

Inequality in Financial Capitalism

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The main ideas

- ▶ **The key arguments** in this volume are that income inequality increased since 1980s because a **new theoretical paradigm** took place where labour and welfare are seen as costs to be compressed rather than as a fundamental part of aggregate demand to be expanded.
- ▶ This period also witnessed the growth of "**financial capitalism**", characterised by the strong dependency of economies on the financial sector, by the globalisation and intensification of international trade and capital mobility, and by the "flexibilisation" of labour markets which contributed to the reduction of wage shares and therefore to the increase of inequality.
- ▶ However, the **welfare state** is not a drain on economic performance and competitiveness, or is it a barrier to economic efficiency

Working hypothesis

1970s: Ideological switch, political change and technical progress →

1980s: capital expansion → globalisation and financialisation → change in capital-labour relations →

1990s and 2000s: labour flexibility, weakening of labour market institutions and adverse social policies → recovery of profits and soar of financial rents and compensations → wage share reduction →

***INEQUALITY** → moderation of aggregate demand → scarce GDP dynamics → secular stagnation*

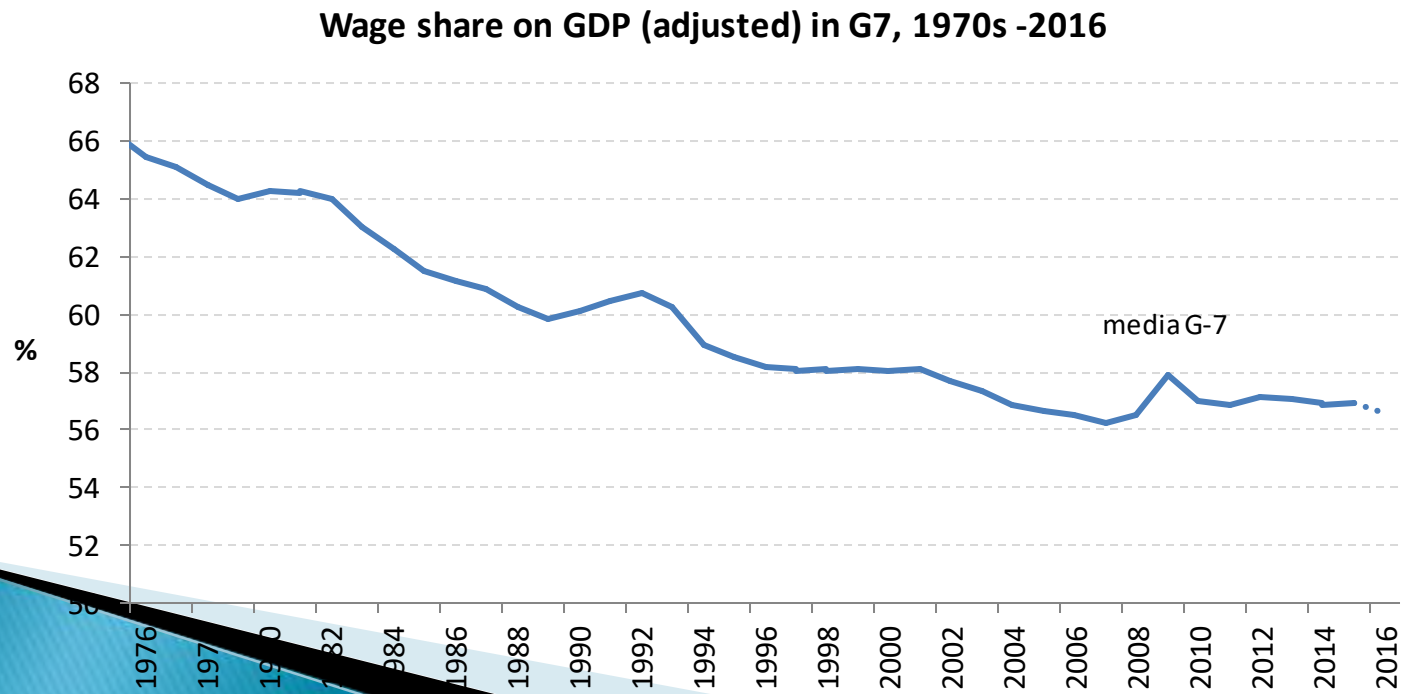
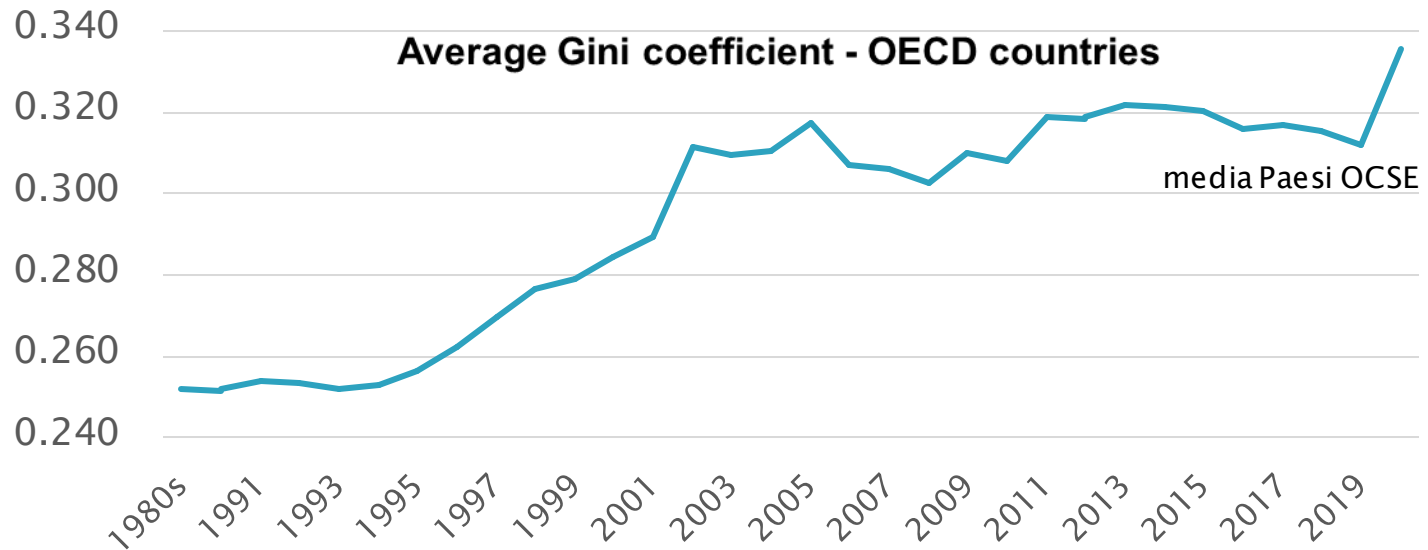
FROM \cap to \sim

- ▶ In OECD: the richest **10% OWNS 10X INCOME 10% POOR**
- ▶ On the world the top **1% own 48%** of global wealth (about US\$120 trillion).
- ▶ **The richest 85 people** in the world – the likes of Bill Gates, Warren Buffett, and Carlos Slim – own about US\$70 trillion, more wealth than the roughly **3.5 billion people** who make up the poorest half of the world's population.
- ▶ In the United States, the **top 10% (1%)** own about **70% (38%)** of wealth in the economy.
- ▶ Income (rather than wealth) follows the same trend in proportion: the top **10% (1%)** own about **47% (20%)** of income in the economy
 - (Source: OECD, OXFAM, Forbes, WB, WID..)

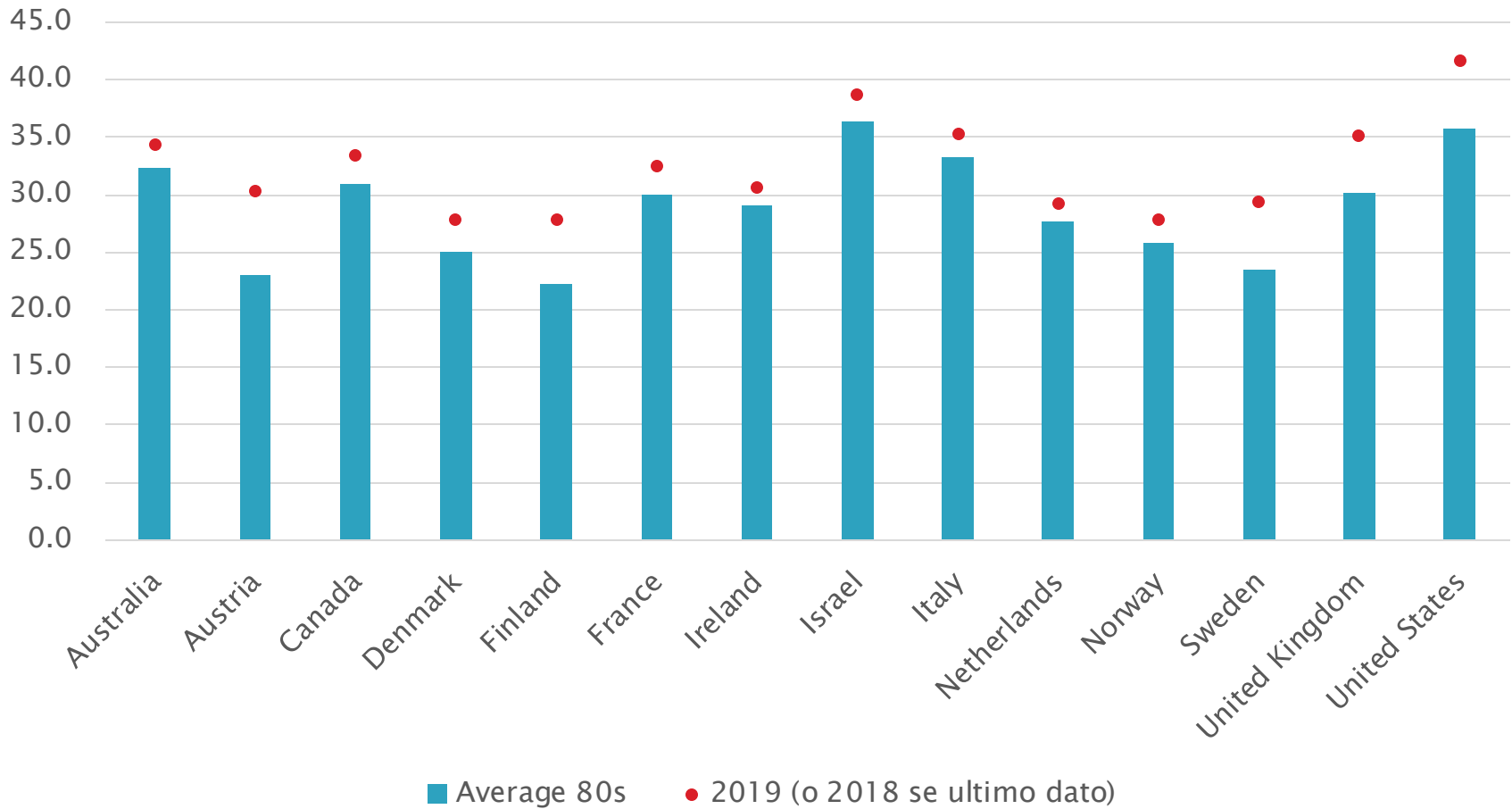
The return of a “patrimonial society”

- ▶ CEO salaries, in financial capitalism, depend on the increase of **value shares, and on the short-term** results performance in the stock exchange.
- ▶ In 1950, the average American chief executive was paid max 20x as much as the typical employee of his firm.
- ▶ Today, **ratio is +600 to 1**.
- ▶ In 2011, Apple’s Tim Cook received **\$378 million** (6,258X the wage of an average Apple employee (\$60,000). A typical worker at Walmart earns less than \$25,000 a year; Michael Duke, the retailer’s former chief executive, was paid more than \$23 million in 2012.
- ▶ This represents the return of a “patrimonial society” as Piketty (2014) stated: the patrimonial society today is the financial class.

Inequality: Gini and wage share

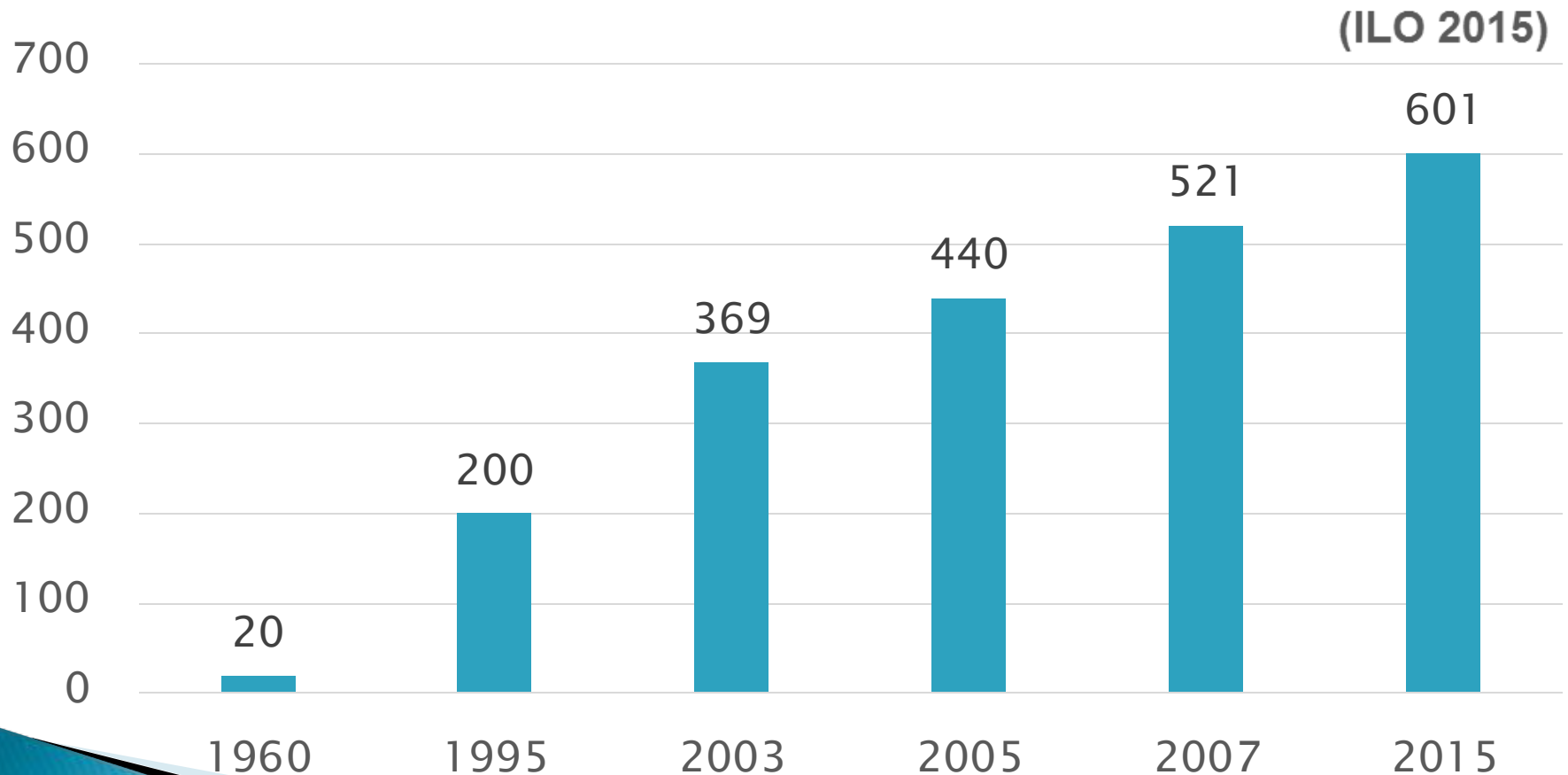


Inequality (GINI) years 80s vs 2019

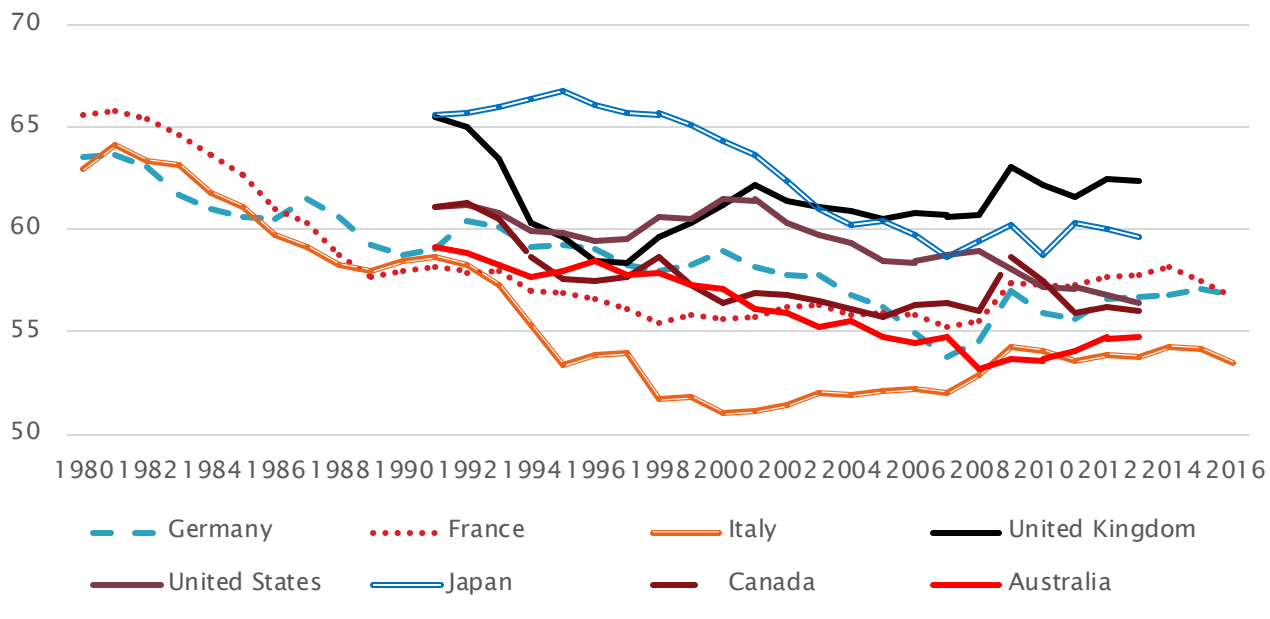


« THE BARONIAL SOCIETY »

