

# Not Dualism but Trialism Matters

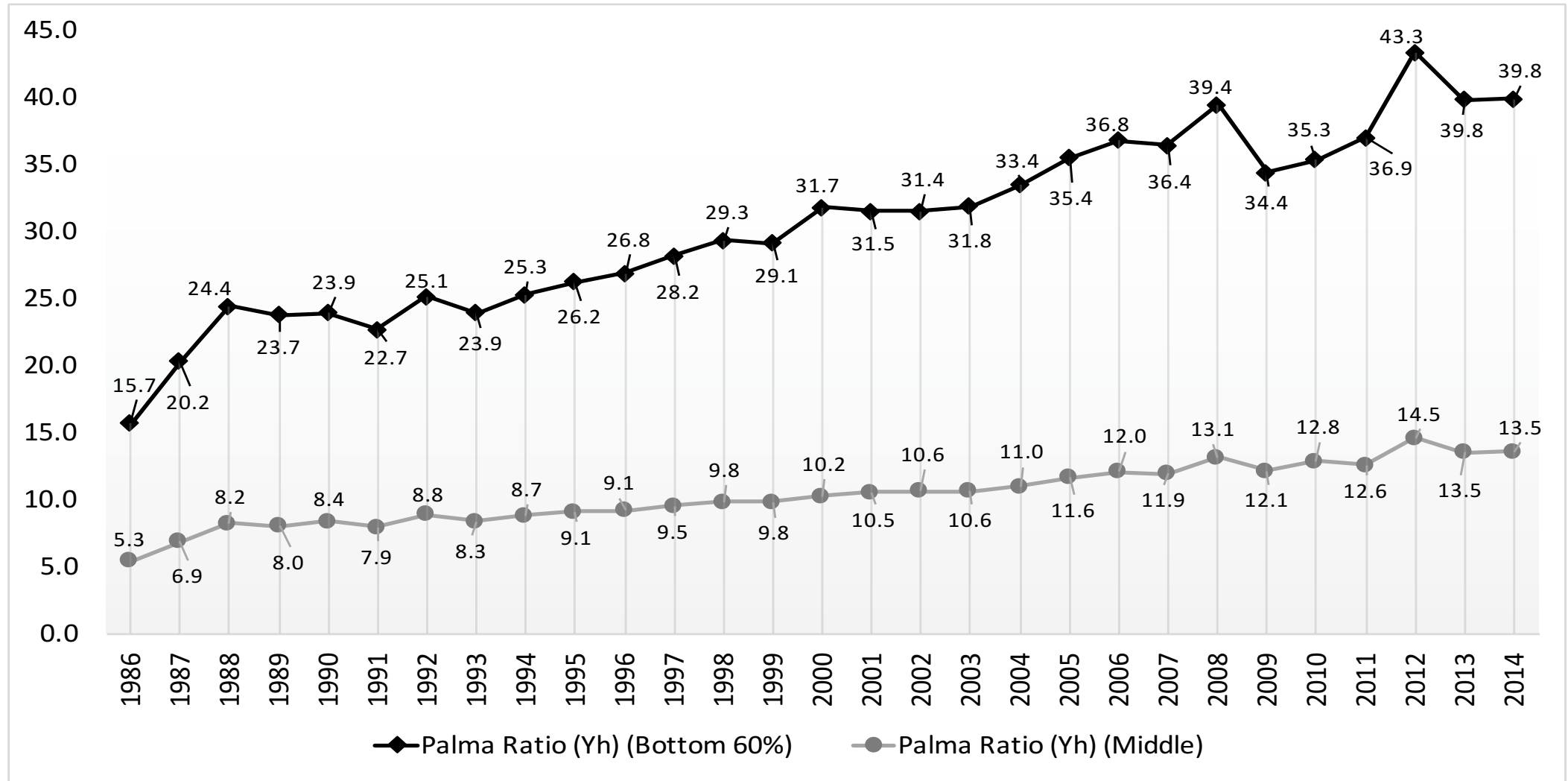
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INET Edinburgh 23 October

# Triality in the US Economy

- Based on the well-known CBO distribution study, NIPA, and Fed financial data, the USA has a three-class economy.
- Main income sources of top 1% of households are from capital gains, proprietors' incomes, interest, and dividends. Including capital gains they have a 50+ % saving rate, and 40% of total wealth.
- Households between the 60<sup>th</sup> and 99<sup>th</sup> percentiles get 70% of their income from wages, ~10% each from fiscal transfers, finance, and proprietors' incomes. They save less than 10%, and hold 60% of wealth (mostly housing).
- Bottom 60% get almost 50% of income from wages, 45% from government transfers. They have negative reported saving (true for other OECD economies), negligible wealth.

