Financialisation and distribution in three main Eurozone countries from a Kaleckian perspective: France, Germany and Spain compared – before and after the crisis

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Abstract
In this paper we analyse the effects of financialisation on income distribution, before and after the Great Financial Crisis and the Great Recession, for three main Eurozone countries, France, Germany and Spain. We apply a Kaleckian perspective in which the focus will be on functional income distribution and thus on the relationship between financialisation and the wage share or the gross profit share. Financialisation may affect aggregate wage or gross profit shares of the economy as a whole through three channels: first, the sectoral composition of the economy, second the financial overhead costs and profit claims of the rentiers, and third the bargaining power of workers and trade unions. We examine empirical indicators for each of these channels, both before and after the crisis. We find that these countries have shown broad similarities regarding redistribution before the crisis, however, with some differences in the underlying determinants. These differences have carried through to the period after the crisis and have led to different results regarding the development of distribution since then.

JEL code: D31, D33, D43
Keywords: Financialisation, distribution, financial and economic crisis, Kaleckian theory of distribution

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* This paper is part of larger project of comparing the development of distribution before and after the crisis in several developed capitalist economies, applying a Kaleckian approach towards the explanation of income distribution (see Hein et al. 2017a). The overall pattern for six OECD countries, without showing the empirical details, will be published in Hein et al. (2017b). In the current paper we focus on the details of the development in the core Eurozone countries. The final version of the paper was produced while Eckhard Hein was a Visiting Research Professor at Sapienza University Rome in May 2017. He would like to thank the Sapienza University, and Claudio Sardoni in particular, for the invitation and the hospitality.
1. Introduction
The effects of financialisation, or of the “increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies” to use Epstein’s (2005, p. 3) widely quoted definition, on income distribution has been explored in several contributions, as recently reviewed by Hein (2015). Redistribution of income has taken place at different levels, from labour to capital, from workers to top-managers, and from low-income households, mainly drawing on wage incomes, to the rich, drawing on distributed profits (dividends, interest, rents) and top-management salaries. This has contributed to severe macroeconomic imbalances both at national and international levels, i.e. rising and unsustainable household debt-income ratios in some countries and severe current account imbalances at regional, in particular in the Eurozone, and global levels. This then led to the severity of the financial and economic crisis of 2007-9, starting in the US and spreading over the globe, and finally also contributed to the euro crisis (Hein 2012, 2013/14, Stockhammer 2010, 2012, 2015a).

The recovery from the crisis has been rather sluggish so far, and this has given rise to a renewed discussion about stagnation tendencies in mature capitalist economies. In the mainstream version of this debate, as represented by Summers’s (2014, 2015) ‘secular stagnation’ hypothesis, distributional issues are ignored or only play a marginal role at best. Post-Keynesian approaches, however, focus on income distribution, as well as on the stance of macroeconomic policy, when it comes to explaining stagnation tendencies after the crisis (Blecker 2016, Cynnamon/Fazzari 2015, 2016, Hein 2016, 2017, Palley 2016, van Treeck 2015). Therefore, in the current paper we will try to shed some light on the development of income distribution before and since the outbreak of the crisis for three major Eurozone countries and examine if and to what extent the trend towards rising inequality has continued, stopped, or even been reversed by the crisis, and which role financialisation (and its potential reversal after the crisis) has played in all this. The main focus will be on functional income distribution (wage and profit shares), but we will also look at indicators for personal or household distribution of income (Gini coefficients, top-income shares).

Of course, we are not the first to study the distributional consequences and effects of the crisis, as the papers by Cynnamon/Fazzari (2016) and Dufour/Orhangazi (2015) on the US, by Branston/Cowling/Tomlinson (2014) on the US and the UK, or by Schneider/Kinsella/Godin (2016) on the Eurozone testify, for example. However, we try to provide a comparative analysis for three Eurozone countries applying a consistent Kaleckian approach for the examination of the effects of financialisation on functional income shares, with a respective unique set of indicators, as proposed by Hein (2015), and initially applied by Hein/Detzer (2015) for the case of Germany. The countries included in the current study comprise a ‘debt-led private demand boom’ economy before the crisis, Spain, which had managed to over-compensate the lack of investment and income-financed consumption demand by credit-financed private expenditures before the crisis. According to Dodig/Hein/Detzer (2016), in the course of and after the crisis, Spain under the dominance of the Eurozone regime and the imposed austerity policies turned towards an export-led mercantilist economy drawing on improved net exports as a driver of meagre demand.
growth. Next we have the main ‘export-led mercantilist’ economy before the crisis, Germany, which had (partly) compensated the lack of investment and income financed consumption demand by rising net exports and current account surpluses before the crisis. In the course of and after the crisis Germany has seen an increasing relevance of domestic demand, however, with persistently high current account surpluses, which still qualify this economy as ‘export-led’, according to Dodig/Hein/Detzer (2016). And finally we have France as a ‘domestic demand-led’ economy before the crisis, which has remained so in the course of and after the crisis, according to Dodig/Hein/Detzer (2016).

Our paper is organised as follows. In Section 2 we will briefly review the trends of distribution before and after the crisis for the three countries. We will look at the development of the adjusted wage share, top income shares, and the Gini coefficients for both market and disposable income. Due to data constraints we will focus on the period from the early 1990s until the financial and economic crisis, and then on the period since the crisis. Section 3 will provide the theoretical backbone of our paper, a Kaleckian theory of income distribution adapted to the conditions of financialisation. Section 4 will contain our country studies. Section 5 will provide a comparison and Section 6 some conclusions regarding the determinants of distributional change before and after the financial and economic crisis.

2. Trends in redistribution before and after the crisis
The era of financialisation was marked by three redistributitional trends from the early 1980s until the financial and economic crisis of 2007-9:

First, from the late 1970s/early 1980s until the Great Recession 2008/9, income was redistributed from labour to capital. Figure 2.1 presents the adjusted wage share as percentage of GDP at factor costs for our countries from 1970 until 2015.1 All the countries considered here have seen, apart from cyclical fluctuations, a downward trend at least from the early 1980s until the financial and economic crisis of 2007-9. Our comparative analysis of the determinants of redistribution in Section 4 will be constrained to the period starting in the early 1990s or even later, mainly due to data availability. Therefore, we need to take a closer look at distributional tendencies from the early 1990s until the Great Recession, and at the developments since then. Here we find as well that for all three countries this period was characterised by a tendency of the adjusted wage share to fall. After the crisis, a continuation of the downward trend can be observed in Spain. In Germany the falling trend was halted and the adjusted wage share seems to have remained constant, and in France even a slightly upward trend can be observed after the crisis.