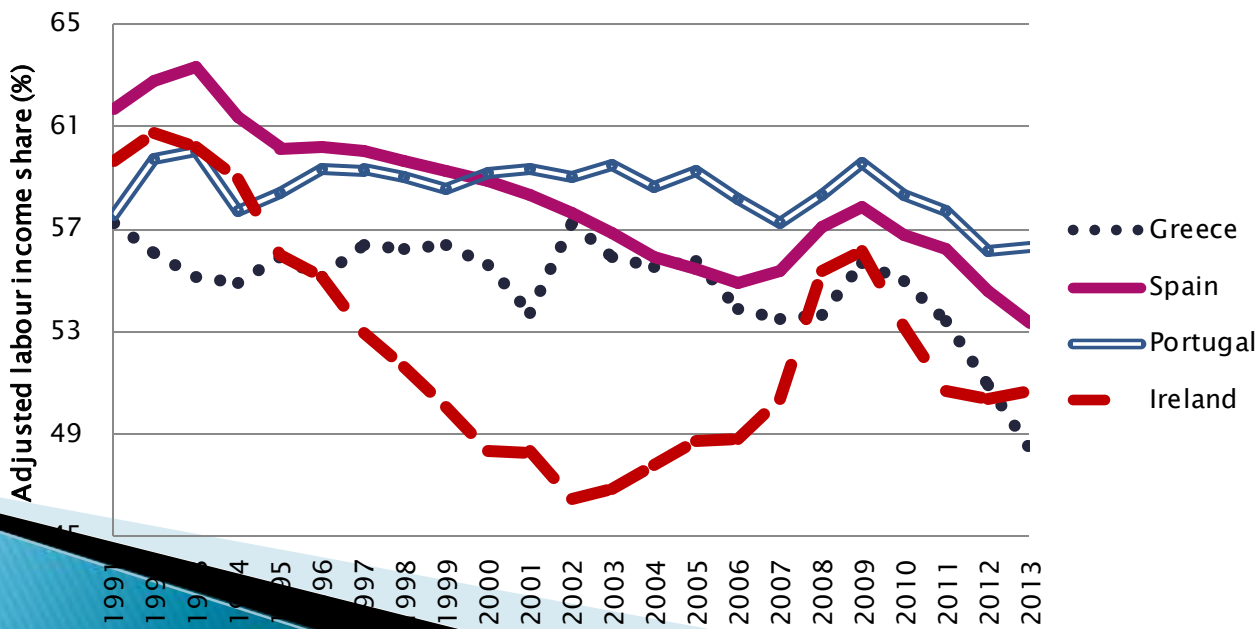
Ratio between manager compensation and average worker wage in rich countries



Wage share (adjusted) in rich OECD countries



Wage share (Adjusted) in selected OECD countries



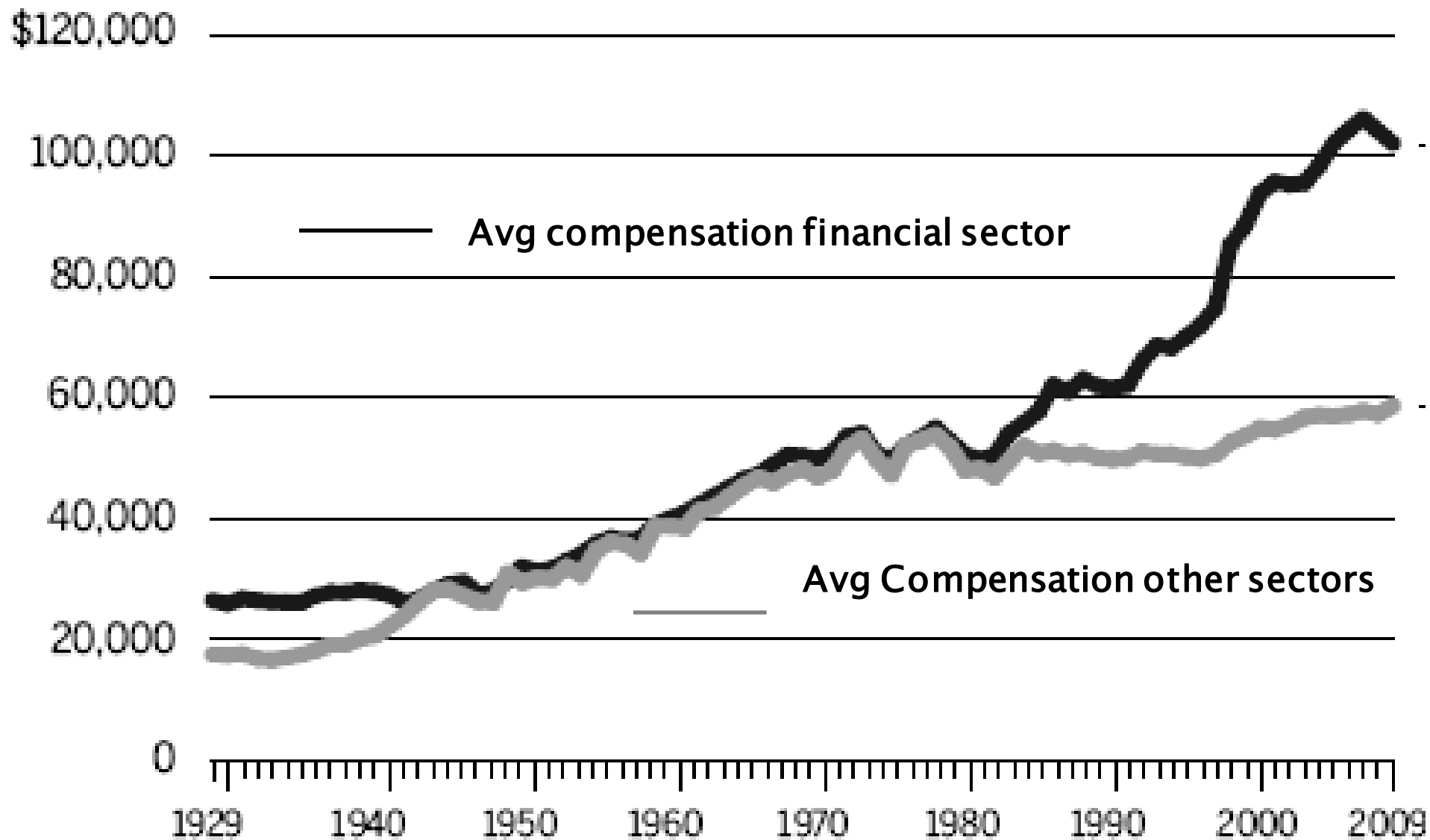
USA: During the crisis...worste

USA: real growth of GDP by groups

	Real growth (avg by groups)	Real growth captured by bottom 99%	Real growth captured by top 1%
Full period 1993–2021	46,5%	44%	56%
Clinton Expansion 1993–2000	31,5%	45%	55%
Bush Expansion 2002–2007	16,1%	35%	65%
Crisis 2009–2012	6%	5%	95%
COVID 2019–2021	13,1%	25%	75%

Source: Piketty e Saez

Compensation financial sector and other sectors (USA)



Source: Financial Crisis Inquiry Commission (2011)

How is financialisation connected to inequality?

1. It favours the aggressive implementation of the principle “downsize and distribute” so that corporations’ managers have as the only objective to maximize and *distribute* dividends for the shareholders at the cost of squeezing production, cutting wages and *downsizing*. Moreover, assets are wasted in speculation strategies rather than in productive investments.
2. It favours an aggressive short-term strategy of corporations’ managers interested mainly to sell products and to the maximization of bonus and profits in the short terms at the expenses of the wage bill.
3. Labour market institutions and in particular labour flexibility are functional to these strategies.

Relationship between finance and inequality: Postkeynesian views

1. Finance → (financialisation) and Inequality

Inequality generated by FC (through labour flexibility and welfare cuts the compression of the wage share the downsizing of workforce and distributing of profits among shareholders) increases income vulnerability and → further financial development credit consumption and the financialisation of the economy which allow for an expansion of the private debt and further inequality [Stockhammer (2013); Galbraith, (2012); Stiglitz, (2012); Hein 2012 & 2015]

2. Inequality → (credit availability) and Financial crisis

Inequality may weaken aggregate demand and drag on the economy since higher income groups spend a smaller share of the income; moreover, income inequality boosts financial instability because it increases demand for credit and this may destabilize the aggregate demand, in particular during credit rationing time [Rajan, 2010; Cynamon and Fazzari (2013); Palley, 2012]

...or marxian approach

- ▶ Wage compensation, which is shrinking, affects the labour capacity whose value is generally less than the value of the output produced.
- ▶ The excess of supply (which is also the surface of worker's exploitation) is compensated by credit-consumption.
- ▶ Workers suffer twice from these crises (being exploited and paid less, and being encouraged to increase credit consumption)
- ▶ Capitalists gain twice (because they gain from the exploitation which however produces excess of supply, and obtain returns from financial products). Goda and Lysandrou (2014);
- ▶ In this way the crisis is endemic to capitalism and to inequality

FINANCIAL-LED MODEL
(institutional change: financial deregulation, labour market flexibility, welfare retrenchement, capital mobility, trade union weakening)

Decline of productive investments and increase of financial speculation

increase of Financial compensation

Indebtness

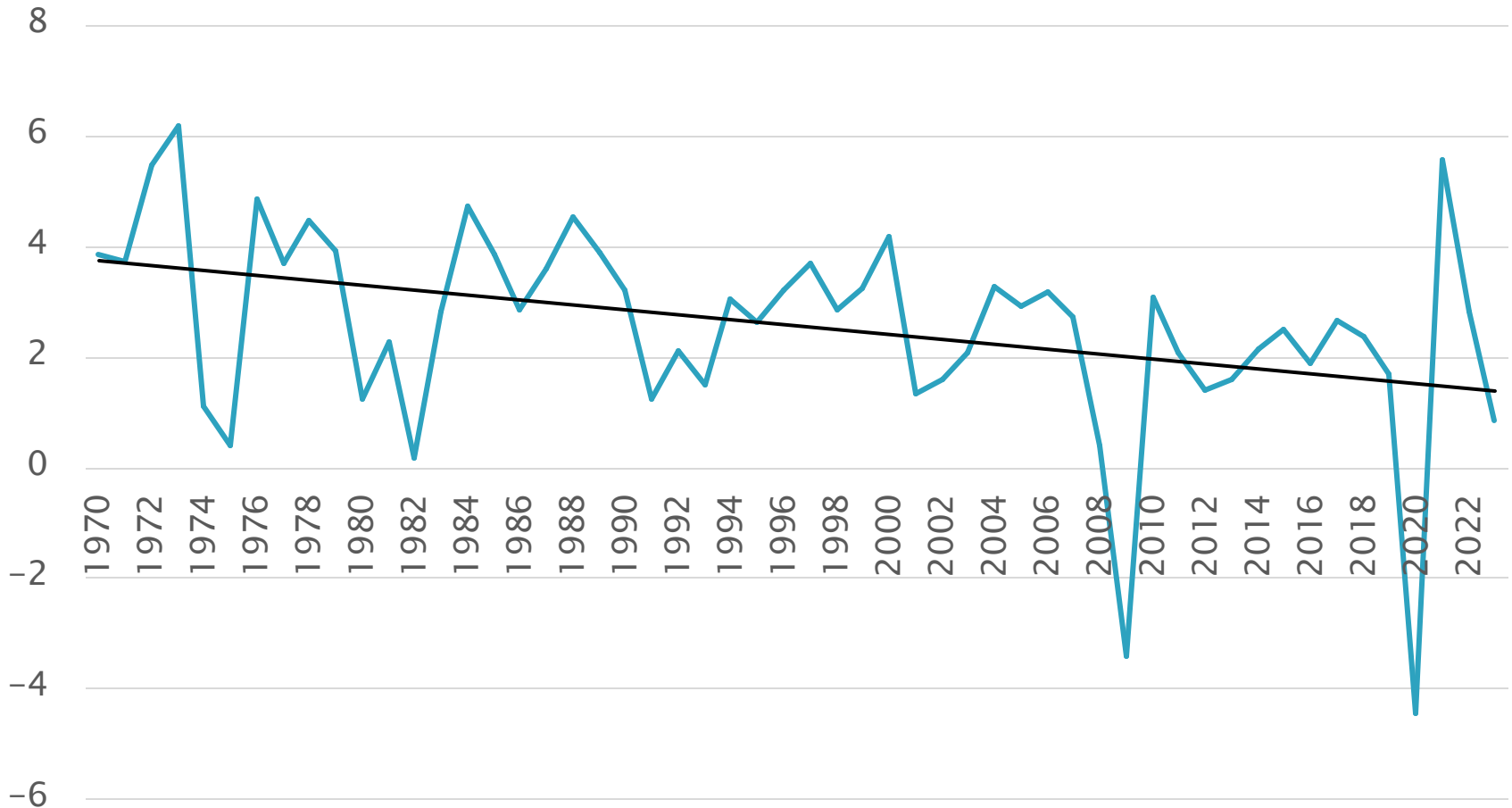
Inequality

Weakening and instability of aggregate demand

Boom & Burst and financial instability

GDP stagnation

GDP growth per capita 1971–2022, avg OCSE

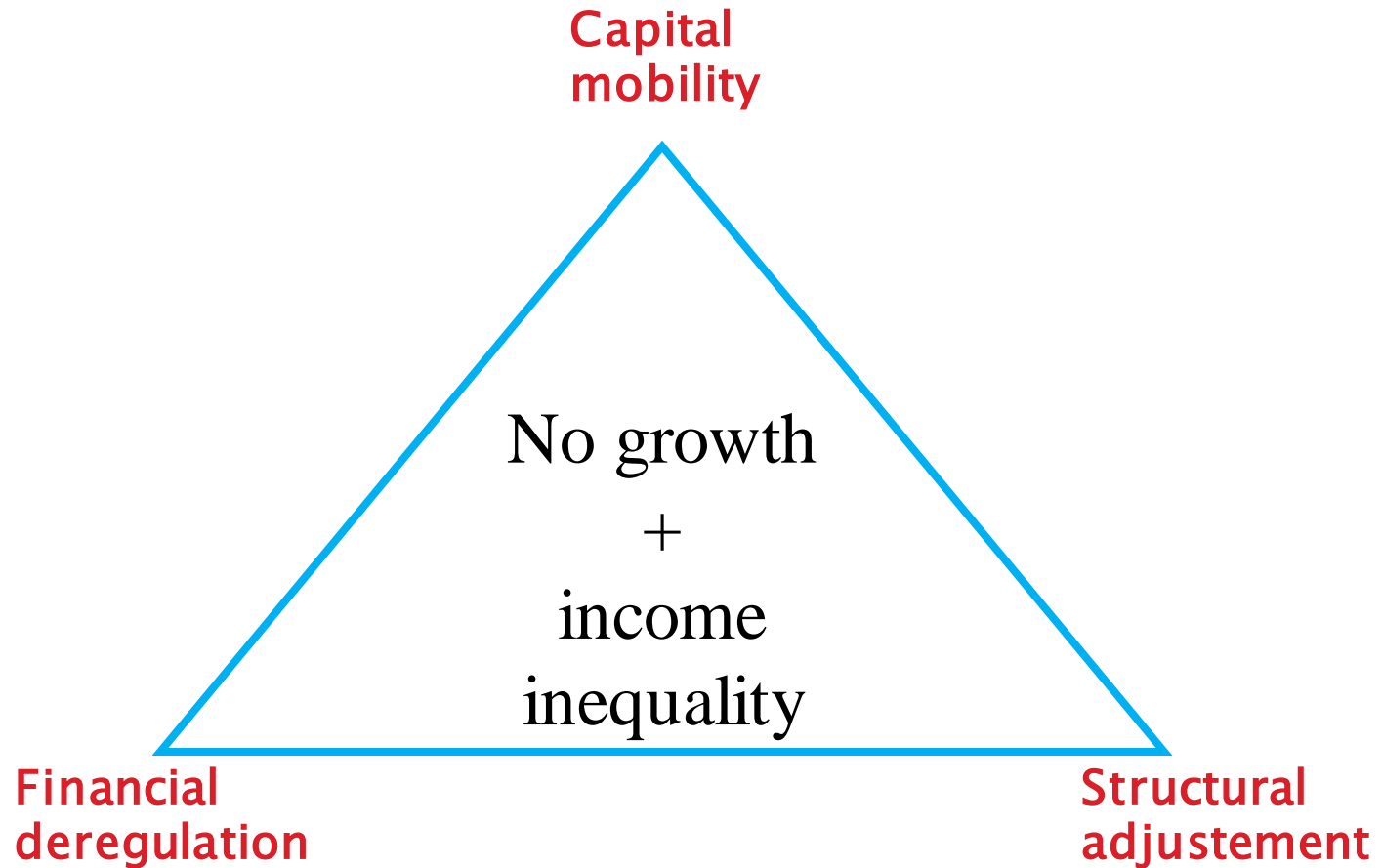


Fonte: OECD

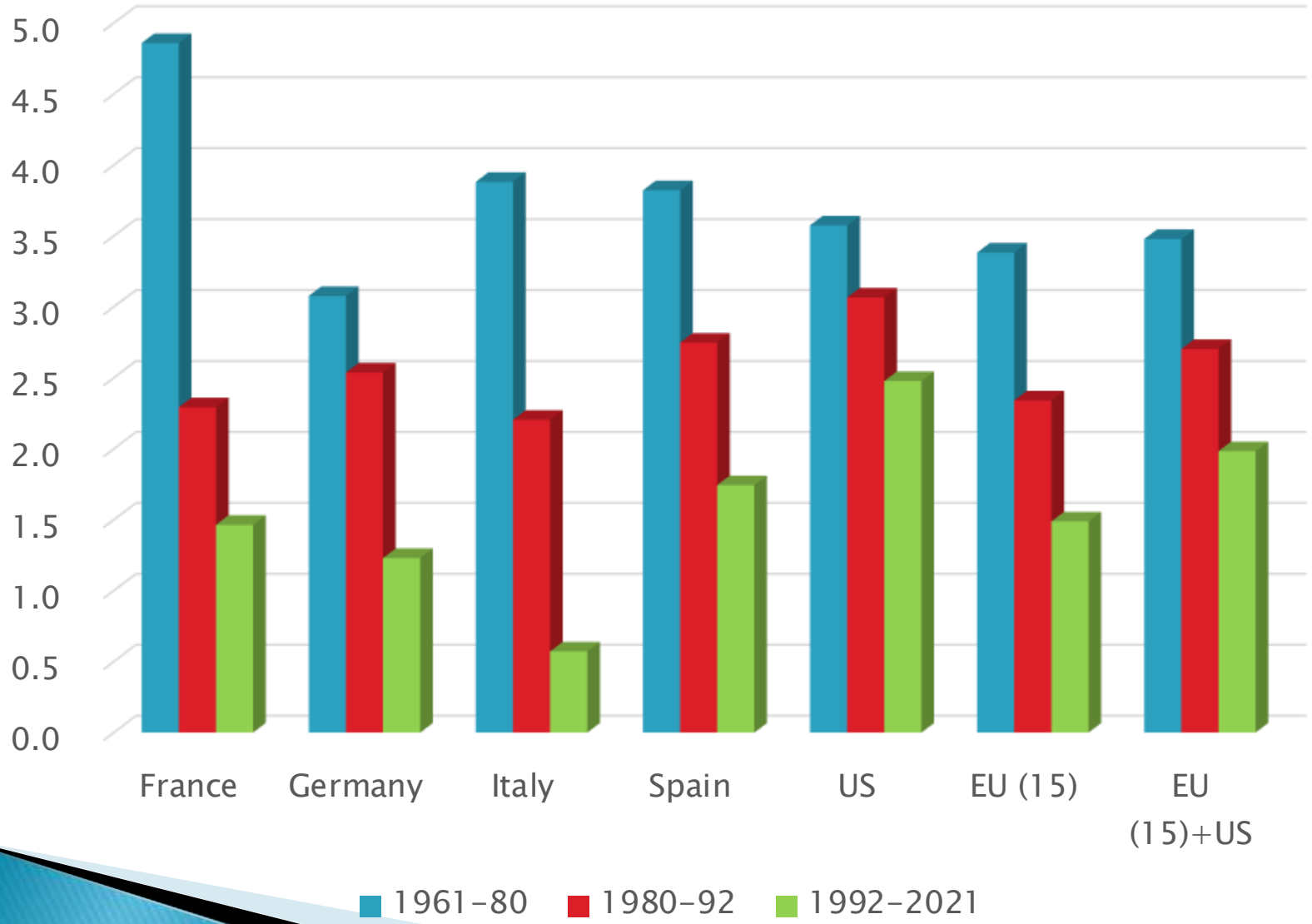
Secular stagnation and inequality

- ▶ The secular stagnation is intimately related to policies and features that shaped the financial-led model.
- ▶ Excess of S is a consequence of an excess of income going to the wealthiest part of the society, which has a lower propensity to consume (Kaldor, 1956, 1961).
- ▶ Second, the imbalance is a consequence of lower wages for workers and in turn of lower consumption and demand by them.
- ▶ Third, it is a consequence of a retrenchment tendency of public expenditure and welfare expenditure occurring among advanced economies in the last two decades and intensifying in the last years after the crisis, known as fiscal adjustments and austerity program (see Hein 2015).
- ▶ Hence, the solution to the secular stagnation can be found from one side in the fiscal policy and government deficit rather than in monetary policy and quantitative easing, which would absorb the excess of S. From another side, income distribution policies and wage increases would compensate the negative drag on the aggregate demand operated by excess of S.
- ▶ Finally, a program of public investment would increase the stock value of I.

