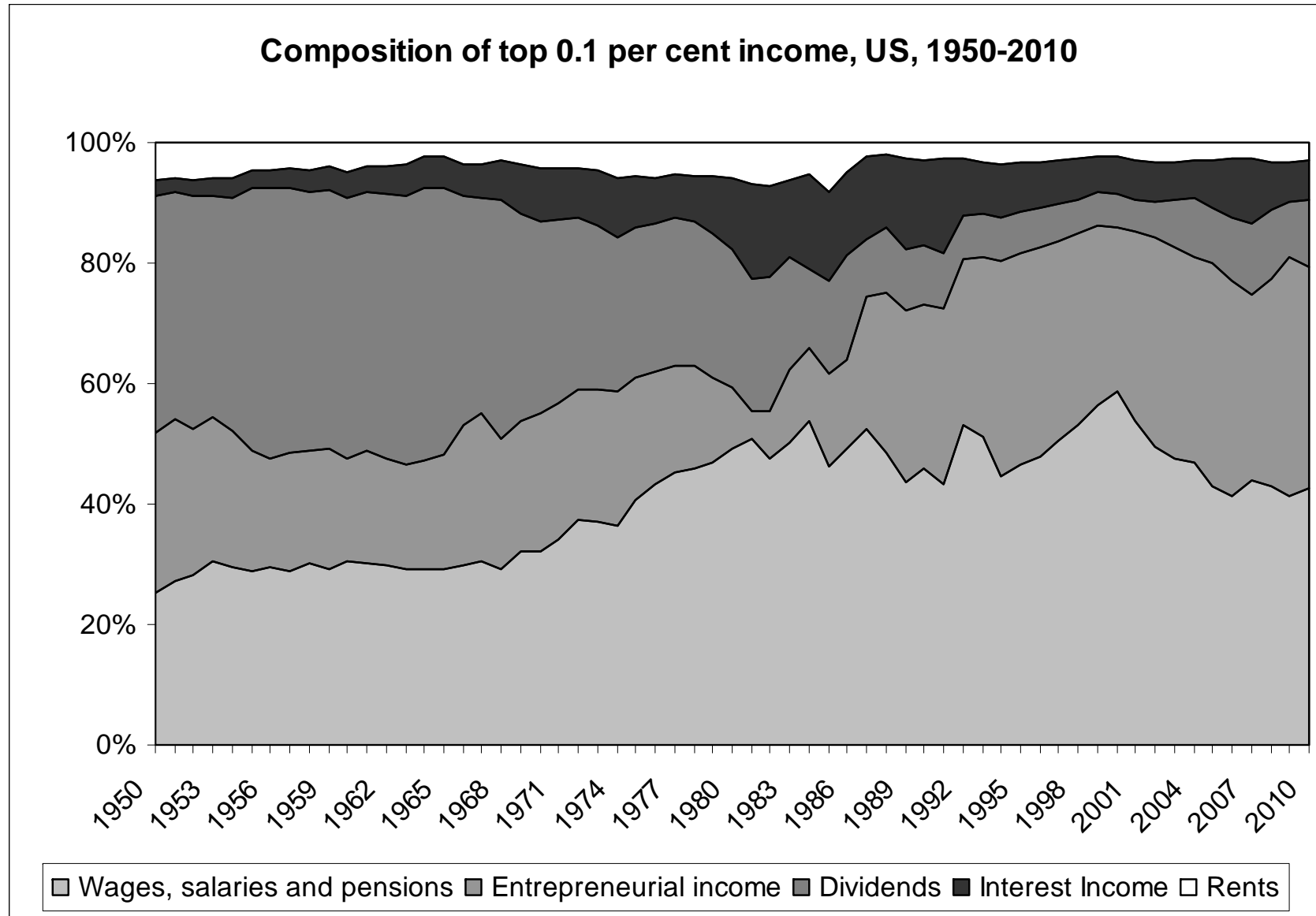
Data source: Alvaredo *et al.* (2012)

