

Labour share decline, financialisation and structural change

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The purpose of this article is to explain the determinants behind the decline of labour share in the last three to four decades in OECD countries. In our view, this decline was determined by financialisation and was deepened by the structural changes that occurred almost simultaneously in those economies. Financialisation, or finance-dominated capitalism, from the 1980s onwards, was a key element in the strategic offensive of the advanced countries' dominant classes to appropriate higher shares of national income and to restore their control over the political process, a control that had been threatened by a generalised advancement of the labour movement in the 1970s. The development of a finance-dominated capitalism was helped by the process of globalisation, which affected not only OECD countries but also many others. A new, though unstable, macroeconomic model emerged, which we will call financial capitalism. In financial capitalism, trade unions lost power vis-à-vis capital, labour flexibility increased enormously, and a structural change from manufacturing to services was accelerated in rich countries. This resulted in negative consequences for labour share and income inequality. After having provided a theoretical discussion of the determinants of the compression of the wage share, making reference to the relevant literature, we submit our hypotheses to empirical scrutiny, performing a panel data analysis on 28 OECD Countries. The results of the estimations provide support to the theoretical argument.

Key words: Labour share, Financialisation, Structural change, Globalisation, Labour flexibility

JEL classifications: E12, E44, D33, J41

1. Introduction

The purpose of this article is to explain the determinants behind the decline of labour share in the last three to four decades in OECD countries. In our view, this decline was determined by financialisation and was deepened by the structural changes that occurred almost simultaneously in those economies. Financialisation, or finance-dominated capitalism, from the 1980s onwards, was a key element in the strategic

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offensive of the advanced countries' dominant classes to appropriate higher shares of national income and to restore their control over the political process, a control that had been threatened by a generalised advancement of the labour movement in the 1970s. The development of a finance-dominated capitalism was helped by the process of globalisation, which affected not only OECD countries but also many others. A new, though unstable, macroeconomic model emerged, which we will call financial capitalism. In financial capitalism, trade unions lost power vis-à-vis capital, labour flexibility increased enormously, and a structural change from manufacturing to services was accelerated in rich countries. This resulted in negative consequences for labour share and income inequality. The decline of labour share and the increase of inequality negatively affected aggregate demand and GDP dynamics. Since the financial crisis of 2007–08, recovery has been slow because it has been driven by the very same difficulties that generated the crisis, that is low wages, higher profit share and a low level of investment in the productive sector. Instead, financial speculation and wastage of assets, short-term strategies in the financial sector and shareholder value maximisation are still the main principles, guiding behaviour in a finance-dominated capitalism. Although financialisation does not appear to be a temporary phenomenon, we believe it does not constitute a permanent model either, as we will argue in Section 3. Financial capitalism is not a stable model for economic development or macroeconomics because it is subject to recurrent boom and bust and to uneven development. However, it may be reinvigorated and supported in the economic systems by political and economic forces. The negative consequences of financial capitalism can be offset by specific features of the welfare models in each country. At least three variations can be identified:

1. The Scandinavian model, where the cost of financialisation was supported by the efforts of the state, which, to some extent, contained the decline after tax of labour share and increasing inequality through a generous welfare policy and a progressive tax policy.
2. The coordinated market economy model (most Continental European countries), where tighter financial regulation and more capital-intensive strategies in the manufacturing sector vis-à-vis the financial sector contained, to some extent, the fall in labour share and growing inequality.
3. The Anglo-Saxon model, where both financialisation (i.e. finance-dominated capitalism) and structural change (i.e. deindustrialisation and service orientation) were deeper, with negative consequences for income distribution and inequality; plus the Mediterranean countries and the Central and Eastern European countries (CEEC), which represent a hybrid.

The rest of the article is organised as follows:

Sections 2 and 3 will be devoted to an analysis of financialisation and finance-dominated capitalism in the literature.

Section 4 will provide some evidence of structural changes, financialisation and trends in labour share in the sample of countries under analysis. It will also provide a theoretical discussion of the determinants of the compression of the wage share in our model, making reference to the relevant literature.

Section 5 will present an econometric model and synthesise the main determinants of labour share decline. The last section will conclude the article.

2. Concepts and discourses of financialisation

According to Krippner (2005), financialisation can be identified as a political economy phenomenon where there is a growing dominance of capital financial systems over bank-based financial systems. Epstein (2005, p. 3) refers to financialisation as ‘the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of domestic and international economies’. Hein (2017, p. 2), who uses *financialisation* and *finance-dominated capitalism* interchangeably (terms that will also be used here), argues that it can be analysed from several perspectives: ‘the deregulation of the financial sector and the rise of shadow banking, the ascendance of shareholder dominance at the firm level, the financialisation of everyday life, and the emergence of several macroeconomic regimes under the dominance of finance, among others’.

The process of financialisation culminated, according to the Bank for International Settlements, in a daily volume of foreign exchange transactions of around 2 trillion dollars in 2006, just before the financial crash in Summer 2007. This amount is more or less equivalent to the GDP of France. In contrast, in 1989, this volume was about 500 billion dollars per day (BIS, 2013).

Financialisation can be defined and described from different perspectives, which will be elaborated later, including:

1. from the financial sector point of view, with the huge compensations and bonuses paid to managers;
2. from the housing sector perspective, with its connections to the insurance companies and mortgage lenders;
3. from the CEO’s and shareholder’s viewpoints;
4. from a corporation’s point of view, with its interests in expansion and global markets;
5. from the viewpoints of emerging countries, which are considered countries of opportunity because of their large and relatively unexploited markets;
6. from Wall Street and other stock exchanges’ points of view, with their main interests in whatever investments bring higher returns, higher profits and higher value shares;
7. from the hedge funds’ point of view, where speculation more than investments is the main driver of behaviours, and financial asset accumulation is the main objective to affect financial markets and government decisions;
8. from the government and policy perspectives, where financial markets are left as unregulated as possible and free to move capital,

and the list could go on.

In all these cases and perspectives, the features of financialisation are consistent and constitute a specific model: the financial capitalism (or the finance-dominated capitalism) model. This model differs from the one in place in advanced economies before the 1970s. This model first considers financial markets and financial expansion as the drivers of economic growth and asserts that policies and institutions should allow for that expansion. It also considers dividends, share values, financial assets, returns and profits as the main incentives for investors who, in most cases, are anonymous and completely disconnected from real industrial production. Therefore, the model also considers labour and wage compensation as costs that need to be restrained as much as possible because they are seen as an ‘obstacle’ that needs to be overcome to fit with the needs of business and investors.

CEO wages in financial capitalism, on the other hand, depend on the increase in value of the company's shares and on the short-term performance of those shares on the stock exchange. Differences in CEO wages¹ between financial capitalism and the previous regime, which can be called 'Fordist capitalism', are significant. In 1950, the average American chief executive was paid about 20 times as much as the typical employee in his firm. Today, the pay ratio between the corner office and the shop floor is more than 500 to 1, with many CEOs making even more. In 2011, Apple's Tim Cook received 378 million dollars in salary, stock and other benefits. This amount was 6,258 times the wage of an average Apple employee (60,000 dollars). In 2012, Walmart's chief executive was paid more than 23 million dollars, whereas a typical Walmart employee earns less than 25,000 dollars per year.

This could be interpreted as the return of a 'patrimonial society' (of the time of Balzac and Austin), as [Piketty \(2014\)](#) stated: a small group of wealthy rentiers live lavishly on the fruits of their inherited wealth and huge amount of land, while the rest struggle to keep up. The patrimonial society today is the financial class. For the USA, in particular, this would be a cruel and ironic fate. The egalitarian pioneer ideal has faded into oblivion, and the rich countries of today may be on the verge of becoming the Old Europe of the twenty-first century's globalised economy.

Before the financial crash of 2007, generous monetary policies were in place. These policies increased opportunity in the financial sector. Increased speculation, value shares, asset prices and dividends contributed to the financial bubble, which allowed a boom in the housing sector and huge growth in the insurance sector linked to housing. This lasted until shortly before the bubble burst in 2007. After that, with the objective of restoring confidence and revitalising investments and financial markets, more generous monetary policies were restored through massive injections of liquidity into the financial markets, known as quantitative easing (QE). These policies were implemented by the central banks of most advanced countries (the FED, the Bank of England and the Bank of Japan initially, the European Central Bank a little later). Generous policies and QE favoured financial speculations more than real investments and, unsurprisingly, did not allow for the well-known 'Keynes effect' to take place,² resulting in minor consequences for GDP growth and employment. On the contrary, the gap between financial compensation in the financial sector and labour compensation widened further and income inequality worsened after the crisis. This is because, in financial capitalism investment, behaviour is driven not only by macroeconomic policies but also by discourses and narratives the financial markets find appealing. These discourses convince speculators, hedge fund owners and managers through feelings and perverse 'animal spirits' ([Ertürk et al., 2008](#)).

In this context, housing also became an asset in which to speculate in financial capitalism. In many cases, houses are bought not only to live in, as usually happened in the Fordist period, but also as an asset on which to speculate and expect higher returns, in some cases causing the price to increase (see, e.g., [Kotz, 2008](#)). Moreover, expenses for social housing decreased hugely among advanced economies in the last two to three decades, favouring room for private business ([Harvey, 2005](#)) and higher remuneration

¹ See, for example, [Lazonick and O'Sullivan \(2000\)](#), [Piketty \(2014\)](#) and [Van Der Zwan \(2014\)](#).