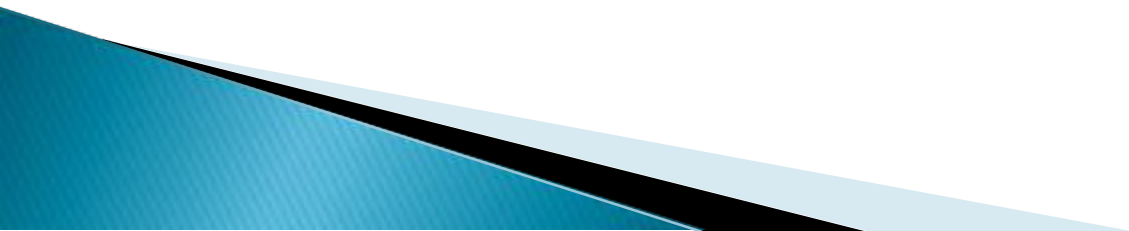
The IMF Triangle → no growth + inequality



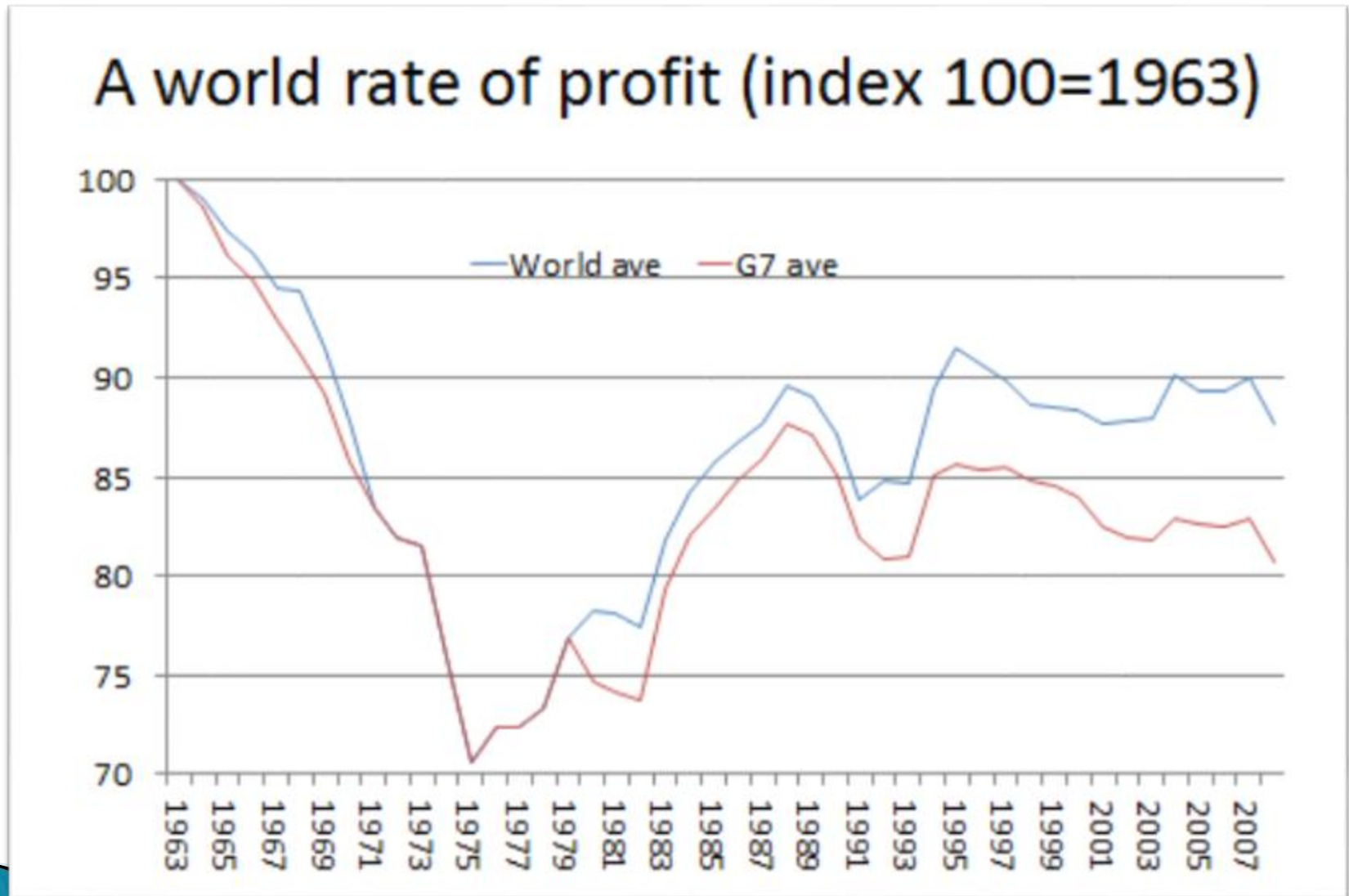
GDP Performance before and after financialization



So then, why?

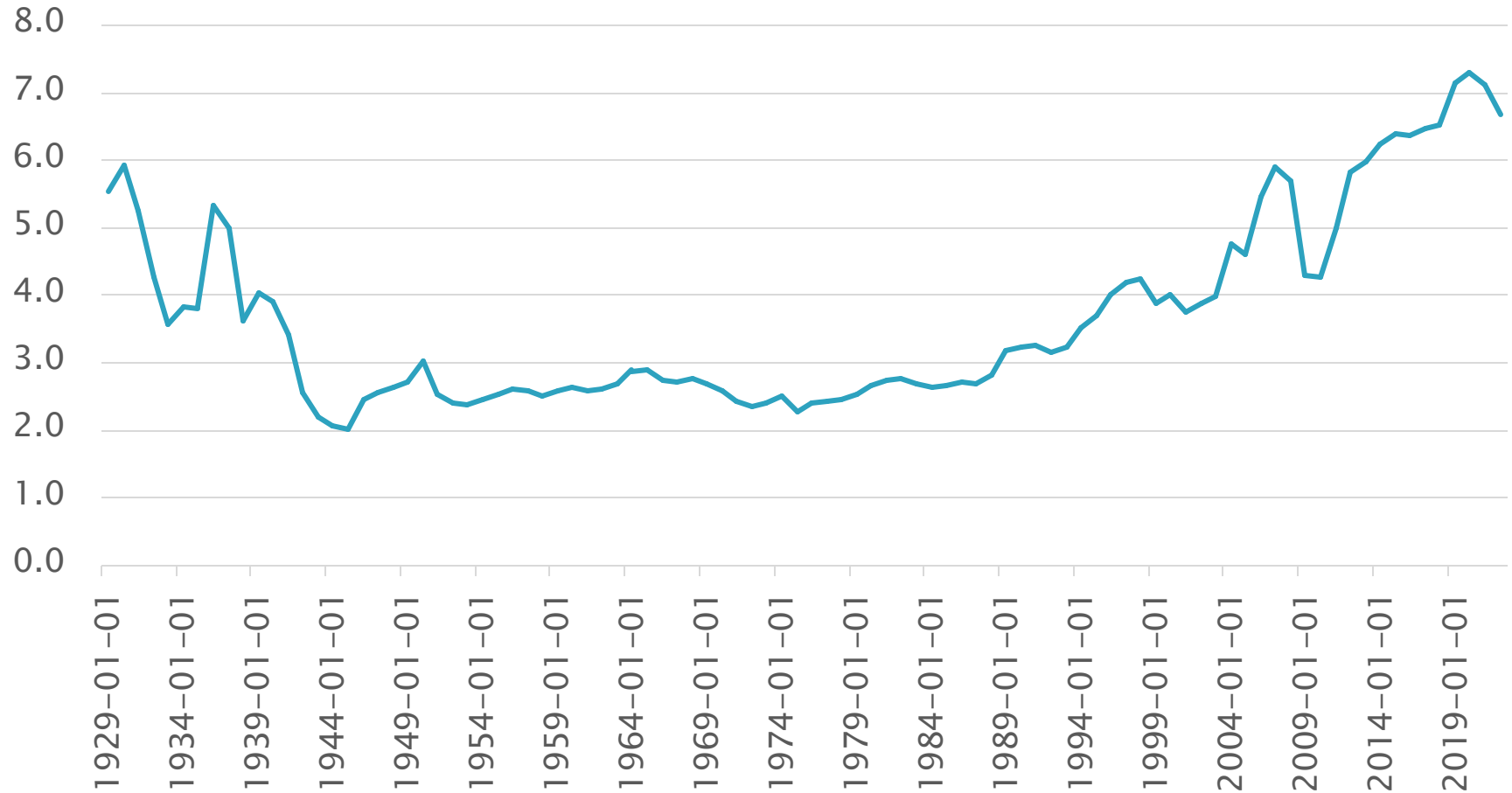


The decline...and the recovery of profits



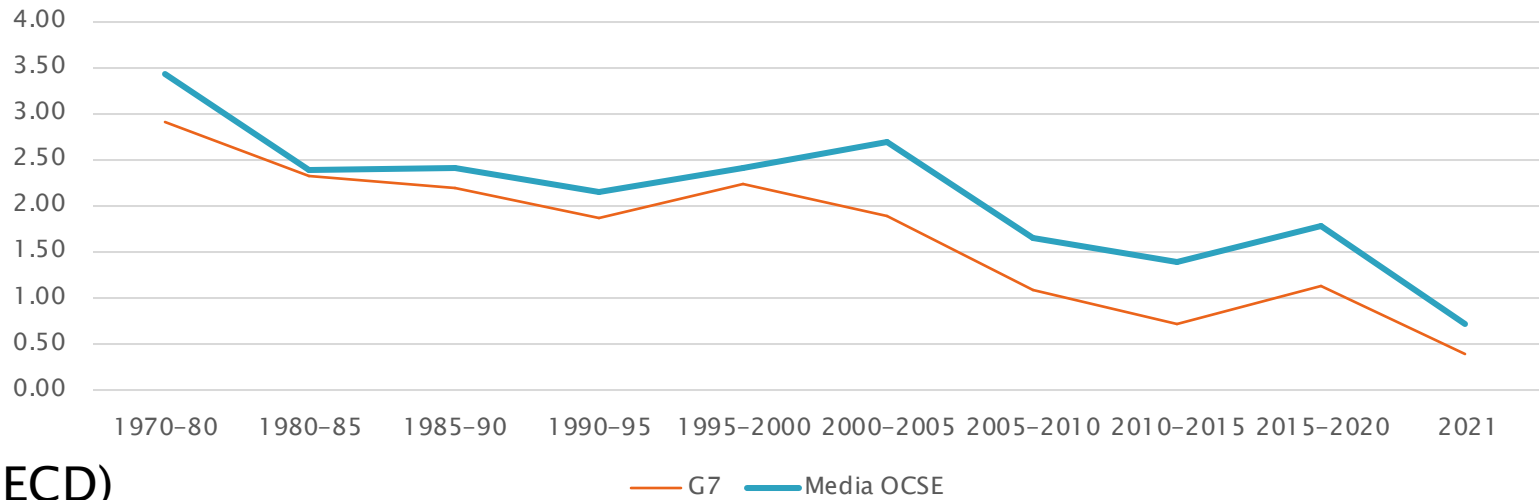
The decline...and the recovery of Dividends.

Net Dividends (% of GDP), US



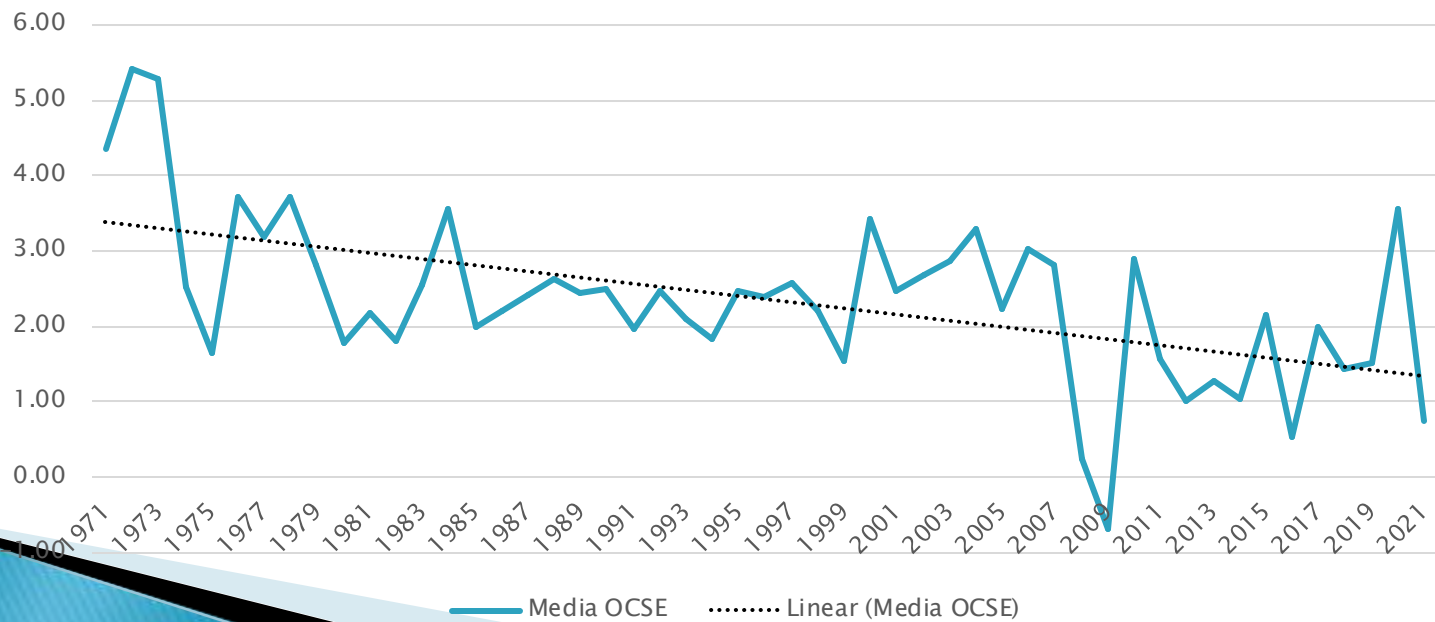
[Source: FREED database.](#)

The decline of Labour productivity

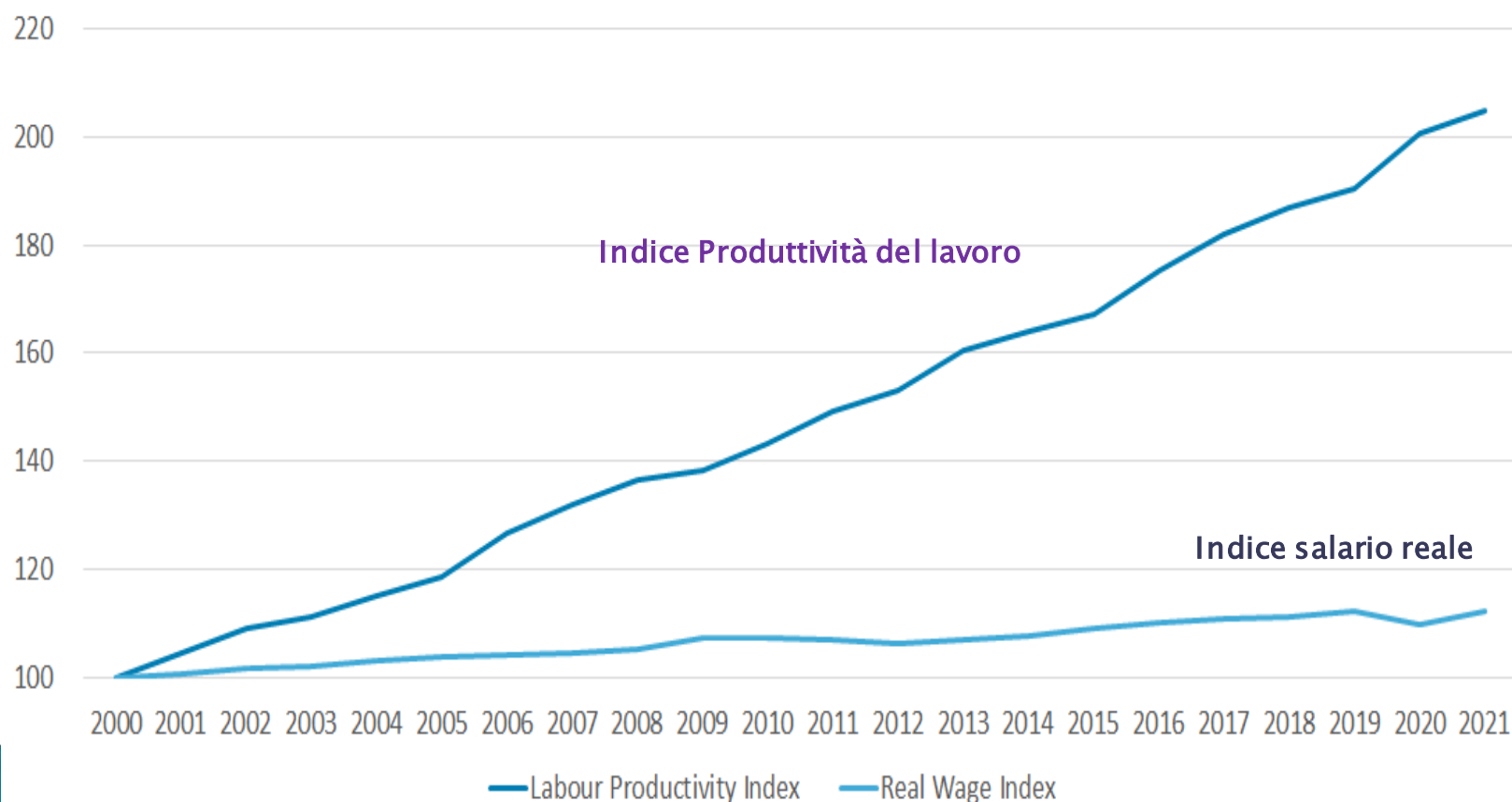


(Fonte: OECD)