# Figure 1a: Palma Ratios Based on total Income per household using CBO data



# Figure 1b: Palma Ratios Based on Disposable income per household

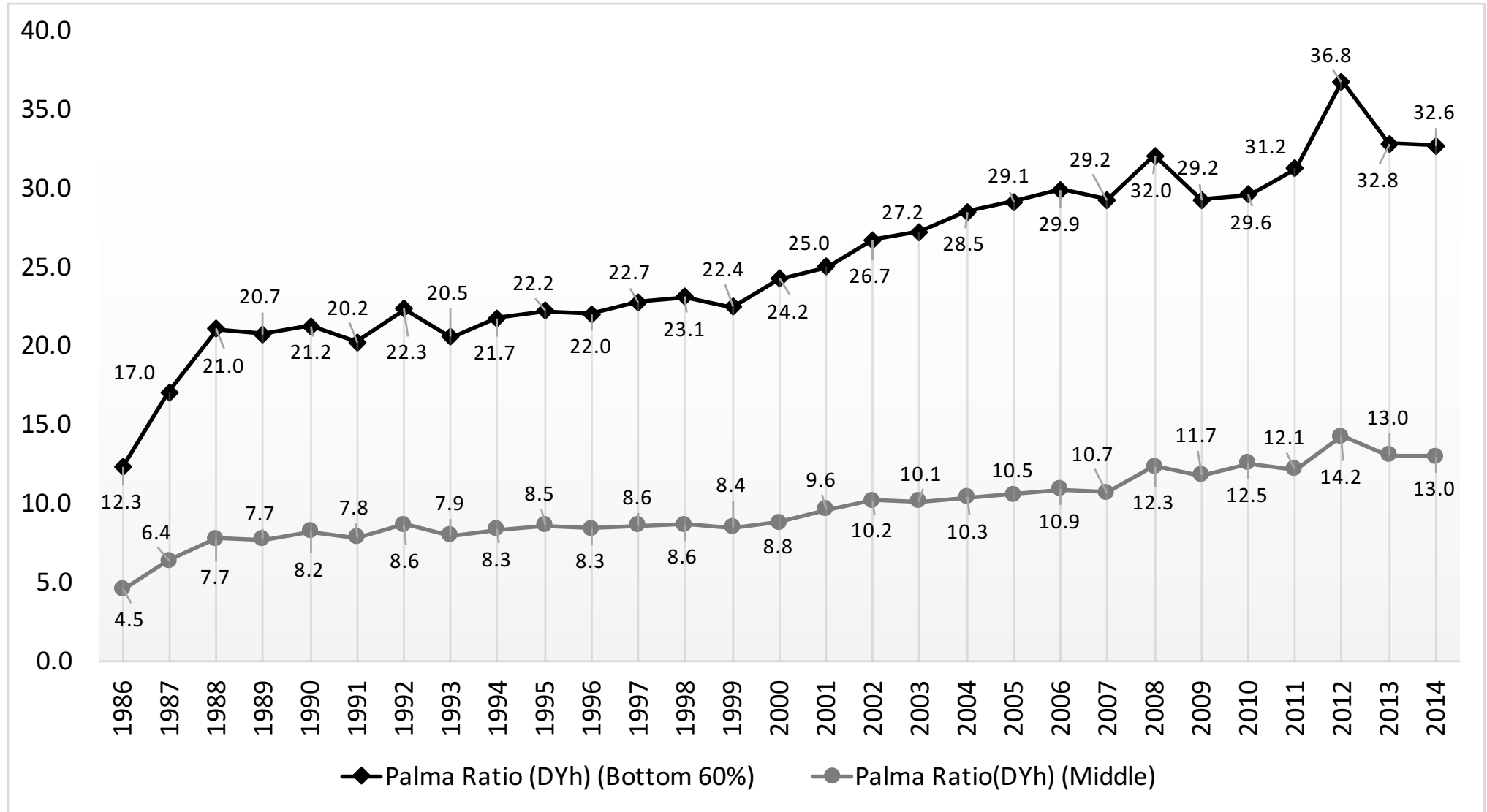


Figure 3: Real per Household incomes top 1%