² See [Lavoie \(2014, pp. 286–7\)](#) for a survey of post-Keynesian critiques of the functioning of the 'Keynes effect'.

in the sector. In these cases, as in many others, conflicts of interest between governments and corporations involved in the housing business (insurers, mortgage lenders, construction companies) are clear.

From 1980, the establishment of a finance-dominated capitalism regime was introduced into the policy agendas of most advanced countries, in particular under the Thatcher and Reagan administrations in the UK and the USA. At first in the UK and the USA and, later, in other advanced countries, a set of neoliberal policies boosting financialisation and globalisation was implemented. These policies included deregulation of the financial sector, liberalisation of trade, capital mobility, wage flexibility, privatisation, structural adjustments, retrenchment of welfare states and the creation of a second pillar in the pension system (i.e. strongly encouraged private pension schemes).³

A proxy that we will use to describe financialisation is ‘market capitalisation’—also known as capital market value—of listed domestic companies. This is equal to the share price multiplied by the number of shares outstanding and listed on stock exchanges. Listed domestic companies are the domestically incorporated companies listed on the country’s stock exchanges at the end of the year. These companies do not include investment companies, mutual funds or other collective investment vehicles.

Figure 1 shows the increase of financialisation in advanced countries since the 1980s. It is interesting to note the trend in the market capitalisation of listed companies before and after the crisis. These data show how companies protected themselves by withdrawing from stock exchanges as the crisis began. Prior to that, financial euphoria and manias, as Kindleberger and Aliber (2005) argued, persuaded many firms to be listed on stock exchanges and to engage in speculative trading. Once the crisis of confidence, in 2007–08, dampened the euphoria, the percentage of firm capitalisation on the stock exchanges decreased dramatically, and as Kindleberger and Aliber (2005) predicted, manias have been replaced by panics. A ‘reversed V’ is clearly visible in Figure 1, with the average capitalisation in 2007, on the eve of the crisis, peaking around 115% of GDP, whereas the average in 2002 and 2008 was 73 and 56%, respectively. Today, the trend is once more towards an increase, and in some countries, market capitalisation goes well above 100% of GDP (e.g. 212% in Switzerland, around 150% in the USA, 130% in Canada, 110% in the Netherlands and 105% in Australia).

3. Consequences of financialisation

In general, financialisation can be defined as the tendency of economic actors to pursue profits through financial channels and, therefore, through the increase in the volume of financial transactions (Salento and Masino, 2013). This tendency occurred at a global level and created a global financial elite: a transnational capitalist class of financiers, bankers, CEOs and corporate managers of transnational companies able to affect political decisions and benefit from financial deregulation (Power *et al.*, 2003). In this context, the Italian scholar Luciano Gallino, who studied the transformation of capitalism in recent decades, stated that not only social conflicts and ideologies still dominate the economy (Gallino, 2012, p. 12). Within financial capitalism, the class

³ See, among others, Harvey (2005), Epstein (2005), Argitis and Pitelis (2008), Sawyer (2013) and Hein (2015).



Fig. 1. *Financialisation—market capitalisation as a percentage of GDP, 1980–2016.*
 Source: The World Bank Database.

struggle is led aggressively by the elite and, in particular, by a transnational capitalist class that works against the various parts of the lower class, with the clear objectives of favouring the accumulation of wealth, appropriating ever higher shares of national income and restoring their political power, temporarily jeopardised by the political unrest of the 1970s.⁴

The consequences of finance-dominated capitalism can be negative for the economy for several reasons:

1. First, for income distribution: financialisation brings about an increase of the profit share, but also of dividends, interest payments and financial rents, and thus a decline of the labour income share, with a strong increase in income inequality and a concentration of income in the top management salaries, in particular in the financial sector. In fact, financialisation favours the aggressive implementation of the ‘downsize and distribute’ principle, so that the only objective of corporations’ managers is to maximise and *distribute* dividends for the shareholders at the cost of squeezing production, cutting wages and *downsizing* (Cynamon and Fazzari, 2015; Van Treeck, 2015; Blecker, 2016; Palley, 2016; Hein, 2017).
2. Second, financialisation is detrimental to long-term investments (so-called patient capital) and for entrepreneurs’ ‘animal spirits’ with respect to the capital stock formation and long-term growth of the firm. This is because financialisation favours an aggressive short-term strategy among corporations’ managers, whose interests and remuneration (performance-related pay, bonus, stock options etc.) are aligned with shareholder interests, which means they are happy to be engaged in short-term, risky speculations. Financial resources could be used, instead, to increase productive investments, labour productivity, innovation, firm size and work force (Van Treeck, 2008, Tori and Onaran, 2017).

⁴ On this aspect, see also Epstein and Jayadev (2005) and Duménil and Lévy (2005).

3. Third, financialisation boosted the debt-led growth regime at different levels (country, firms, households) and the expansion of consumer credit with a tremendous increase in private debt in some countries (especially Anglo-Saxon countries, but also others such as Spain). The consequences were dangerous: financial instability and unstable aggregate demand (Galbraith, 2012; Stiglitz, 2012; Stockhammer, 2013; Hein, 2015).
4. Fourth, as far as financialisation contributes to destabilised aggregate demand and increased inequality, it prepares the ground for stagnation tendencies, that is, for the low GDP performance that advanced economies are experiencing (Hein, 2016, 2017). Stagnation is intimately related to policies and features that shaped the financial-led model, as well as to distributional factors. In the mainstream version of the story, the excess of Saving (S) over Investment (I) causes the intersection of saving and investment curves to occur at negative levels of the natural interest rate.⁵ Hence, according to Summers (2016), secular stagnation is a consequence of an excess of income going to the wealthiest part of society (resulting in inequality), which has a lower propensity to consume (Kaldor, 1955–56). In this context, the retrenchment of public spending and welfare expenditure occurring among advanced economies in the last two decades and intensifying in the years after the crisis, with the so-called austerity programmes, can only magnify the contractionary effects of the above-mentioned imbalances.
5. Fifth, financialisation accelerates structural change from manufacturing to services, with negative consequences for labour productivity. In fact, at a microeconomic level, the financialisation of firms occurred with specific behaviours and strategies, such as the continuous cutting of labour costs favoured by the introduction of flexibility in the labour market; intense financial accumulation through firms rebuying their own shares; mergers and acquisitions; and a shift towards financial activities by non-financial firms. Concerning this last aspect, more and more industrial and non-financial firms have set up parallel financial branches along with the main core of the business. These branches not only support the selling of the original products by offering consumer credit, but also make direct profits through financial activities independently of, and sometimes even working against, the industrial activity. As Blackburn (2006, p. 43) found, many American companies such as General Electric, GM and Ford not only set up financial branches to support consumer credit for their own products. Some decades ago, they entered the financial business and today make more profit from this activity than from their industrial activity (in 2004, GM gained 80% of its revenues from its financial branch; in 2005, 52% of General Electric profits were obtained through activities by the financial branch). In Europe and Japan, traditional industrial corporations in the automobile sectors behave in a similar way. Hence, industrial firms have direct experience of financial activities producing higher returns than industrial activities and decide quickly to move towards the former. In this way, deindustrialisation and structural change are accelerated even though value added and labour productivity are still very high in the industrial sector. This causes unemployment and, consequently, a growing reserve army industry, with negative pressure on a (lower) wage dynamic.

⁵ See Hein (2016) for a critique.

A much broader view of the financial accumulation process is offered by Arrighi (1994) and Braudel (1982). According to these two authors, each accumulation cycle, at its end (which is also its peak), is characterised by a phase of financialisation where financial capital, in the form of liquid funds, is abundant and dominating the phase. The main point here is that at the end of each cycle of capital accumulation, returns on productive expansion start to decline because of increased competition between capitalists. Hence, capital becomes more flexible and very liquid and so can be employed in the financial sector and speculation. Financial expansion starts and allows for another large expansion of returns. However, as Arrighi (1994) stated, this already signals a crisis: the process of capital accumulation is at its end and entering the financial expansion phase represents its last movement. It is a sign of imminent crisis, the alarm. The last financial expansion started in the 1970s at the heart of the process of accumulation, that is the USA, the hegemonic power of the last cycle of capitalist accumulation, and later in the capitalist archipelago connected with the USA, that is Western Europe, Canada, Australia, New Zealand and Japan.

This is also a period of great financial instability and recurrent financial crises. During this period, neoliberal policies are dominant; the hegemony of markets is unquestioned; and the role of the state and its participation in the market economy is diminishing. In contrast, big corporations and multinationals are often more powerful than states and governments. They are able to impose their will on other states and governments where, in the past, they were not able to except through war. Ways in which they do this include limitation of sovereignty in economic and financial issues, free trade zones, tax-free zones, free movement of capital, limitations on labour rights and trade unions, cuts in social services to increase the size of markets and privatisation of public assets in crucial and strategic sectors such as infrastructure, water, communications etc. to increase their power vis-à-vis the states.

