

Macroeconomic Theory Lecture 11

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Last time

- ▶ Structuralist/Keynesian approach, part deux.
- ▶ SAMs and investment-constrained growth
- ▶ Connection to the real world via Japan & European Economies.

Keynes and Inequality, messing with Piketty with a SAM

Recall that a SAM incorporates social relations and accounting relations

	Output Costs	Wages	Profits	Cap. Form	Totals
A. Output Uses	aPX	PC		PI	PX
Incomes					
B. Wages	wbX				Y_w
C. Profits	π PX				Y_π
Flow of Funds					
D. Sav/Inv			S	PI	0
E. Totals	PX	Y_w	Y_π	0	

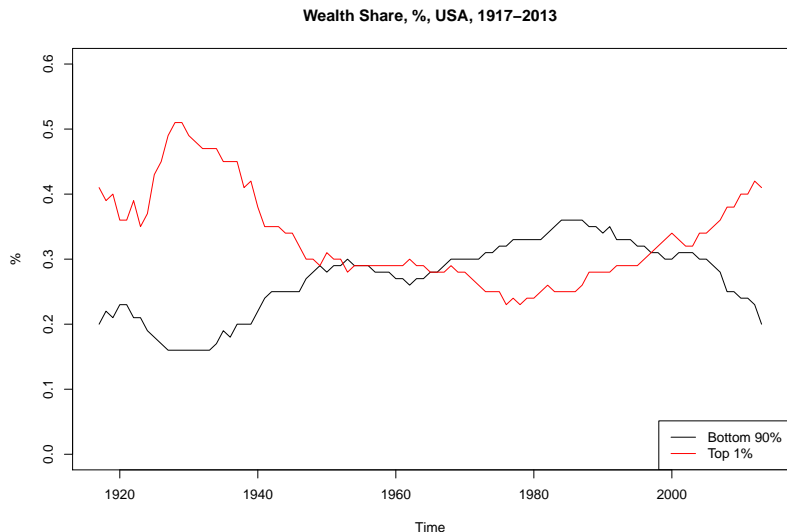
Where does inequality come in this SAM?

- ▶ Obviously through the wage/profit distribution in flow space.
- ▶ So it's who gets the product of

$$(1 - a)PX = wbX + \pi PX = Y_w + Y_\pi$$

- ▶ These shares have changed rapidly over time. Let's look at some time series data on this.

Inequality: Wealth distribution



Source: Wealth Inequality in the United States since 1913, Zucman et al, Sourced at , Table B1

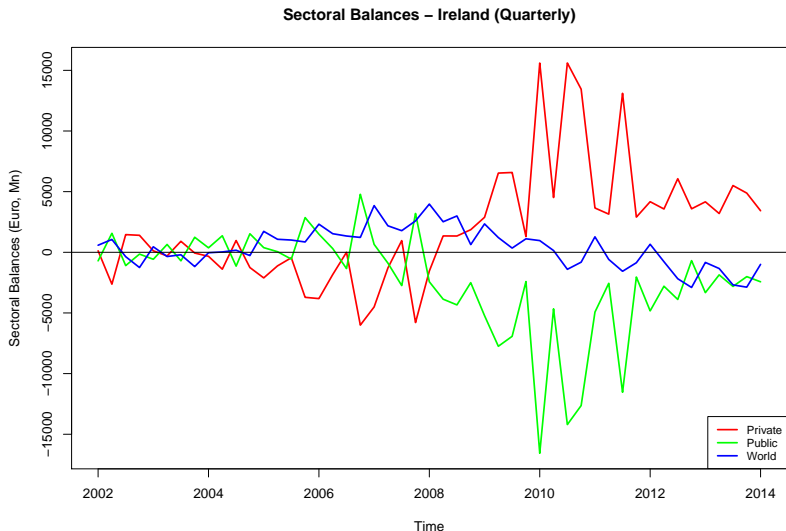
Exercise: Examining Inequality, up close

- ▶ Let's look at Zucman's 2013 dataset, linked at the module site.
- ▶ First, reproduce the plot above. What is the underlying source of the data? What story is it telling?
- ▶ Then let's look into broader aggregates.

Modeling inequality using income and wealth data

- ▶ Piketty's argument
- ▶ Taylor's response to Piketty
- ▶ The Problem of Financialisation

Inequality and the Sectoral Balances. This time for Ireland

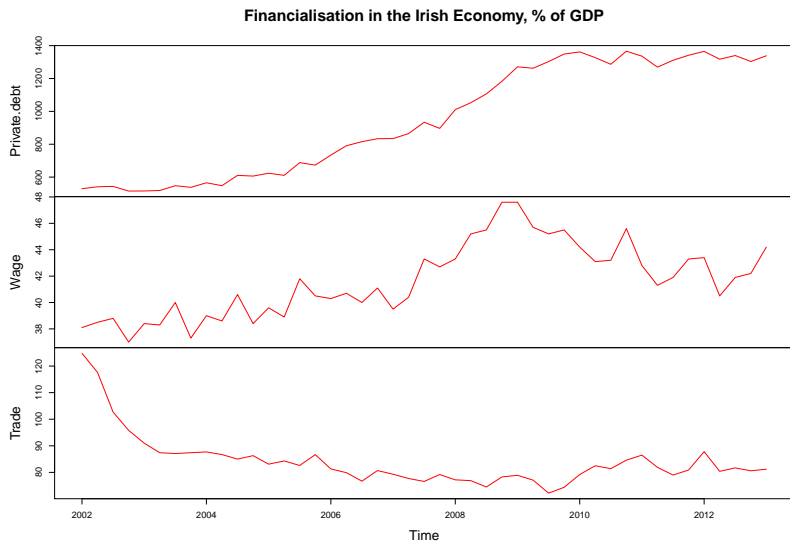


Source: CSO, Quarterly Financial Accounts

Inequality and Financialisation

- ▶ Financialisation as a broad concept refers to an overall increase in financial activities of various kinds, introduction and use of new financial instruments contributing to ever increasing emphasis of financial motives among economic agents.
- ▶ Financialisation has been happening across the developed world.

Financialisation in Ireland



Source: CSO

Looking for Financialisation and Inequality Links

- ▶ Kalecki: an unequal distribution of income can have harmful macroeconomic effects on output and employment.
- ▶ If income becomes concentrated in the hands of the wealthy, aggregate demand will fall, and with it, employment and output.
- ▶ This occurs because the wealthy tend to spend a smaller percentage of their income than lower-income households. A redistribution of income to the wealthy, then, results in higher saving rates and as a result, a reduction in aggregate demand.

Put another way

- ▶ Higher the claims of capitalists, lower the output and employment. Mark-ups raise profit share. With higher share of profits, the share of workers has to fall. Hence employment and turnover decline- Thus higher mark-ups have a double edge. The higher share of profit hits both workers and apparently capitalists.
- ▶ Paradox: Though profit share rises and turnover declines with higher mark-ups, total profit of capitalists remains the same.
- ▶ This Markups as monopoly power, demand elasticities as price channels. Mark ups determine income distribution.
- ▶ Crucial role, and need for, the stability of the wage share.

Summary

- ▶ Keynes/Kalecki have a lot to teach us, even today, about what we're experiencing.
- ▶ This is because there aren't many new economic ideas.
- ▶ There are new economic data thanks to people like Prof. Zucman.