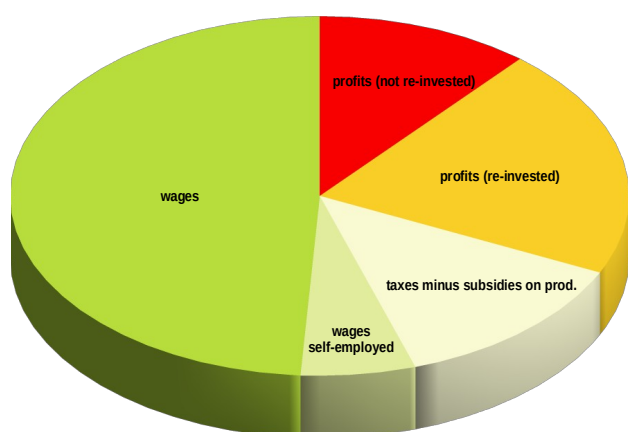


More Profits, Less Wages, Less Investment

Long-term Changes in Primary Distribution



Macroeconomic data from the EU-AMECO data base, for four countries: **Germany, Spain, France and Italy** have been analysed for the the 65 year period from 1960 to 2024 with respect to primary distribution of income, the use of the surplus for investment and the evolution of real wages and productivity.

There has been a **strong redistribution from labour income to capital income** amounting to from 8 to 11 % of GDP in all four countries in about two decades from about 1980 to 2000. Since then and throughout the first quarter of the 21st century the wage share remains rather constant at the low level obtained of between 61 and 66% of GDP, depending on the country, with some country specific variations in tendency since the 2008 financial crisis.

There is an **increased share of profits in all four countries which is not re-invested**. The difference in this share from historic minima in the 1970ies to the average after the 2008 financial crises ranges from 9 to 14% of GDP. The ratio of gross investment to total domestic surplus is decreasing in all four countries from ratios around 95% in the 1970ies to current values of around 65 %. As a consequence, after a strong decrease throughout the 1970ies and 1980ies **productivity growth has reached values well below 1%/year in the first quarter of the 21st century**, being even negative in Italy in recent years. Since the onset of the neoliberal era from 1980 **real wage growth decayed to values below 1%/year**, and **in Italy and Spain real wages are practically stagnating since 1990**. While the employment ratio (ratio of employed people to total population) is stable around roughly 40% in France, Italy and Spain, it is increasing in Germany since the onset of the neoliberal era, reaching about 55% at present (2024).

Wages vs. Profits: Changes in the Distribution of Income between Labour and Capital

While the wage share was slightly increasing in the 1960ies and 70ies, in two decades from approximately 1980 to 2000, with the transition to neoliberal capitalism, there has been a strong redistribution from labour to capital income amounting to from 8 to 11 % of GDP (total income) in all four countries. Since then and throughout the first quarter of the 21st century the wage share remains rather constant at the low level obtained of between 61 and 66% of GDP, depending on the country, with some country specific variations in tendency since the 2008 financial crisis. A similar evolution is observed also in the former EU-15 (Western European countries including UK) and the UK and US.