Therefore, the global financial expansion of the last 30 years or so is neither a new stage of world capitalism nor the forerunner of a coming hegemony of global markets. Rather, it is a sign that we are in the middle of a hegemonic crisis. As such, financial expansion can be considered a temporary phenomenon that seems more or less likely to go with a bang, depending on how the crisis is addressed by the declining hegemonic power, that is the USA. The only question that remains open in this regard seems to be not whether the present global dominance of financial markets collapses, but rather how soon and how catastrophically it collapses (Arrighi *et al.*, 2003). The current global economic and financial crisis is probably one of the last dramatic stages of the financial expansion that started in the 1970s. This should anticipate the passage to another cycle and to another hegemonic power, probably in East Asia. However, as Arrighi (2014) argues, the hegemonic transition this time appears more complicated and more uncertain, and it is difficult to imagine a new and stable scenario, rebalancing power and wealth between the regions of the world.

Because the transition is longer, financialisation looks like a long-lasting and stable model. However, this cannot be taken for granted. Political forces can prolong the life of the finance-dominated capitalism model, which certainly is not a brief movement, but it appears unlikely that financialisation can be considered as a permanent model, due to the contradictions listed earlier concerning income distribution, recurrent crises, boom and bust, privileges for elites etc.

3.1 *The determinants of the labour share: theory and stylised facts*

In the last four decades, slow-growing and stagnating wages have been a common feature in many advanced economies. This has been translated into a generalised decrease in the wage share, as has been widely discussed and documented in the relevant literature (see, e.g., [Onaran and Galanis, 2014](#); [ILO, OECD, 2015](#); [ILO, IMF, OECD, World Bank, 2015](#); [Stockhammer, 2015, 2017](#); [Dünhaupt, 2017](#)) (Figure 2).

As discussed in the literature, these trends have proven to be harmful to the financial stability of the countries experiencing them. Indeed, according to various authors (e.g. [Barba and Pivetti, 2009](#); [Rajan, 2010](#); [Stockhammer, 2015](#)), in several countries,⁶ household debt has acted as a substitute for stagnating wages in financing private consumption. However, this only postponed the problem of generating demand, brought on by the reduction of workers' purchasing power, as the bursting of the debt-led growth bubble and widespread financial instability proved at the onset of the Great Recession. The decrease in the wage share, moreover, poses a further threat by being potentially detrimental to the dynamics of labour productivity. This insight dates back to [Webb \(1912\)](#) and has since been a key element in non-mainstream analyses of the determinants of labour productivity growth (see, e.g., [Sylos Labini, 1999](#); [Cassetti, 2003](#); [Naastepad, 2006](#); [Hein and Tarassow, 2010](#); [Tridico and Pariboni, 2018](#)). To conclude this summary, it has to be recalled that, since the contribution by [Marglin and Bhaduri \(1990\)](#), post-Keynesian economics has emphasised the causal effect of functional income distribution on growth, with the introduction of the concepts of wage- (or profit-) led growth. Several empirical works have found that most advanced economies tend to be wage led, with, in general, the exception of small, open economies (see, e.g., [Hein and Vogel, 2008](#); [Hein and Tarassow, 2010](#); [Storm and Naastepad, 2012](#); [Onaran and Galanis, 2014](#); [Hartwig, 2014, 2015](#); [Onaran and Obst, 2016](#)). Independent of the merits of the wage-led versus profit-led growth literature,⁷ [Skott \(2017\)](#) reminds us that a more equitable and balanced split of national income is a worthy outcome to be pursued, regardless of its impact on the dynamics of aggregate demand and GDP.

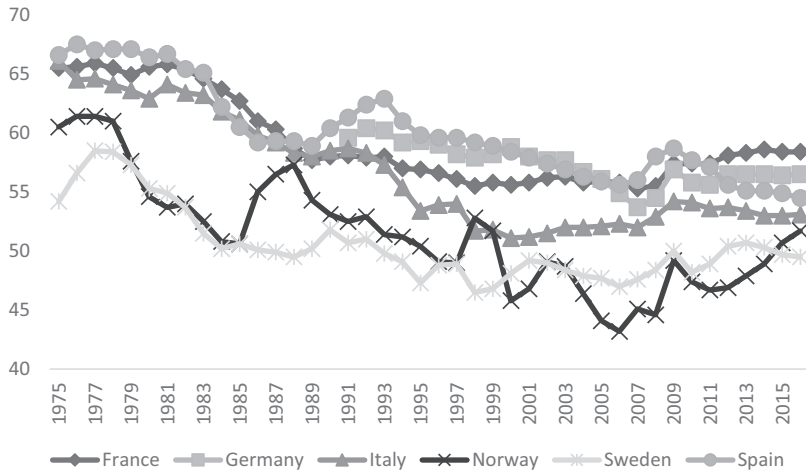
3.1.1 *Financialisation*

In the introductory section, we have provided an overview of the multifaceted socio-economic phenomenon known as financialisation. As we have already maintained, financialisation has been one of the main forces behind the persistent decrease in the labour income share experienced by most advanced economies in recent decades.⁸ Its influence has been confirmed by several empirical studies (see, e.g., [Hein and Schoder, 2011](#); [Lin and Tomaskovic-Devey, 2013](#); [Stockhammer, 2013, 2017](#); [Dünhaupt, 2017](#)) and finds its rationale in a growing body of theoretical literature. [Argitis and Pitelis \(2008\)](#) note that financialisation has contributed to the increase in financial pay-out ratios, leading to distributional changes detrimental to non-shareholders. Indeed, [Van Der Zwan \(2014, p. 108\)](#) makes clear that the shareholder value literature has acknowledged that financialisation is intrinsically a 'redistributive process'.

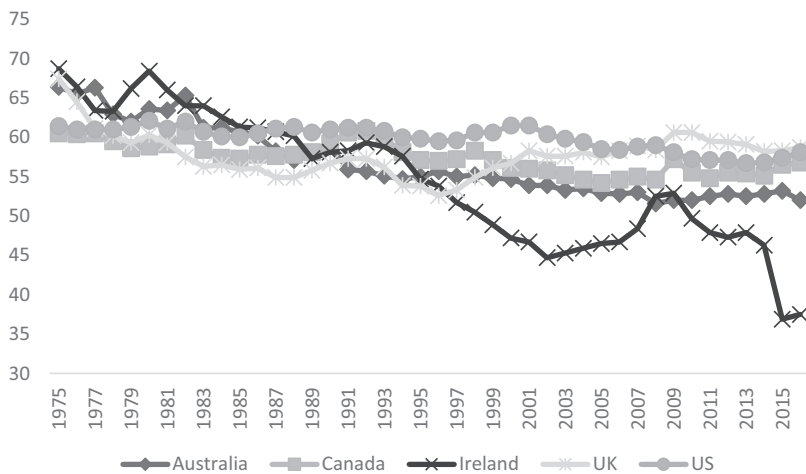
⁶ See [Stockhammer \(2015\)](#) for a discussion of the dichotomy debt-led versus export-led, as alternative growth models emerged to counteract the negative effects on aggregate demand caused by a compression of the wage share and rising inequality. See also [Stockhammer et al. \(2016\)](#).

⁷ See [Pariboni \(2016\)](#) and [Skott \(2017\)](#) for sceptical views on this stream of literature.

⁸ See [Köhler et al. \(2015\)](#) for an exhaustive theoretical discussion.



(a)



(b)

Fig. 2. Adjusted wage share.
Source: ILOSTAT.

This is acknowledged by the OECD as well (OECD, 2012), which identifies the spread of the shareholder value maximisation doctrine as the channel through which financialisation and the deregulation of financial markets affect non-financial firms and can curb workers’ bargaining power: the alignment of the interests of capitalists and managers, the shortening of investors’ time horizons, the need to restrain (labour) costs to generate short-term extra profits and reduce the debts through which mergers are often financed, are the pieces of a ‘downsize and distribute strategy which is significantly weakening workers’ bargaining power’ (OECD, 2012, p. 144). Dünhaupt (2017), building on the pricing mechanism in Kaleckian growth and distribution models, adds

that interest and dividends can be considered overhead costs. If the mark-up for these cost components is elastic (as in the models discussed by Dünhaupt) because capitalists want to defend their gross profits, an increase in the income distributed to rentiers is passed-through in prices and contributes to restraint of real wages.

Shareholder value orientation is, however, only one of the main features of financialisation. For this reason, we have chosen to introduce in our empirical analysis, among the determinants of the wage share, both a variable related to the ‘downsize and distribute’ governance principle (see [Lazonick and O’Sullivan, 2000](#))—the share of income distributed by non-financial corporations in GDP⁹—and a more general variable—market capitalisation of listed domestic companies.¹⁰ The rationale for the use of this measure of financialisation is related to its capacity to synthetically convey the increase in financial transactions, which potentially drives up the price of financial assets such as shares.

Financialisation is a complex social process and is likely to influence income distribution through several channels. It also urges us to explicitly consider the role played by rentiers, a class of agents that may, at least partially, overlap with both workers and capitalists. We have in mind, here, the definition given by Epstein and Jayadev of ‘an active class that is fostering and profiting from the process of financialization’ and whose income, following Kalecki, is the ‘income received by owners of financial firms, plus the return to holders of financial assets generally’ ([Epstein and Jayadev, 2005](#), p. 49). However, there are few doubts about ‘the uneven distribution of financial power among social classes’, functional to ‘the structural inequalities that exist in an equity-based economy’ ([Van Der Zwan, 2014](#), p. 103). This implies that a speeding up of financialisation, and the resulting increased relevance of rentier incomes, tends to be more beneficial to capitalists than to workers.

