

HOW CAN WE GOVERN EUROPE?

Florence, 21-23 November 2014

Does inequality hamper growth?

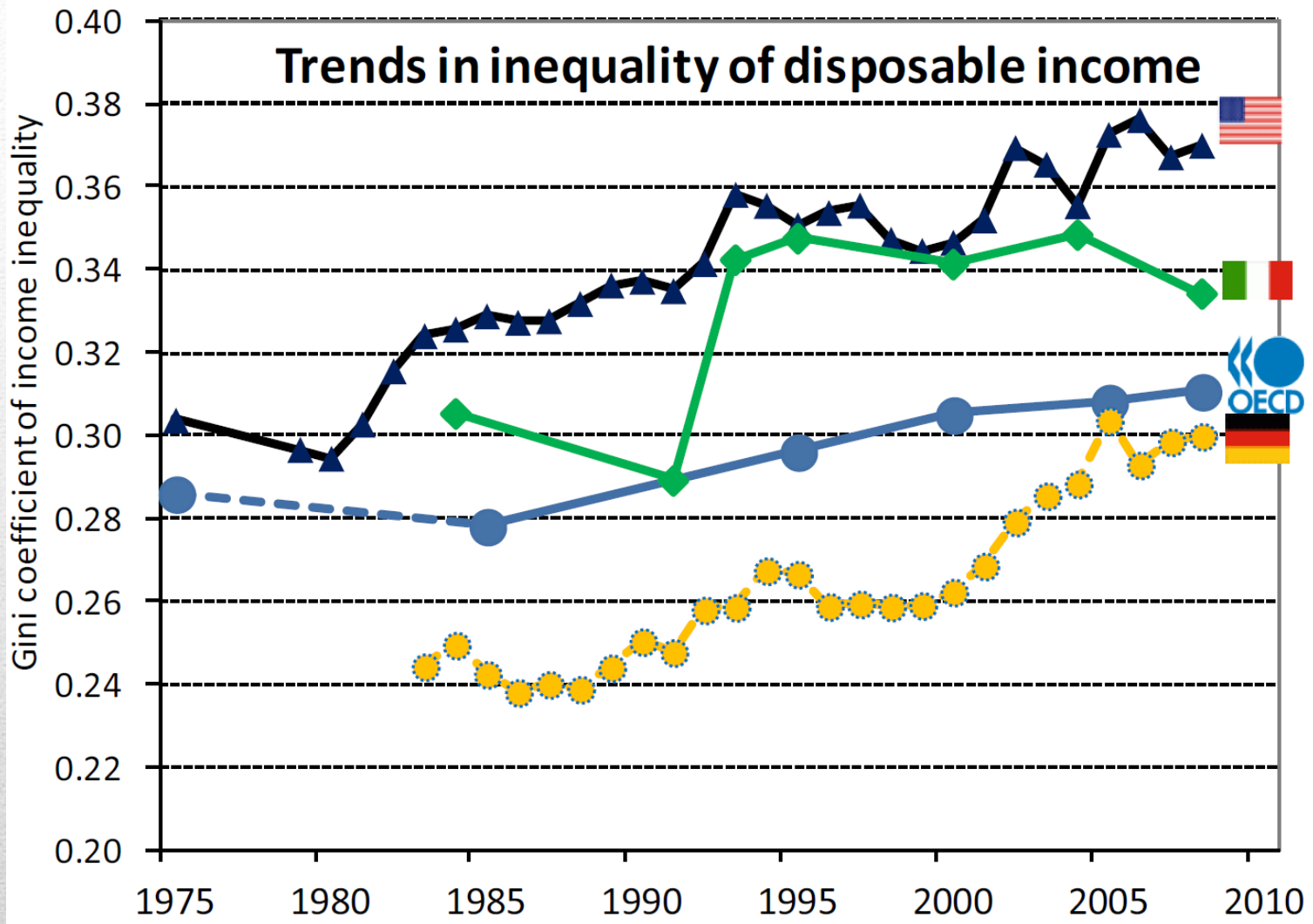
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The general picture

Rising (or persistent) inequalities in most OECD countries



Source: OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*.