Hourly Labour productivity (OECD 1971-2021)



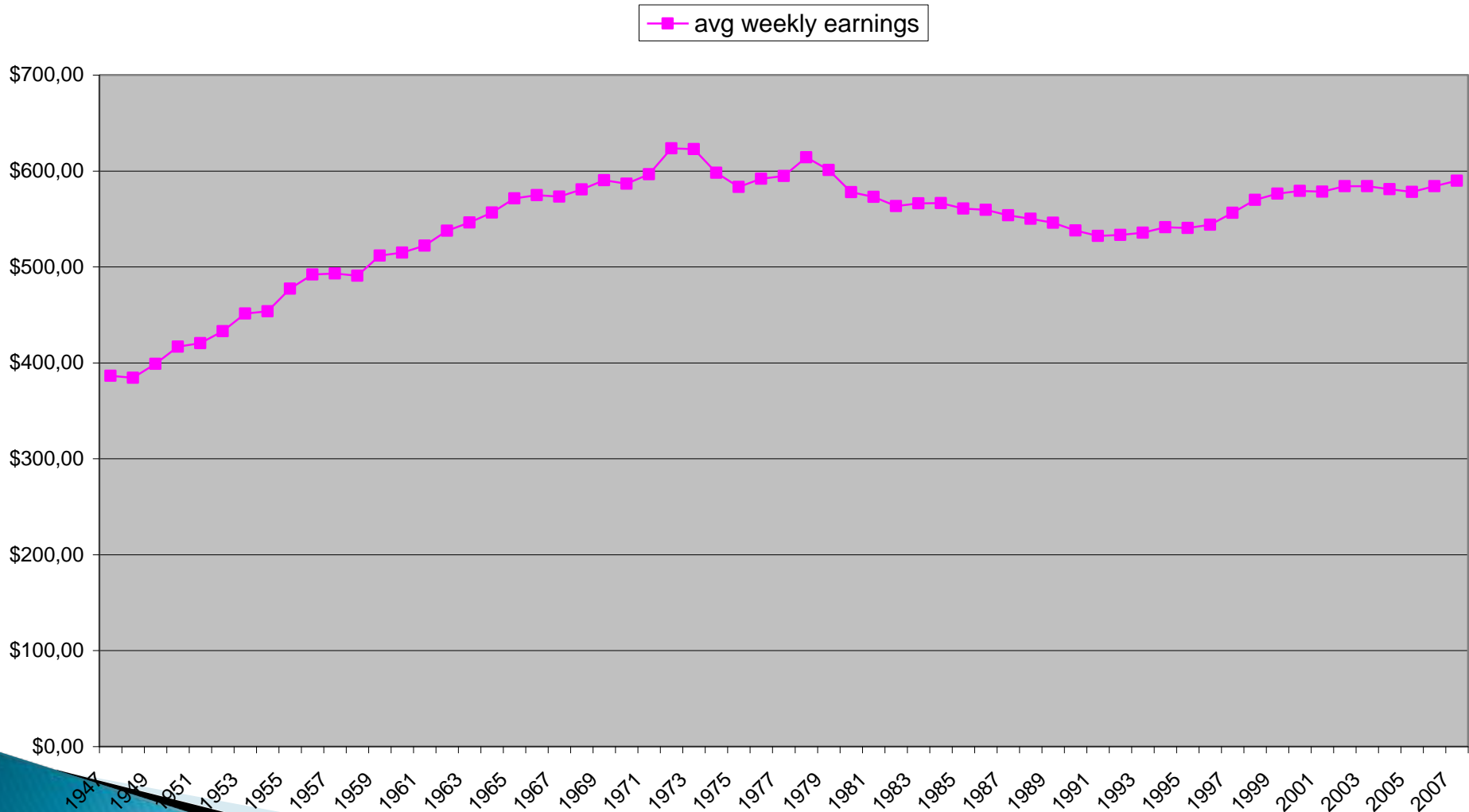
“the new distribution” of labour productivity in Eurozona. Source: OCSE



Per l'indice salariale reale complessivo, si tratta di una media ponderata (per popolazione) dell'indice nazionale dei seguenti paesi: Austria, Belgio, Estonia, Finlandia, Francia, Germania, Grecia, Irlanda, Italia, Lettonia, Lituania, Lussemburgo, Paesi Bassi, Portogallo, Slovenia, Spagna.

Real wages, dependent workers 1947-2007 (week wage, in 2007 \$).

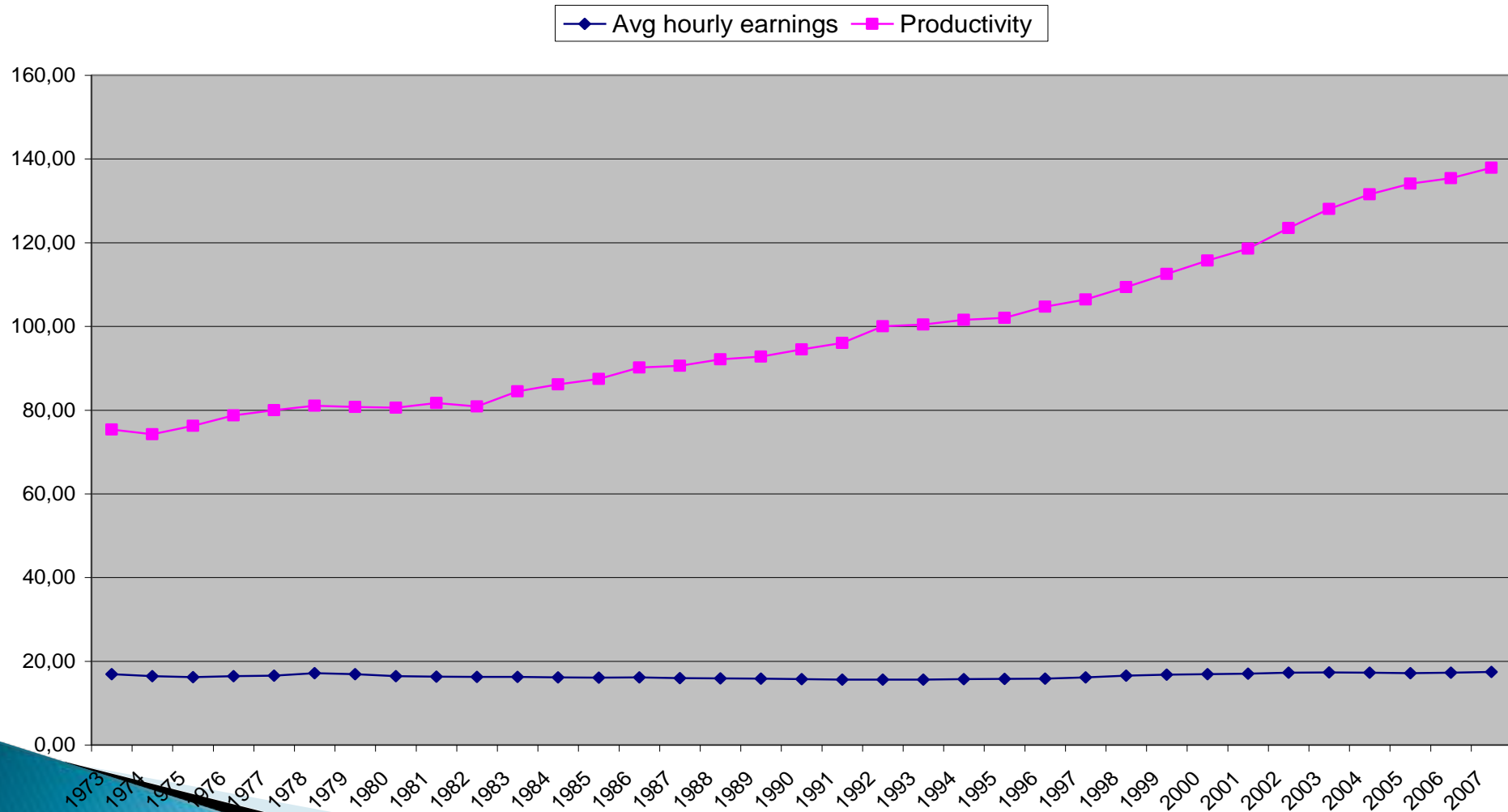
US weekly real wage 1947-2007



Fonte: US Department of Labor, Bureau of Labor statistics

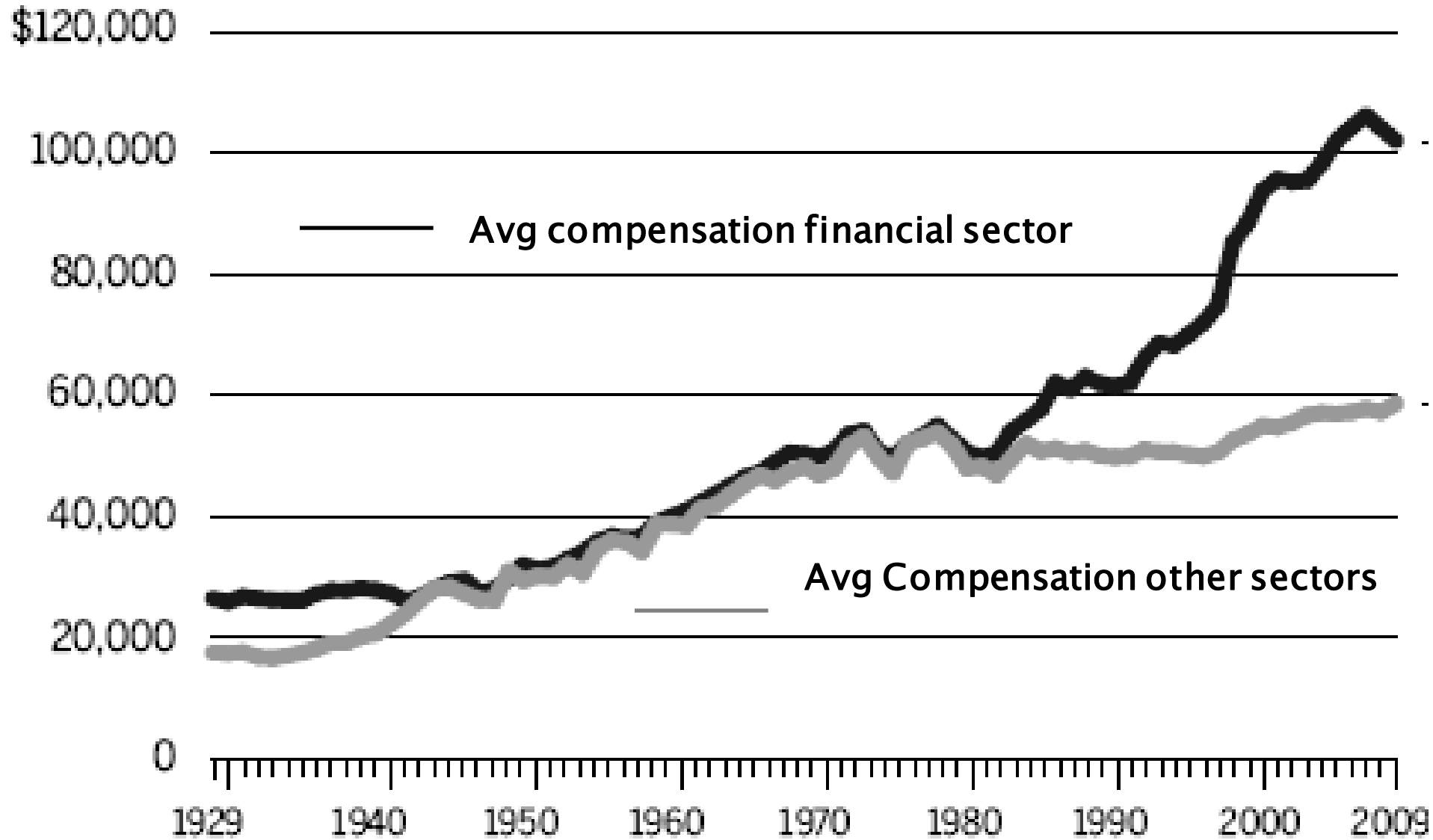
Lab productivity and hourly wage: Usa, All sectors except agriculture (In 2007 \$)

US productivity (1992=100) and hourly wage 1973-2007



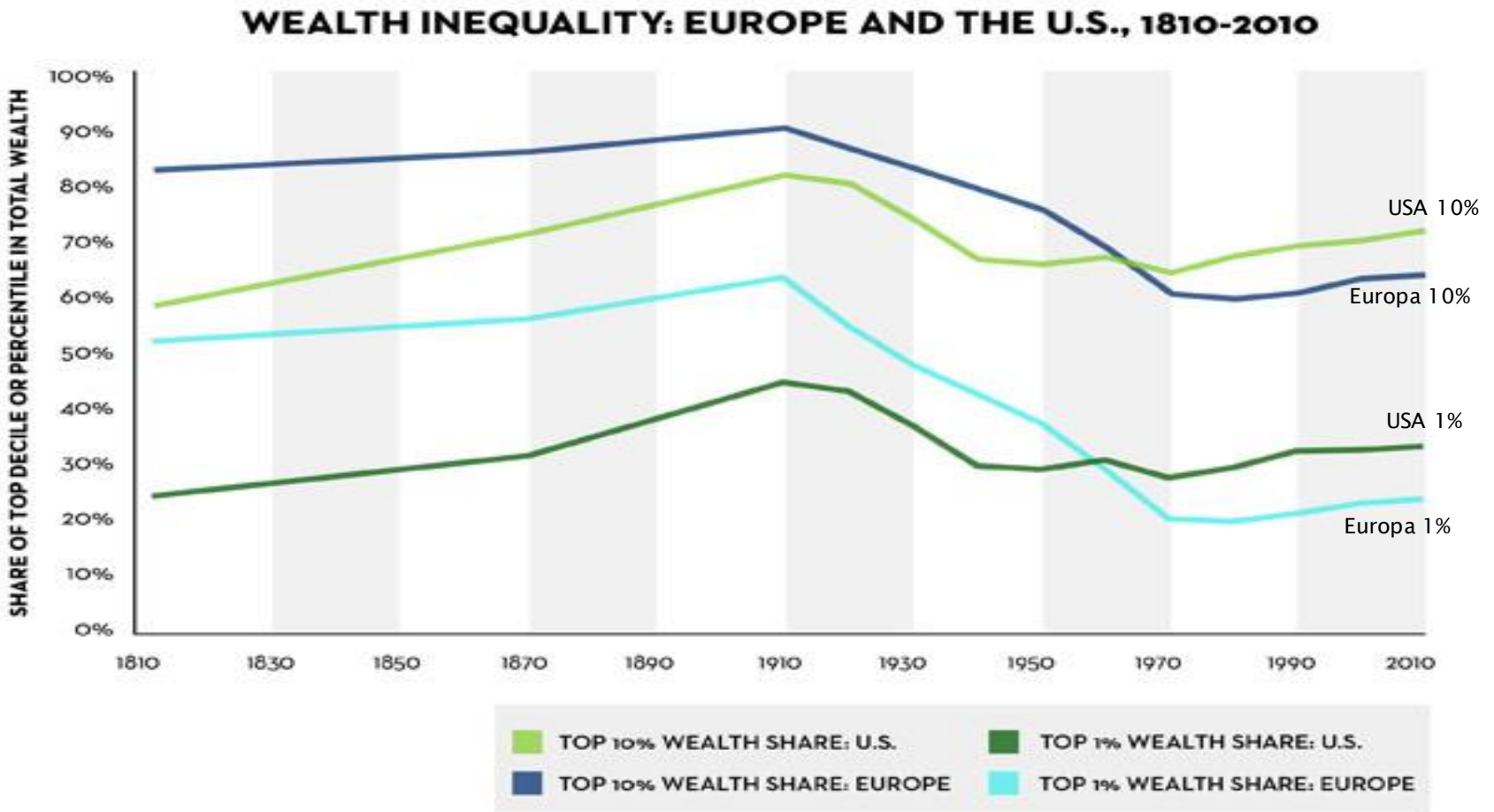
Source: US Department of Labor, Bureau of Labor statistics

Compensation financial sector and other sectors (USA)



Source: Financial Crisis Inquiry Commission (2011)

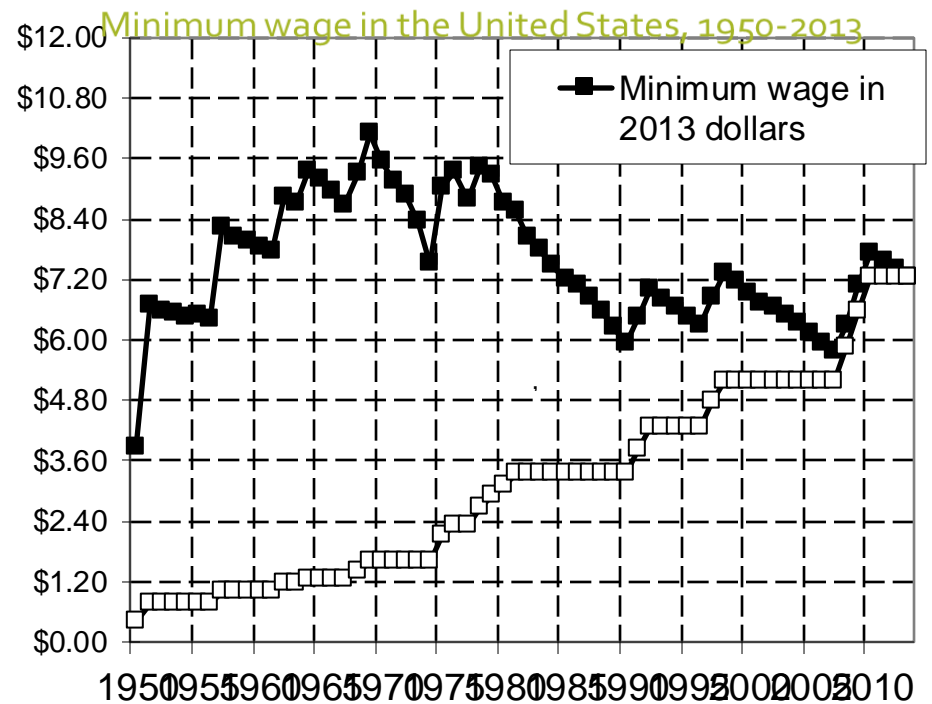
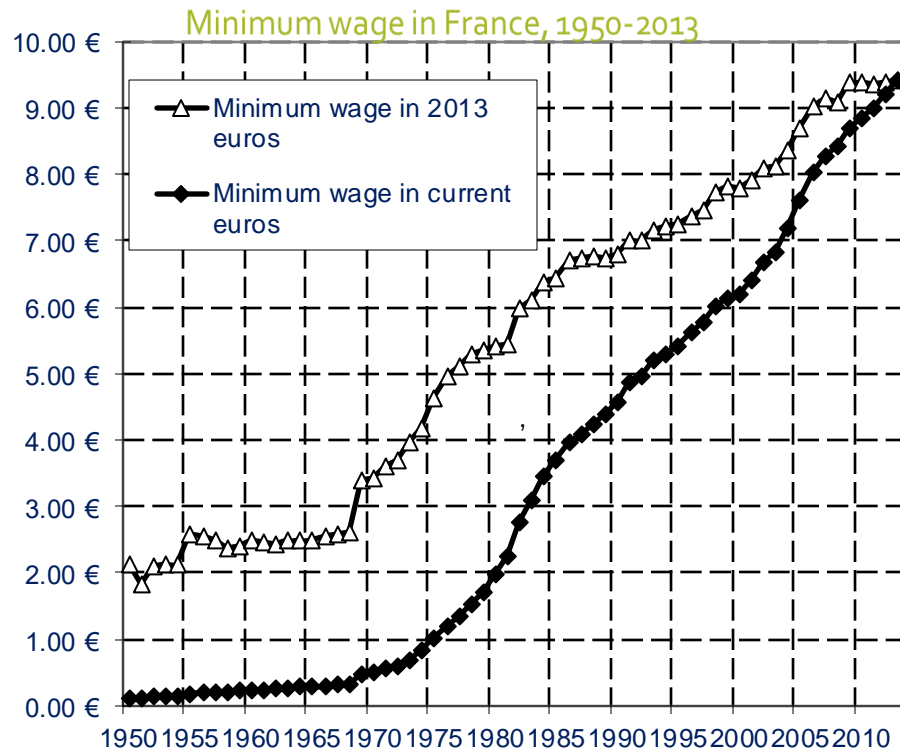
Top 1% e 10%. USA, Europe 1810-2010



Fonte: Piketty, Il capitale nel 21° secolo, 2013

The force of minimum wage

Espresso in potere d'acquisto del 2013, il salario minimo orario è passato da 2,1 a 9,4 euro in Francia tra il 1950 e il 2013, e da \$ 3,8 a \$ 7,3 negli Stati Uniti



Fonte e serie: piketty.pse.ens.fr/capital21c.

