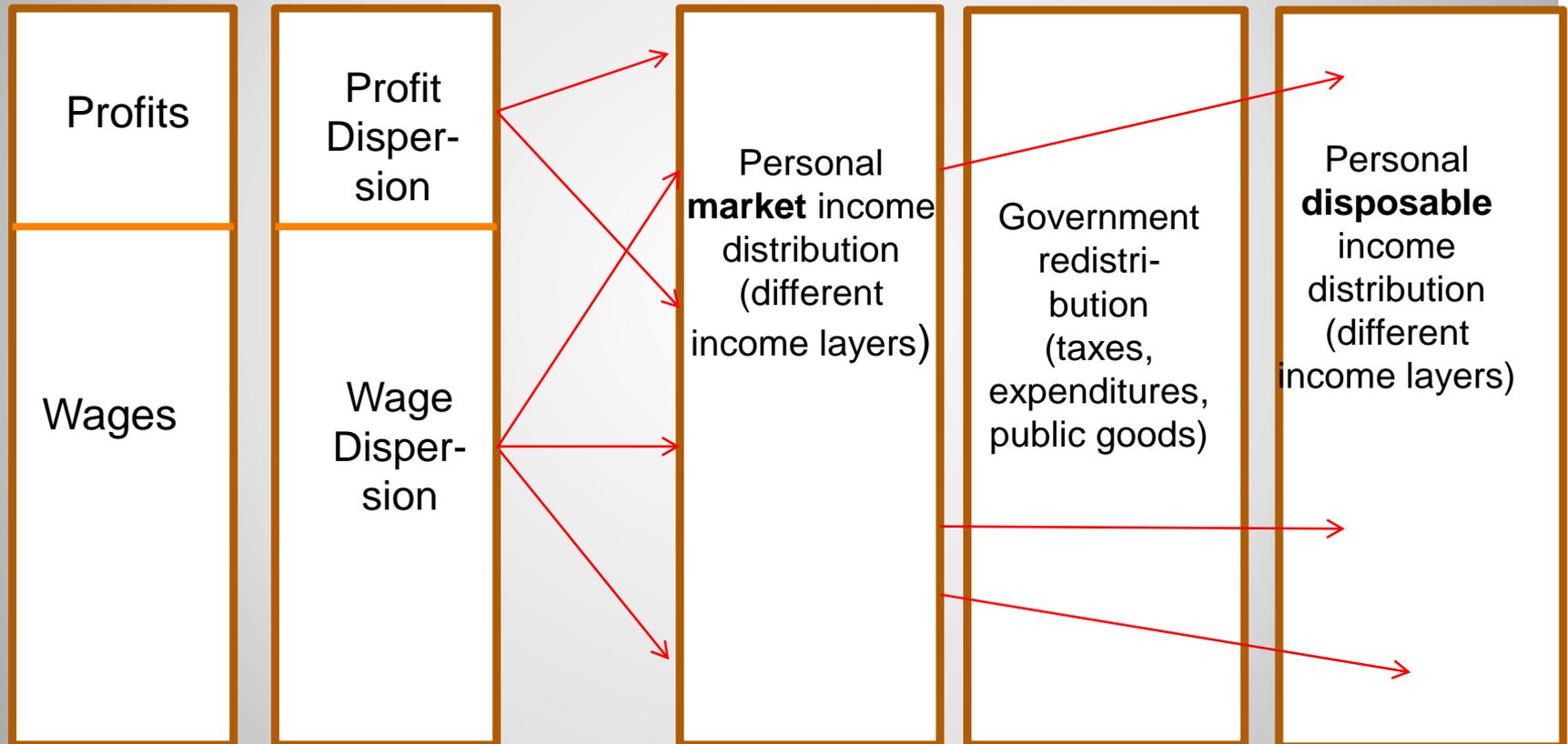


Theories of income distribution – a critical analysis

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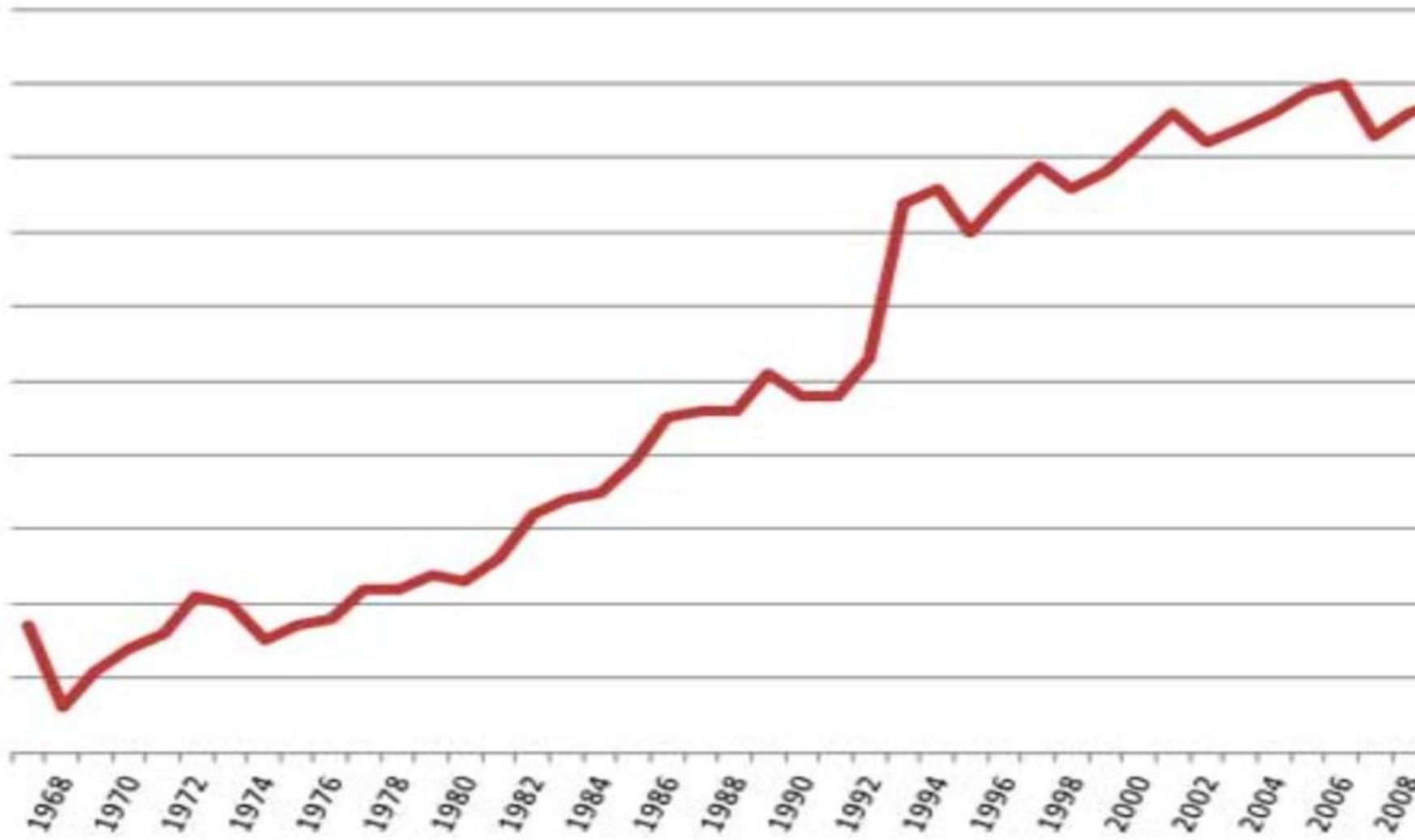
2018

Factors determining personal income distribution



Given the same technology higher employment increases income (the sum of wages and profits) and typically especially affects the lowest income households in a positive way. But this is not necessarily the case.