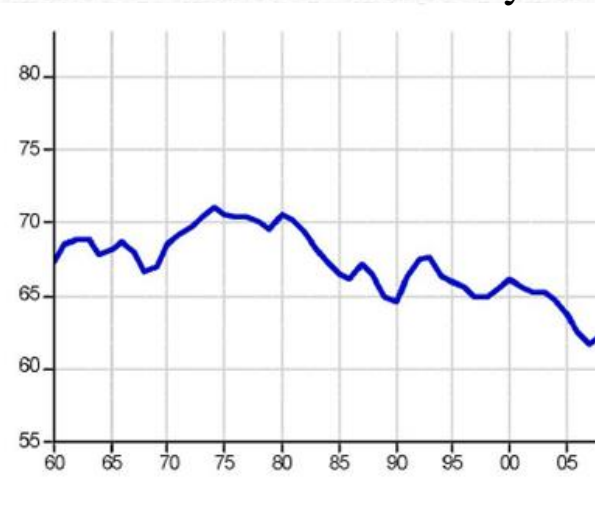
*Disposable income defined as incomes from wages and property, plus public transfers, minus taxes.

Labour Share Evolution

France



Germany



Italy



US



Source: Karanassou and Sala (2010)

Income polarization: causes

- Technological Change
- Globalization
- Welfare State Retrenchment
- Labour Market Deregulation, Wage Moderation, Increasing Demise of Collective Bargaining.
- Tax reforms
- Financialization

Income distribution and Growth

A conceptual framework

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		Distributional Strategies	
		Pro-Capital	Pro-Labour
Economic Regime	Profit-led (trickle down)	<i>Neoliberalism in theory.</i>	<i>Doomed social Reforms.</i>
	Wage-led (trickle up)	<i>Neoliberalism in practice.</i>	<i>Social Keynesianism.</i>

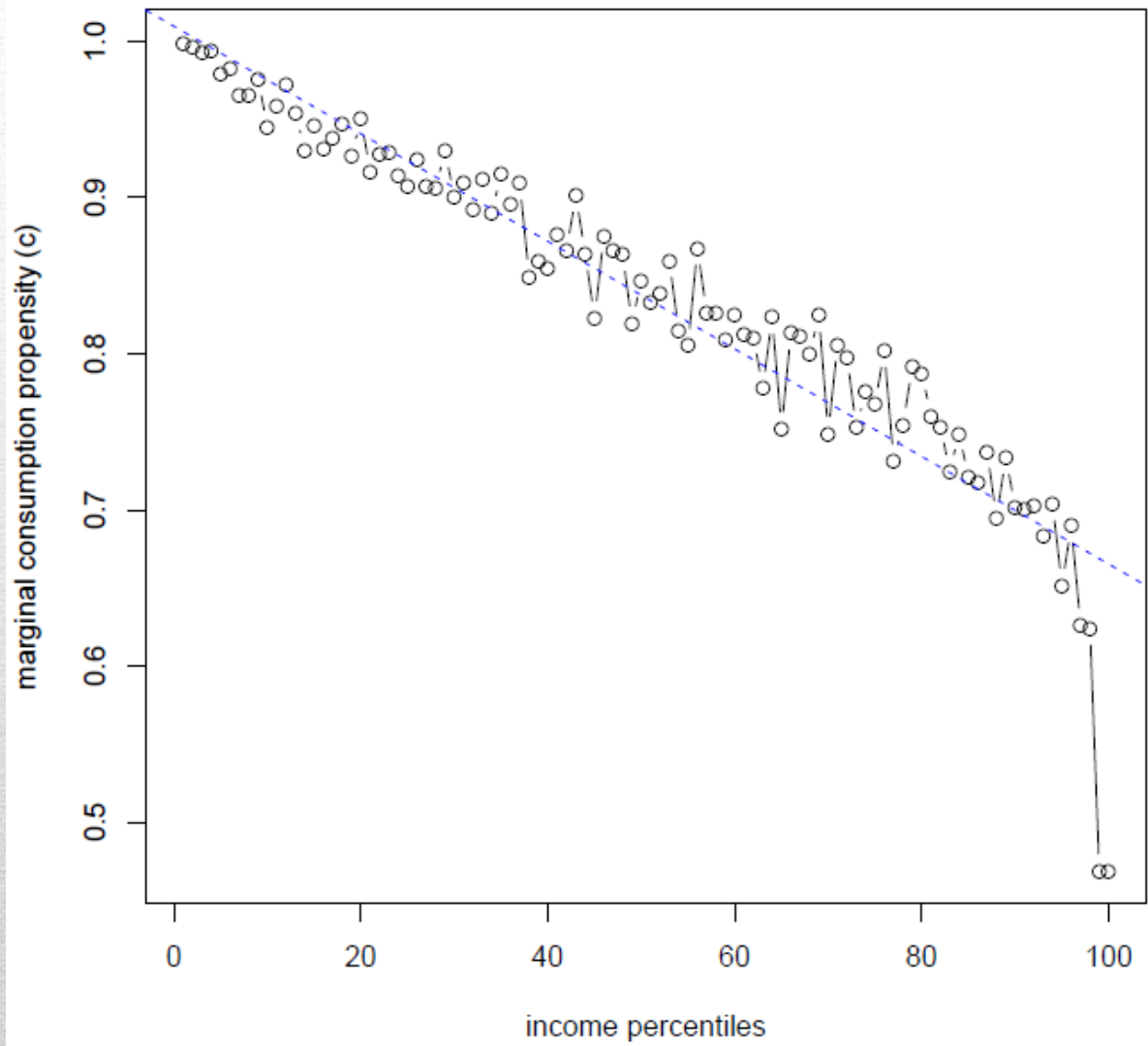
Lavoie and Stockhammer (2012)