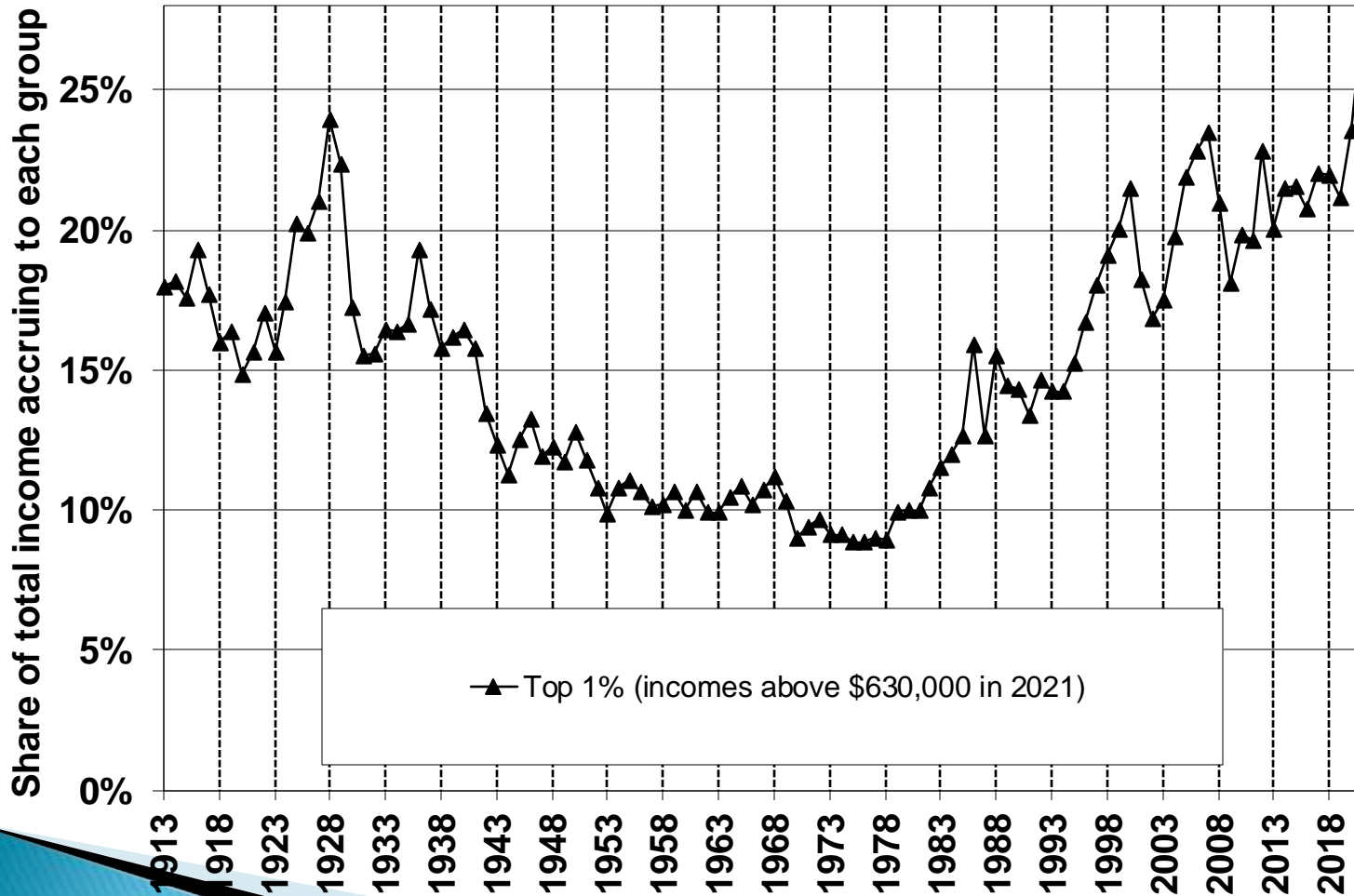
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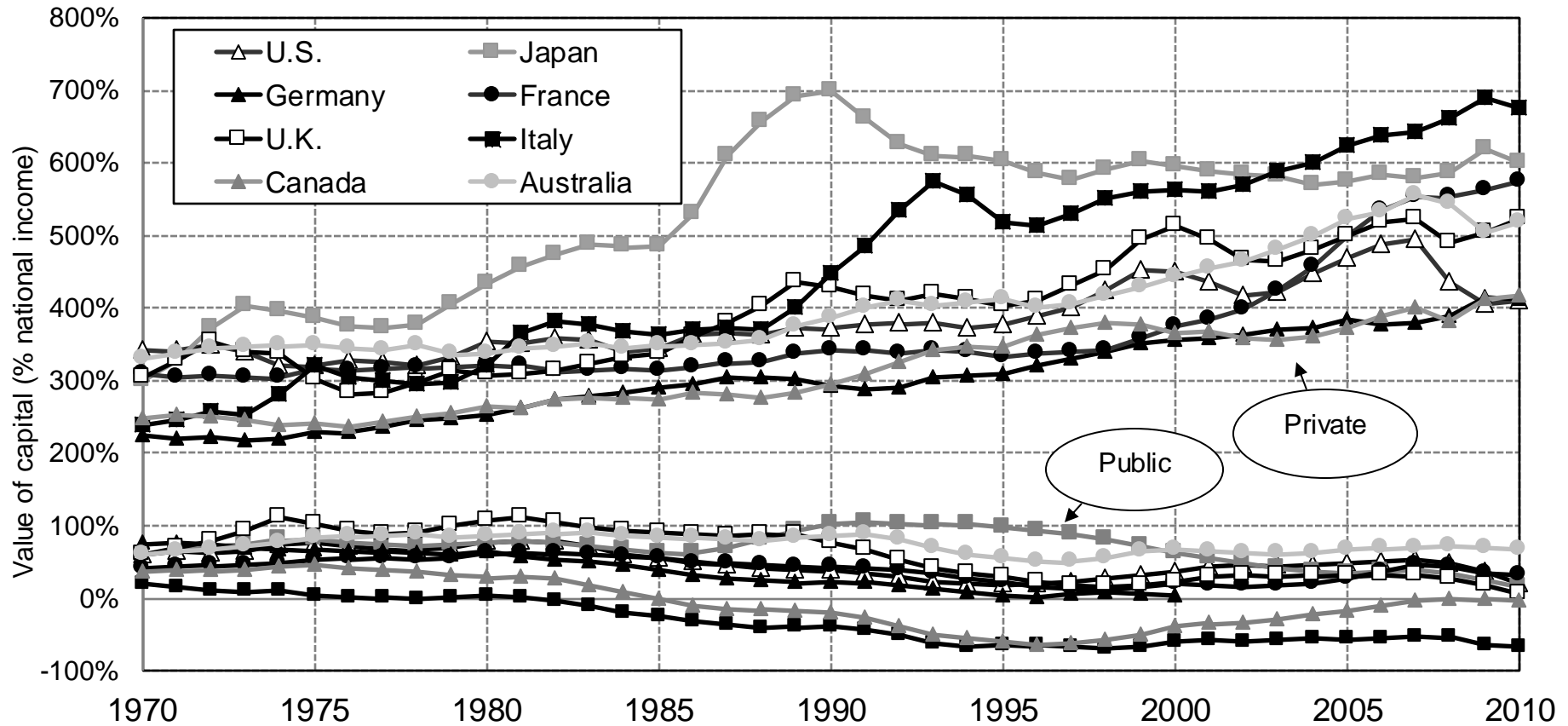
Source: Piketty e Saez

Top 1% even more during durantee covid. Usa 2018-21



Private and public capital in rich countries, 1970–2010

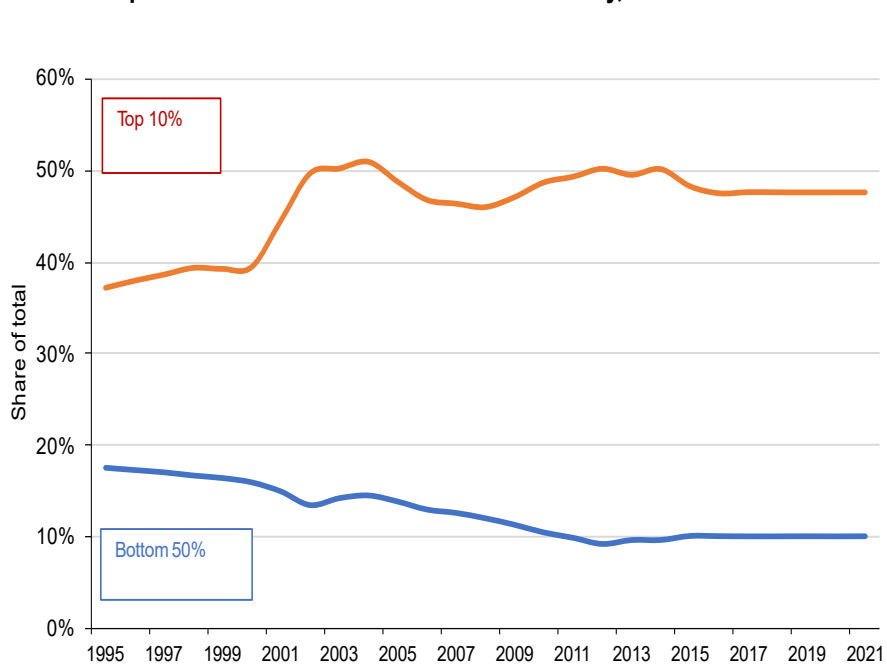
In Italia, il capitale privato è passato dal 240% al 680% del reddito nazionale tra il 1970 e il 2010 (il+alto), mentre il capitale pubblico è sceso dal 20% al -70%.



Fonte e serie: piketty.pse.ens.fr/capital21c.

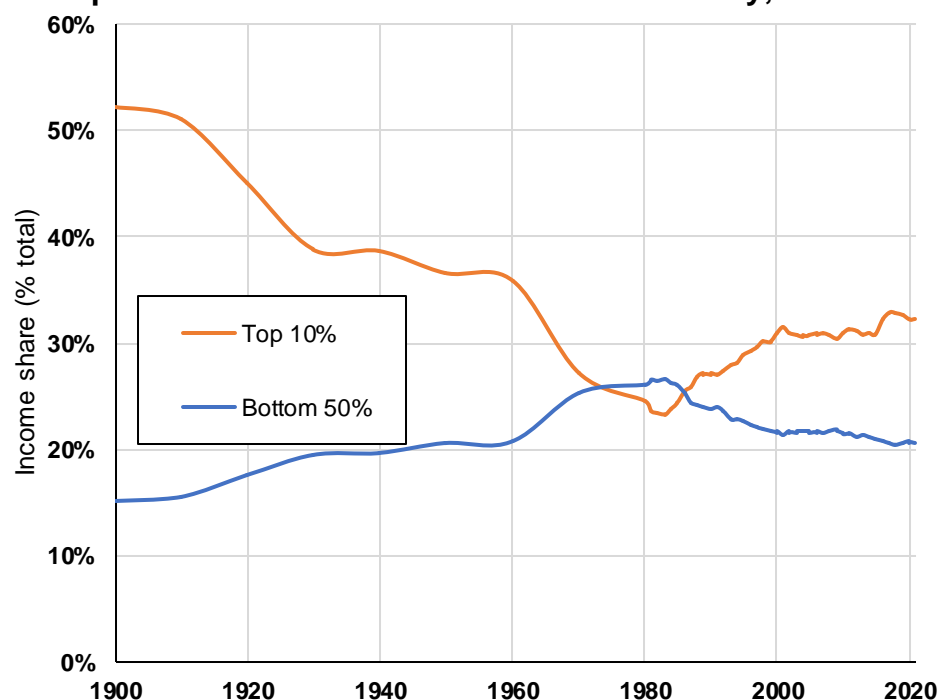
Wealth and income in Italy

Top 10% and bottom 50% wealth shares in Italy, 1995-2021



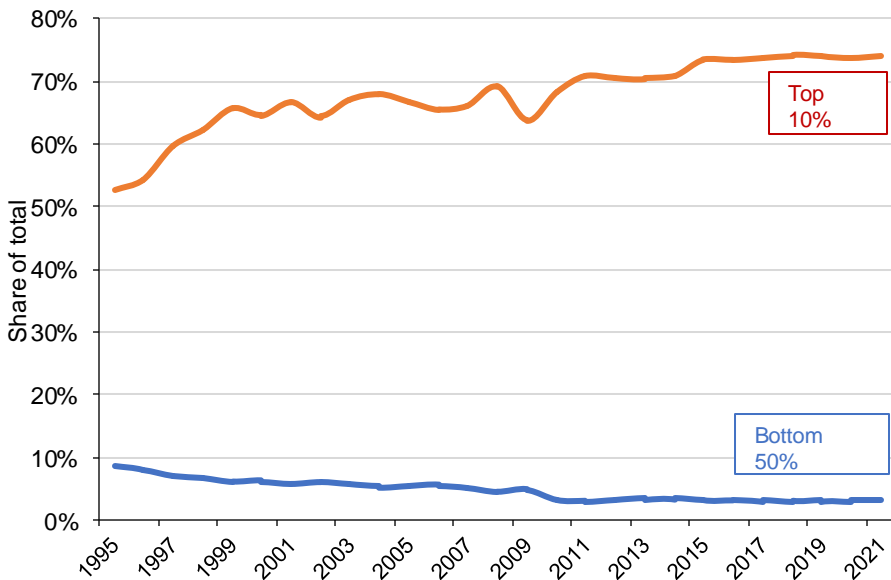
Interpretation: In 2021, the wealthiest 10% of the population own 48% of total household wealth. Household wealth is the sum of all financial assets (e.g. stock, bonds) and non-financial assets (e.g. housing), net of debts.
Sources and series: [wir2022.wid.world/methodology](https://www.wid.world/methodology)

Top 10% and bottom 50% income shares in Italy, 1900-2021

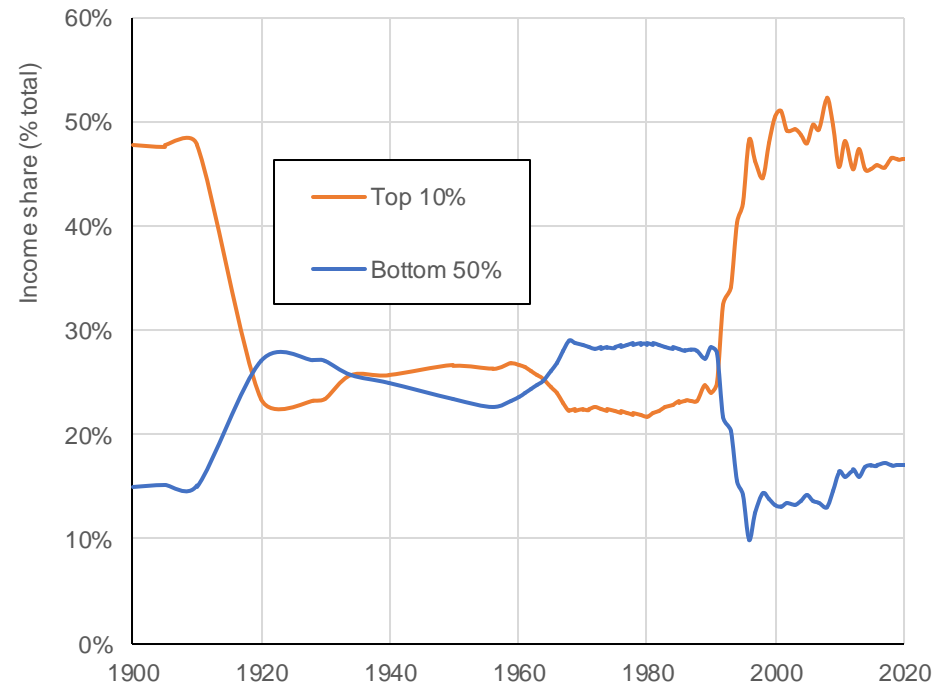


Wealth and income in Russia

Top 10% and bottom 50% wealth shares in Russia, 1995-2021



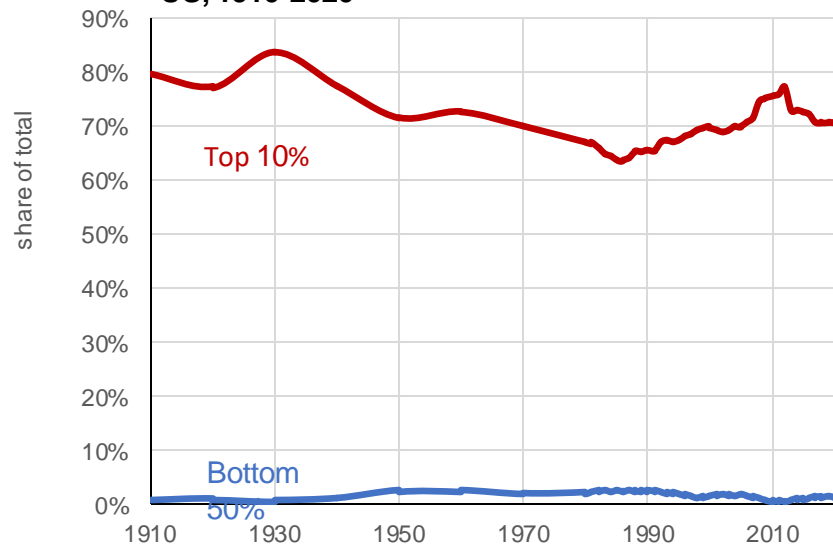
Top 10% and bottom 50% income shares in Russia, 1900-2021



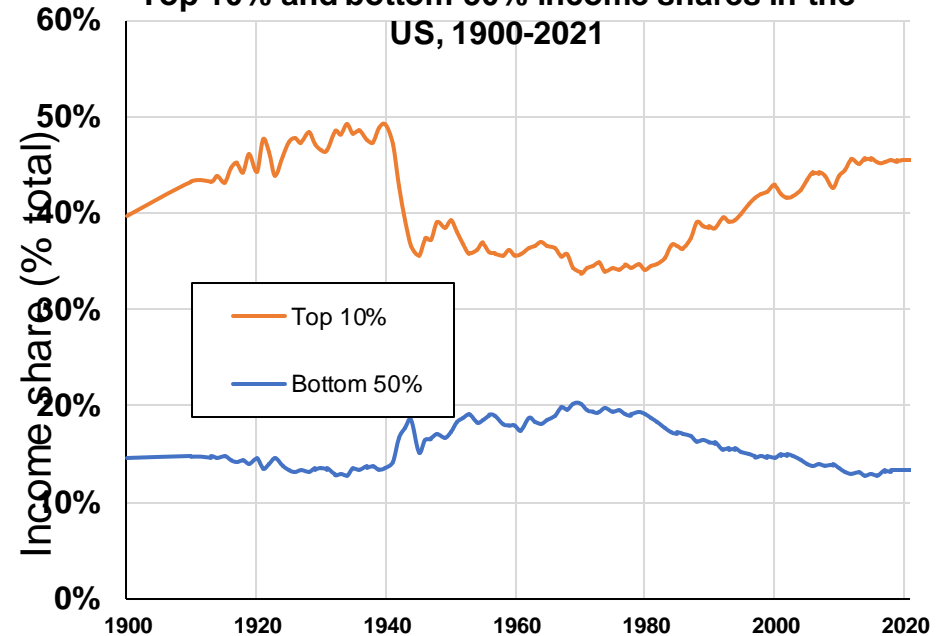
fonte e serie: wir2022.wid.world/methodology, Chancel e Piketty (2021).