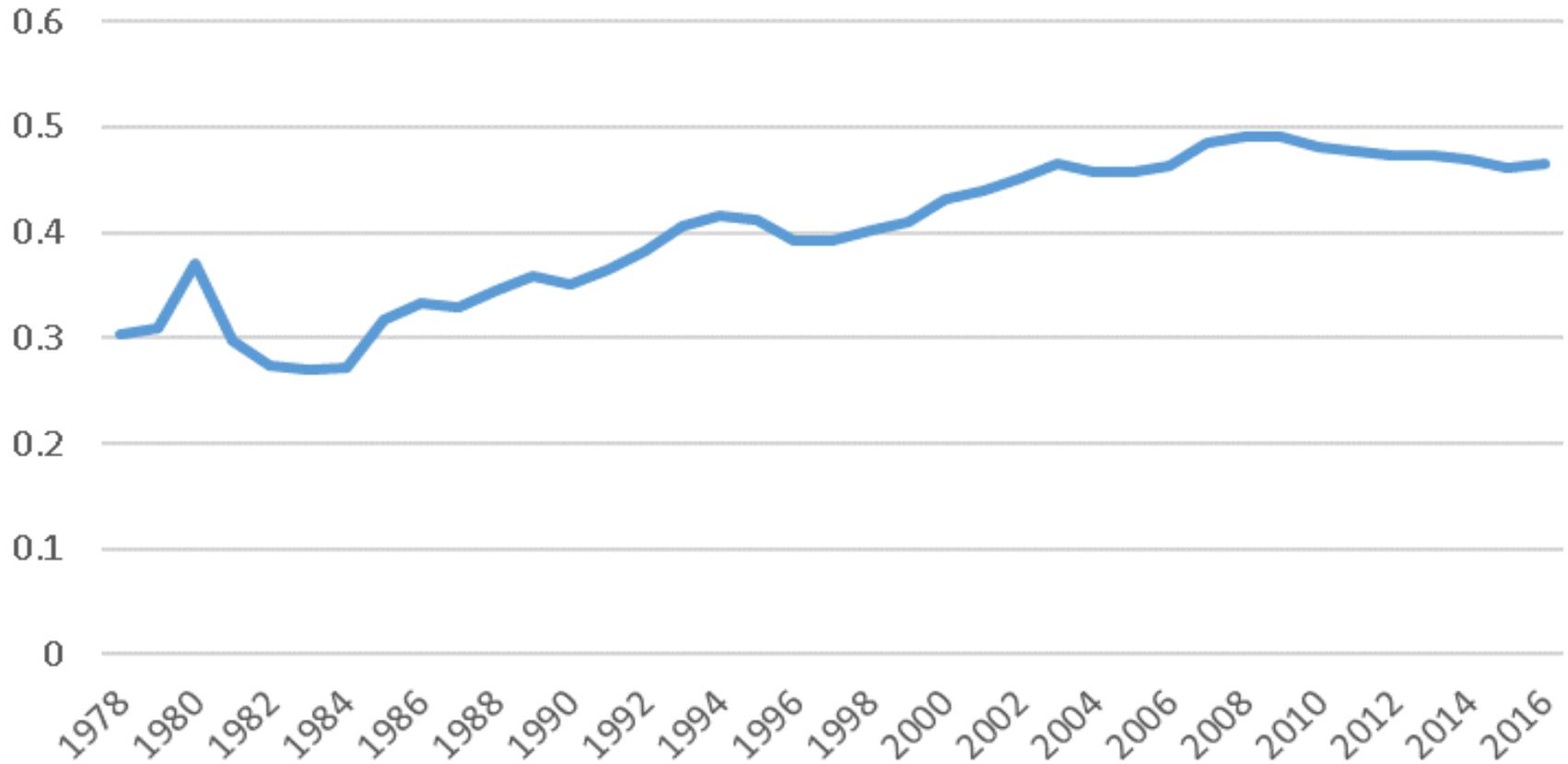
Gini Index U.S.A.