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What determines a wage-led or profit-led regime?

We should analyze both the demand and supply effects of change in distribution.

- **Demand:** what are the effects of a shift in distribution on consumption, investment and net exports?
- **Supply:** what are the effects of a shift in distribution on productivity and technological change?



Demand Effects - Empirical Evidence

- Most empirical studies conclude that **domestic demand (consumption and investment) is wage-led**.
- Hence, total demand is profit-led or wage-led according to whether the (negative) effect on net-exports offsets the (positive) effect on domestic demand (small open economies).

Demand Effects - Recent Empirical Evidence

	Domestic Demand		Total Demand	
	wage-led	Profit-led	wage-led	Profit-led
Euro area	Onaran and Galanis (2012), Stockhammer, et al (2009)		Onaran and Galanis (2012), Stockhammer, et al (2009)	
Germany	Onaran and Galanis (2012) Stockhammer, Hein, Grafl (2011), Stockhammer and Stehrer (2011), Bowles and Boyer (1995), Naastepad and Storm (2007), Hein and Vogel (2008).		Onaran and Galanis (2012), Stockhammer, Hein, Grafl (2011), Naastepad and Storm (2007), Hein and Vogel (2008),	Bowles and Boyer (1995)
France	Onaran and Galanis (2012), Bowles and Boyer (1995), Naastepad and Storm (2007), Ederer and Stockhammer (2007), Hein and Vogel (2008), Stockhammer and Stehrer (2011)		Onaran and Galanis (2012), (Stockhammer and Onaran 2004), Naastepad and Storm (2007), Hein and Vogel (2008)	Bowles and Boyer (1995), Ederer and Stockhammer (2007)
Italy	Onaran and Galanis (2012), Naastepad and Storm (2007)		Onaran and Galanis (2012), Naastepad and Storm (2007)	
US	Onaran and Galanis (2012) Onaran et al. (2011), Bowles and Boyer (1995), Bowles and Boyer (1995), Hein and Vogel (2008), (Stockhammer and Stehrer (2011))	Naastepad and Storm (2007)	Onaran and Galanis (2012), Onaran et al. (2011) Bowles and Boyer (1995), Hein and Vogel (2008),	(Stockhammer, Onaran 04), Naastepad and Storm (2007), Barbosa-Filho & Taylor 08

Table taken from Stockhammer and Onaran (2012)

Supply Effects – Recent Empirical Evidence

- Storm and Naastepad (2009) investigated 20 OECD countries between 1984 and 2004.
- Vergeer and Kleinknecht (2010-11): Panel Analysis on OECD countries 1960-2004.
- Hein and Tarassow (2010): Time Series Analysis on 6 OECD countries between 1960-2007.

