Workshop on Growth and Income Distribution

Co-organised by
Greenwich Political Economy Research Centre (GPERC)
Foundation for European Progressive Studies (FEPS)

University of Greenwich Maritime Campus, Queen Anne Court, room 080
Wednesday, November 1st 2017. Time: 16:30 - 19:30

PROGRAMME

16.30 – 18.30 Panel Session, Chair David Rinaldi, Foundation for European Progressive Studies (FEPS)

The effects of income distribution and private wealth on consumption and investment, 1855-2010
Engelbert Stockhammer, Kingston University (with Joel Rabinovich, Université Paris 13 and Niall Reddy, New York University)

The effect of income distribution and fiscal policy on growth, investment, and budget balance: the case of Europe
Ozlem Onaran and Maria Nikolaidi, University of Greenwich (with Thomas Obst, Europa-Universität Viadrina Frankfurt Oder)

Income inequality and household indebtedness – the U.S. case
Rafael Wildauer, University of Greenwich (with Jan Behringer, Macroeconomic Policy Institute)

European growth and trade imbalances reconsidered: the role of wage shares in the competing countries
Cem Oyvat, University of Greenwich and Şakir Devrim Yılmaz, Kingston University

18.30 – 18.45 Coffee Break, room QA075

18.45 – 19.30 Keynote Lecture
The role of autonomous demand growth in a neo-Kaleckian conflicting-claims framework
Marc Lavoie, Centre d'Économie de l'Université Paris-Nord (CEPN) Université Paris 13 (with Won Jun Nah, Kyungpook National University)

19:30 – 20:30 Reception, room QA075

RSVP

Getting to Greenwich Campus

Abstracts

The effects of income distribution and private wealth on consumption and investment, 1855-2010

Engelbert Stockhammer, Joel Rabinovich, and Niall Reddy

Most empirical macroeconomic research is limited to the period since World War II. This paper analyses the effects of changes in income distribution and in private wealth on consumption and investment covering a period from as early as 1855 until 2010 for the UK, France, Germany and US, based on the dataset of Piketty and Zucman (2014). We contribute to the post-Keynesian debate on the nature of demand regimes, mainstream analyses of wealth effects and the financialisation debate. We find that overall domestic demand has been wage-led in the USA, UK and Germany. Total investment responds positively to higher wage shares, which is driven by residential investment. For corporate investment alone, we find a negative relation. Wealth effects are found to be positive and significant for consumption in the US and UK, but weaker in France and Germany. Investment is negatively affected by private wealth in the USA and the UK, but positively in France and Germany.

The effect of income distribution and fiscal policy on growth, investment, and budget balance: the case of Europe

Thomas Obst, Özlem Onaran, Maria Nikolaidi

This paper develops a multi-country post-Kaleckian demand-led growth model that incorporates the role of the government. One novelty of this paper is to integrate cross-country effects of both changes in income distribution and fiscal policy. The model is used to estimate econometrically the effects of income distribution and fiscal policy on the components of aggregate demand in EU15 countries. The results show that a policy mix that combines the simultaneous implementation of a pro-labour wage policy, an expansionary fiscal policy and a progressive tax policy in all EU countries leads to a significant rise in the EU15 GDP. The impact of wage policies is positive but small; the overall stimulus becomes much stronger with fiscal expansion. This policy mix leads to an improvement in the budget balance in all the EU15 countries, suggesting that expansionary fiscal policy is sustainable when it is combined with wage and progressive tax policy.

Income inequality and household indebtedness – the U.S. case

Jan Behringer and Rafael Wildauer

Episodes of excessive credit growth are widely considered to be a contributing factor to financial and macroeconomic instability. Several authors, including Mendoza and Terrones (2008), Elekdag and Wu (2011) and Schularick and Taylor (2012) note that banking crises are typically preceded by credit booms. The empirical literature argues that episodes of credit booms are most likely associated with economic upswings (Mendoza and Terrones, 2008), an overly loose monetary policy (Borio and White, 2004; Mendoza and Terrones, 2008; Elekdag and Wu, 2011), asset price booms (Hofmann, 2004; Mendoza and Terrones, 2008; Elekdag and Wu, 2011), and the liberalization of financial markets (Demirguc-Kunt and Detragiache, 1998).

Over the last thirty years prior to the Great Recession, income inequality has increased dramatically in the United States (Atkinson et al. 2011). Several prominent economists now reckon that rising income inequality might has been an underlying cause of excessive household indebtedness and the financial crisis in the US starting in 2007 (Palley, 2012; Cynamon and Fazzari, 2008; Fitoussi and Stiglitz, 2009; Rajan, 2010; Kumhof et al., 2015).
In the present article, we assess the relationship between income inequality and household leverage for the United States over the period 1970-2007. We estimate single equation cointegration models by applying three different estimators: OLS in ARDL, Fully Modified OLS and Dynamic OLS. The paper contributes to the existing literature on household sector indebtedness in three ways. First, by relying on time series techniques the US case can be studied in a more convincing way compared to panel data sets. Second, by jointly assessing the impact of shifts in the income distribution and increasing property prices, the paper fills a gap in the literature. Third, we pay close attention to the methodological tradeoff between the inclusion of relevant variables in order to avoid omitted variable problems and the presence of a possible cointegration relationship among the regressors.
Our preliminary results suggest that there is a robust and statistically significant impact of shifts in the income distribution on US household sector borrowing. Moreover, we find that economic growth itself does not contribute to unsustainable increases in debt to GDP ratios, a finding often reported in the literature which relies on difference specifications only (Mendoza and Terrones, 2008). Property prices exhibit a highly significant positive long run coefficient as well as loose monetary policy measured as deviations from a Taylor rule.

European growth and trade imbalances reconsidered: the role of wage shares in the competing countries
Cem Oyvat and Şakir Devrim Yılmaz

This paper examines the role of wage coordination on reducing the current account imbalances and discusses alternative policies that would prevent future crises and generate growth in the EU countries. For this purpose, we first build a competitiveness index based on each country's share of trade in various industries. The index aims to identify each countries' major trade competitors in the EU market and sheds light on the impact of wage moderation on the current account imbalances within the EU. Our index demonstrates that the economically strong EU countries that on average produce relatively more complex products also lead the exports in the sectors which are crucial for Southern European countries like Greece, Portugal, Spain.
Next, we analyse the impact of decline in wage shares on generation of European Trade imbalances and growth in the EU countries. Based on our competitiveness index, we produce a weighted wage share that reflects the wage shares in the competing EU economies. Using an econometric analysis, we show the effect of declining wage shares in competing countries on the current account balances and growth in the EU countries.

The role of autonomous demand growth in a neo-Kaleckian conflicting-claims framework
Won Jun Nah and Marc Lavoie

This paper incorporates the role of an independently growing autonomous demand component into a neo-Kaleckian model of growth and distribution where the distribution of income reacts to changes in the employment rate. A peculiar feature of these autonomous expenditures is that in contrast to investment they are non-capacity creating. The model combines the Sraffian multiplier, a conflicting-claims theory of inflation, a Harrodian instability mechanism and effects tied to the size of the reserve army of labor. The long-run version of the model converges conditionally to stable rates of employment and inflation, at the normal rate of capacity utilization. The model vindicates some of the main Keynesian or Kaleckian tenets, in the sense that an increase in the marginal propensity to save out of profits or in the bargaining power of firms generate lower average rates of capital accumulation and capacity utilization during the traverse.