Source: Census

<http://www.economicpopulist.org>

China's Gini Coefficient

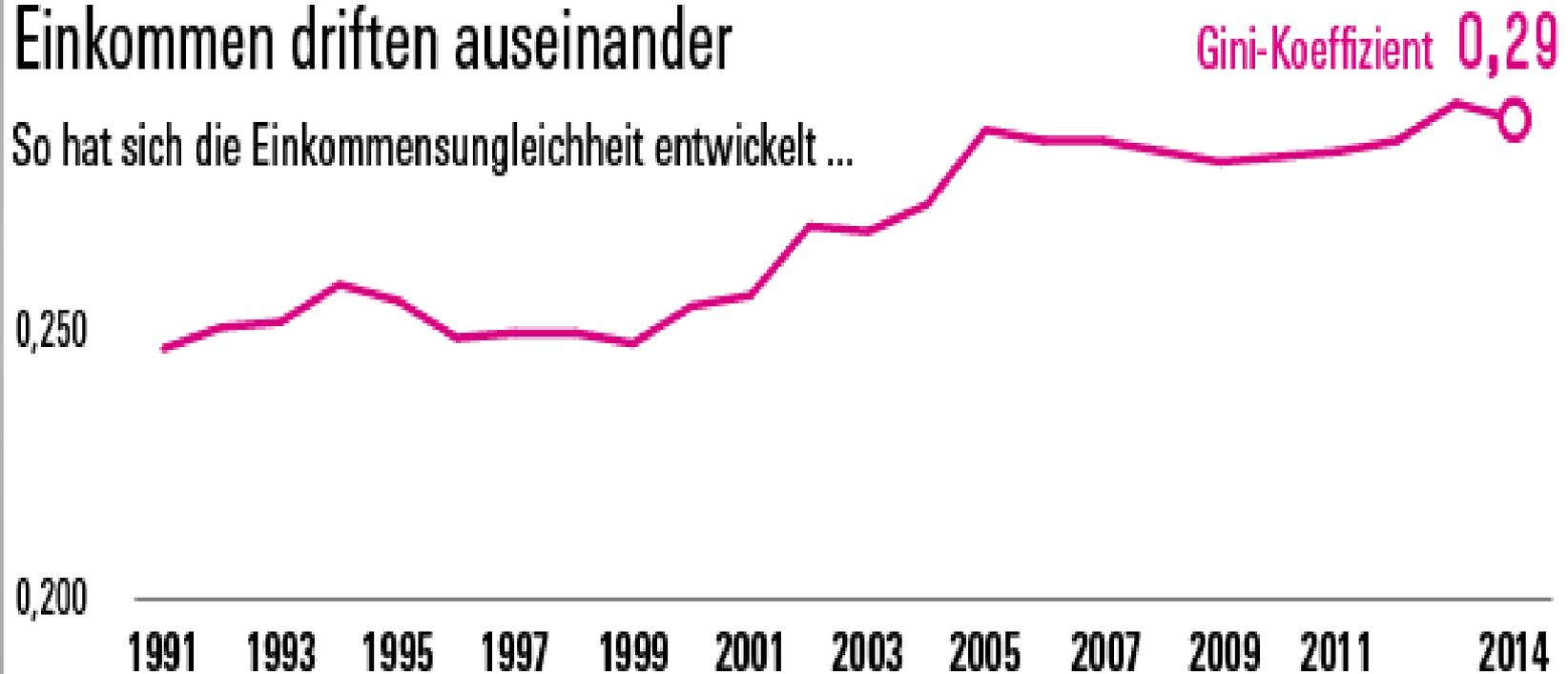


<https://fee.org/articles/a-lesson-from-china-on-poverty-reduction-and-inequality/>

Gini coefficient Germany, disposable income

Einkommen driften auseinander

So hat sich die Einkommensungleichheit entwickelt ...



Je höher der Koeffizient, desto ungleicher die Verteilung. Der größtmögliche Wert ist 1.