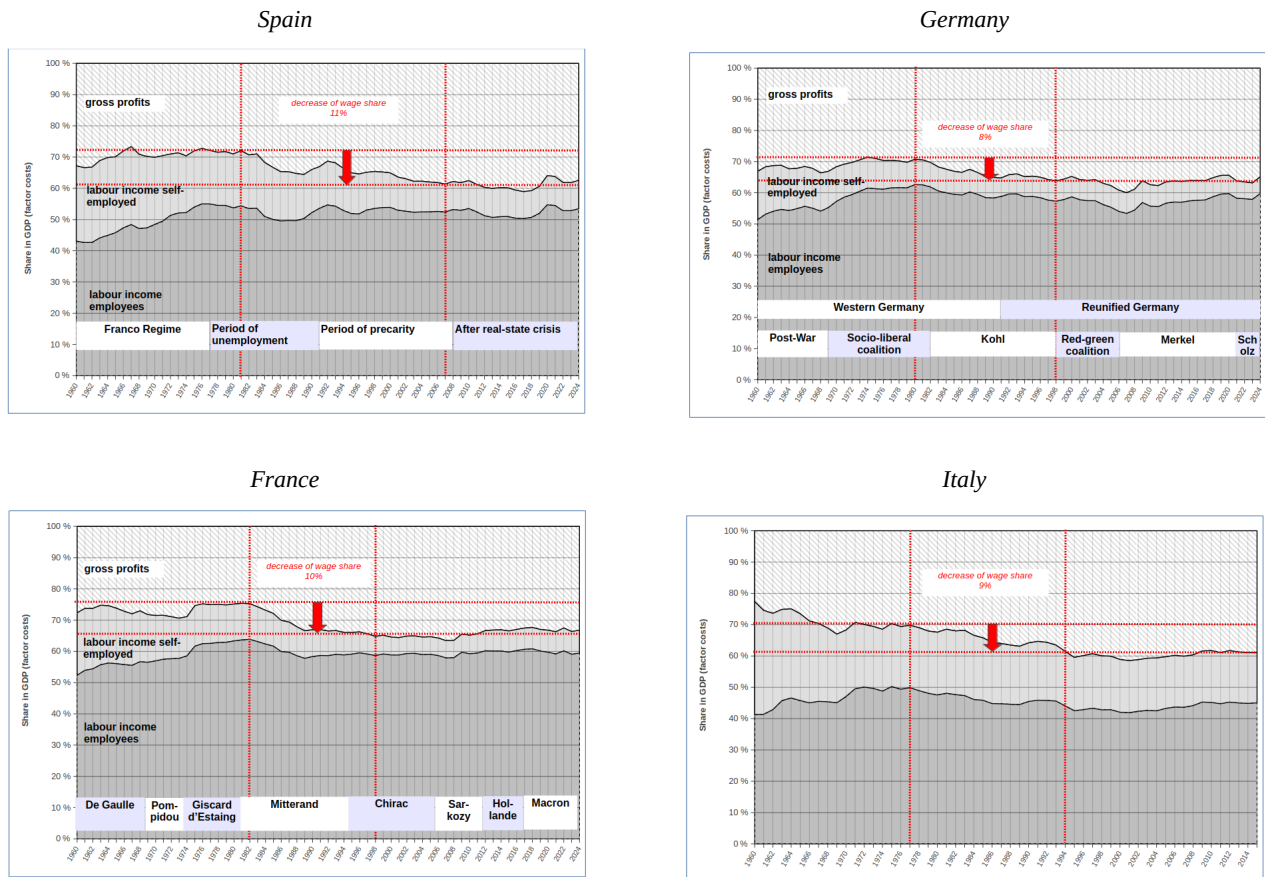


Figure 1. Historic evolution of wage and profit share in GDP (by factor costs). Source: own elaboration based on AMECO data..

More Profits, Less Investment

The total domestic surplus (for simplicity: profits) can be used either for domestic gross investment (for maintenance and increase of productive capacity of domestic economy), or for consumption out of capital income, or transferred to foreign countries in form of investment (direct, financial) or foreign consumption. Historic data show an increasing share of profits which is not re-invested, amounting to from 9 to 14% of GDP in all four countries from historic maxima in the 1970ies to the average after the 2008 financial crises.