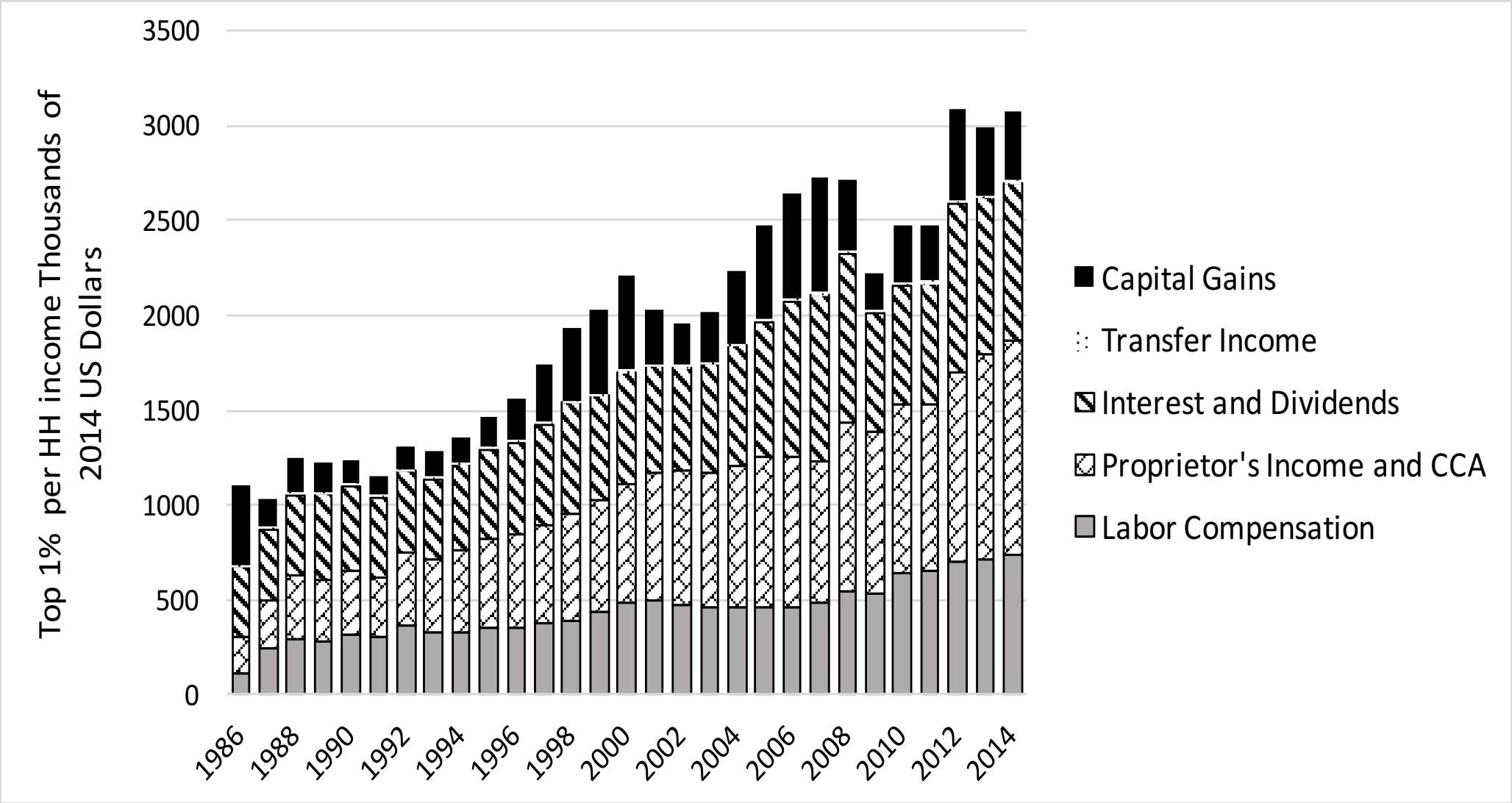
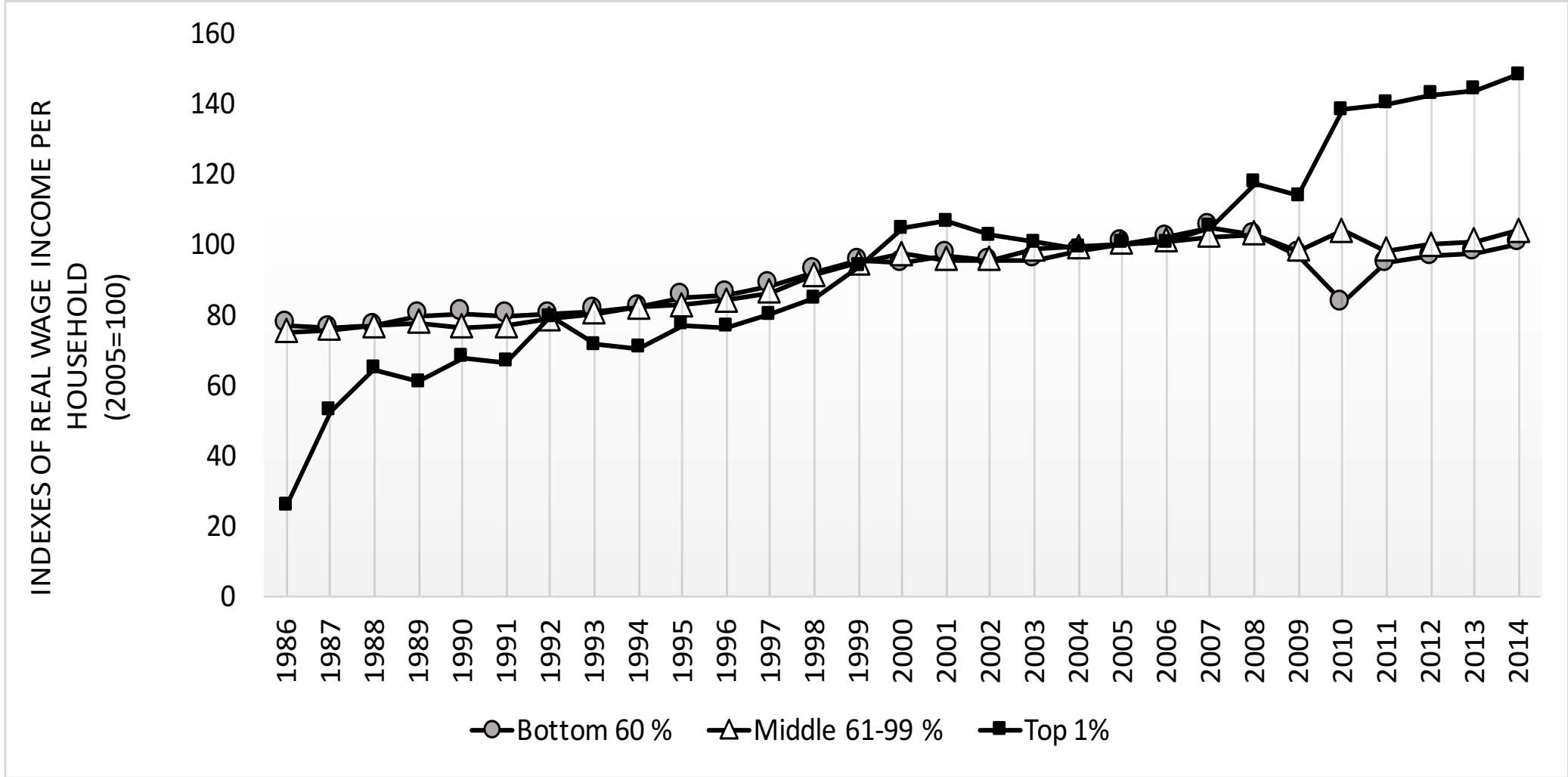
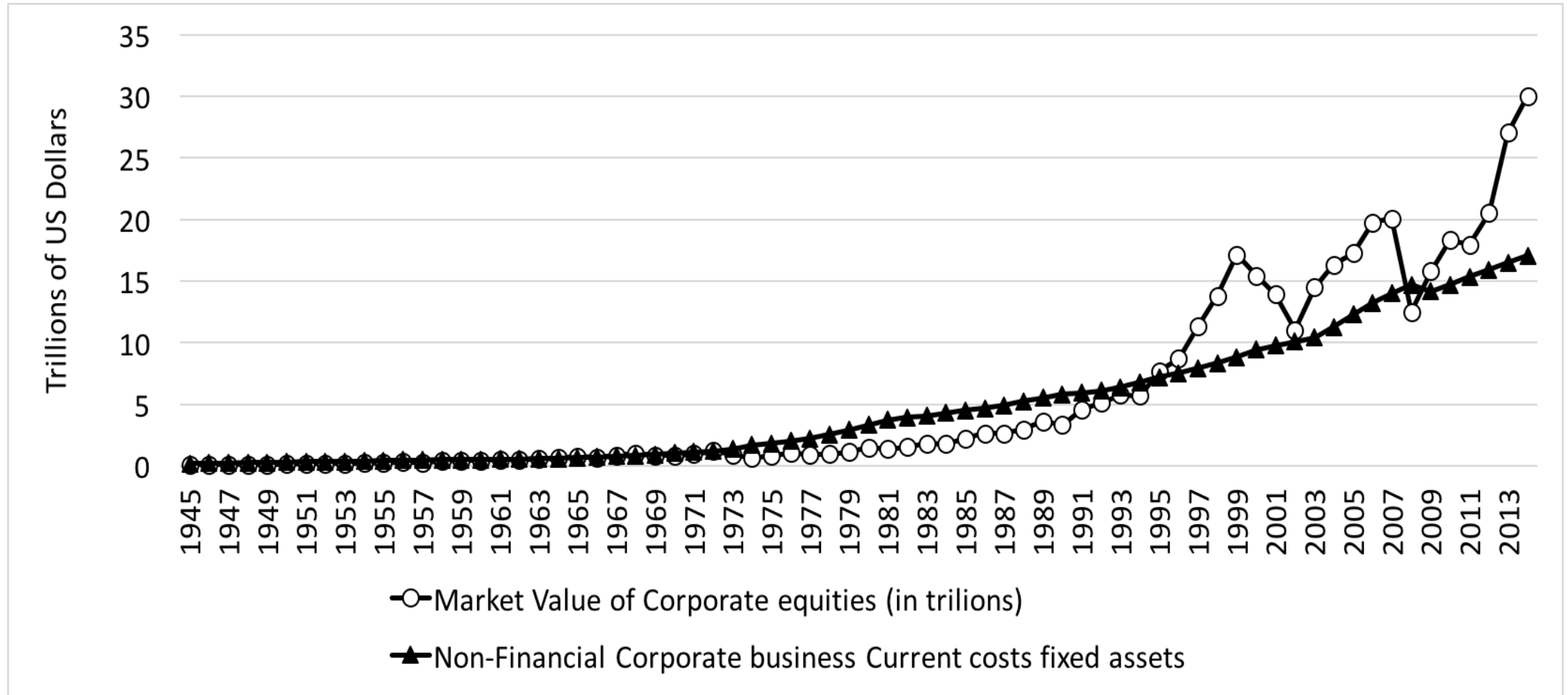