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1 The adjusted wage share, or the labour income share, thus includes labour incomes of both dependent and self-employed workers and GDP excludes taxes but includes subsidies.
Figure 2.1: Adjusted wage share in France, Germany and Spain, 1970-2015
(percentage of GDP at factor costs)

Note: The adjusted wage share is defined as compensation per employee as a share of GDP at factor costs per person employed. It thus includes the labour income of both dependent and self-employed workers, and GDP excludes taxes but includes subsidies.
Source: European Commission (2016), our presentation.

Figure 2.2 shows the development of the top 1 percent income shares for our countries, covering the years 1970 until 2012 (where data were available).2 For the reason mentioned above, let us focus again on the period from the early 1990s until the crisis, on the one hand, and on the period since then, on the other. In all three Eurozone countries the top 1 percent income share only started to rise in the 1990s or even the early 2000s and increased until the crisis 2007-9, with France showing the smallest increase. After the crisis, top income shares remained roughly constant in France, and they started to decline in Spain. For Germany, due to a lack of recent data, no statement about the development after the crisis can be made.

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2 The data applies to income before taxes and is provided by the World Wealth and Income Database. For more information on the dataset and its limitations, compare Piketty/Saez (2003).
Figure 2.2: Top 1 percent income share in France, Germany and Spain, 1970-2012
(percentage of pre-tax fiscal income without capital gains)

Note: Top income shares relate to tax units.

Figure 2.3 and Figure 2.4 show the development of Gini coefficients for market and disposable income, respectively, covering the years 1970 until 2014 (where data were available), and thus demonstrate developments in personal income distribution. Again we focus on the period from the early 1990s until the crisis and on the period since then. Before the crisis, the Gini coefficient for market income increased significantly in Germany, while it remained roughly constant in France and Spain, with wide fluctuations in the latter country, however. With the crisis of 2007-9, the rise in the Gini coefficient of market income was especially pronounced in Spain and this upward trend seems to have continued since then. It can also be observed slightly in Germany. In the France the Gini coefficient for market income has even declined since the crisis.

With regard to the development of the Gini coefficient of disposable income, which measures personal income inequality after taxes and transfer payments, the picture is rather mixed. In France, this Gini coefficient also remained constant until 2009 when it even started to decline. In Spain, this Gini coefficient increased tremendously in the early 1990s and followed a downward trend from the mid-1990s until the financial and economic crisis of 2007-9, when inequality increased again. In Germany, the Gini coefficient of disposable income shows a sustained upward trend, before and after the crisis.
3. The effect of financialisation on income distribution – a Kaleckian approach

In this section we outline a Kaleckian approach towards the explanation of the development of income shares, i.e. profit and wage shares, under the conditions of financialisation. The focus here is on the determination of functional income distribution, because changes in the
latter will also affect the personal or household distribution of income. In other words, if financialisation triggers falling labour income shares and hence rising gross profit shares, including retained profits, dividends, interest, and rents, this should also contribute to rising inequality of household incomes. The major reason for this is the unequal distribution of wealth, which generates access to capital income and hence gross profits. If the profit share increases, this will then also increase the inequality of household incomes to the extent that profits are distributed to households according to the unequal distribution of profit generating wealth. Of course, if rising profits – relative to wages – are retained in the corporate sector and thus not distributed to wealthy households, the link between redistribution at the functional level and at the personal/household level will be weakened.

Hein (2015) has reviewed the recent general empirical literature on the determinants of income shares against the background of the Kaleckian theory of distribution, in order to identify the channels through which financialisation and neo-liberalism have affected functional income distribution (Table 3.1). According to the Kaleckian approach (Kalecki 1954, Part I, Hein 2014, Chapter 5), the gross profit share in national income, which includes retained earnings, dividend, interest, and rent payments, as well as overhead costs (thus also top management salaries) has three major determinants.

First, the profit share is affected by firms’ pricing in incompletely competitive goods markets, i.e. by the mark-up on unit variable or direct costs. The mark-up itself is determined by: a) the degree of industrial concentration and by the relevance of price competition relative to other instruments of competition (marketing, product differentiation) in the respective industries or sectors, i.e. by the degree of price competition in the goods market; b) the bargaining power of trade unions, because in a heterogeneous environment with differences in unit wage cost growth between firms, industries, or sectors, the firm’s or the industry’s ability to shift changes in nominal unit wage costs to prices is constrained by competition of other firms or industries which do not have to face the same increase in unit wage costs; and c) overhead costs and gross profit targets, because the mark-up has to cover overhead costs and distributed profits in the long run for firms to survive.

Second, with mark-up pricing on unit variable costs, i.e. material plus wage costs, the profit share in national income is affected by unit (imported) material costs relative to unit wage costs. With a constant mark-up, an increase in unit material costs will thus increase the profit share in national income.

And third, the aggregate profit share of the economy as a whole is a weighted average of the industry or sector profit shares. Since profit shares differ among industries and sectors, the aggregate profit share is therefore affected by the industry or sector composition of the economy.

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3 According to Atkinson (2009), the development of functional income distribution is fundamental for the other dimensions of distribution as well as for the macroeconomic effects of distributinal changes. See also Glyn (2009). For empirical support for EU countries see Schlenker/Schmid (2013) and for Germany see Adler/Schmid (2013).
## Table 3.1: Financialisation and the gross profit share – a Kaleckian perspective

<table>
<thead>
<tr>
<th>Determinants of the gross profit share (including (top) management salaries)</th>
<th>1) Mark-up</th>
<th>2) Price of imported raw materials and semi-finished products</th>
<th>3) Sector composition of the domestic economy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stylized facts of financialisation (1.-7.) and neo-liberalism (8.-9.)</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Increasing shareholder value orientation and short-termism of management</td>
<td>...</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td>2. Rising dividend payments</td>
<td>...</td>
<td>...</td>
<td>+</td>
</tr>
<tr>
<td>3. Increasing interest rates or interest payments</td>
<td>...</td>
<td>...</td>
<td>+</td>
</tr>
<tr>
<td>4. Increasing top management salaries</td>
<td>...</td>
<td>...</td>
<td>+</td>
</tr>
<tr>
<td>5. Increasing relevance of financial to non-financial sector (investment)</td>
<td>...</td>
<td>+</td>
<td>...</td>
</tr>
<tr>
<td>6. Mergers and acquisitions</td>
<td>+</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>7. Liberalisation and globalisation of international finance and trade</td>
<td>−</td>
<td>+</td>
<td>...</td>
</tr>
<tr>
<td>8. Deregulation of the labour market</td>
<td>...</td>
<td>+</td>
<td>...</td>
</tr>
<tr>
<td>9. Downsizing of government</td>
<td>...</td>
<td>+</td>
<td>...</td>
</tr>
</tbody>
</table>

Notes: + positive effect on the gross profit share, − negative effect on the gross profit share, ... no direct effect on the gross profit share.