Faster real wage growth (“Rigid” labour market institutions) leads to faster productivity growth.

Some considerations on the EU

- The world economy is wage-led.
- The EU is a relatively closed economy in aggregate.
- If wage moderation is generalized the relative advantage between EU countries fades out.
- Generalized wage moderation in EU has minor effects on foreign trade, while major detrimental effects on EU domestic demand.

Two unsustainable growth patterns

- A **Debt-Led Growth Strategy (US)**: unsustainable in the long-run.
- An **Export-Led Growth Strategy (Germany)**: unsustainable in the long-run and not generalizable.

‘Thus, it would still be a mistake to focus on growth and let inequality take care of itself, if only because the resulting growth may be low and unsustainable. Inequality and unsustainable growth may be two sides of the same coin.’
(IMF, Ostry and Berg, 2014)

Distributional Policies

Trickle-down

- Labour market flexibility
- Abolish minimum wages
- Weaken collective bargaining
- Impose wage moderation
- Flat taxation and tax breaks to firms.
- Workfare
- Privatization
- Welfare state Retrenchment
- Austerity measures
- Financial Deregulation

Trickle-up

- Strengthen collective bargaining
- Minimum Wages
- Basic Income
- Highly progressive taxation
- Property tax (on financial and real assets)
- Welfare state
- Enhance public health and education
- Coordinated EU public I strategy
- Financial regulation and capital flows control



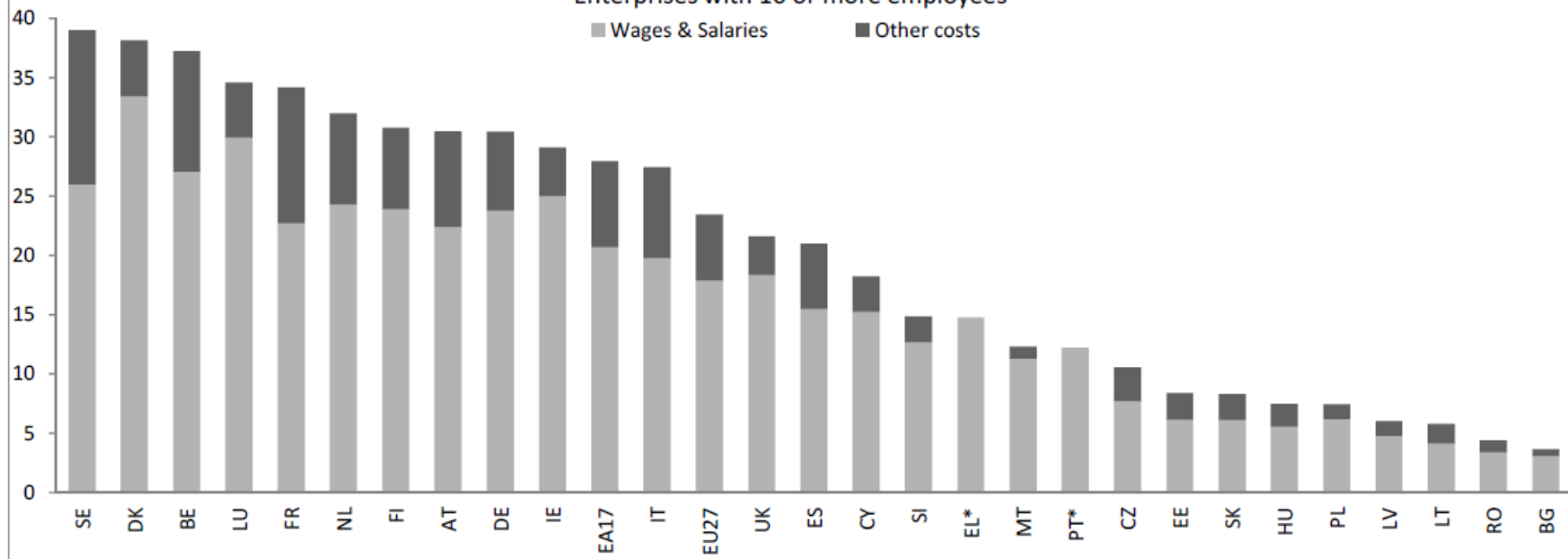
Thank you

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Hourly labour costs for the whole economy in €, 2012