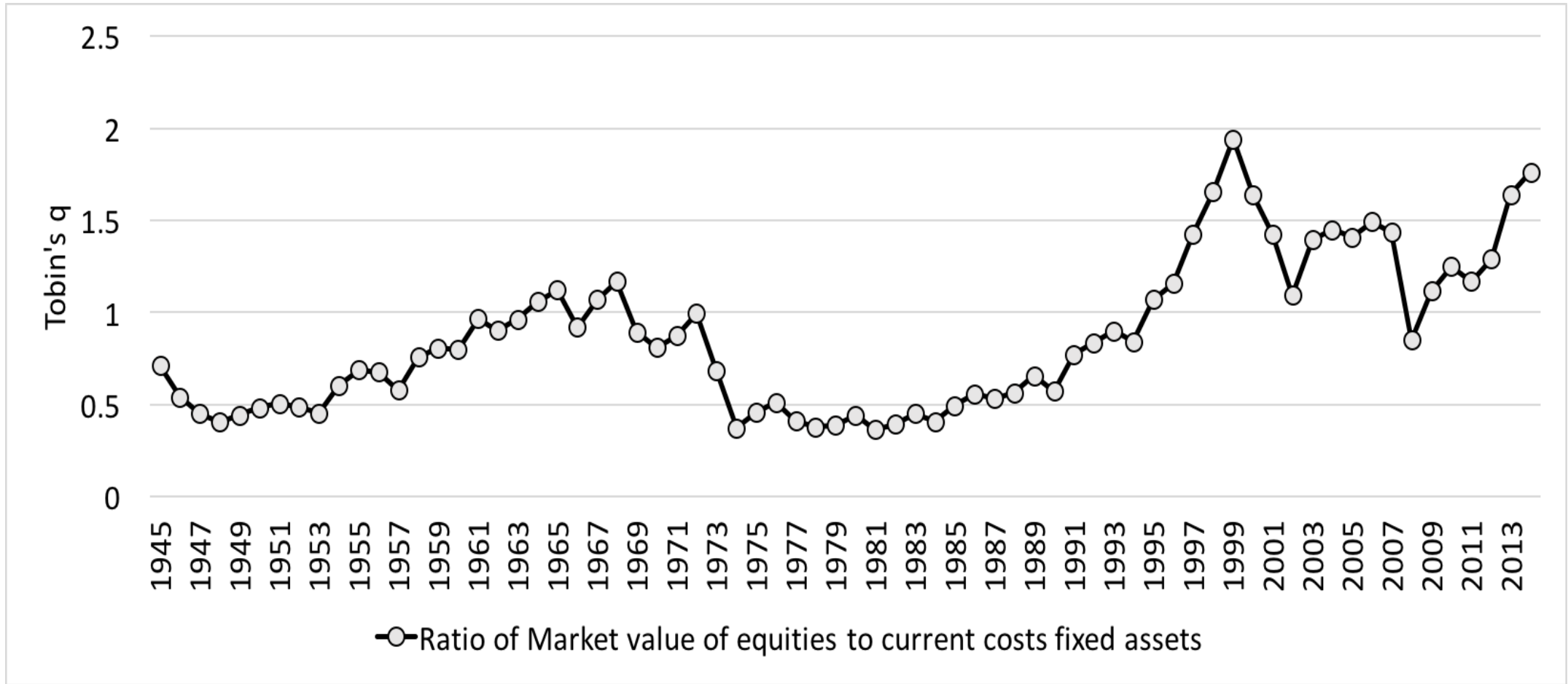
Figure 4: Indexes of Labor Compensation



# Figure 5: Determination of Business Sector Valuation Ratio $q$



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## Figure 6: Distribution of Wealth , 2014