Integrating some stylized facts of financialisation and neo-liberalism into this approach and reviewing the respective international empirical and econometric literature, Hein (2015) has argued that there is some convincing empirical evidence that financialisation and neo-...
liberalism have contributed to the rising gross profit share, and hence to the falling labour income share since the early 1980s, through three main channels.\textsuperscript{4}

First, the shift in the sector composition of the economy, from the public sector and the non-financial business sector with higher labour income shares towards the financial business sector with a lower labour income share, has contributed to the fall in the labour income share for the economy as a whole in some countries.

Second, the increase in management salaries as a part of overhead costs, together with rising profit claims of the rentiers, i.e. rising interest and dividend payments of the corporate sector, have in sum been associated with a falling labour income share. Since management salaries are part of compensation of employees in the national accounts and thus of the labour income share, or the adjusted wage share as shown in the previous section, the wage share excluding (top) management salaries has fallen even more strongly than the wage share taken from the national accounts.

Third, financialisation and neo-liberalism have weakened trade union bargaining power through several channels: increasing shareholder value and the short-term profitability orientation of management, sectoral shifts away from the public sector and the non-financial business sector with stronger trade unions in many countries to the financial sector with weaker unions, abandonment of government demand management and full employment policies, deregulation of the labour market, and liberalisation and globalisation of international trade and finance.

Of course, these channels may not apply to all the developed capitalist economies affected by financialisation to the same degree, if at all. In the following section we will therefore review empirical indicators for these channels for our three countries, and assess the development in a qualitative way, before the financial and economic crisis from the early 1990s until 2007-9 and then in the course of and after the crisis.

For the first channel, the sectoral composition channel, we will look at the contributions of the financial corporate, non-financial corporate, household, and government sectors to gross value added of the respective economies, and at the profit shares in the financial and non-financial corporate sectors, in particular. This will allow us to see whether there has been the expected structural change in favour of the financial sector and whether the change in the sectoral composition of the economy as such has contributed to a rise in the profit share and hence a fall in the wage share for the economy as a whole.

For the second channel, the financial overhead costs or rentiers’ profit claims channel, we will more closely examine the functional distribution of national income and distinguish the different components of aggregate profits in order to see whether the rise in the profit share benefitted firms in terms of retained earnings or rather rentiers in terms of distributed profits, dividends, and interest in particular. In turn, this will allow us to infer whether rising income claims of rentiers – and thus overhead costs of firms – came at the

\textsuperscript{4} See in particular the recent panel econometric studies on the determinants of functional income distribution including data for large sets of countries or industries by Dünhaupt (2017), Godechot (2016), Kristal (2010), Stockhammer (2009, 2013a, 2013b, 2015b), and Tomaskovic-Devey/Lin (2013).
expense of workers’ income or at the expense of retained earnings under the control of the management of firms.

And finally for the third channel, the bargaining power channel, we will assess several determinants of workers’ and trade unions’ bargaining power. A first set will be related to the labour market, i.e. unemployment rates, union density, wage bargaining coverage, employment protection, and unemployment benefits. In this context we will also look at the development of trade openness to assess international competition among workers, as well as household indebtedness which should also negatively affect bargaining power, according to Barba/Pivetti (2009). Furthermore, we will look at the bargaining power of workers at the non-financial corporate level. This should be affected by the managers’ interest in the maximization of short-term profits in favour of shareholder value as opposed to the long-term growth of the firm. This strategy implies boosting share prices and/or paying out profits to shareholders by means of squeezing workers and by financial investments instead of real investments in the capital stock of the firm. In terms of indicators, we examine the relevance of property income received in relation to the operating surplus of non-financial corporations to assess the relevance of real vs. financial investments and property income paid in relation to the operating surplus to identify the distributional pressure of shareholders on the management. A high relevance of received financial profits and of dividend payments will each be interpreted as indicating a high shareholder value orientation of management, which should be detrimental to workers’ bargaining power at the corporate level.

4. Country studies
4.1 Spain
4.1.1 Spain before the crisis
To recall our findings in Section 2, the Spanish economy before the crisis saw a tendency of the adjusted wage share to fall. This was accompanied by roughly constant Gini coefficients both for market and for disposable income of households, and by an increase in top income shares. Let us now focus on the contribution of financialisation to this development following the model outlined in the previous section.\(^5\)

For the study of the first channel, the importance of the financial corporate sector, we first look at the sectoral shares of the total economy. Figure 4.1.1 illustrates that there was a slightly growing relevance of the financial sector in the Spanish economy during the early 2000s before the Great Recession. In addition, the share of the non-financial corporate sector in gross value added increased before the crisis, whereas the share of households, i.e. non-corporate business, declined, and the share of the government remained roughly constant. Simultaneously, the profit share of the financial corporate sector increasingly exceeded the profit share of the non-financial corporate sector (Figure 4.1.2). The sectoral composition channel of financialisation as such should have contributed to the fall in the aggregate wage share, if we can assume that the adjusted wage share in the non-corporate

\(^5\) For a broader assessment of financialisation and the financial and economic crisis in Spain, see Ferreiro/Galvez/Gonzales (2016), for example.
sector, as part of the household sector in the national accounts, was lower than in the financial corporate sector.\footnote{To support this claim, we would have needed data on sectoral labour income shares, which include the labour income of the self-employed.}

**Figure 4.1.1: Sector shares in nominal gross value added, Spain, 1999-2015 (percent)**

Source: OECD (2017), our calculations and presentation.

**Figure 4.1.2: Sector gross operating surplus as a share of sector gross value added, Spain, 1995-2015 (percent)**

Source: OECD (2017), our calculations and presentation.
Looking at the financial overheads/rentiers’ profit claims channel for the Spanish economy, we find a slight decline of the net property income share in national income in the 2000s before the crisis (Figure 4.1.3). Therefore, from this perspective no upward pressure on the mark-up, and hence no downward pressure on the wage share, was imposed. Falling financial overheads/rentiers’ profit claims rather allowed for a rise in the wage share and also the share of retained earnings in the years immediately before the crisis. However, as can be seen in Figure 4.1.4, this was only possible because the increase in the share of

**Figure 4.1.3: Income shares in net national income, Spain, 1999-2015 (percent)**

Source: OECD (2017), our calculations and presentation.

**Figure 4.1.4: Components of rentiers’ income as a share in net national income, Spain, 1999-2015 (percent)**

Source: OECD (2017), our calculations and presentation.
dividend incomes associated with increasing financialisation and shareholder value orientation of management was more than compensated by a simultaneous fall in the share of net interest incomes.