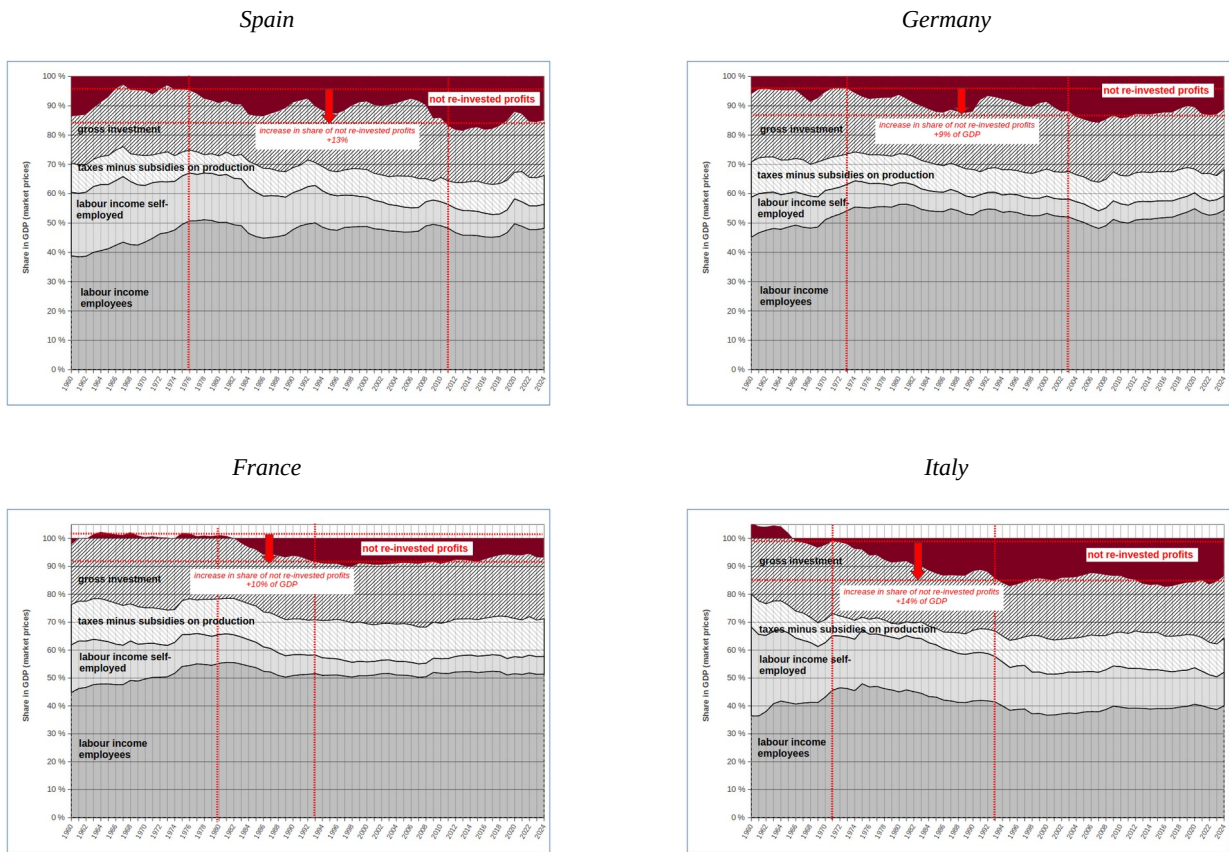


Figure 2. Share of investment and not re-invested profits in GDP (by market prices).

The ratio of gross investment to total domestic surplus is decreasing in all four countries from ratios around 95% in the 1970ies to current values of around 65 %, and a similar evolution is observed also in the former EU-15 (Western European countries including UK). The decrease is much less pronounced in UK and US.

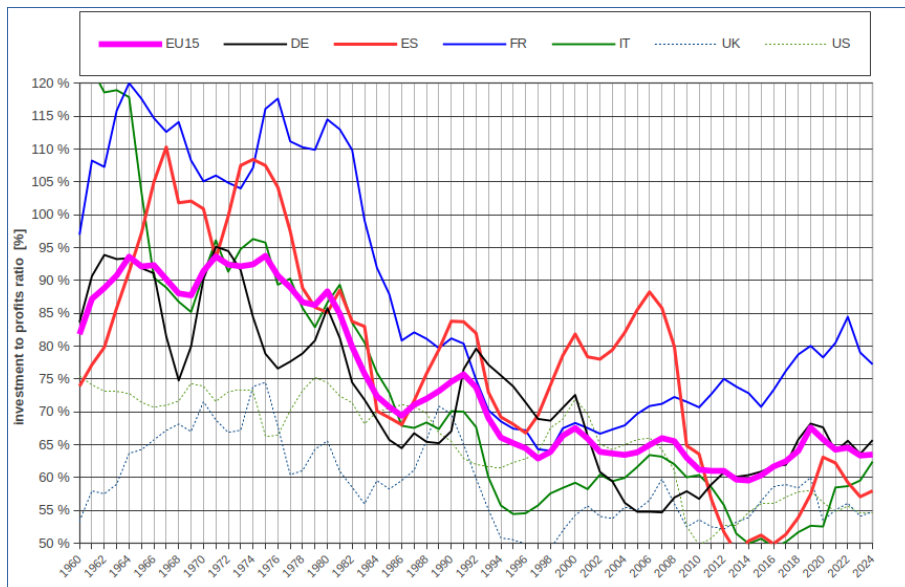


Figure 3. Ratio of gross investment to total domestic surplus.

Real Wages and Productivity

While until the 1970ies real wages are constantly growing, since the onset of the neoliberal era from 1980 on there has a quick decay of real wage growth down to values below 1%/year which is continuing until present. In Italy and Spain real wages are practically stagnating since 1990.