2014 (in Trillions)	CAPITAL		Debt securities	Other financial assets	Equity and investment funds share	Net Worth
	Real Estate	Other				
All Households	23.67	0.32	3.06	19.00	32.93	78.97
Lower 60%	2.08	0.02	-0.32	-1.99	1.02	0.81
Middle 61-99%	15.37	0.16	2.51	15.61	9.96	43.60
Top 1%	6.22	0.15	0.86	5.38	21.95	34.56
Firms	21.67	7.78	-4.93	1.54	-19.80	6.26
Gov't	11.11	0.99	-16.04	-1.64	0.52	-5.05
Financial Business	1.03	0.57	10.55	-12.09	-1.10	-1.04
ROW	-		7.36	0.75	-2.42	5.69
Col.sum	57.48	9.67	0.00	7.55	10.13	84.83
DISAGGREGATION OF HOUSEHOLDS						
	REAL ESTATE SHARE	OTHER CAPITAL SHARE	DEBT SECURITIES SHARE	OTHER FINANCIAL ASSETS SHARE	EQUITY & INVESTMENT FUNDS SHARE	NET WORTH SHARE
Bottom 60%	8.79%	5.58%	-10.48%	-10.48%	3.10%	1.02%
61-99%	64.94%	48.44%	82.18%	82.18%	30.24%	55.22%
Top 1 %	26.26%	45.97%	28.30%	28.30%	66.67%	43.76%

# How do these data relate to Servaas's paper?

- Basic model was anticipated by Codrina Rada in her New School thesis – the key idea is that people in the stagnant sector have to gain income somehow. Are they the bottom 60%?
- Is demand in dynamic sector wage- or profit-led? You need the latter if stronger Kaldor-Verdoorn effects are to lead to faster employment growth, pulling labor out of “mediocre jobs”. With wage-led demand, faster productivity growth will lead dynamic sector employment to fall.
- Schultz-Sen debate (1960s): does stagnant sector output fall if labor departs? Sen said “No” because of job-sharing, i.e. labor productivity varies inversely with employment.

# Servaas II

- But then a wage-led dynamic sector can go together with a Sen effect to produce a low-level trap.
- Offsets can include expansionary policy in the dynamic sector, policies to promote productivity growth in the stagnant sector (China's "land reform" of the 1970s).
- Policy coordination matters. Beyond "policy" as understood by economists, do institutional steps to offset monopoly power (prices rise against wages, now popular idea in the mainstream) and labor market monopsony (wages fall against prices – Servaas's Greenspan quote).

# Mario I

- Nice institutional-historical analysis, drawing on Polanyi *père et fille*. But let me worry about the numbers regarding income support.
- In 2014, US transfers from government (all levels, all 60 programs including Social Security, Medicare, Medicaid, ...) to the 3 classes were bottom 60%, \$1.92 trillion; middle class, \$550 billion; top 1%, \$20 billion.
- US working age population is around 200 million. If they were to receive \$10,000 each, the total would be \$2 trillion, in the range of existing programs.

# Mario II

- Of course, some programs could be cut back. But as Mario observes (and as has long been emphasized in the literature on poverty) there are complicated issues of taxation.
- Annual social security payments to somebody (like me) who throughout life has been at the cut-off earnings level are around \$40,000. To get to even a quarter of that level, major fiscal engineering would be required.

# Bill I

- Perfectly correct in noting the surge in stock-based pay since around 1980. On the other hand, total labor compensation of the top 1% is comparable to capital gains, and less than proprietors' incomes, and interest and dividends. Their "wages" are not the dominant income source.
- The key point is that the top 1% basically relies on income from capital broadly interpreted, while the lower classes rely on wages and transfers. [In econophysics, Barkley Rosser and Victor Yakovenko argue that the size distribution shifts from Boltzmann-Gibbs (exponential) to Pareto at around the 98<sup>th</sup> percentile, so maybe the "capitalist" class is bigger than 1%.]

# Bill II

- An important point is that maximizing shareholder value (MSV) is more than a prescriptive theory of the firm – it is a powerful ideology which justifies non-altruistic behavior [see for example Karen Ho's *Liquidated*, an ethnography of Wall Street which describes how traders fall back on “creating value” as a justification for anti-social behavior].
- Can “innovative enterprise” replace MSV as an ideology to sustain widespread changes in business behavior? Let's leave it as a question.

# Mariana

- If innovative enterprises are to be stimulated, public sector involvement has to enter. We are back to Hamilton, List, Gerschenkron, and Amsden.
- I can't add much to Mariana's discussion except to point out traditional tools of industrial policy – cut unit labor cost by raising productivity, not reducing wages; seek cost reduction by exploiting increasing returns (a point that Lazonick also makes), search for products and processes with growing demand.
- Indeed, employment growth is impossible unless growth in demand outstrips productivity – not necessarily easy to attain.