With regard to the bargaining power channel, we see a significant improvement in the rate of unemployment in the early 2000s (Table 4.1.1). However, the already very low union density rate fell further in the early 2000s, and particularly the initially quite high bargaining coverage rate deteriorated significantly. Employment protection and replacement rates did not see significant changes. On the other hand, household indebtedness more than doubled in the early 2000s, and trade openness increased significantly from the mid-1990s until the crisis putting pressure on workers’ wage bargaining power.

Finally, looking at property income received and paid in relation to the operating surplus of non-financial corporations, we see a remarkable shift towards shareholder value orientation and short-termism of management, which was detrimental to the bargaining power of workers at the corporate level. With regard to property income received we see a considerable rise, driven mainly by the increase in distributed income of other corporations, i.e. dividends, indicating a rising relevance of financial investments as compared to real investment (Figure 4.1.5). In turn, regarding the property income paid, the relevance of total distributed property income increased vigorously in the early 2000s until the crisis, driven by dividend and interest payments, indicating both rising shareholder value orientation and rising indebtedness of corporations (Figure 4.1.6). Therefore, although unemployment rates in Spain decreased in the years before the crisis, several other criteria indicate a falling bargaining power of workers in this period, explaining the tendency of the wage share to fall from the early 1990s until the crisis.

Summing up, the fall in the wage share in Spain before the crisis can thus be related to a change in the sectoral composition towards the financial corporate sector and to the fall of workers’ and trade unions’ bargaining power, whereas there is no indication for the financial overheads/rentiers’ profit claims channel to have had an effect.
| Table 4.1.1: Indicators for workers’ and trade unions’ bargaining power, Spain, 1990-2013 |
|-------------------------------------------------|------|------|------|------|------|
| **Unemployment rate**                       | 18.16     | 17.80     | 11.30     | 11.02     | 23.05     |
| **Trade unions**                            |           |           |           |           |           |
| **Union density rate**                      | 16.05     | 16.97     | 16.08     | 15.85     | 17.03     |
| **Bargaining (or union) coverage, adjusted for occupations and sectors without right for bargaining** | 87.06     | 91.35     | 79.94     | 77.87     | 77.50     |
| **Employment protection**                   |           |           |           |           |           |
| **Strictness of employment protection - individual dismissals (regular contracts)** | 3.55      | 2.36      | 2.36      | 2.36      | 2.21      |
| **Strictness of employment protection - collective dismissals (additional restrictions)** | 3.75      | 3.75      | 3.75      | 3.75      | 3.66      |
| **Strictness of employment protection - temporary contracts** | 3.75      | 3.25      | 3.25      | 3.10      | 2.70      |
| **Unemployment benefits**                   |           |           |           |           |           |
| **Gross replacement rate (% of average production worker wage)** | 32.58     | 35.24     | 35.38     | 35.14     |           |
| **Gross replacement rate (% of average wage)** |           | 32.91     | 32.56     | 31.39     |           |
| **Net replacement rate summary measure of benefit entitlements (excl. social assistance and housing benefits)** |           | 42.03     | 41.85     | 41.26     |           |
| **Net replacement rate summary measure of benefit entitlements (incl. social assistance and housing benefits)** |           | 50.30     | 50.14     | 49.31     |           |
| **Households’ debt (% of GDP)**             | 30.54     | 34.35     | 50.70     | 77.39     | 81.29     |
| **Trade openness (% of GDP)**               | 37.17     | 50.01     | 56.12     | 53.93     | 55.48     |

Notes: Averages were calculated for the 5 year periods indicated. Sometimes data was not available for all years in the 5 year periods. Values are in percentages, except for employment protection which is an index. Household debt contains credit from all sectors to households & NPISHs, market value, adjusted for breaks. Trade openness is calculated as the sum of exports and imports of goods and services measured as a share of GDP.

4.1.2 Spain in the course of and after the crisis

Since the crisis the tendency of the wage share to decline in Spain has continued, whereas top income shares have fallen, but Gini coefficients have continued to rise.

Looking at the three channels through which financialisation may affect income shares, we find that, after the crisis, the share of financial corporations in gross value added
has declined, as has the profit share in this sector, which has even fallen below the profit share of the non-financial corporations (Figures 4.1.1 and 4.1.2). The sectoral composition channel would thus have allowed for an increase in the wage share in national income.

However, the share of net property income in net national income has started to rise again after the crisis (Figure 4.1.3), driven in particular by an increase in the share of dividend income (Figure 4.1.4). Simultaneously, the share of retained earnings has remained constant and even slightly increased, which means that labour has had to bear the burden of rising overheads and rentiers’ profit claims.

This has been made possible by a further spectacular decline in the bargaining power of workers and trade unions, as our indicators show, both for the aggregate, as well as for the corporate level. Unemployment has more than doubled in the course of the crisis, employment protection has decreased, in particular for temporary contracts, and household debt-GDP ratios and trade openness have slightly increased (Table 4.1.1). Furthermore, shareholder value orientation of management of non-financial corporations has also risen considerably since the crisis: The relevance of property income received has gone up, driven by dividends received (Figure 4.1.5), and also the dividends paid have risen (Figure 4.1.6).

Summing up the case of Spain, we can say that the sectoral composition channel would have allowed for a rise in the wage share and an improvement of overall distribution after the crisis. However, this distributional space could not be exploited by labour, because workers’ and trade unions’ bargaining power has been further depressed, in particular by austerity policies, labour market reforms and high unemployment, as well as by rising shareholder value orientation at the non-financial corporate level. Therefore, the wage share has continued to fall, and it has been the distributional position of rentiers, but also retained earnings of firms which have benefitted so far.

4.2 Germany

4.2.1 Germany before the crisis

As we have seen in Section 2, the German economy before the crisis saw a tendency of the adjusted wage share to fall. This was accompanied by a rise in top income shares, in particular in the period immediately before the crisis, and increasing Gini coefficients both for market income and for disposable income of households. We will now examine the contribution of financialisation to this development following the model from Section 3.

Checking the relevance of the channels for the influence of financialisation on functional income shares before the crisis, with respect to the first channel we find that neither the profit share of the financial corporate sector was higher than the profit share in the non-financial corporate sector in the period of the increasing dominance of finance starting in the early/mid-1990s, nor was there a shift of the sectoral shares in gross value added towards the financial sector, which remained roughly constant at a low level (Figures

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7 For austerity policies in Spain see Febrero/Bermejo (2013) and Ferreiro/Gomez (2015).
8 This section draws on and updates what has been presented in Hein/Detzer (2015).
9 For a broader assessment of financialisation and the financial and economic crisis in Germany, see Detzer/Hein (2016), for example.
4.2.1 and 4.2.2). However, the share of the government sector in value added saw a tendency to decline, from close to 12 percent in the mid-1990s to below 10 percent in 2007. Similarly, the share of the household sector, containing non-corporate business, declined from around 25 percent in the early 1990s to below 22 percent in 2007, whereas the share of the non-financial corporate sector increased by 5 percentage points in the same period. Ceteris paribus, this change in sectoral composition means a fall in the aggregate wage share and a rise in the aggregate profit share, because the government sector is a non-profit sector in the national accounts, and the adjusted wage share in the household sector should be higher than in the corporate sector. However, the financial corporate sector was not involved in this channel of redistribution.