Wealth and income in USA

Top 10% and bottom 50% wealth shares in the US, 1910-2020

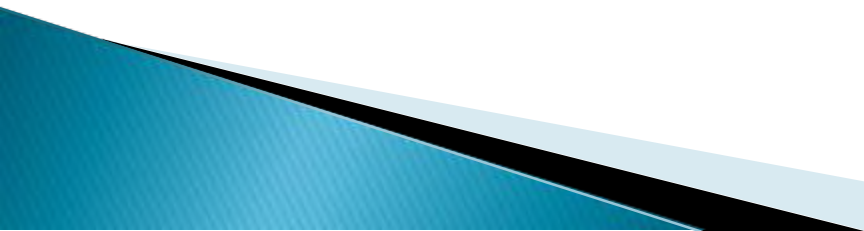


Top 10% and bottom 50% income shares in the US, 1900-2021

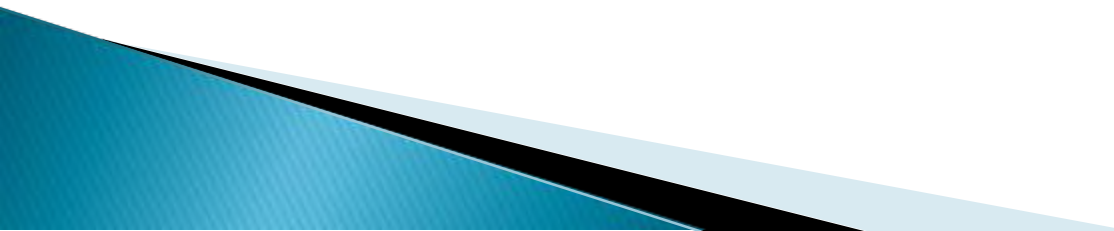


fonte e serie: wir2022.wid.world/methodology, Chancel e Piketty (2021).

Financial capitalism

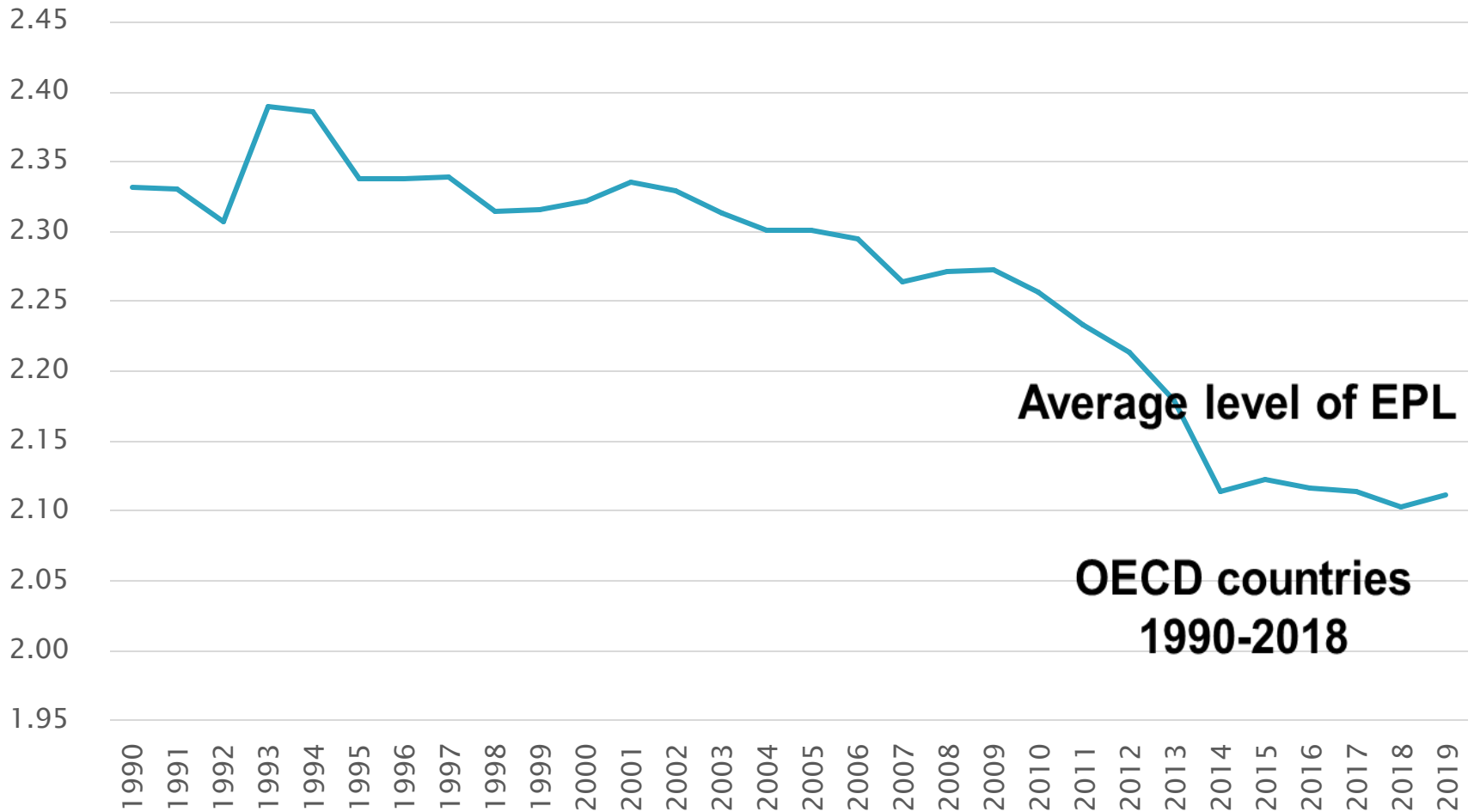
- ▶ The globalisation of the economy increased the power of capital in relation to labour, and trade unions lost power, contributing to the deterioration of labour market institutions.
 - ▶ During the process of financialisation and globalisation of economies, which identifies the shift towards what I called financial capitalism, labour markets were affected by radical changes too, involving above all an increase in labour flexibility.
- 

Labour flexibility and finance

- ▶ A flexible labour market with compressed and low wages needs to be supplemented by credit consumption and developed financial tools to sustain consumption.
 - ▶ Hence, a strong correlation between financialisation and labour flexibility was identified in our empirical analysis, suggesting complementarities between these two phenomena.
- 

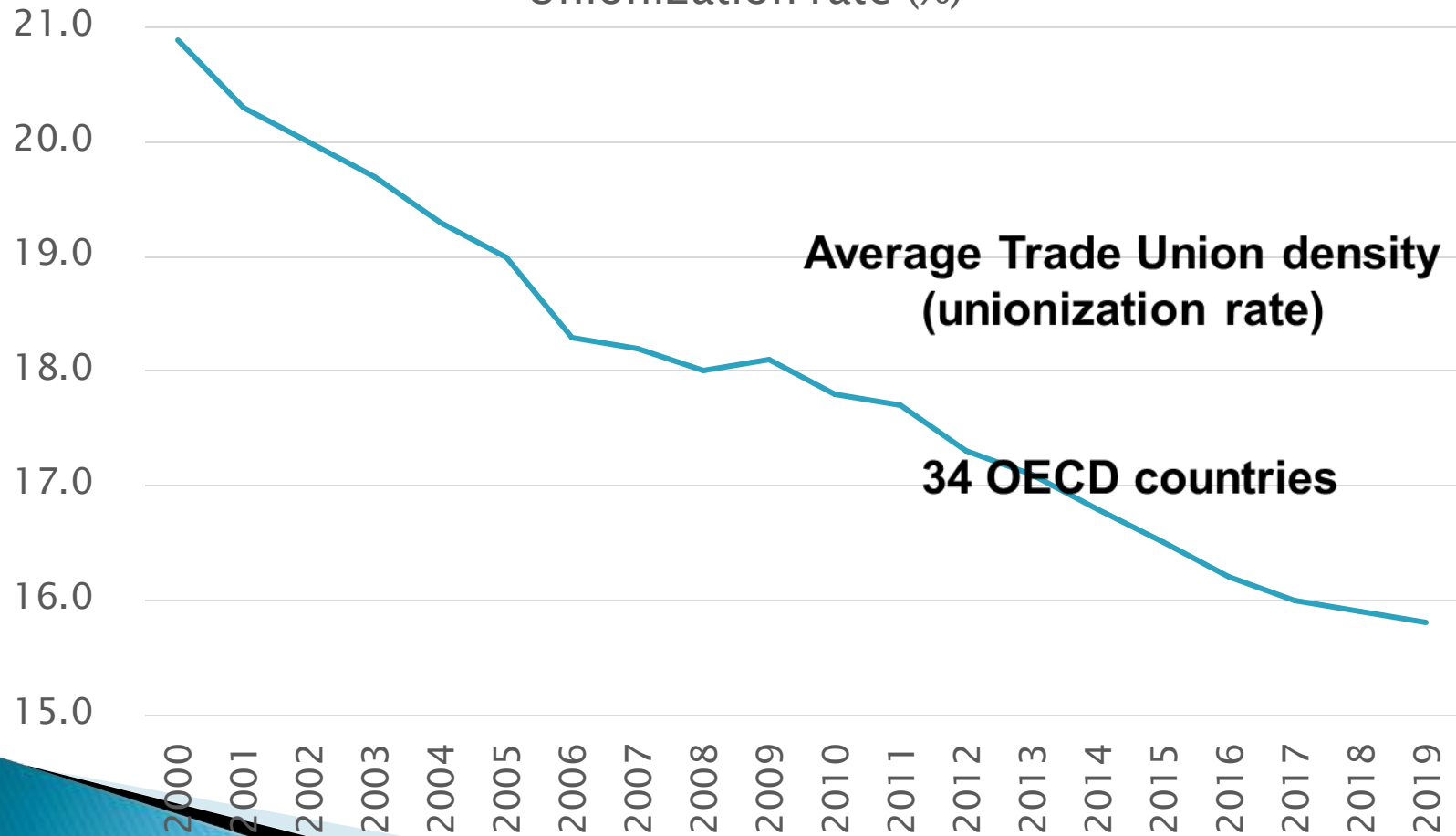
Labour flexibility during neoliberalism

Average level of EPL



The decline of Trade Unions density

Unionization rate (%)



Unionisation and share of income to the top 10% (USA)

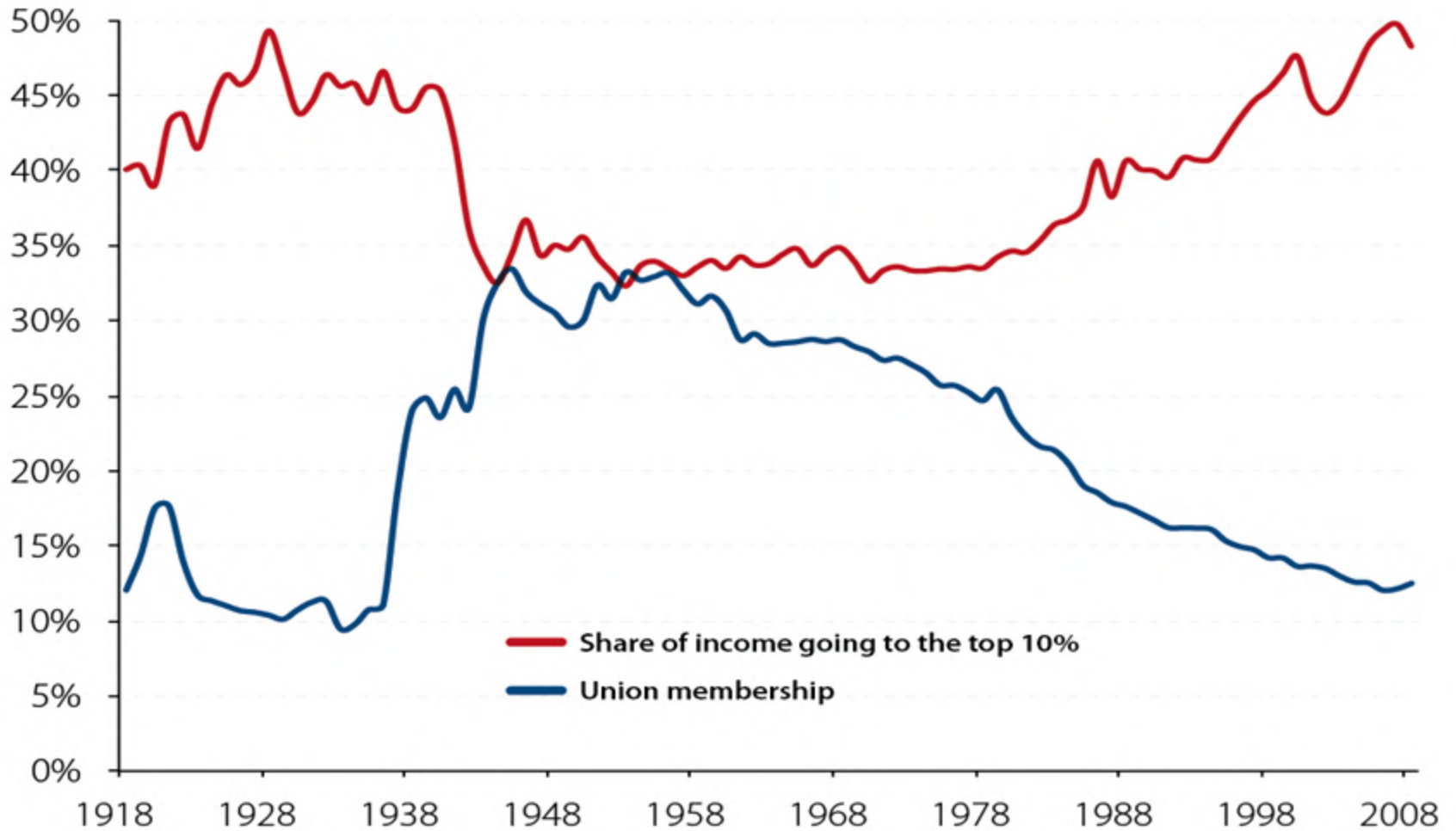


Figure - Correlation scatter between financialisation and labour flexibility (EPL)