In closing, take a look at the following slides based on a Goodwin-Kaldor-Pasinetti simulation model

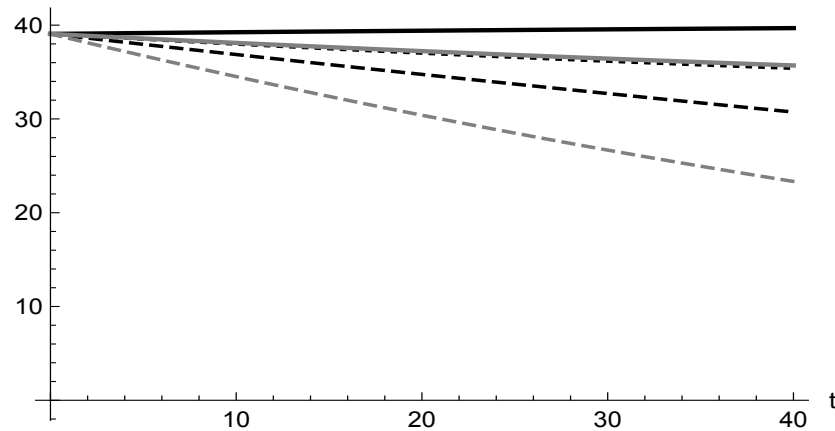
- Palma ratios will not come down unless (i) wage growth for lower income groups exceeds productivity growth, (ii) proprietors' income for the top 1% falls; financial transfers to the top 1% fall.
- Even so, the wealth share of the top 1% will rise from 40% to around 60%. A possible offset could be a wealth fund, possibly financed by a capital gains tax, which transfers money downward and builds up its own resources which could be used to finance innovation à la Lazonick and Mazzucato.

# Palma ratios for combined effects of real wage growth for non-rich households and downward trends in financial and proprietors' incomes for the top one percent.

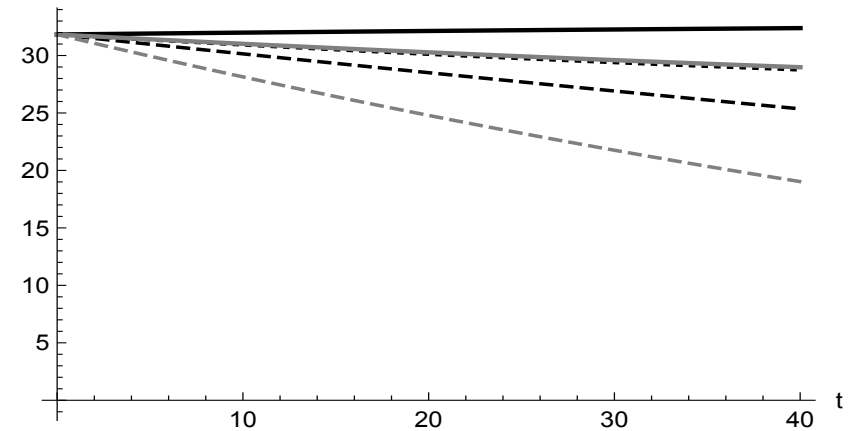
Balanced Growth vs Wage Growth vs Proprietors' income vs Interest–dividends scenarios

— Baseline    - Wage Growth:  $\omega_{01} = 1.75\%$ ,  $\omega_{02} = 1.75\%$ ,  $\omega_{03} = 0$     .... 1% decline in  $\xi_3$  per year    — 1% decline in  $u_3$  per year    - - Combined effect