Enterprises with 10 or more employees

■ Wages & Salaries ■ Other costs



* Based on a Eurostat estimate for the 4th quarter of 2012. Only the total level is estimated.

% variation 2008-2012:

Germany +9,1%

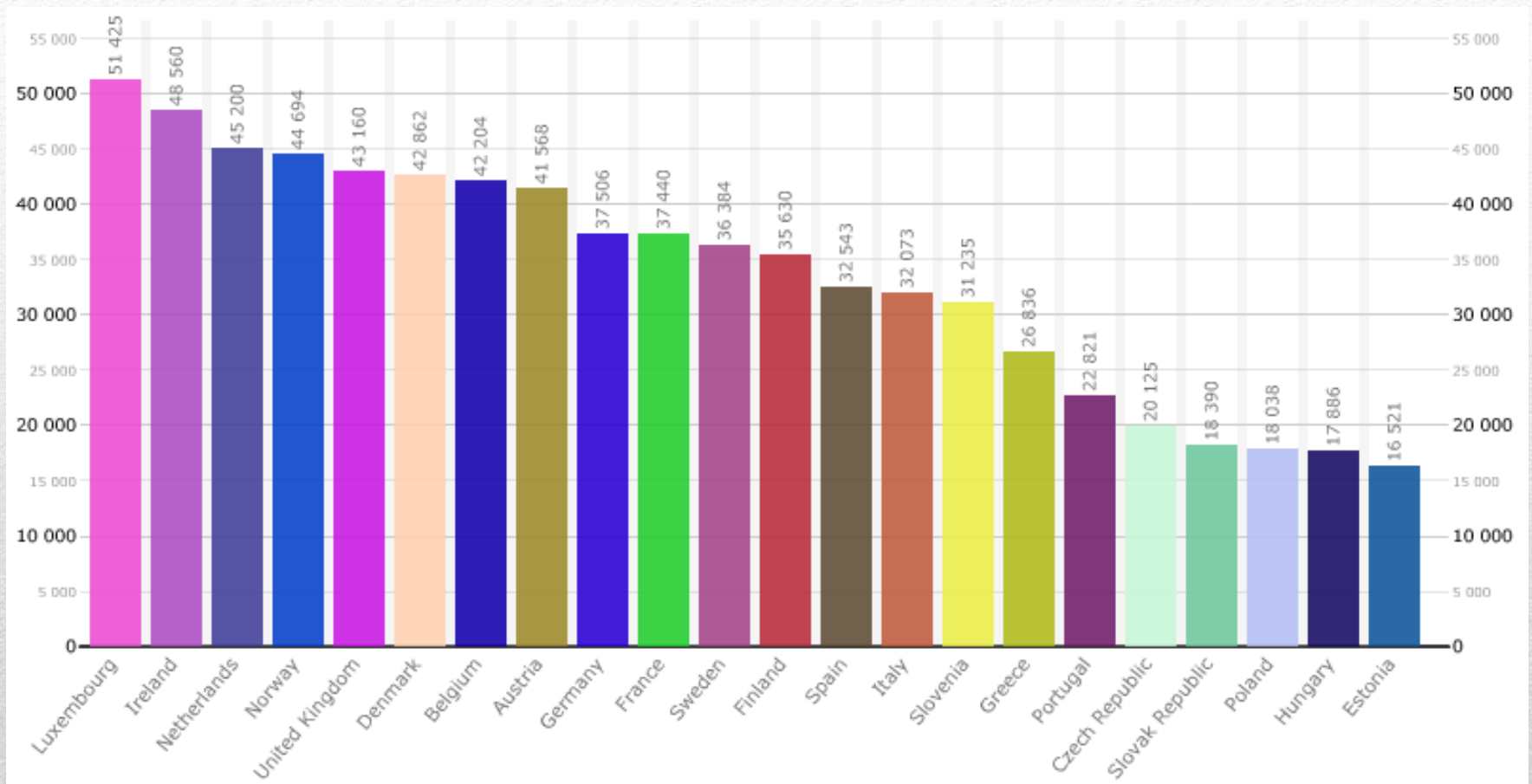
Italy +8,9%

France +9,5%

EU17 +8,7%

Source: Eurostat Labour Cost Survey (2012)

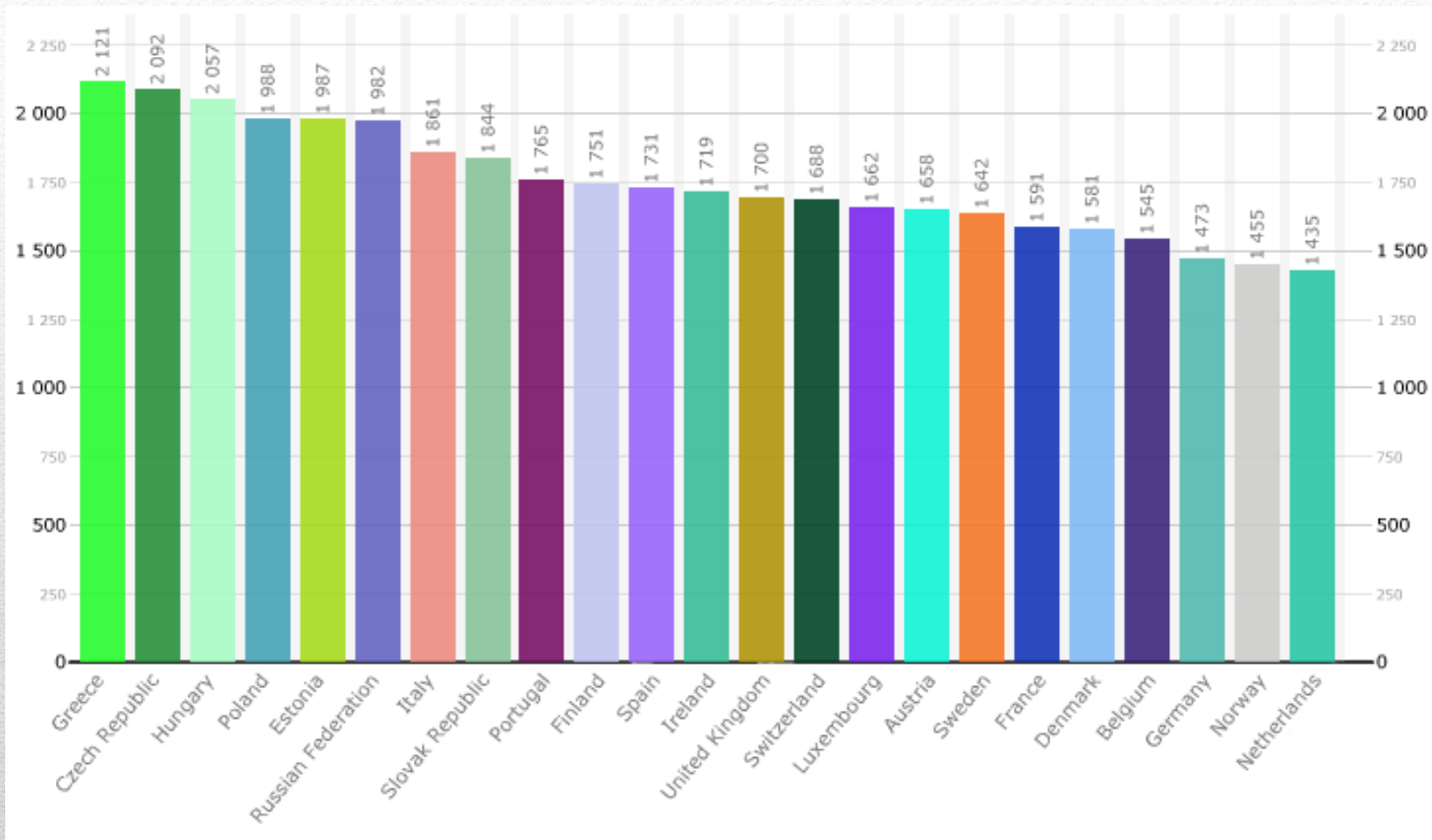
Annual Gross Wages – current prices (2010)