Quelle: SOEP 2016

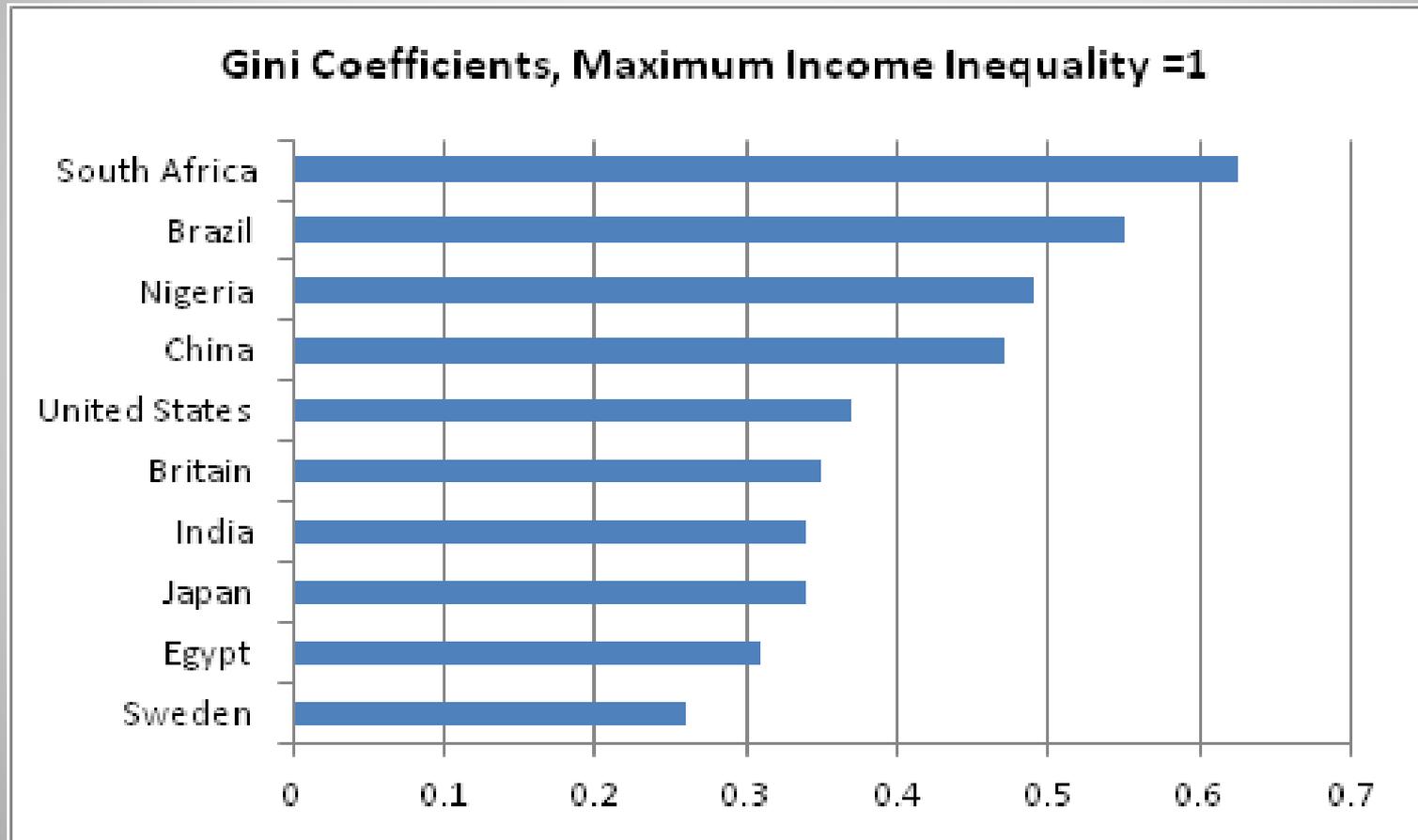
Wealth distribution

Shares of different groups in total capital	Medium inequality (Scandinavian countries, 1970s-1980s)	Medium high inequality (Europe, 2010)	High Inequality (USA, 2010)	Very high inequality (Europe 1910), Expected USA 2030
Top 10% (upper class)	50%	60%	70%	90%
Including the top 1% (dominant class)	20%	25%	35%	50%
Including the next 9% (well-to-do-class)	30%	35%	35%	40%
Middle 40% (middle class)	40%	35%	25%	5%
Bottom 50% (lower class)	10%	55%	5%	5%
Corresponding Gini coefficient	0.58	0.67	0.73	0.85

Note: Europe includes the European Union and the Russia-Ukraine block

Source: Piketty (2014)