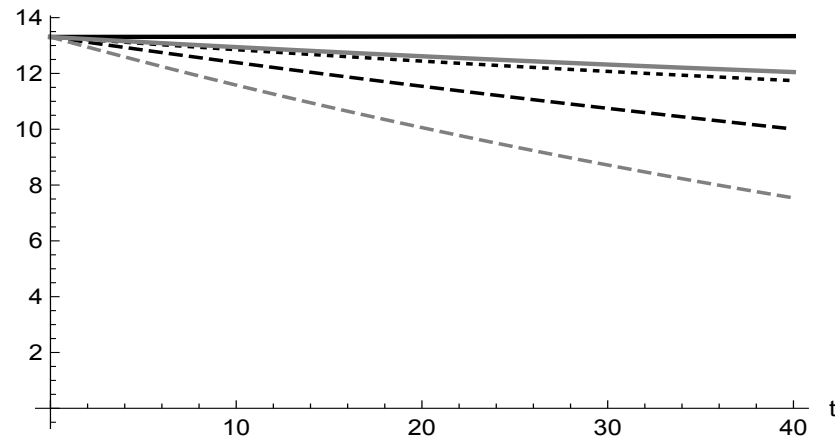
p1) Palma Y3/Y1



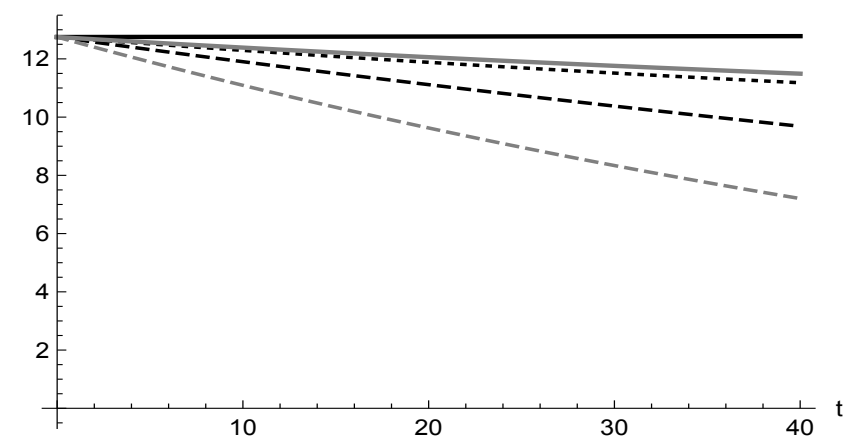
p2) Palma DYh3/DYh1



p3) Palma Yh3 / Yh2



p4) Palma DYh3 / DYh2

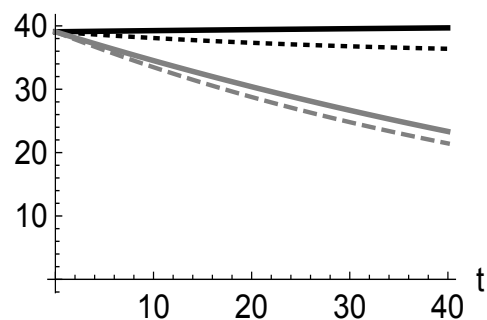


# Palma and wealth ratios from combined distributive policies and a wealth fund with a 50% tax on capital gains which transfers 2% of its assets to the bottom sixty percent of households

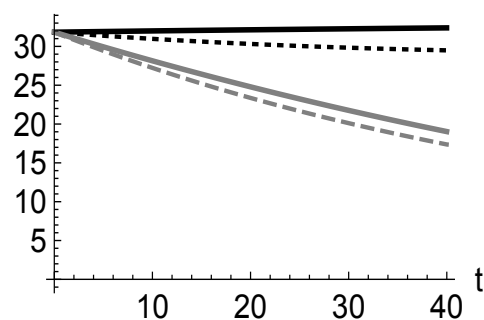
Baserun vs Policy Scenarios

— Baseline    ..... Wealth Fund Transfer    — Combined Policies    - - - Wealth Fund Transfer & Combined Policies

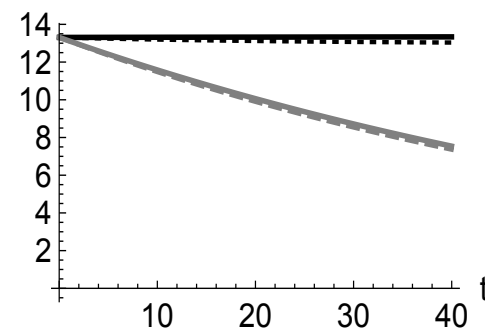
p1) Palma (Yh3/Yh1)



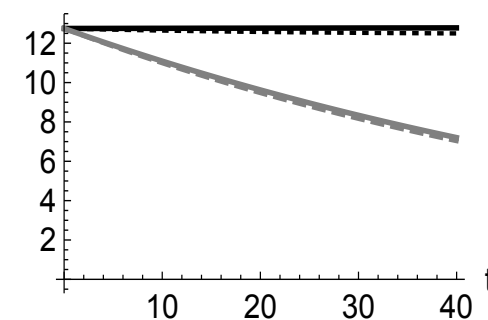
p2) Palma (DYh3/DYh1)



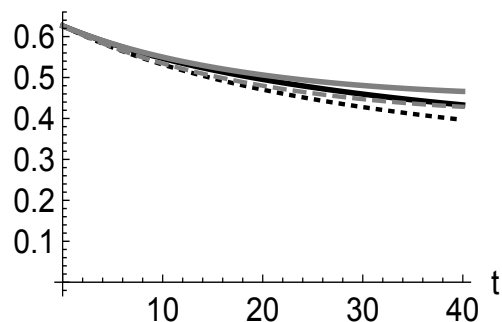
p3) Palma (Yh3/Yh2)



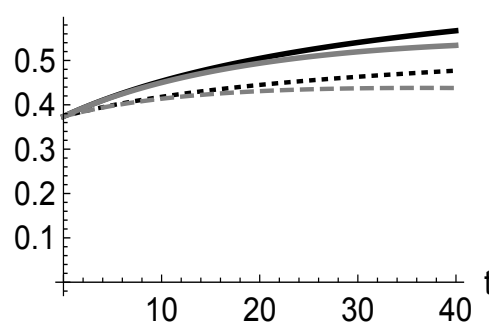
p4) Palma (DYh3/DYh2)



s1) Middle Class Wealth Ratio



s2) Top 1 % Wealth Ratio



s3) Wealth Fund's Wealth Ratio