[Hein \(2015, pp. 924–5\)](#) provides a Kaleckian framework to single out seven stylised facts, related to financialisation and discussed in the existing literature, that have a direct impact on functional income distribution and include in the picture phenomena as different as the liberalisation of international financial flows and the threats of hostile takeovers and mergers. [Hein \(2015\)](#) adds to the picture the pressure to reduce government intervention in the economic sphere and labour market ‘reforms’, that is labour market deregulation, as important building blocks of finance-dominated capitalism that are likely to exert downward pressure on wages. The latter element is present also in [OECD \(2012, p. 142\)](#), where it is mentioned that financialisation has contributed to a change in labour market institutions, in particular those related to collective bargaining.

⁹ By using this proxy, we intend to capture the extent to which a higher share of domestic income accrues to shareholders and not to workers. We are using here the OECD variable ‘Distributed income of corporations’ for the sector ‘Non-financial corporations’. ‘Distributed income of corporations’ is given by the sum of dividends and withdrawals from income of quasi-corporations, with the latter component being mostly negligible.

¹⁰ Market capitalisation is a variable with a trend similar to that of other possible proxies for financialisation, such as dividend share, FDI and indexes of globalisation, as the correlation between the variables shows. In the empirical and econometric investigations, we have used market capitalisation as the main variable for financialisation since it has a more extended coverage in terms of time-spans and countries. A similar definition of financialisation is used also in [Nölke and Vliegthart \(2009\)](#), [Engelen et al. \(2010\)](#), [Van Der Zwan \(2014\)](#), [Tridico \(2017\)](#) and [Tridico and Pariboni \(2018\)](#).

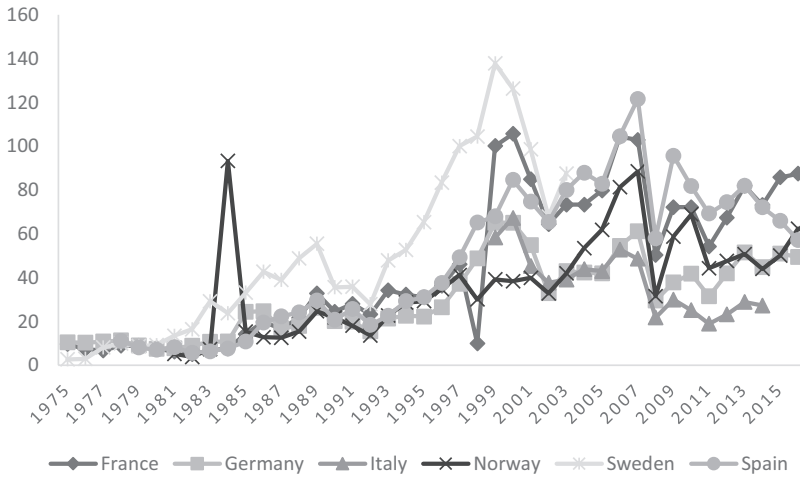
We also find particularly convincing the discussion of the effects of financialisation on everyday life proposed by Van Der Zwan (2014, p. 102). As the author argues, this situation tends to develop new subjectivities: workers slowly begin to perceive themselves as investors and owners of financial assets. The focus shifts to the individual dimension of responsibilities and the main purpose is self-fulfilment. As a consequence, class consciousness is undermined, and the bargaining power of the working class as a whole is under threat from individualism.

Finally, financialisation needs capital mobility and capital account openness to thrive. These elements constitute a powerful weapon for one side of the bargaining process since the threat of a capital strike ‘changes the political economy of the country in question, to the detriment of the less mobile factor, labor’ (Lee and Jayadev, 2005, p. 21) and puts in jeopardy workers’ capacity to appropriate a share of production rents (Lee and Jayadev, 2005, p. 42). This dimension of financialisation, which is strictly related to globalisation, is also taken into account in our analysis. We consider globalisation to be one of the determinants of the decrease of the labour share (see Section 3.1.3). To measure this phenomenon, we use the KOF Index of Globalisation, a multidimensional indicator among whose components are the extent of global financial flows.

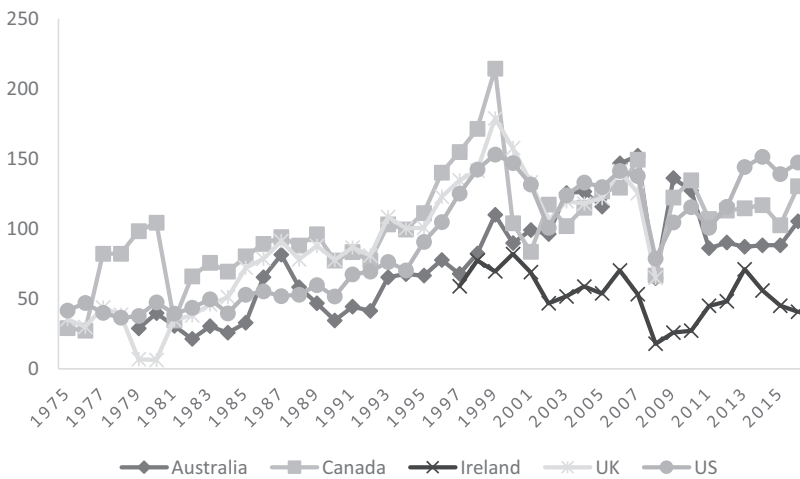
Figure 3 shows trends of financialisation in a selected sub-sample of countries. Figure 3a includes Scandinavian, Mediterranean and coordinated market economies (France and Germany), whereas Figure 3b is focussed on Anglo-Saxon countries. The general picture of Figure 1 seems to be confirmed and ‘reverse V’ paths are broadly discernible; moreover, market capitalisation appears to be again on the rise, with the exceptions of Ireland, Spain and the countries for which we are missing data for the last few years. In Anglo-Saxon countries, however, the phenomenon takes place on a larger scale, confirming the received wisdom about the relevance of financial markets in these countries. Germany and Italy (and Ireland, an outlier among Anglo-Saxon countries) are at the other end of the spectrum, reaffirming the insights of Lapavitsas and Powell (2013): financialisation takes different forms in different countries, due to institutional, historical and political peculiarities.

3.1.2 Structural change

According to Lapavitsas and Powell (2013, p. 362), ‘financialisation represents a structural transformation of advanced economies resting on altered relations among industrial enterprises, financial enterprises and workers’. We agree with the view that characterises financialisation as an element of a broader structural change that has been affecting advanced economies in the last 30–40 years. Indeed, in this time span, many advanced economies have experienced significant changes in their productive structures and industrial strategies. While the post-Second World War period of expansion—described by some scholars as ‘the Golden Age of Capitalism’ (Marglin and Schor, 1990)—was characterised by manufacturing industry playing the leading role, in more recent years, a massive shift in employment has been taking place in most Western countries. A steady decline in the share of workers in manufacturing and a transition towards the service sector are very well-known features of contemporary capitalism. The link between financialisation and deindustrialisation has been highlighted in Krippner (2005, p. 176), where the author considers both elements as fundamental to understanding the transformation the USA was (and is) going through. Robert Boyer, in his prescient 2000 article (Boyer, 2000), also identified the growing



(a)



(b)

Fig. 3. Financialisation—market capitalisation as a percentage of GDP, 1975–2015. Source: The World Bank Database.

dominance of finance and the shift from manufacturing to services as elements of the emerging ‘finance-led growth regime’.

Figure 4 synthetically conveys a picture of these trends for a sample of selected countries belonging to different institutional frameworks.¹¹

¹¹ See Lapavitsas and Powell (2013) for a comparative analysis of different forms of financialisation in different countries.

France and Italy present the most clear-cut trends, with a sharp decrease in manufacturing employment mirrored by the rising contribution of finance and real estate activities to the economy's total gross value added. These phenomena are less accentuated in Germany, a country that remains characterised by a stable and efficient manufacturing industry and by a relatively slow shift towards financial business. The UK, in a sense, represents the other extreme, with the divergence of real and financial production already in place since the beginning of the 1980s and a faster process of deindustrialisation. Finally, Norway has experienced a similar declining trend concerning the abandonment of manufacturing, but the shift towards services has been mainly into activities such as 'community, social and personal services'.¹² We include a variable for 'structural change'—namely the share of employment in manufacturing in total employment—in our analysis because we consider the drift away from manufacturing as a factor capable in itself of negatively affecting the share of wages in income. Remuneration tends to be higher in manufacturing than in most of the service industries,¹³ as well as the degree of unionisation and working-class coherence.¹⁴ In a similar vein, Rodrik links the current weaknesses of the labour movement to the persistent trends of deindustrialisation across advanced and developing economies (Rodrik, 2016) and warns against the perils that the abandonment of manufacturing poses for labour–capital relations and, more generally, for democracy (Rodrik, 2013).

3.1.3 Globalisation

Post-Keynesian and Critical Political Economy literature tends to consider globalisation as an element of a more general and multidimensional process of Neoliberal restructuring.¹⁵ Globalisation and financialisation can be considered the two main pillars of this political project; the timing of the two principal waves of the former almost overlaps with that of the latter,¹⁶ and the two phenomena are complementary: 'financialization may thrive only to the extent that the spatial constraints of exchange are removed, while the process of globalization may be implemented to the extent that it is supported by internationalized finance' (Vercelli, 2013, p. 25).¹⁷ Onaran (2011), Stockhammer (2013, 2017) and Dünhaupt (2017), among other studies, find a significant negative effect of globalisation on the labour share in income. As Stockhammer (2017, p. 8) notices, globalisation exerts downward pressure on the wage share mainly by altering the balance of power between capital and labour: the looming threat of relocation can suffice to deter higher wage claims or to make wage cuts more palatable to workers. Capitalists can also exploit and take advantage of the expansion of the reserve army of labour, brought about by the inclusion in the global labour market of workers from developing countries.¹⁸ Moreover, to keep production at home, governments can decide to implement selective tax reductions in favour of capital and

¹² This is the term used by the EU KLEMS Growth and Productivity Accounts to aggregate service industries such as public administration, health, education etc. See Jäger (2017).