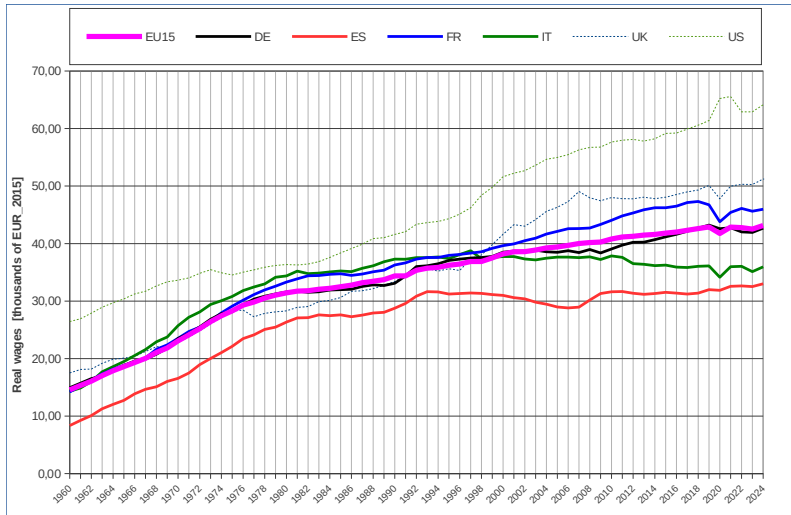


Figure 4. Evolution of real wages.

Also productivity growth has been strongly decreasing throughout the 1970ies and 1980ies, reaching values well below 1%/year in the first quarter of the 21st century, being even negative in Italy in recent years. While in the two decades from about 1980 to 2000 productivity growth has been always almost 1%/year higher than real wage growth, leading to the observed redistribution from labour to capital, in the first quarter of the 21st century productivity and real wages are moving more or less in parallel. It is interesting to observe the differences in the evolution of the employment ratio in the four countries under study. While the employment ratio is rather stable around roughly 40% in France, Italy and Spain, there is a continuously increasing tendency in Germany since the onset of the neoliberal era reaching about 55% at present (2024).

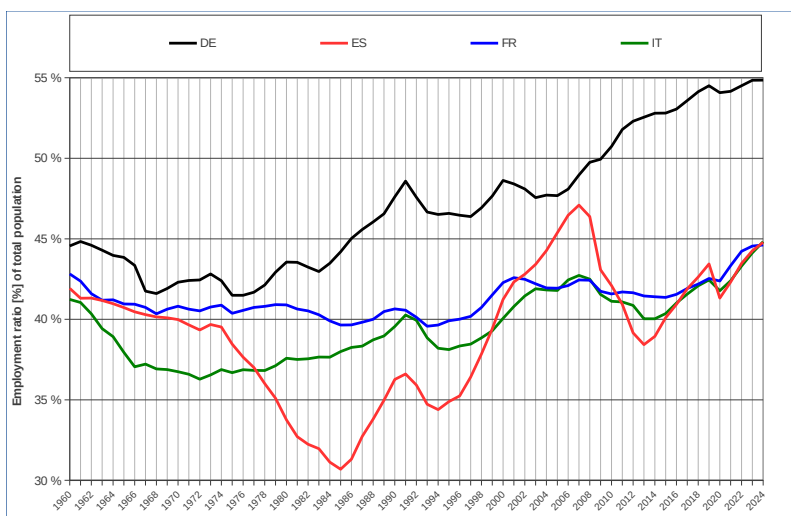


Figure 5. Ratio of employed persons to total population.

Basic Concepts Used

In the system of national accounts the gross domestic product (GDP, symbol Y), i.e. the total of goods and services generated within an economy, can be broken down by types of income (primary distribution):

$$Y = R + W + TS$$

(profits + wages + taxes minus subsidies on production), or

$$Y_{fc} = R + W$$

where $Y_{fc} = Y - TS$ is denominated the GDP by "factor costs".

"Wages" include gross wages before taxes, but also indirect income in form of contributions to social security systems. "Profits" include the operating surplus of corporations, but also the income of self-employed individuals.

In the concept of "adjusted profits" and "adjusted wages" in the ESA wages and profits are corrected accounting for the part of the profits corresponding to compensation of self-employed individuals or company owners for their own work ("wages" of self employed).

$$W_{adj} = W + W_{self_employed}$$

$$R_{adj} = R - W_{self_employed}$$

The sum of W_{adj} and R_{adj} again gives the total GDP by factor costs

$$Y_{fc} = R_{adj} + W_{adj}$$

Wage and profit shares (both adjusted and non-adjusted) are usually calculated using not Y, but Y_{fc} (the GDP by factor costs) as reference, so that the sum of wage and profit shares is 100%.

Breakdown by types of use: The goods and services generated are used mainly either for consumption, for investment, and a minor part for net exports (difference between exports and imports).

$$Y = C + I + NX$$

(consumption + investment + net export)

The breakdown of GDP by type of use is not directly within the scope of analysing primary distribution. Nevertheless, from the society point of view it makes a big difference whether the surplus obtained by capital owners is re-invested in the domestic economy, or used for luxury consumption out of rentier income and investing income from net exports abroad.