Source: OECD data, elaboration by Keynes Blog

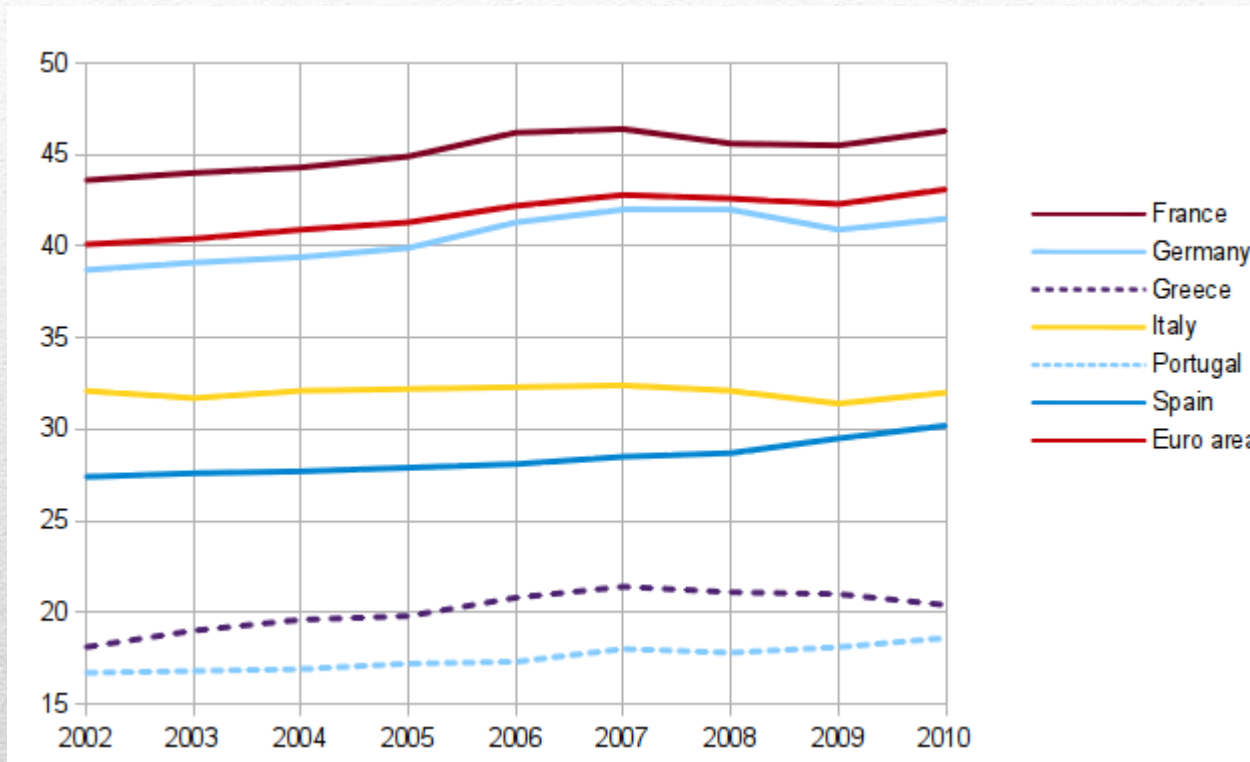
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Hours Worked per Employee (2010)



Source: OECD data elaboration by Keynes Blog

Productivity: GDP/Hours Worked - Constant Prices



Data Source: OECD 2002-2010