¹³ See Tridico and Pariboni (2017) for some descriptive evidence.

¹⁴ We refer with this term to 'the unity and organisational ability of the working classes to assert their (economic) interests' (Stockhammer *et al.*, 2016, p. 1805).

¹⁵ See Epstein (2005) and Onaran (2011).

¹⁶ See Sawyer (2013) and Vercelli (2013).

¹⁷ See also Argitis and Pitelis (2008, in particular section II).

¹⁸ See Dünhaupt (2017, p. 290) and the literature reviewed there.

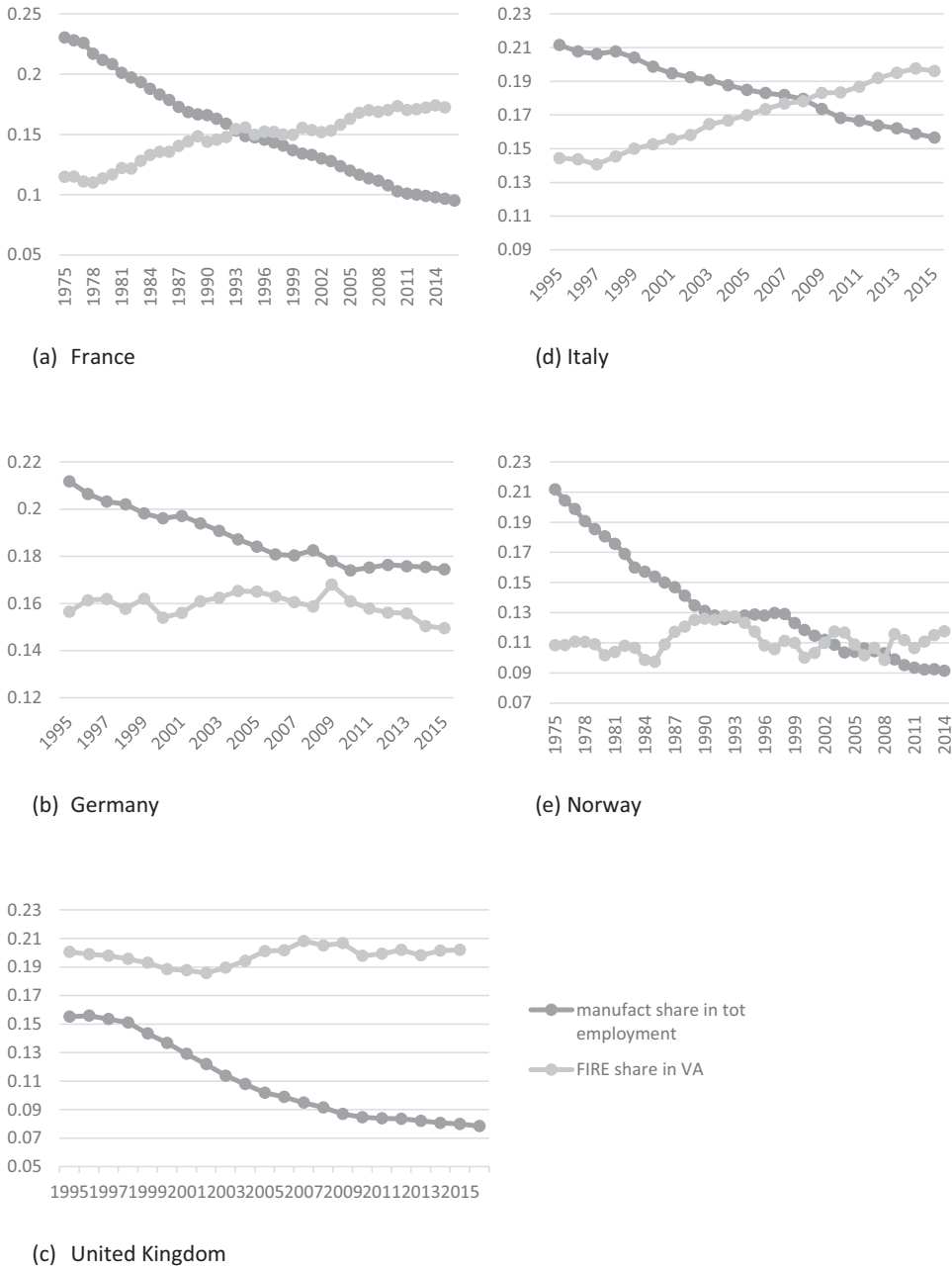


Fig. 4. Finance, insurance and real estate activities share in gross value added^a (total activity) (blue line); share of employment in manufacturing in total employment (red line).

Notes: ^aFollowing Krippner (2005), we treat finance and real estate as a single industry group, given the speculative aspects of real estate markets. We also decided not to report the employment share of FIRE activities in total employment, given that these industries are not employment intensive (Krippner, 2005, p. 175). To stress the increasing relevance of finance, we opted for the share of value added produced in the related industries.

Source: OECD.

embark on tax competition among themselves (Tridico, 2018). Finally, although not an exhaustive list, in advanced economies, globalisation is often associated with a decline in manufacturing employment, which tends to be replaced by employment in low value-added service industries, with the consequences described in Section 3.1.2.

3.1.4 Labour flexibility and labour bargaining power

The economic processes we have mentioned so far—financialisation, structural change and globalisation—have been associated with a stream of labour market reforms, that is an increase in labour flexibility and a reduction in employees' protections. We will investigate whether making labour more flexible exerts a negative pressure on the wage share, as we expect. In this regard, our variable of interest is the Employment Protection Legislation (EPL) index: developed by the OECD, the index represents the level of protection offered by national legislation with respect to regular employment, temporary employment and collective dismissal. In other words, the index offers a synthetic picture of the state of the regulations that allow employers to fire and hire workers at will (the index varies between 0 for very low protection and 6 for very high protection). Traditionally, European economies maintained higher levels of EPL in comparison to Anglo-Saxon economies (Nickell, 1997). However, today labour flexibility is increasing everywhere, although in Europe, the policy agenda is moving towards the so-called 'flexicurity', which would promote some types of job and income security (i.e. employability) while taking into account the need for flexibility on the part of firms (Kok, 2004; Boyer, 2009; Tridico, 2009). Typically, the case of Denmark represents a situation where a lower EPL is associated with income and job security.

Our hypothesis is that a decrease in labour rigidity enhances capital's bargaining power: the precarious nature of job tenure makes workers reluctant to engage in workplace struggles.¹⁹

The new, post-Fordist accumulation regime requires a higher degree of labour flexibility because, with the massive shift from the industrial to the service sector, technology and innovation bring about rapid structural changes that demand quick responses from firms. Therefore, labour should adjust to the firms' needs. Shareholders want higher dividends because they invested their own capital in firms, taking on a higher level of risk. But, for shareholders to obtain higher dividends, wages might need to be restrained, and labour flexibility is instrumental in achieving this.²⁰

As has been shown elsewhere (Tridico, 2012), there is a positive correlation between the level of market financialisation and the level of labour flexibility (EPL) and between EPL and the Gini coefficient, so that countries with less labour protection are also countries with greater inequality. In other words, when financialisation increases, increased flexibility and inequality both become apparent.

A flexible labour market with restrained wages needs to be supplemented by developed financial tools to sustain consumption, which otherwise would be compressed by low and unstable wages. It is difficult to establish a causal relation, though: we cannot

¹⁹ In the literature, alternative measures of the institutional factors we proxy by means of EPL are also utilised: for example, Dünhaupt (2017) introduces 'labour's bargaining power'—proxied by several variables—among the determinants of the labour share; Stockhammer (2017) uses 'welfare state retrenchments'.

²⁰ Obviously, this is not the only option since a higher dividend pay-out ratio can be accommodated, in principle, also by a reduction of retained earnings.

be certain whether financialisation required labour flexibility or whether increased labour flexibility brought about hyper-financialisation. A simple correlation between these two complementary institutional forms of neoliberalism seems more likely.

As a proxy of labour’s bargaining power, we also control for the unemployment rate to capture a classic ‘reserve army of labour’ effect, as is often done in the literature (see, e.g., [Dünhaupt, 2017](#); [Stockhammer, 2017](#)).²¹

4. The model

In this section, we are going to econometrically test a model where the dependent variable is the labour share and the independent ones are a set of variables found relevant in the literature and in our article. We estimate at first a baseline version of the model (equation (1)), with a reduced number of explanatory variables, and in which we do not consider explicitly the role exerted by dividends, EPL and unemployment. We then move to our preferred specification of the model (equations (2) and (3)).

We use panel data for 28 OECD countries²² in the period 1975–2016. Since data for our variable of choice for labour market institutions—the EPL index—are available from 1985 only, we decided to run another set of regressions for the period 1985–2016, obtaining essentially the same results as for the main panel (1975–2016). We also estimate our models using a restricted panel of 22 core OECD countries.²³ The data were collected from OECD and ILO.