Regarding the second channel, the financial overheads/rentiers’ profit claims channel, we have several indicators supporting its validity in the case of Germany. There is substantial evidence that the increase in the profit claims of rentiers came at the expense of the workers’ share in national income (Figure 4.2.3). From the 1990s, after German reunification, until the Great Recession, the fall in the wage share benefitted mainly the rentiers’ income share. Only during the short upswing before the Great Recession did the share of retained earnings also increase at the expense of the wage share. Decomposing the rentiers’ income share, it becomes clear that the increase was exclusively driven by a rise in the share of dividends, starting in the mid-1990s, when we observed an increasing dominance of finance and shareholders in the German economy (Figure 4.2.4).

*Figure 4.2.1: Sector shares in nominal gross value added, Germany, 1991-2015 (percent)*

Source: Statistisches Bundesamt (2017), our calculations and presentation.
Figure 4.2.2: Sector gross operating surplus as a share of sector gross value added, Germany, 1991-2015 (percent)

Source: Statistisches Bundesamt (2017), our calculations and presentation.

Figure 4.2.3: Income shares in national income, Germany, 1991-2015 (percent)

Source: Statistisches Bundesamt (2017), our calculations and presentation.
With respect to the third channel, the depression of workers’ and trade unions’ bargaining power, we find that several indicators apply to the development in Germany before the crisis. Starting in the early/mid-1990s, downsizing the government sector, as shown above, and the switch towards restrictive macroeconomic policies focussing exclusively on achieving low inflation, high international price competitiveness, and (close to) balanced public budgets meant low growth and rising unemployment (Table 4.2.1). Policies of deregulation and liberalisation of the labour market (Hartz-laws, Agenda 2010) explicitly and successfully aimed at weakening trade union bargaining power through lowering unemployment benefits (replacement rates and also duration), establishing a large low-paid sector, as well as reducing trade union membership, collective wage bargaining coverage, and coordination of wage bargaining across sectors and regions (Hein/Truger 2005). As a result of the reforms, unemployment benefits were drastically reduced, so that net- as well as gross-replacement rates declined considerably in the early 2000s. While indicators for employment protection show a slight increase in employment protection for regular contracts from 2000 onwards, temporary contracts were heavily deregulated, contributing to the emergence of a dual labour market in Germany. The weakening of trade unions since the mid-1990s can be seen by the decline in membership, i.e. union density, but in particular by the decline in bargaining coverage, which fell from 74 percent in the mid-/late-1990s to only 64 percent until the crisis. Furthermore, trade and financial openness of the German economy increased significantly and put pressure on trade unions through international competition in the goods and services markets and through the effect of a delocalisation threat. Trade openness increased by more than 30 percentage points of GDP from the early

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Bibow (2005), Hein/Truger (2005, 2009), and Herr/Kazandziska (2011) have presented extensive analyses of the restrictive macroeconomic policies which have dominated the German economy since the mid-1990s, and during the trade cycle of the early 2000s until the Great Recession in particular.
1990s until the crisis. However, household debt-GDP ratios remained low by international comparison and only slightly increased before the crisis.

Looking at shareholder value orientation and bargaining power at the non-financial corporate level, we find that shareholder value orientation and short-termism of management of non-financial corporations increased significantly in the period before the crisis, thus increasing the pressure on workers and trade unions and constraining their bargaining power. A rising relevance of financial profits by non-financial corporations indicate an increased preference of management for short-term profits obtained from financial investment, as compared to profits from real investment, which might only be obtained in the medium to long run (Figure 4.2.5). This increase was driven by growing interest payments received in a period of low interest rates and by an increase in dividend payments obtained, and furthermore by reinvested profits from FDI. Turning to distributed profits, we see a rise in the importance of distributed property income in the period before the crisis (Figure 4.2.6). This increase was driven almost exclusively by an increase in the distributed income of corporations, i.e. dividends, whereas interest payments in relation to the gross operating surplus stagnated or even declined.

Summing up the German case before the crisis, it can be argued that the fall in the wage share was mainly caused by the rise in financial overheads and rentiers’ profit claims and, in particular, by the significant fall in workers’ and trade unions’ bargaining power. There was no change in sectoral composition towards the financial sector; however, the changes at the expense of the government and maybe the household sector have also contributed to the fall in the wage share of the economy as a whole.
### Table 4.2.1: Indicators for workers’ and trade unions’ bargaining power, Germany, 1990-2013

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<thead>
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<tbody>
<tr>
<td><strong>Unemployment rate</strong></td>
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<td>8.94</td>
<td>8.88</td>
<td>8.96</td>
<td>5.85</td>
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<tr>
<td><strong>Trade Unions</strong></td>
<td></td>
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</tr>
<tr>
<td>Union density rate</td>
<td>32.65</td>
<td>27.04</td>
<td>23.40</td>
<td>20.07</td>
<td>18.37</td>
</tr>
<tr>
<td>Union coverage of workplaces or establishments</td>
<td>59.7</td>
<td>48.14</td>
<td>47.52</td>
<td>44.38</td>
<td>42.88</td>
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<tr>
<td>Bargaining (or union) coverage, adjusted for occupations and sectors without right for bargaining</td>
<td>85.00</td>
<td>75.10</td>
<td>67.52</td>
<td>62.60</td>
<td>58.64</td>
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<td><strong>Employment protection</strong></td>
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<tr>
<td>Strictness of employment protection – individual dismissals (regular contracts)</td>
<td>2.60</td>
<td>2.68</td>
<td>2.68</td>
<td>2.68</td>
<td>2.68</td>
</tr>
<tr>
<td>Strictness of employment protection – collective dismissals (additional restrictions)</td>
<td>3.63</td>
<td>3.63</td>
<td>3.63</td>
<td>3.63</td>
<td>3.63</td>
</tr>
<tr>
<td>Strictness of employment protection – temporary contracts</td>
<td>3.25</td>
<td>2.55</td>
<td>1.70</td>
<td>1.00</td>
<td>1.03</td>
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<tr>
<td><strong>Unemployment benefits</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gross replacement rate (% of average production worker wage)</td>
<td>28.28</td>
<td>26.24</td>
<td>29.20</td>
<td>24.17</td>
<td></td>
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<tr>
<td>Gross replacement rate (% of average wage)</td>
<td>32.28</td>
<td>22.57</td>
<td>20.80</td>
<td></td>
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<tr>
<td>Net replacement rate summary measure of benefit entitlements (excl. social assistance and housing benefits)</td>
<td>60.07</td>
<td>45.34</td>
<td>41.96</td>
<td></td>
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<tr>
<td>Net replacement rate summary measure of benefit entitlements (incl. social assistance and housing benefits)</td>
<td>63.11</td>
<td>57.58</td>
<td>53.64</td>
<td></td>
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<tr>
<td><strong>Households’ debt (% of GDP)</strong></td>
<td>52.94</td>
<td>63.85</td>
<td>69.70</td>
<td>63.48</td>
<td>57.45</td>
</tr>
<tr>
<td><strong>Trade openness (% of GDP)</strong></td>
<td>44.35</td>
<td>48.62</td>
<td>62.30</td>
<td>75.70</td>
<td>81.12</td>
</tr>
</tbody>
</table>