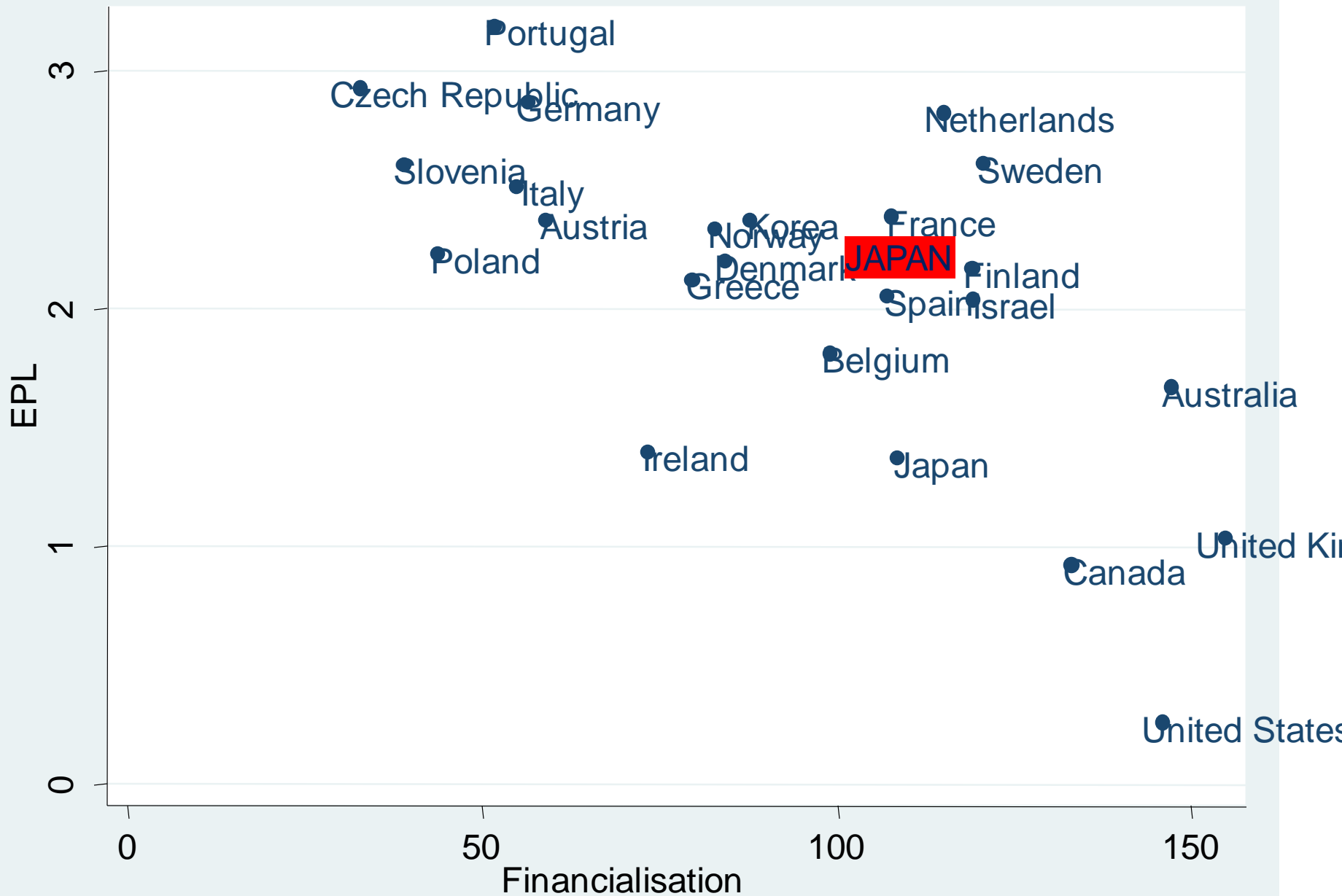
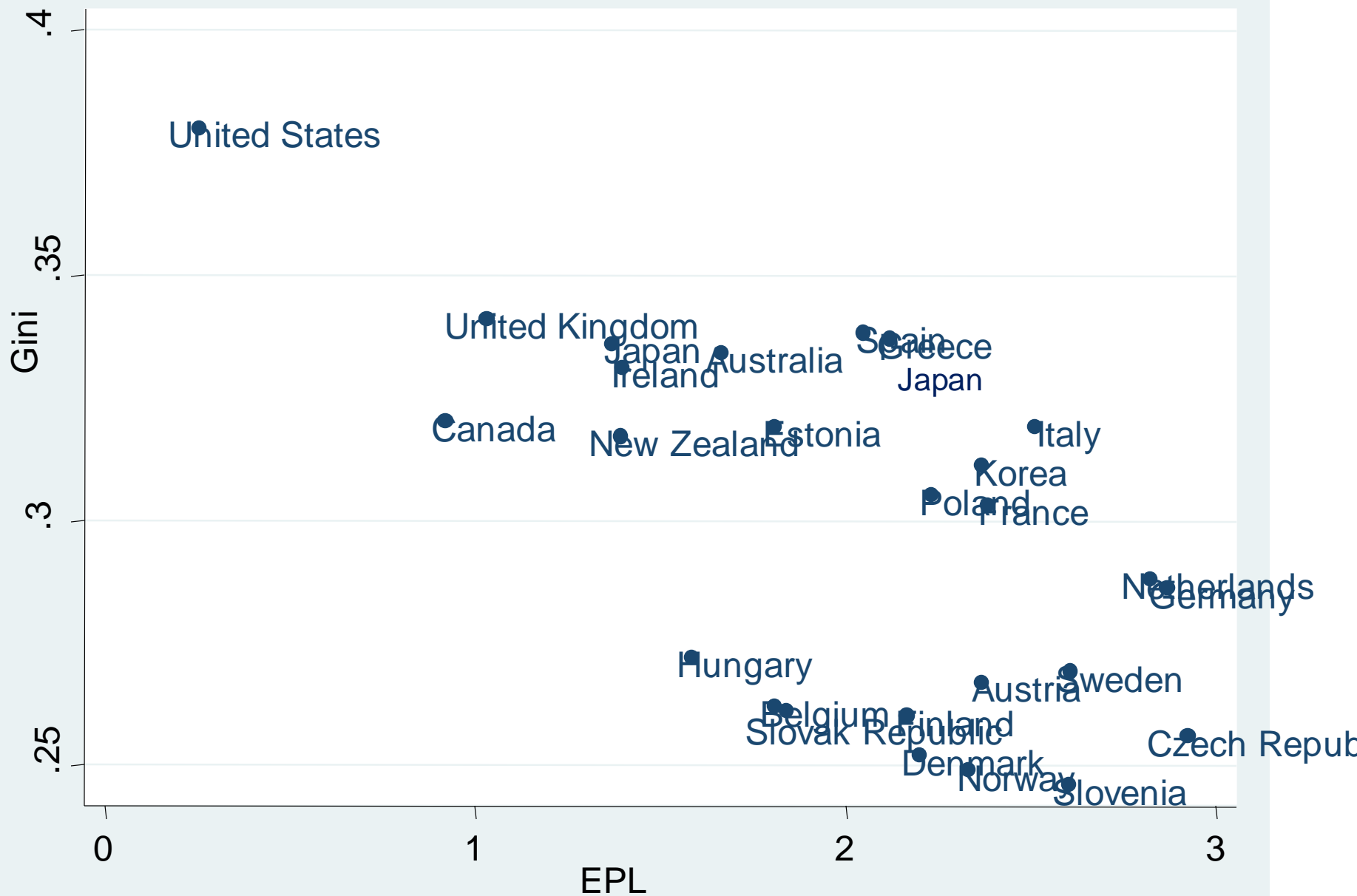


Figure - Correlation scatter between inequality and EPL



Inequality and Labour Market indicators

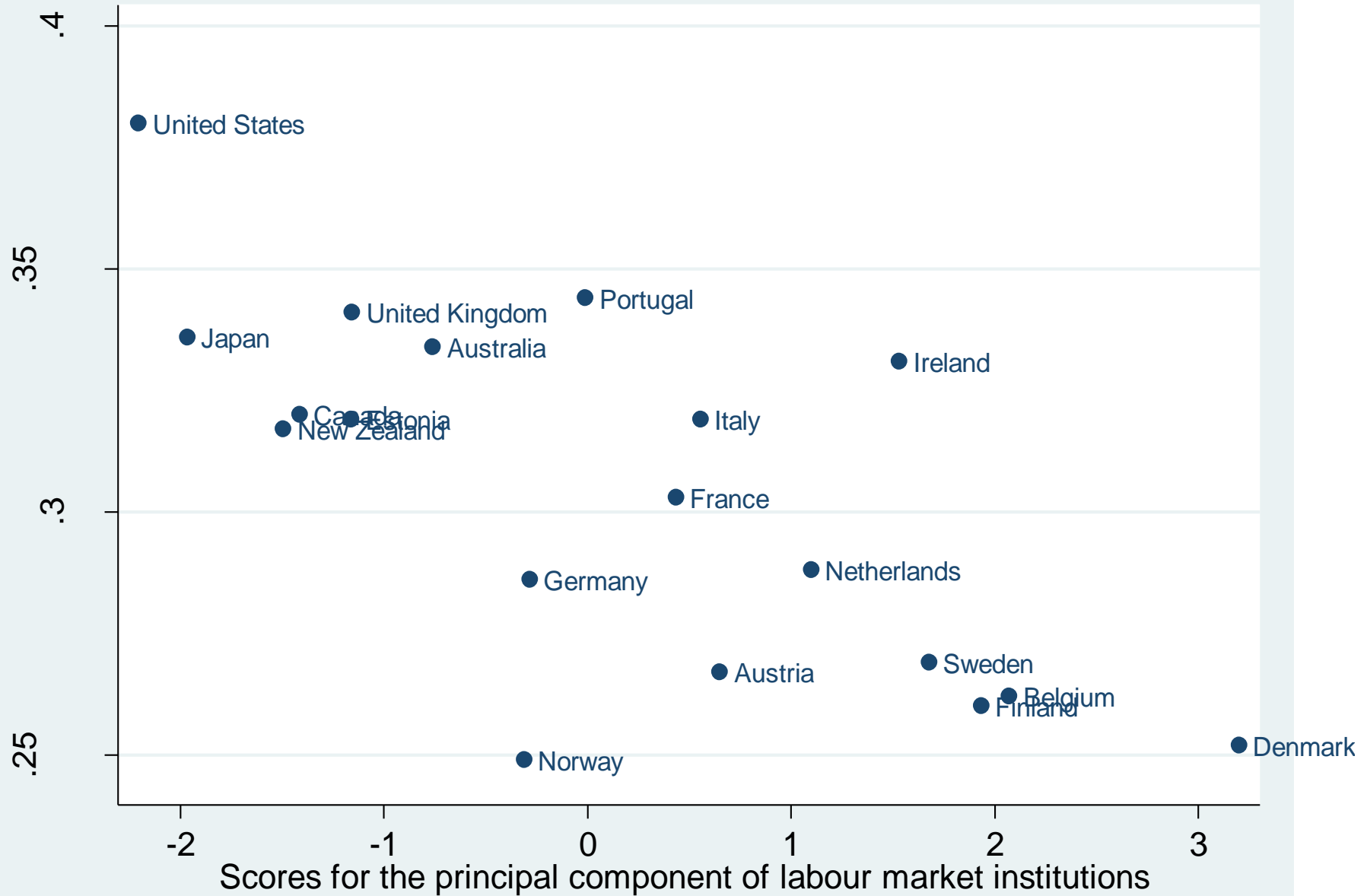
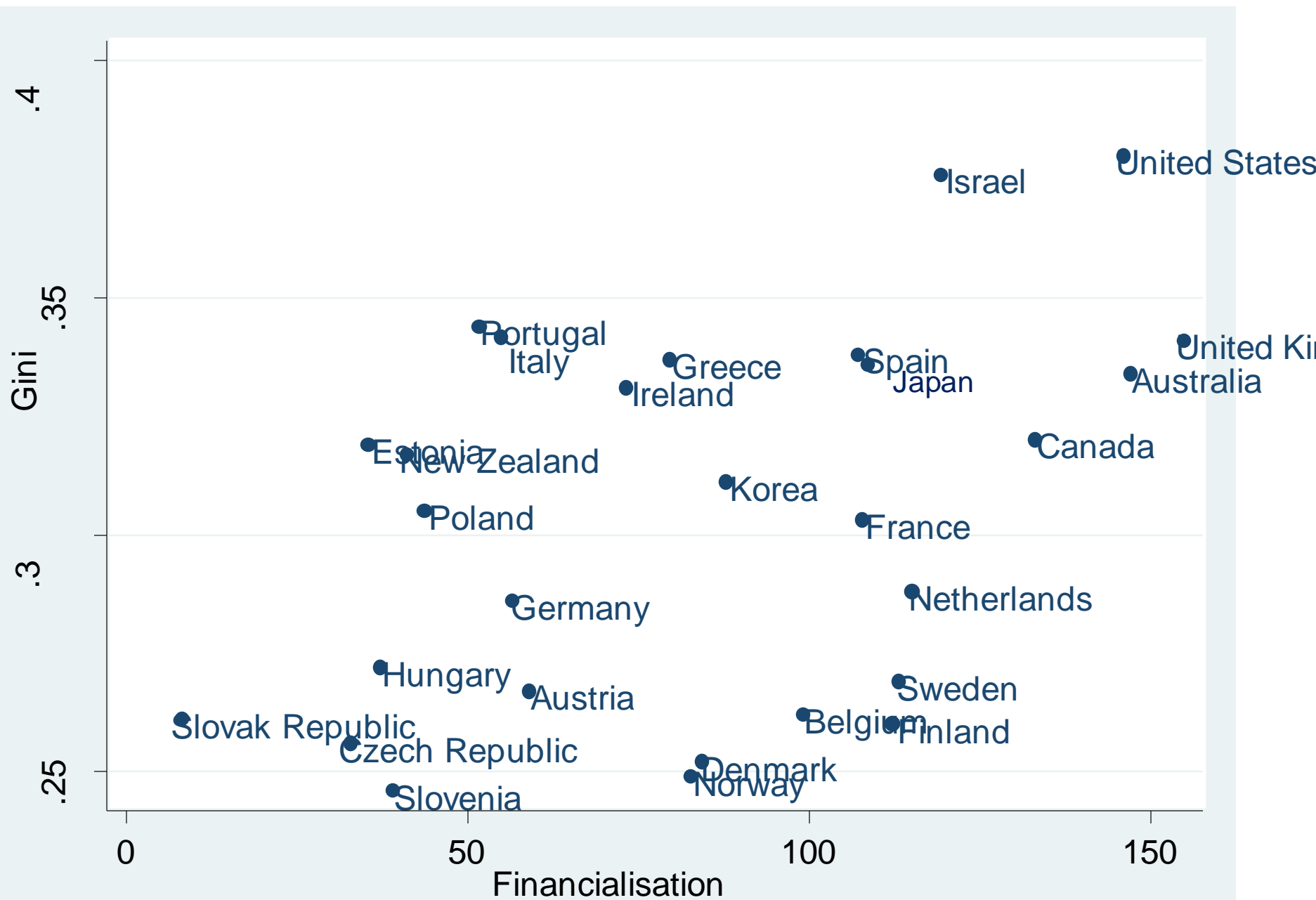
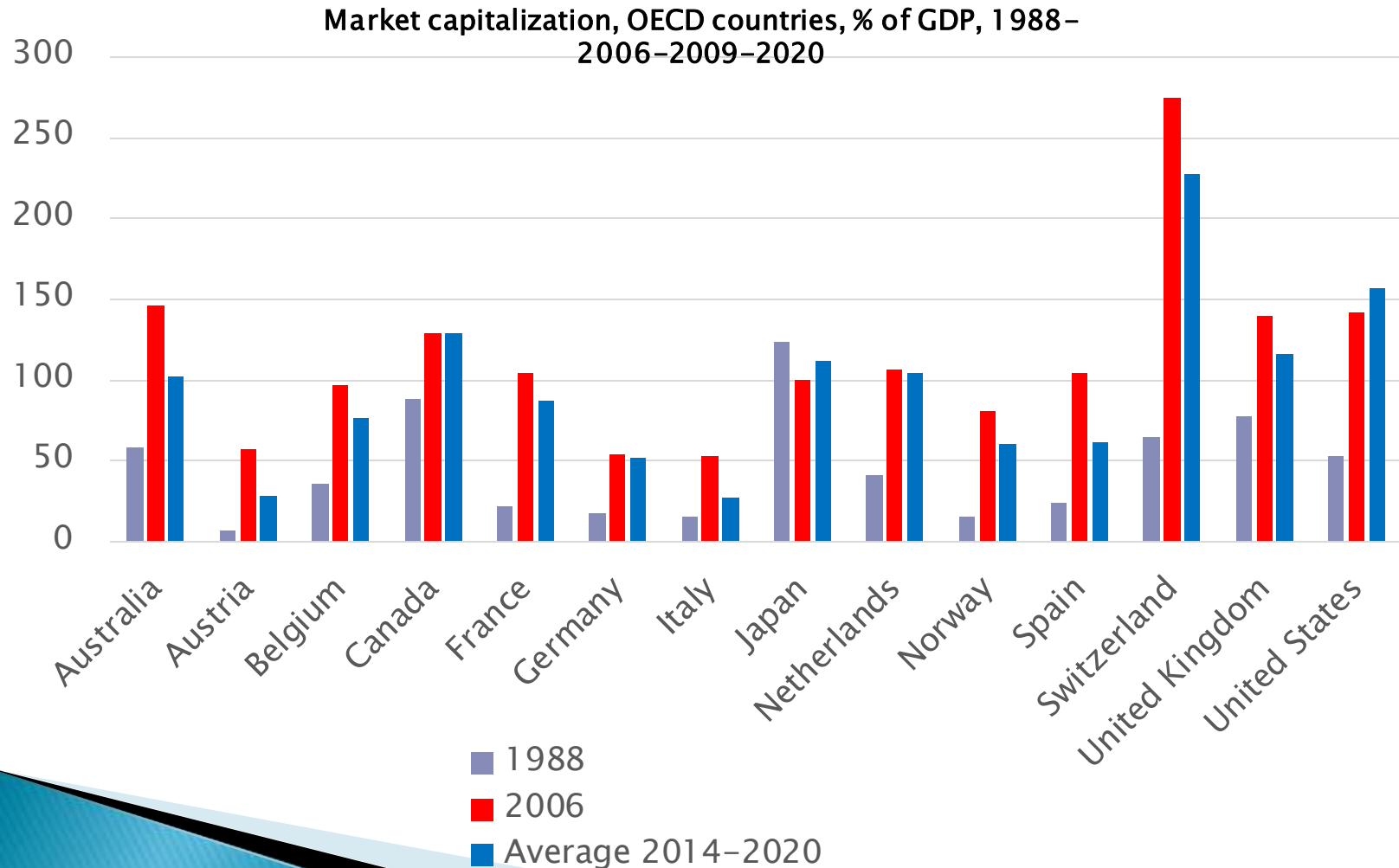


Figure - Correlation scatter between financialisation and inequality



Financialisation during neoliberalism, before 2007 crisis and after



Generous monetary policies and QE in FC

- ▶ Before 2007 → generous monetary policies. This increased opportunity in the financial sector, speculation, value shares, asset prices, dividends → financial bubble; boom in the housing sector and the emerging of the huge insurance business.
- ▶ After 2007 even more → QE by the Fed, BoE, BoJ, and ..ECB
- ▶ QE favoured speculations more than real investments and did not allow, for the “Keynes effect”
- ▶ financial and labour compensation gap increased even more, and income inequality worsened also after the crisis.
- ▶ in CF, investment behaviour is not driven by macroeconomic policies (such as the Keynes effect) but by discourses and stories able to convince speculators, hedge funds owner and managers, feeling and perverse “animal spirits” (Erturk *et al.*, 2008).