The regression equations are as follows:

$$LS_{1975-2016} = \alpha_i + \beta_1 F_{it} + \beta_2 M_{it} + \beta_3 Glo_{it} + \beta_4 G_{it} + \varepsilon_{it} \quad (1)$$

$$LS_{1975-2016} = \alpha_i + \beta_1 F_{it} + \beta_2 M_{it} + \beta_3 Glo_{it} + \beta_4 G_{it} + \beta_6 D_{it-1} + \beta_7 U_{it-1} + \varepsilon_{it} \quad (2)$$

$$LS_{1985-2016} = \alpha_i + \beta_1 F_{it} + \beta_2 M_{it} + \beta_3 Glo_{it} + \beta_4 G_{it} + \beta_5 EPL_{it} + \beta_6 D_{it-1} + \beta_7 U_{it-1} + \varepsilon_{it} \quad (3)$$

In the baseline specification (I and II) for the period 1975–2016, the labour share in income is assumed to be a function of the variable ‘share of manufacturing employment in total employment’ (M), ‘financialisation’ (F)²⁴ and ‘globalisation’ (Glo).²⁵ We also use, as a control variable, GDP growth (G), which is found to be negatively related with the labour share.²⁶ We then enrich our analysis (III and IV), by including among the explanatory variables (the lagged values of) ‘dividends’ as a share of GDP (D) and ‘unemployment’ (U). The former is justified by the fact that capital accumulation—which is put in jeopardy by the replacement of ‘retain and reinvest’ with ‘downsize

²¹ The downward pressure exerted on wages by unemployment is also found in [OECD \(2014\)](#).

²² Countries of the panel are all the OECD countries minus the following seven countries: Chile, Estonia, Iceland, Israel, Latvia, Luxembourg and Turkey. Most of those countries can be considered emerging countries, or outliers and small countries (such as Luxembourg and Iceland), for which not all variables are available.

²³ The 22 countries are given by the countries in the main panel minus the Czech Republic, Hungary, Mexico, Poland, Slovak Republic and Slovenia.

²⁴ We use as a proxy for financialisation the market capitalisation of listed domestic companies, as a percentage of GDP.

²⁵ We use here the KOF Index of Globalisation, a multidimensional index developed by the Swiss Economic Institute that considers economic, social and political globalisation.

²⁶ As [Stockhammer \(2017, p. 20\)](#) notes, the negative effect of growth might reflect that ‘in the short run, prices are more flexible than wages’.

and distribute' as a principle of corporate governance—is a time-consuming process.²⁷ Indeed, an increase in the share of income devoted to dividends manifests itself as a reduction in the firms' internal funds potentially available, in the subsequent accounting period, to finance real assets acquisition. With respect to the rate of unemployment, we consider it appropriate to insert its lagged value because unemployment at time t is mainly determined by the level of aggregate demand at time t . Since the labour share is likely to exert a positive influence on the latter (this is the case labelled by Marglin and Bhaduri as 'stagnationist'; see Marglin and Bhaduri, 1990), considering unemployment at time t could potentially raise endogeneity issues. In the subset 1985–2016 (V and VI), we add the variable EPL, as a proxy for labour flexibility.²⁸ The results concerning labour flexibility are the expected ones, meaning that greater labour flexibility (lower EPL) has a negative impact on labour share, whereas the influence of all the other variables used in the period 1975–2016 remains broadly the same. Models III–VI are then estimated restricting the analysis to 22 OECD core countries (VII–X). Finally, in the last two models (XI and XII), we control for welfare model heterogeneity applying (welfare model) dummies²⁹; α_i are country-specific fixed effects.³⁰

The Hausman test and visual inspection suggest that differences in coefficients estimated through random effects (RE) and fixed effects (FE) specifications are not systematic. For the sake of completeness, we present both, starting with RE. However, since RE do not take into account the likelihood of panel heterogeneity occurring, we also run an analogous set of regressions with FE, since FE models are better equipped to deal with unobserved heterogeneity that could be expected according to theoretical underpinnings.

These results are interesting and in general confirm our hypotheses. The coefficients have the expected signs and, except for financialisation (F) in the specifications VII and IX, are statistically significant. A deindustrialisation process in favour of financialisation is detrimental to the labour share, as well as an increase of dividends share, an increase of the index of globalisation and an increase of labour flexibility. All of these variables are functional to a worsening of functional income distribution and a compression of the labour share because they favour capital over labour in the bargaining process.

In addition, we performed a bivariate causality test (Granger, 1969)—based on a panel vector autoregression methodology (see Abrigo and Love, 2016)—between labour share and each of the independent variables used. As shown in Table A3 in Appendix, we can disregard the fact that the independent variables do not Granger-cause labour share. The only variable for which a bi-direction of causality cannot be excluded is GDP growth, which is in fact one of our control variables along with unemployment rate. Taken at face value, this information would seem to suggest that

²⁷ Indeed, investment, the driver of capital accumulation, increases aggregate demand at first and only subsequently contributes to the rise in productive capacity.

²⁸ Time series for the variable EPL has been available only since 1985.

²⁹ We group the 28 countries in our panel by welfare models: the Anglo-Saxon one includes Australia, Canada, Ireland, New Zealand, the UK and the USA; the Continental model comprises Austria, Belgium, France, Germany, the Netherlands and Switzerland; the Mediterranean comprises Greece, Italy, Portugal and Spain; the Scandinavian comprises Denmark, Finland, Norway and Sweden; CEEC includes the Czech Republic, Hungary, Poland, Slovak Republic and Slovenia. Japan and Korea form their own group, whereas Mexico has not been included in any group, due to its specific features.

³⁰ In the random effect specifications, where we do not control for country-specific fixed effects, we assume $\alpha_i = \alpha$ for all i .

Table 1. Regression table

Variables	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
	1975–2016	1975–2016	1975–2016	1975–2016	1985–2016	1985–2016	1975–2016	1975–2016	1985–2016	1985–2016	1975–2016	1985–2016
Baseline	Core OECD											
GLS	GLS	GLS	GLS	GLS	GLS	GLS	GLS	GLS	GLS	GLS	GLS	GLS
Financialisation (<i>F</i>)	-0.0121*** (0.0036811)	-0.014*** (0.0036355)	-0.0104*** (0.0039617)	-0.01258*** (0.0039007)	-0.00949** (0.004057)	-0.01250*** (0.0039573)	-0.00612 (0.0038181)	-0.00790** (0.0038465)	-0.004998 (0.0038021)	-0.0079*** (0.0037742)	-0.0095** (0.0038919)	-0.00824** (0.0040065)
Employed in manufacture (<i>M</i>) (share of tot employment)	0.23865*** (0.0571279)	0.24789*** (0.0576678)	0.16226** (0.069716)	0.16077** (0.0718246)	0.21266*** (0.0748)	0.23674*** (0.0768274)	0.18414*** (0.0718163)	0.16554** (0.0745525)	0.22853*** (0.0732215)	0.24447*** (0.0753399)	0.14632** (0.0703106)	1.9805*** (0.0755627)
Globalisation (<i>G</i>)	-0.2385*** (0.0238348)	-0.2364*** (0.0260121)	-0.20377*** (0.0329244)	-0.21137*** (0.0333662)	-0.17785*** (0.0360945)	-0.18866*** (0.0363203)	-0.25128*** (0.0387364)	-0.25865*** (0.0402622)	-0.25112*** (0.0442427)	-0.2538*** (0.045952)	-0.21946*** (0.0330671)	-0.19963*** (0.0365531)
GDP growth (<i>G</i>)	-0.23141*** (0.0371841)	-0.2264*** (0.0363645)	-0.20302*** (0.0400617)	-0.19517*** (0.039143)	-0.1987*** (0.0416155)	-0.19538*** (0.0402414)	-0.24957*** (0.0446816)	-0.23892*** (0.044336)	-0.29313*** (0.0454732)	-0.2962*** (0.04452)	-0.20232*** (0.0395867)	-0.20372*** (0.0414789)
EPL					0.83732** (0.3406264)	1.226*** (0.3528199)			1.6372*** (0.3272122)	2.1196*** (0.3584825)		1.0189*** (0.3656583)
Dividends (<i>D</i> _{<i>t</i>}) (% of GDP)			-0.2401*** (0.0860696)	-0.23425*** (0.0851103)	-0.21317** (0.0914372)	-0.20349** (0.089538)	-0.21581*** (0.0832914)	-0.21728*** (0.0843901)	-0.25377*** (0.0846589)	-0.2514*** (0.0844373)	-0.24752*** (0.0844989)	-0.22791** (0.0899243)
Unemployment rate (<i>U</i> _{<i>t</i>})			-0.11323*** (0.0357937)	-0.10732*** (0.0350584)	-0.07459* (0.0404853)	-0.0567 (0.0395542)	-0.15804*** (0.0380117)	-0.15577*** (0.0380117)	-0.12679*** (0.0428391)	-0.1047** (0.0424573)	-0.11173*** (0.0355709)	-0.06986* (0.0405168)
Constant	71.233*** (2.875272)	71.319*** (2.736647)	70.789*** (3.502057)	71.63*** (3.449205)	64.723*** (3.873051)	63.88*** (3.876534)	76.747*** (3.890409)	77.52*** (3.961891)	70.702*** (4.340436)	68.733*** (4.540887)	51.491*** (4.321605)	44.779*** (4.508903)
Observations	500	500	440	440	402	402	356	356	328	328	440	402
Adjusted <i>R</i> -squared	0.5473	0.5475	0.4720	0.4725	0.3559	0.3585	0.5577	0.5582	0.4691	0.4727	0.4716	0.3558
Number of countries	28	28	28	28	28	28	22	22	22	22	28	28
Wald χ^2	523.52		330.09		171.57		402.83		243.31		396.39	238.82
<i>F</i> test		141.56		60.61		29.30		69.06		38.29		0.0000
Prob > χ^2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
Prob > <i>F</i>												

Note: Robust standard errors in parenthesis.
 ***Significance level at 1%; **significance level at 5%; *significance level at 10%.

income distribution has some influence on economic growth, a well-known result in post-Keynesian literature (Marglin and Bhaduri, 1990).