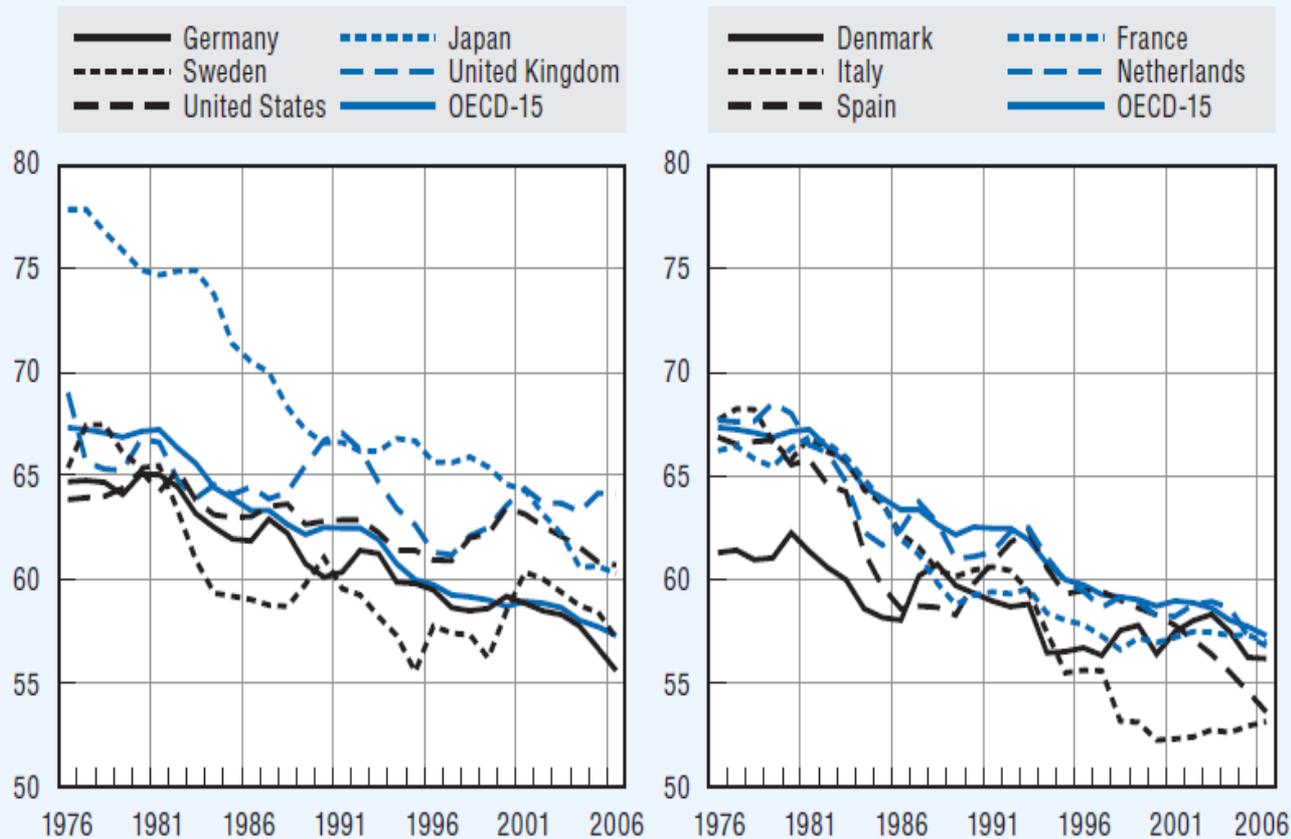
Gini coefficient 2005



Effects of high inequality

- Negative demand effects
(rich have a higher propensity to save than poor)
- Negative supply effects
(Low expenditure for education, health, etc.)

The share of wages in value added



StatLink  <http://dx.doi.org/10.1787/420767282661>

Note: Total wages are measured as total compensation of employees and the self-employed (valued at the business sector compensation rate). Total wages are expressed as a share of the Gross Domestic Product. OECD-15 is the average of the ten countries shown plus Austria, Belgium, Finland, Greece and Ireland.