**Notes:** Averages were calculated for the 5 year periods indicated. Sometimes data was not available for all years in the 5 year periods. Values are in percentages, except for employment protection which is an index. Household debt contains credit from all sectors to households & NPISHs, market value, adjusted for breaks. Trade openness is calculated as the sum of exports and imports of goods and services measured as a share of GDP.

Figure 4.2.5: Property income received by non-financial corporations, Germany, 1991-2015 (percent of sector gross operating surplus)

Note: Total property income also includes property income attributed to insurance policy holders and rents.
Source: Statistisches Bundesamt (2017), our calculations and presentation.

Figure 4.2.6: Property income paid by non-financial corporations, Germany, 1991-2015 (percent of sector gross operating surplus)

Note: Total property income also includes rents.
Source: Statistisches Bundesamt (2017), our calculations and presentation.

4.2.2 Germany in the course of and after the crisis
In the course and after the crisis, the wage share in Germany has remained roughly constant, whereas Gini coefficients for households’ market and disposable income have continued to
rise slightly. Lack of data does not allow for any conclusion regarding the post-crisis tendency of top income shares. Reviewing the three channels through which financialisation may affect income shares, we find the following results.

First, the sectoral composition of the German economy has remained roughly stable, and the profit share in the financial sector has remained below that of the non-financial corporate sector, with an increasing gap between the two (Figures 4.2.1 and 4.2.2). This should have contributed to a rising wage share for the economy as a whole.

Second, the pressure via the financial overheads/rentiers’ profit claims channel on the wage share has declined and the property income share, as well as the share of income going to rentiers in terms of dividends have remained constant (Figures 4.2.3 and 4.2.4). This has allowed the wage share to remain stable and the share of retained earnings to rise.

Third, looking at the workers’ bargaining power channel, labour market indicators provide mixed results (Table 4.2.1). Unemployment rates have fallen significantly after the crisis, due to the quick recovery of the German economy from the crisis (Detzer/Hein 2016). However, several labour market indicators have changed further to the disadvantage of workers and trade unions. Trade union density and wage bargaining coverage have further declined, unemployment benefit replacement rates have fallen further, and employment protection legislation has remained constant. Trade openness further increased after the crisis, but the already low household debt-GDP ratio has fallen. Furthermore, the introduction of a legal minimum wage in 2015 (Amlinger/Bispinck/Schulten 2016) should have had a positive impact on workers’ and trade unions’ bargaining power. At the non-financial corporate level, shareholder value orientation has fallen and the pressure on labour has been relieved, as the fall in the relevance of both financial profits received and paid out indicates, and in dividends paid out in particular (Figures 4.2.5 and 4.2.6).

Summing up, during and after the crisis, the pressure through the financial overheads/rentiers’ profit claims channel on the wage share has relaxed and workers’ bargaining power has somewhat recovered, by the reduction of shareholder value orientation at the non-financial corporate level and, in particular, by the rapid recovery of the German economy from the crisis providing falling unemployment rates (Detzer/Hein 2016, Dodig/Hein/Detzer 2016). Therefore, redistribution at the expense of the wage share has come to a halt. However, this neither implies that the trend towards a falling wage share has actually been reversed nor that rising inequality of household incomes, as indicated by the Gini coefficients for market and disposable income, has come to a stop.

4.3 France
4.3.1 France before the crisis
As we have seen in Section 2, before the crisis the French economy witnessed a tendency of the adjusted wage share to fall and of the top income shares to rise slightly, whereas the Gini coefficients for households’ market and disposable incomes remained roughly stable.\footnote{For a broader assessment of financialisation and the financial and economic crisis in France, see Cournilleau/Creel (2016), for example.}
Again, we apply our model from Section 3 in order to assess the effects of financialisation on functional income shares.

Reviewing the sectoral composition channel for the distributional effects of financialisation, we find that the share of the financial corporate sector in gross value added slightly declined from the early 1990s until the crisis, which was associated with a slight increase in the share of non-financial corporations (Figure 4.3.1). The profit share in the financial corporate sector decreased from the 1990s until the years before the crisis, when it reached the level of the non-financial corporate sector (Figure 4.3.2). Therefore, we can deny any relevance of the sectoral composition channel for the fall in the aggregate adjusted wage share in France.

For the financial overheads/rentiers’ profits claim channel, we also find no effect on the aggregate wage share. From the early 1990s until the crisis the share of rentiers’ income (net property income) in net national income rather saw a slight tendency to fall, which allowed for a slight increase in the share of retained earnings, associated with only a very modest fall in the wage share (Figure 4.3.3). Looking at the composition of rentiers’ income, we can see a rise in the share of dividend incomes, which however was overcompensated by a fall in the share of net interest income in net national income (Figure 4.3.4).

*Figure 4.3.1: Sector shares in nominal gross value added, France, 1990-2015 (percent)*

![Graph showing sector shares in nominal gross value added](source: OECD (2017), our calculations and presentation.)
Figure 4.3.2: Sector gross operating surplus as a share of sector gross value added, France, 1990-2015 (percent)

Source: OECD (2017), our calculations and presentation.

Figure 4.3.3: Income shares in net national income, France, 1990-2015 (percent)

Source: OECD (2017), our calculations and presentation.
Figure 4.3.4: Components of rentiers’ income as a share in net national income, France, 1990-2015 (percent)

Source: OECD (2017), our calculations and presentation.

Regarding the bargaining power channel, we find mixed results for the period from the early 1990s until the crisis (Table 4.3.1). Unemployment rates had a tendency to fall before the crisis. Union density was particularly low and even slightly decreased before the crisis. However, bargaining coverage was rising and almost reached 100 percent before the crisis, due to the French legal extensions of bargaining agreements. Employment protection decreased somewhat, but only for temporary employment. Unemployment benefit replacement rates also slightly decreased. Trade openness modestly increased and household debt-GDP ratios increased somewhat, but from a very low level in international comparison.