As for other diagnostic issues, the correlation matrix in Table A1 in Appendix shows that there is small multicollinearity between some independent variables (the highest levels concern correlation between globalisation and dividends (0.23), EPL and financialisation (−0.45), and the share of persons employed in manufacturing and financialisation (−0.43). Moreover, the multicollinearity test carried out in Table A4 in Appendix—the VIF (variance inflation factor) test—excludes systematic multicollinearity among the explanatory variables: all the VIF values are far below 10 and the tolerance level ($1/\text{VIF} = 0.1$), under which multicollinearity may take place, is well overcome by all the independent variables used in the regressions (Drukker, 2003). Hence, multicollinearity is not biasing the estimated coefficients.

Last but not least, the normality test (see Kernel test in Figure A1) confirms a symmetric and unimodal distribution for the dependent variable (labour share).

5. Welfare regimes and financialisation

Negative consequences in terms of labour income share decline, income inequality and deindustrialisation were, to some extent, mitigated by the intervention, regulation and level of welfare expenditure in the economy, briefly, by the type of welfare state in a given country. Following the classification of socio-economic models proposed by Esping-Andersen in 1990, welfare models can be divided into three groups, namely the Liberal, Continental and Scandinavian models. With some adjustments, this methodology is still relevant, although the taxonomy was based on evidence previous to the 1990s. Hay and Wincott (2012) proposed a slightly new classification, which takes into consideration the evolution of these models in the last two decades: they extended the Esping-Andersen classification to five models by adding the Mediterranean and CEEC groups, claiming that strong differences can be observed between these new clusters and the traditional ones. However, to be fair, the peculiarities of a sort of ‘Southern’ model had already emerged in Ferrera (1996).

By merging some elements of Hay and Wincott (2012) and Esping-Andersen (1990), we think it is possible to cluster OECD countries in five groups, namely Anglo-Saxon/Liberal, Continental/Corporative, Mediterranean, Scandinavian, and CEEC (Chile, Israel, Mexico and Turkey have not been grouped due to their specific features).³¹

In addition to the traditional aspects considered by the literature, we emphasise that a broad process of financialisation of the economy emerged in parallel to the better-known trade-globalisation phenomena, particularly in advanced economies as the Anglo-Saxon and, to some extent, Mediterranean countries (see Epstein, 2005; Krippner, 2005; Engelen *et al.*, 2010). As a matter of fact, capital mobility increased substantially, and foreign direct investment looked mostly for cheaper labour costs and higher returns. Moreover, at an international level, a sort of tax competition took place among countries in the past two or three decades to attract more capital, and this contributed to a change in the power relations between labour and capital. The move was towards a more advantageous position for capital: combined with a strong decline

³¹ In our empirical analysis (see models XI and XII in Table 1), we also have Japan and Korea grouped on their own.

in trade unions' participation and a progressive weakening in labour market institutions, this led to negative effects on income distribution and to increasing inequality (see Borjas and Ramey, 1995; Chusseau and Dumont, 2012; Gordon, 2012). Figure 5 reports the dynamics of average labour income shares (i.e. wage share adjusted by self-employment) by country groups.

According to the descriptive evidence, wage shares remain, on average, higher in Scandinavian and Continental European countries, whereas they are lower in Anglo-Saxon countries, Mediterranean countries and CEEC. In our view, the most alarming scenario refers to the Anglo-Saxon and Mediterranean economies, which suffered the most from the restructuring process (particularly, deindustrialisation versus financial globalisation) that took place from the 1980s and progressively intensified. In this respect, it should be considered that globalisation has posed several challenges to national economies and governments. One of the most important is the pressure on labour relations and its impact on income inequality, both within and between countries, as well as its effect on welfare state sustainability (Hay and Wincott, 2012). In this context, the debate is very lively and has produced two main interpretations of the problem. The first one states that globalisation would reduce the size of welfare states because social provision constitutes a cost for firms: since expanded welfare states lead to higher income taxes, social costs and contributions, this would reduce prospective profits and increase companies' costs. Companies would thus be pushed to transfer capital abroad unless government retrenched welfare spending and reduced taxes. Then, to maintain higher levels of investment and employment, the welfare state needs to be restricted under the process of globalisation, with bad consequences for income equality. This interpretation is well known as the 'efficiency thesis', developed within the so-called 'neoliberal paradigm': basically, it argues that globalisation has forced

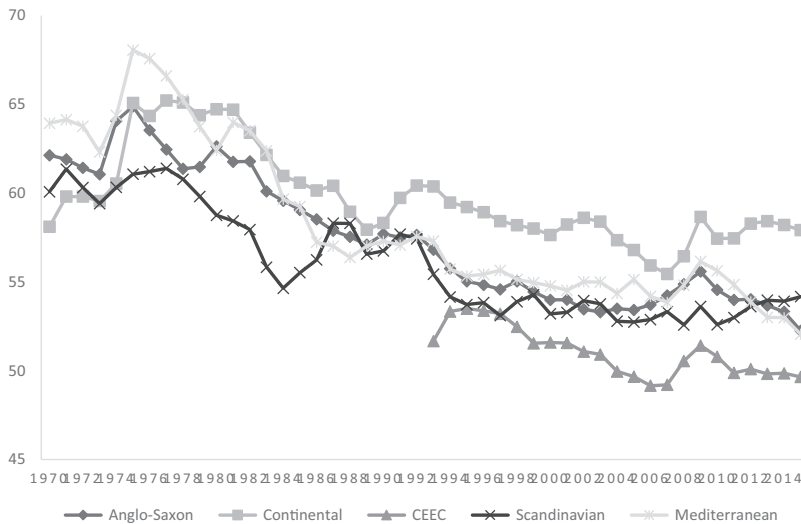


Fig. 5. Labour income shares by welfare model (1970/2013).

Notes: Data refer to labour income shares (adjusted wage share) provided by the International Labour Organisation. Because of the lack of historical data, CEEC group starts from 1993.

Source: Our elaboration on ILOSTAT.

states to retrench social spending in order to achieve a market-friendly environment, to increasingly attract international capital and to foster external competitiveness (see [Allan and Scuggs, 2004](#); [Castells, 2004](#); [Blackmon, 2006](#)). Moreover, according to this view, welfare states can represent a cost for firms since, due to capital mobility, companies will move away to the lowest-cost location for production, putting pressure on governments to lower their welfare provision. Countering this argument, a second approach emerged: the ‘compensation thesis’ maintains that since globalisation increases income inequality, welfare states should need to be expanded with a view to mitigating this criticism. In other words, capital mobility and fewer barriers to trade actually pressure governments to expand welfare support, in order to compensate those who are damaged by the globalisation process (see [Rodrik, 1998](#); [Swank, 2002](#); [Brady et al., 2005](#)). To put it simply, globalisation can produce net gains at the national level, but within nations, there can be winners and losers, so losers should be compensated by a (partial) redistribution from the winners. In a way, following the ‘compensation’ argument, it can also be stated that welfare expansion would allow countries to further pursue globalisation. An extended interpretation would then see welfare expansion not as a result but as a condition of globalisation: in order to continue (or start) the process of globalisation, policy makers must expand social safety nets.

As a consequence of these processes, during globalisation (and particularly during the 1990s and the 2000s), income inequality also increased dramatically in advanced countries. In this regard, [Figure 6](#) reports the Gini coefficient across OECD countries, which indicates that inequality is higher in Mediterranean and Anglo-Saxon countries, whereas Scandinavian countries exhibit lower income inequality (despite a general upward trend).

6. Concluding remarks

The steady decrease of the income share accruing to workers has been one of the main economic facts of recent decades. According to the Classical Surplus approach,³² income distribution is mainly determined by the bargaining power of social classes and by institutional and customary elements. The nature of capitalist production and nature of the related distribution of the social product are inherently conflictual; since at least the second half of the 1970s, workers have clearly been on the losing side of the conflict. In this article, we attempted an investigation into the causes of the contraction in labour share. By means of a panel data analysis on 28 OECD countries, we have found the labour share to be negatively affected by financialisation, dividend distribution and globalisation. On the other hand, the wage share is enhanced by rigid labour market institutions and is a positive function of the share of employment in the manufacturing sector, confirming several insights from the existing literature. In our article, we have also discussed the theoretical connections that can be established between the multifaceted phenomenon of financialisation, the ‘downsize and distribute’ principle of corporate governance, globalisation, market deregulation and structural change/deindustrialisation. We consider these elements as some of the building blocks of a broader paradigm that has allowed a strong redistribution of income in favour of capital, as our empirical analysis suggests.