Figure 2b



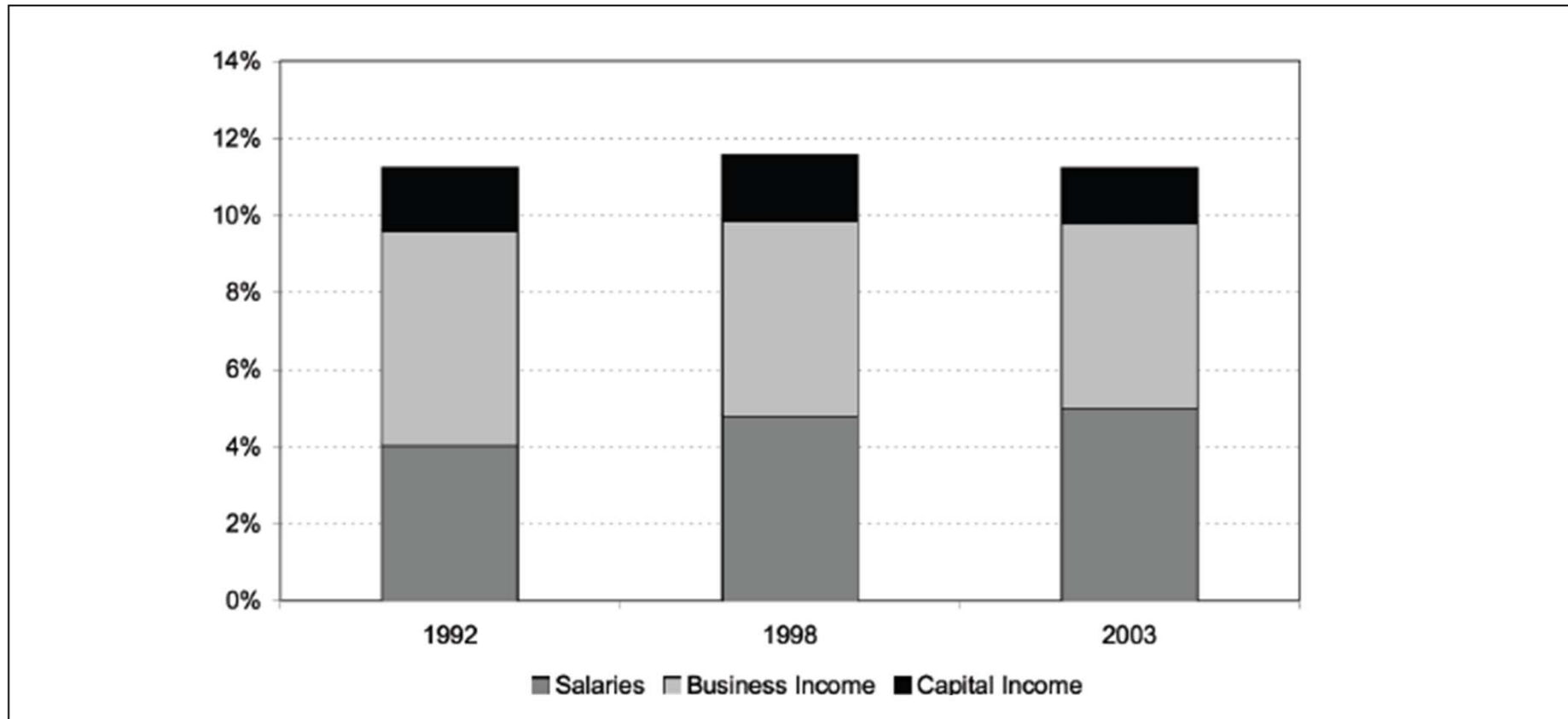
Data source: Alvaredo *et al.* (2012)

Figure 3a



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

Figure 16.7: The top 1 per cent income share in gross market income and its composition, Germany, 1992, 1998 & 2003 (% of total)



Source: Dönhaupt (2011, p. 27), data from Bach, Corneo and Steiner (2009)

Notes: Business income refers to the taxable income from agriculture, forestry, unincorporated business enterprise, and self-employed activities, including professional services. Capital income includes all capital income from private investments, except income from business activity (Bach et al. 2009).

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

| Stylized facts of financialisation (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

Agenda of Shared Prosperity / Wage or Income-led Recovery

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'

Distributional aspects of Agenda for Shared Prosperity / Keynesian New Deal

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
- Fiscal policies: progressive taxation and social policies + short- and long-run stabilisation of aggregated demand at full or stable inflation employment
- Wage policies: follow wage norm (productivity growth + inflation target) in order to stabilise wage share, compress wage structure, legal minimum wage,

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