Finally, looking at our two indicators for shareholder value orientation of management in non-financial corporations, we find strong support for both in the run-up to the crisis. The share of property incomes received relative to the operating surplus strongly increased, indicating rising relevance of financial investment as compared to investments in the real capital stock of the firm (Figure 4.3.5). The property incomes distributed in relation to the operating surplus also increased, driven in particular by rising dividend payments to shareholders (Figure 4.3.6). Each of these developments was detrimental to workers’ and trade unions’ bargaining power on the corporate level, and thus put pressure on the wage share. This finding is confirmed by a study by Alvarez (2015), using firm-level data of the French non-financial corporate sector for the period 2004 to 2013. According to this study, the dependence on financial profits is likely to decrease the wage share in non-financial corporations, because of the dampening effects on labour’s bargaining power.

Summing up the French case before the crisis, we can argue that neither any sectoral composition channel nor any financial overheads/rentiers’ profit claims channel contributed to the fall in the wage share. The latter can only be related to a fall in workers’ bargaining power, in particular due to rising shareholder value orientation in non-financial corporations.
### Table 4.3.1: Indicators for workers’ and trade unions’ bargaining power, France, 1990-2013

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<tbody>
<tr>
<td><strong>Unemployment rate</strong></td>
<td>9.10</td>
<td>10.34</td>
<td>8.34</td>
<td>8.44</td>
<td>9.65</td>
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<td><strong>Trade unions</strong></td>
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<tr>
<td>Union density rate</td>
<td>9.46</td>
<td>8.31</td>
<td>7.92</td>
<td>7.61</td>
<td>7.73</td>
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<td><strong>Bargaining (or union)</strong></td>
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<td>coverage, adjusted for</td>
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<td>occupations and sectors</td>
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<tr>
<td>without right for bargaining</td>
<td>93.44</td>
<td>97.72</td>
<td>98.00</td>
<td>98.00</td>
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<td><strong>Employment protection</strong></td>
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<tr>
<td>Strictness of employment</td>
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<td>2.36</td>
<td>2.36</td>
<td>2.21</td>
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<td>protection - individual</td>
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<tr>
<td>dismissals (regular contracts)</td>
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<tr>
<td>Strictness of employment</td>
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<td>3.75</td>
<td>3.75</td>
<td>3.66</td>
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<tr>
<td>protection - collective</td>
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<tr>
<td>dismissals (additional</td>
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<tr>
<td>restrictions)</td>
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<tr>
<td>Strictness of employment</td>
<td>3.75</td>
<td>3.25</td>
<td>3.25</td>
<td>3.10</td>
<td>2.70</td>
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<td>protection - temporary</td>
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<td>contracts</td>
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<tr>
<td><strong>Unemployment benefits</strong></td>
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<tr>
<td>Gross replacement rate (% of</td>
<td>37.64</td>
<td>36.96</td>
<td>41.46</td>
<td>39.01</td>
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<tr>
<td>average production worker</td>
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<td>wage)</td>
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<tr>
<td>Gross replacement rate (% of</td>
<td>37.9</td>
<td>35.37</td>
<td>35.61</td>
<td></td>
<td></td>
</tr>
<tr>
<td>average wage)</td>
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<tr>
<td>Net replacement rate</td>
<td>52.13</td>
<td>49.07</td>
<td>49.22</td>
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<td>summary measure of benefit</td>
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<tr>
<td>entitlements (excl. social</td>
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<tr>
<td>assistance and housing</td>
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<td></td>
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<tr>
<td>benefits)</td>
<td></td>
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<td></td>
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<tr>
<td>Net replacement rate</td>
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<td>57.09</td>
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<td>summary measure of benefit</td>
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<td>entitlements (incl. social</td>
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<td>assistance and housing</td>
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<tr>
<td>benefits)</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Households’ debt (% of GDP)</td>
<td>33.75</td>
<td>33.44</td>
<td>35.52</td>
<td>45.53</td>
<td>54.46</td>
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<tr>
<td>Trade openness (% of GDP)</td>
<td>41.56</td>
<td>46.61</td>
<td>52.66</td>
<td>54.00</td>
<td>56.00</td>
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</table>

**Notes:** Averages were calculated for the 5 year periods indicated. Sometimes data was not available for all years in the 5 year periods. Values are in percentages, except for employment protection which is an index. Household debt contains credit from all sectors to households & NPISHs, market value, adjusted for breaks. Trade openness is calculated as the sum of exports and imports of goods and services measured as a share of GDP.

Figure 4.3.5: Property income received by non-financial corporations, France, 1990-2015 (percent of sector gross operating surplus)

Note: Total property income also includes property income attributed to insurance policy holders.
Source: OECD (2017), our calculations and presentation.

Figure 4.3.6: Property income paid by non-financial corporations, France, 1990-2015 (percent of sector gross operating surplus)

Note: Total property income also includes rents.
Source: OECD (2017), our calculations and presentation.

4.3.2 France in the course of and after the crisis
France is the only country among the three Eurozone countries examined here which has seen a tendency of the wage share to increase in the course of and after the crisis.
Furthermore, the top income share has remained constant, and the Gini coefficients for households’ market and disposable incomes have even seen a tendency to fall.

Examining our channels through which financialisation might affect income shares, we find that the sectoral composition has remained roughly constant in the period after the crisis (Figure 4.3.1). For the profit share of financial corporations a slight recovery can be observed so that it has again exceeded the profit share of non-financial corporations since 2010 (Figure 4.3.2). This should have put some downward pressure on the aggregate wage share, but the sectoral composition channel as such has had no effect on the development of income shares after the crisis.

Regarding the financial overheads/rentiers’ profit claims channel, the share of financial profits in national income has declined considerably (Figure 4.3.3), indicating a fall in financial overheads/rentiers’ profit claims, and the share of dividends has also fallen slightly (Figure 4.3.4). The wage share has risen considerably, associated with a fall in the share of retained earnings. This is pointing to improvements in workers’ and trade unions’ bargaining power.

Looking at our indicators for bargaining power (Table 4.3.1), we see that unemployment rates have slightly increased, but bargaining coverage has remained at a level close to 100 percent, while employment protection has been downsized somewhat, and the unemployment benefit replacement rates have remained constant. Furthermore, the trade openness of the French economy has only slightly increased, and the household debt-GDP ratio has increased somewhat, but is still the lowest in our Eurozone countries. Most importantly, however, the degree of shareholder value orientation of management of non-financial corporations has declined considerably. The relevance of property income received has decreased (Figure 4.3.5), as has the importance of property incomes paid out, in particular the dividends (Figures 4.3.6).