³² See, for example, [Garegnani \(1984\)](#), [Pivetti \(1991\)](#) and [Stirati \(1994\)](#).

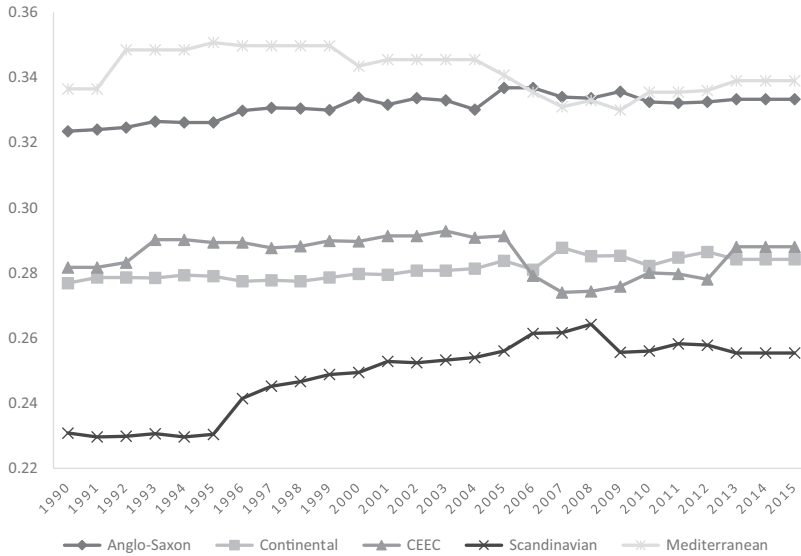


Fig. 6. Inequality by welfare model (1990–2013).

Notes: Data on inequality refer to the Gini coefficient provided by OECD (current definition—disposable income, post taxes and transfers).

Source: Our elaboration on ILOSTAT.

Financialisation and structural change took place differently among the advanced economies analysed. These differences had an impact on the labour share decline. In Continental Europe and the Scandinavian countries, the cost of financialisation and the cost of labour flexibility were supported by a generous welfare state and tighter financial regulation, which limited the negative consequences for income inequality and avoided the extreme volatility and wage dispersion typically occurring in the Anglo-Saxon model. Moreover, structural change in those countries was less marked, thanks to a stronger capital-intensive strategy in manufacturing industry, or mitigated by public activism in the provision of some services such as health and education. Yet, the tendency towards labour share decline remains present also in Continental Europe and the Scandinavian countries, although at a slower pace. The Anglo-Saxon model experienced deep financialisation and deep structural change, as was shown. Here, the welfare state is less generous, and financial regulation very weak. Still, the decline in the wage share has been relatively mild. However, this evidence must be interpreted with some caution, given that Anglo-Saxon countries have not been immune to the income distribution shift common to most advanced economies. The main difference is that it affected mostly personal, and not functional, income distribution. As remarked in [Stockhammer \(2017, p. 6\)](#), when excluding managers’ remunerations from the wage bill, the picture of Anglo-Saxon countries’ wage share is much more like the one emerging in other socio-economic models. Mediterranean countries and CEEC comprise what can be called a hybrid model, experiencing strong structural change and some degree of financialisation, along with an orientation towards low value-added service sectors. These processes, in these two hybrid groups, had negative effects on labour share and equality.

Some limitations remain, most likely concerning the possible omitted variables and phenomena that our econometric specifications could not capture. Other processes may be relevant, in particular in the two hybrid groups, where in the last two decades, a process of institutional change occurred along with structural changes in the production sphere. These changes could, in principle, be captured by other variables, but we believe that they are connected to the institutional forms of neoliberalism, similar to the changes occurring in other models represented here, and had an impact also on income distribution.

Some policy implications can be easily derived: the changes that have occurred since the end of 1970s in the economic models of advanced economies constitute strong signals for policy makers who wish to reduce income inequality and to remedy the imbalances in income distribution. There are specific variables that policy makers should address: first, labour flexibility. Restoring higher levels of labour protection would help to stop the trend of declining wage share along with the instability of consumption. Stable and higher wage shares would also be helped by a change in financial sector regulation, aiming at limiting the shareholder principle of ‘downsize and distribute’ and at protecting employment levels. This latter aim can be reached only if corporations and their boards of directors involve trade unions and workers in distributional and ownership decisions. This obviously requires new management models, which should be promoted and supported by governments. Moreover, premature de-industrialisation should be avoided for several reasons. Labour productivity gains in manufacturing go easily and directly to a higher share of workers, and this would have benefits for consumption and on aggregate demand dynamics, with further advantages for economic growth and not only for income distribution. Last but not least, the crucial role of the welfare state should be reconsidered. The welfare state is not only the major tool for income support for people without a job and the provider of essential social services, which otherwise would be inaccessible for most workers. The welfare state is also the major public institution for income redistribution, and as such should be used. It can be the source and the regulator of employment levels, and it is the institution most able to (temporarily) reconcile the conflict between capital and labour.

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Appendix

Table A1. Data and sources

Time series data	Variable	Definition	Source
Adjusted labour share	LS	Total compensation of employees, as a percentage of GDP	ILOSTAT
Financialisation	<i>F</i>	Market capitalisation of listed domestic companies, as a percentage of GDP	The World Bank
Dividends	<i>D</i>	Distributed income of non-financial corporations, as a percentage of GDP	OECD
Employment in manufacturing	<i>M</i>	Employment in manufacturing, as a percentage of total employment (persons)	OECD
Globalisation	GLO	KOF Index of Globalisation	KOF Swiss Economic Institute
GDP growth	<i>G</i>	Growth rate of GDP	OECD
Unemployment	<i>U</i>	Unemployment rate	OECD
Labour rigidity	EPL	Employment Protection Legislation index; strictness of employment protection—individual and collective dismissals	OECD

Table A2. Correlation matrix

	Labshare	Financial	Dividend	Glob.ind	Growth	Unempl	EPL	Pers.Manuf
Labshare	1.0000							
Financial	0.3388	1.0000						
Dividend	0.1049	0.2491	1.0000					
Glob.ind	0.1023	0.2396	0.4883	1.0000				
Growth	-0.2275	0.1505	-0.1132	-0.0462	1.0000			
Unempl	-0.1642	-0.2445	-0.1167	0.0495	-0.1194	1.0000		
EPL	-0.0754	-0.4591	0.1855	-0.0477	-0.1566	0.1352	1.0000	
Pers.Manuf	-0.1697	-0.4350	-0.2575	-0.2636	0.2041	0.2097	0.1290	1.0000

Source: Own elaboration.

Table A3. VIF test

Variable	VIF	1/VIF
Financial	1.81	0.552008
Dividend	1.60	0.626483
EPL	1.47	0.680111
Pers.Manuf	1.44	0.692426
Glob.ind	1.42	0.702204
Growth	1.17	0.858273
Unempl	1.14	0.875321
Mean VIF	1.44	

Source: Own elaboration.

Table A4. Granger test panel, panel VAR-Granger causality Wald test

Equation\excluded	χ^2	df	Prob > χ^2
LAB_SHARE\ Financial	0.811	1	0.368
Pers.Manuf	0.109	1	0.741
Dividend	0.88	1	0.348
Glob.ind	1.795	1	0.180
Growth	5.475	1	0.019
Unempl	1.993	1	0.158
EPL	0.03	1	0.862

Notes: H_0 : excluded variable does not Granger-cause equation variable; H_a : excluded variable Granger-cause equation variable.

Source: Own elaboration.

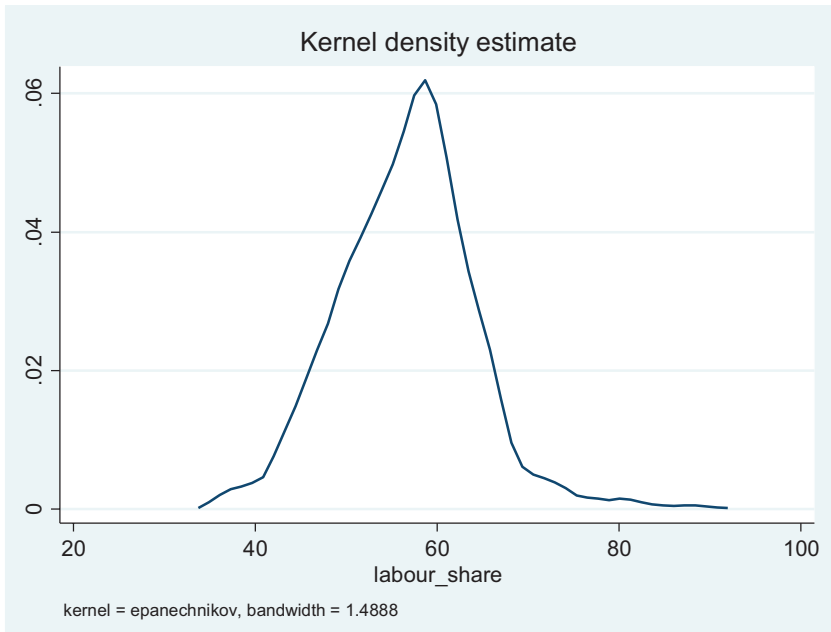


Figure A1. Normality test.
Source: Own elaboration.