Source: OECD (2007).

Explanation of functional income distribution

- Neoclassical marginal productivity theory of distribution

Each factor of productions gets its fair share

Marx, Keynes, Kalecki – all three believed in exploitation

“I sympathise, therefore, with the pre-classical doctrine that everything is *produced by labour*. (...) It is preferable to regard labour, including, of course, the personal service of the entrepreneur and his assistants, as the sole factor of production, operating in a given environment of technique, natural resources, capital equipment and effective demand.” (Keynes 1936: 214)

Marx: Real wage is given remaining part of value creation is surplus

Let us listen to Karl Marx (Capital 1867: 120f.):

“The value of labour-power is determined, as in the case of every other commodity, by the labour time necessary for the production, and consequently also the reproduction, of this special article. (...) .. natural wants, such as food, clothing, fuel, and housing, vary according to the climatic and other physical conditions of his country. On the other hand, the number and extent of his so-called necessary wants, as also the modes of satisfying them, are themselves the product of historical development, and depend therefore to a great extent on the degree of civilisation of a countrythere enters into the determination of the value of labour-power a historical and moral element. Nevertheless, in a given country, at a given period, the average quantity of the means of subsistence necessary for the labourer is practically known.”

Keynes : First the profit rate is given, then functional income distribution follows

Sraffa (1960: 33), following Keynes, suggests that "the rate of profits (...) is (...) susceptible of being determined from outside the system of production, in particular by the level of the money rate of interest."

The interest rate can be explained by monetary policy and process in the asset market.

A variable can be introduced expressing the power of the financial sector or the degree of financialisation.

In the most simple way the profit rate is determined by

$$q = i_r + l_r + b$$

All variables in per cent

q: profit rate, i_r : refinancing rate of central bank, l_r : interest rate spread, b: power of financial system

Kalecki: interest and rent-seeking

Michal Kalecki (1965) built his whole profit theory on oligopolistic and monopolistic markets. According to him, the degree of monopoly depends on several factors, which include

- the degree of economic concentration in an industry,
- the degree of non-price competition
- the bargaining power of trade unions (which are able to get some of the rents in oligopolistic or monopolistic markets)

Financialisation and rent-seeking changes functional income distribution

Financialisation and inequality

Joseph Stiglitz (2012: 107)

“A central thesis of this book is that rent seeking is pervasive in the American economy, and that it actually impairs overall economic efficiency.”

Colin Crouch (2016: 62) notes: “It is further evidence that dominant contemporary ideology is corporate, rather than free-market, neoliberalism; the lobbies loom larger than the ideology.”

Policy consequences to increase wage share

- **Control of the financial system**
 - Go back to stakeholder corporate governance
 - Cut management salaries
 - Go back to boring banking
 - State- and collectively owned banks
- **Fight against rent-seeking**
 - Tax rents
 - Anti-cartel policy
 - Create transparency
- **Increase wages**
 - Kalecki case –
 - Otherwise difficult because of inflation

Other policies

Reduce wage dispersion

- free wage bargaining and strong trade unions
- extension mechanisms
- statutory minimum wages

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Redistribution policies

- tax policy
- pay-as-you go pension system
- transfers

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Impoverishment of the working class did not happen

- In the Manifesto Marx and Engels believed in impoverishment of the working class:

“The modern labourer instead of rising with the progress of industry, sinks deeper and deeper below the conditions of existence of his own class [...]. The bourgeoisie is unfit to rule because it is incompetent to assure an existence to its slave within its slavery.” (Marx / Engels Manifesto 1848: 19)

- Marx in the Capital introduced a “moral” element in real wage determination but did not expect a substantial increase of the living standard of the masses
- **In the second half of the 19th century and later the living standard of the working class as a whole substantially increased**

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The presentation is based on:

- [Herr, H. \(2018\): The Communist Manifesto – What can we learn today for a country like Vietnam?, IPE Working Paper 98/2018](#)
- [Herr, H. \(2018\): Karl Marx's thoughts on functional income distribution – a critical analysis, IPE Working Paper 101/2018.](#)