Taken together, the decline in financial overheads and rentiers’ profit claims channel, the stabilisation and partial improvement of workers’ and trade unions’ bargaining power, associated with the fall in shareholder value orientation of non-financial corporations, seem to have allowed for the wage share to increase somewhat after the crisis – and also for income inequality at the individual or household level to decrease somewhat.

5. Comparison
With the help of Table 5.1 we can now compare our country specific findings and re-assess the relationship between financialisation and income distribution for the three main Eurozone countries, applying the Kaleckian theoretical approach towards the determination of functional income distribution in finance-dominated capitalism.
Table 5.1 Distribution trends and effects of financialisation on these trends before and after the financial and economic crisis of 2007-9

<table>
<thead>
<tr>
<th>Distribution trends</th>
<th>Spain</th>
<th>Germany</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adjusted wage share</td>
<td>Before: –</td>
<td>–</td>
<td>–</td>
</tr>
<tr>
<td></td>
<td>After: –</td>
<td>0</td>
<td>+</td>
</tr>
<tr>
<td>Top income share</td>
<td>Before: +</td>
<td>+</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td>After: –</td>
<td>?</td>
<td>0</td>
</tr>
<tr>
<td>Gini coefficients</td>
<td>Before: 0</td>
<td>+</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td>After: +</td>
<td>+</td>
<td>–</td>
</tr>
</tbody>
</table>

| Channels for the effects of financialisation | Sectoral composition | Before: + | 0 | 0 |
|                                             | After: – | 0 | 0 |
| Financial overheads                    | Before: – | + | – |
|                                       | After: + | – | – |
| Bargaining power                       | Before: – | – | 0/– |
|                                       | After: – | –/+ | 0/+ |

Notes: + tendency to increase, – tendency to decrease, 0 no tendency, ? no data, –/+ or 0/– or 0/+ ambiguous tendencies for different indicators.

Source: Our presentation.

Looking first at the period from the early 1990s until the crisis, each of the countries saw a tendency of the adjusted wage share to decline and top income shares were rising in each of the countries, too. But Gini coefficients for market and disposable income only increased in Germany, but they remained roughly constant in Spain and France. Generally, however, ‘debt-led private demand boom’, ‘export-led mercantilist’, and ‘domestic demand-led’ Eurozone countries had to face similar developments in terms of income redistribution before the crisis.

Assessing the channels through which financialisation may affect functional income shares, however, some differences are obvious. The ‘debt-led private demand boom’ country before the crisis, Spain, saw a change in the sectoral composition of the economy towards the financial corporate sector with higher profit shares. However, the financial overheads and rentiers’ profit claims was not relevant here. But the fall in workers’ and trade unions’ bargaining power contributed significantly to the fall in the wage share. For the ‘export-led mercantilist’ economy of Germany and for the ‘domestic demand-led’ economy, France, the fall in the wage share before the crisis cannot be attributed to a change in the sectoral composition of the economy towards a financial sector with higher profit shares. Moreover, only in Germany have we found a rise in financial overheads and rentiers’ profit claims, whereas in France financial overheads and rentiers’ profit claims were rather falling before the crisis. For Germany the fall in workers’ and trade unions’ bargaining power is a major explanation for the fall in the wage share before the crisis, and for France a falling wage share can only be related to falling workers’ bargaining power in the non-financial corporate sector due to rising shareholder value of management.

For the period since the crisis, the former ‘debt-led private demand boom’ economy of Spain has seen a further decline in the wage share and Gini coefficients have been rising. Top income shares, however, have seen a falling tendency. The major reason for the fall in
the wage share has been a rise in financial overheads and rentiers’ profit claims and, in particular, the deterioration in workers’ bargaining power, associated with high unemployment, austerity policies and labour market reforms.

The ‘export-led mercantilist’ German economy, as well as the ‘domestic demand-led’ French economy, saw a halt in the tendency of the wage share to fall after the crisis. In France the wage share has even seen a rising tendency since then, whereas in Germany it has remained roughly constant. Top income shares have remained constant in France (for Germany there is a lack of data), and the Gini coefficients for household incomes have been falling in France, while they have continued to rise slightly in Germany.

Looking at the determinants of the stabilising or even rising tendency of the wage share, we can see that in none of the two countries has there been a change in the sectoral composition towards the financial corporate sector. Furthermore, financial overheads and rentiers’ profit claims have rather been falling. Therefore, from these two channels there has not been exerted any further pressure on the wage share. Finally, selective improvements of workers’ bargaining power, related to reduced shareholder value orientation at the non-financial corporate level, in particular, have allowed for the stabilisation of the wage share in Germany and for its improvement in France.

6. Conclusions
In this paper we have analysed the effects of financialisation on income distribution, before and after the financial crisis and the Great Recession for three major Eurozone countries, France, Germany and Spain. We started with a brief review of major trends for the adjusted wage share, top income shares, and the Gini coefficients for households’ market and disposable income. The focus has then been on the functional income distribution and thus on the relationship between financialisation and the wage share or the gross profit share. The analysis has been based on a Kaleckian theory of income distribution adapted to the conditions of financialisation. According to this approach, financialisation may affect aggregate wage shares or gross profit shares of the economy as a whole through three channels: first, the sectoral composition of the economy, second the financial overhead costs and profit claims of the rentiers in terms of interest and dividends, and third the bargaining power of workers and trade unions. We then examined empirical indicators for each of these channels for the three Eurozone economies, both before and after the crisis.

All three countries saw a decline in the wage share in the period from the early 1990s until the crisis, but the underlying driving forces differed somewhat. In the ‘debt-led private demand boom’ Spanish economy, the sectoral change towards the financial corporate sector with higher profit shares was a contributor, as was the fall in workers’ and trade unions’ bargaining power. For ‘export-led mercantilist’ Germany and for ‘domestic demand-led’ France, changes in sectoral composition of the economy were irrelevant for the explanation of the falling wage share, and also the financial overheads/rentiers’ profit claims channel was only relevant for Germany. What was most important for the falling wage share in finance-dominated capitalism in these two countries was the deterioration of workers’ and trade unions’ bargaining power.
These differences have carried through to the period after the crisis. The former ‘debt-led private demand boom’ Spanish economy has seen a further fall in the wage share, mainly driven by deteriorating workers’ and trade unions’ bargaining power and also by rising financial overheads and rentiers’ profit claims. In the ‘export-led mercantilist’ German economy and the ‘domestic demand-led’ French economy, however, the wage shares stopped falling and have even increased in France. The major reason for this has been improved bargaining power of workers and trade unions, reduced financial overheads and rentiers’ profit claims, as well as a constant sectoral composition of the economy. Whether these improvements, related to slight ‘de-financialisation’ and a (partial) recovery of workers’ bargaining power, can be sustained remains to be seen.

References


**Data Sources**