Neoliberalism

Financialization

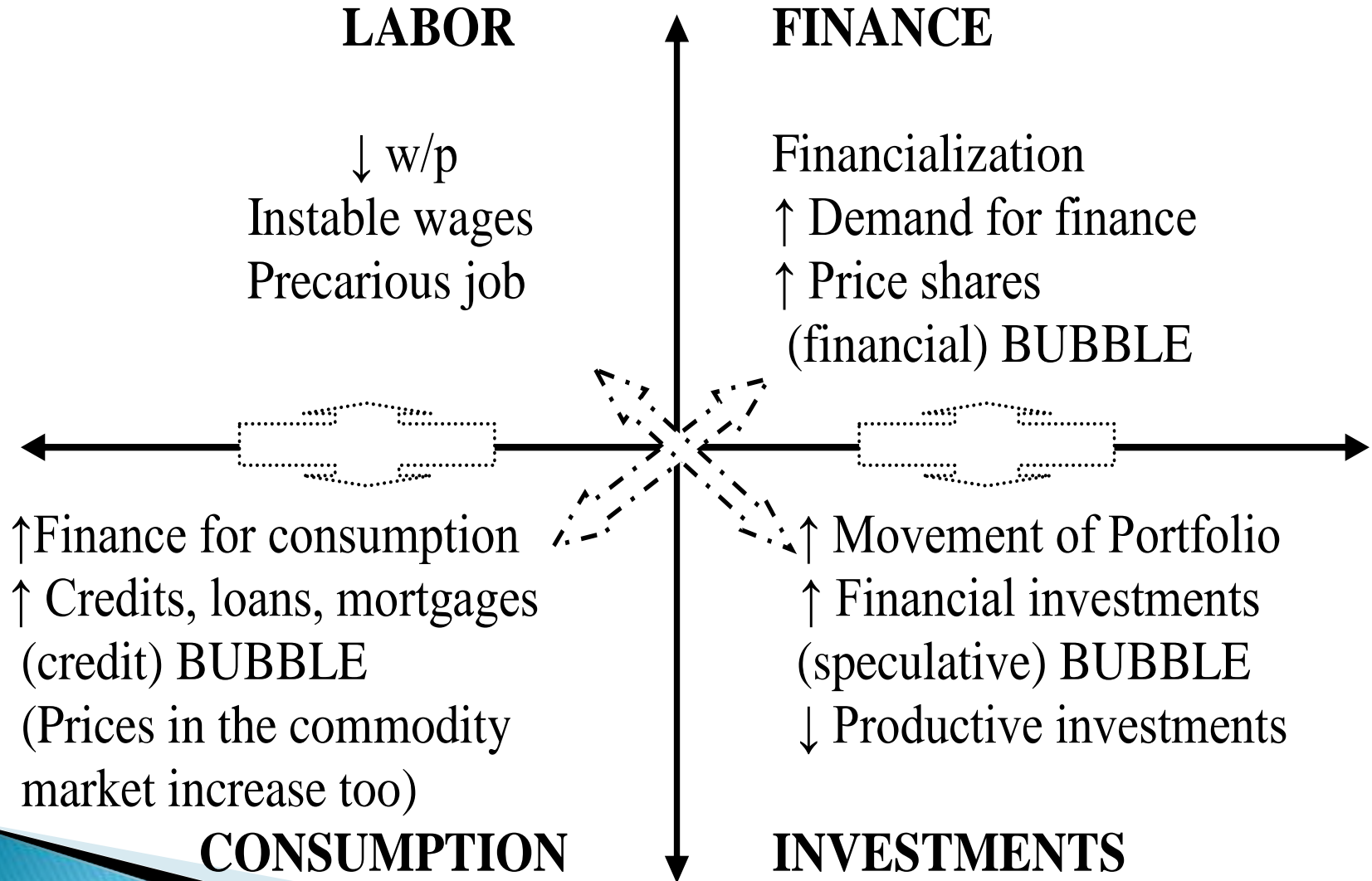
+

labour flexibility



Neoliberalism => Inequality

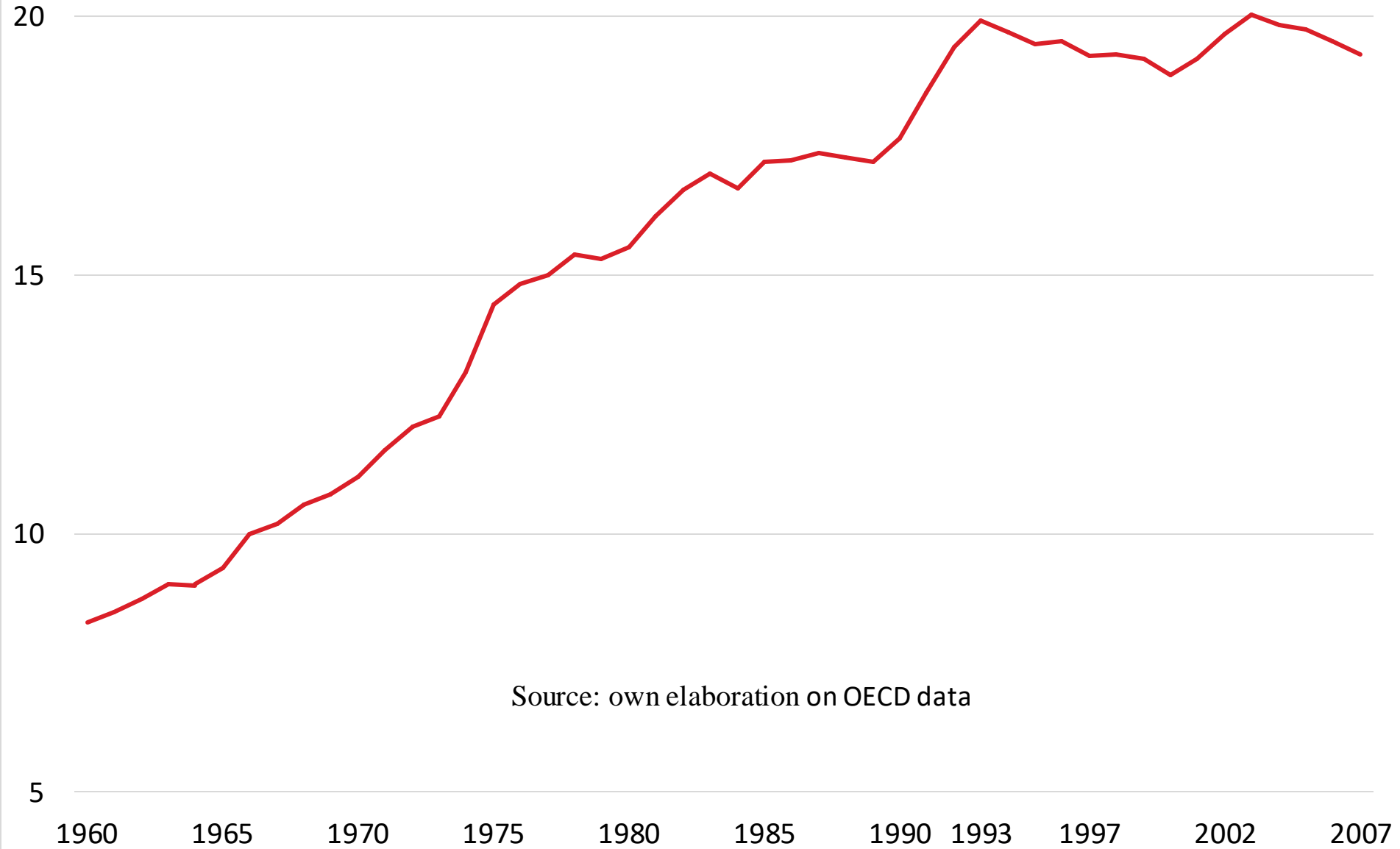
Interactions and bubbles within the Finance-led Growth Model



Inequality and welfare

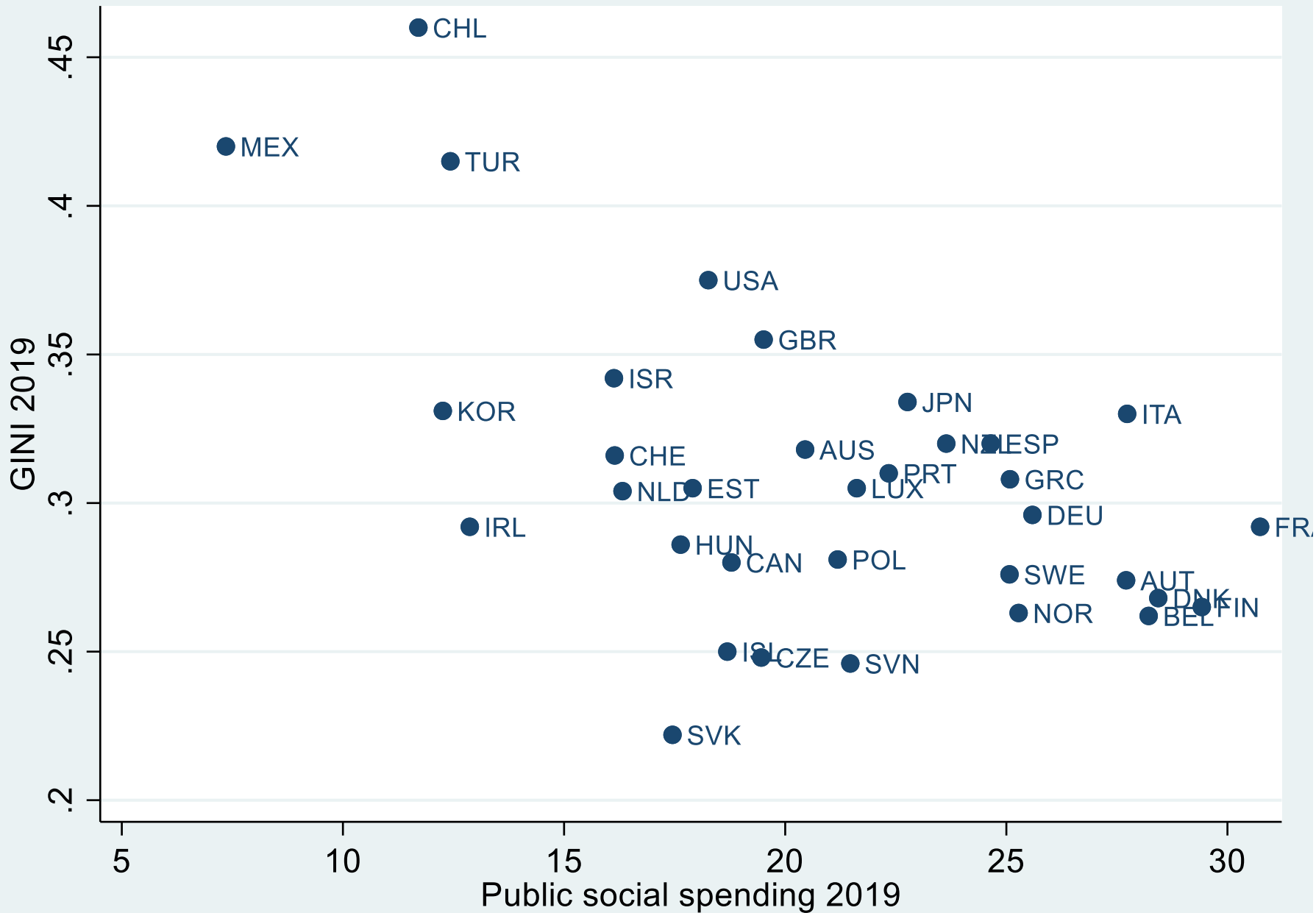
- ▶ Finally, income distribution was worsened by the retrenchment of the welfare state : with the justification that firms would be more competitive, and economies could attract more capitals as the so-called “efficiency thesis” would suggest.

Expansion and retrenchment of Welfare State 1960-2007



Source: own elaboration on OECD data

Inequality (Gini) and Public Social Expenditure (% GDP)



The model:

$$Ineq = \alpha + \beta_1 F - \beta_2 EPL - \beta_3 TU - \beta_4 S + \varepsilon$$

Dep.var. is: inequality (Ineq)

Indep. Var. are:

financialisation (F),

labour flexibility (EPL Employment Protection Legislation),

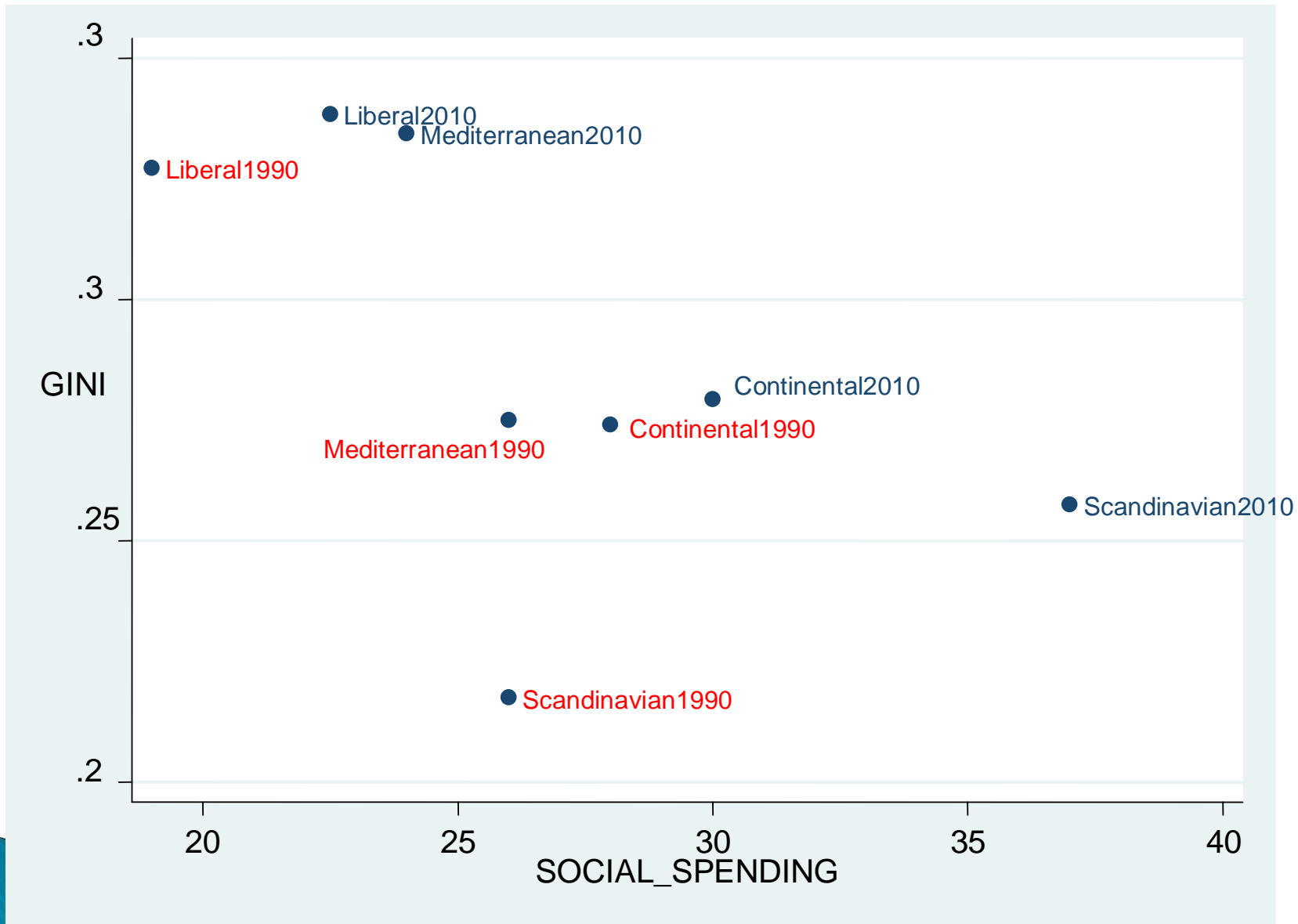
trade union density (TU)

public social spending (S).

I use panel data for 34 OECD countries from 1990 to 2013,
for a total of 816 observations.

	Random-effects GLS regression	Fixed-effect Regression	
	Number of obs = 816; Number of groups = 34; anel = 1990-2013		
	Model I	Model II (with control var)	Model III
Var	Coeff (St. er. in brackets)	Coeff (St. er. in brackets)	
Financialisation (F)	.0000502** (.000019)	.0000459** (.0000214)	.0000451** (.000021)
EPL (LF)	-.0040886** (.0021277)	-.0051814** (.0024638)	-.0061798** (.0025251)
TU density (TU)	-.0005735* (.0001389)	-.0005768* (.0001975)	-.0004044*** (.0002232)
Social Spending (S)	-.000829* (.0002327)	-.0010213* (.0003015)	-.0007598** (.000301)
Unemployment		.0000153 (.0002661)	-.0000472 (.0002632)
FDI in		.0000543 (.0000604)	.0000384 (.000059)
Import		-.0001758 (.0001385)	2.92e-06 (.0001501)
Econ. Growth		.0001935 (.0002315)	.0001312 (.0002276)
Tertiary Education lev		-.0001815 (.0003467)	.0001228 (.000372)
Time dummies (years 1990-2013)	YES	YES	YES
Constant	.3530048 (.0124588)	-.2291932 (.4890413)	.2456811 (.5126353)
	R-sq = 0.2437	R-sq = 0.3167	R-sq = 0.1447

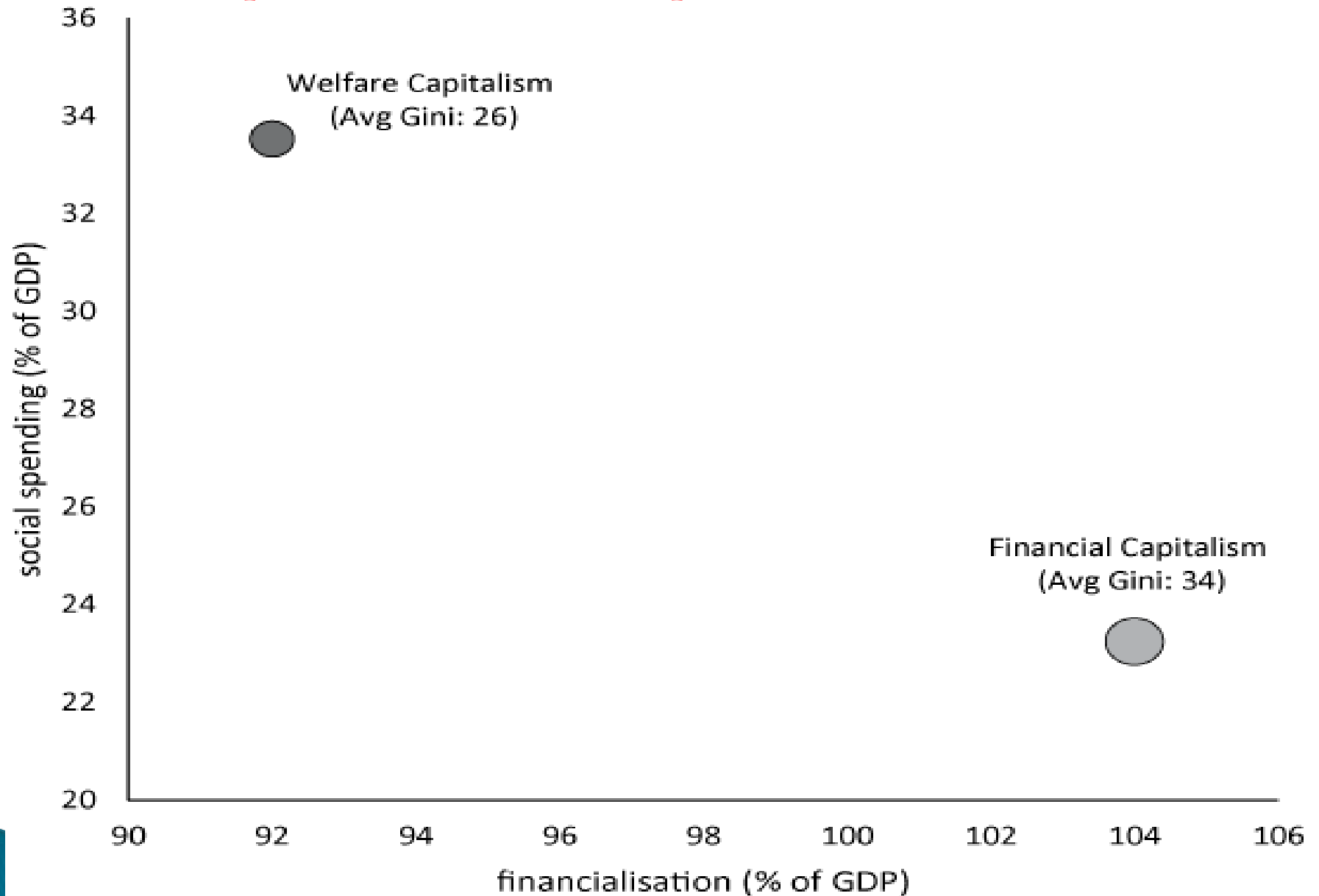
welfare evolution



Welfare Capitalism vs Financial Capitalism



Welfare Capitalism and Financial Capitalism



Some Conclusion

- ▶ the increase in inequality, which has been very marked over the last two decades, is due to a radical change to the main features of the socio-economic model of advanced economies.
- ▶ This change involves
 - a shift towards financialisation,
 - a pressure on labour through increased labour flexibility,
 - the decline of trade unions' power and
 - the retrenchment of public social spending.
- ▶ Our sample was composed of data for 34 OECD countries during the period between 1990 and 2013. The econometric analysis produced very interesting results and the regression confirmed our hypothesis

Inequality in Financial Capitalism

By *Pasquale Tridico*

Year 2017

Routledge

