To my colleagues of the Economics Department and the Political Economy Research Institute (PERI), University of Massachusetts, Amherst

Financialization and the World Economy

Edited by

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3. The Rise of Rentier Incomes in OECD Countries: Financialization, Central Bank Policy and Labor Solidarity

Gerald A. Epstein and Arjun Jayadev[1]

INTRODUCTION

Public attention to the power of finance and the attendant wealth that financiers are able to extract from society waxes and wanes over time, usually in conjunction with the actual evolution of the political power of finance and its associated incomes. In the late 19th and early 20th century, theorists such as Hilferding, Hobson, Lenin, Keynes and Kalecki studied the role of finance and rentiers in the evolution of capitalism (Hilferding 1910; Hobson 1902; Lenin 1916; Keynes 1936; Kalecki 1990). Beginning in the late 1970s, following the breakdown of the post-war institutional framework of financial regulation, finance has once again been on the ascent. More recently with the stock market boom and crash of the 1990s, financial liberalization around the globe and ever escalating financial scandals, finance has once again been thrust center stage (Pollin 2003; Evans 2003; Brenner 2002; Stanford 1999; Henwood 1998; Baker, Epstein and Pollin 1998).

According to a common story, following the debacle of the 1930s, finance (the rentiers) was held in check by regulations, capital controls, the power of labor and the welfare state. Starting in the late 1970s, the advent of monetarism and then neoliberalism greatly helped the re-emergent financial or rentier class. They have benefited directly by virtue of the expansion of the markets that they operate in and the assets they hold. Indirectly, they have benefited in a more profound way: through their rising political influence, the rentier class has been able to mold economic policies and structures in their interests.[2] In some areas they have been able to push for greater political power: in promoting independent central banks and inflation targeting to keep real interest rates high; in exhorting low budget deficits to reduce inflationary pressure; and in repressing labor which threatens to reduce their share of rents. In others, they have successfully promoted deregulation, pushing for financial liberalization to give them more profit-making opportunities abroad and at home (see, for example, Crotty and Epstein 1996; Helleiner 1994; Greider 1987; Epstein 1981; Patnaik 2003).

While these stories are eminently plausible, hard evidence is largely missing on the distributional impacts of these structural and policy changes. In particular, we do not have a comprehensive picture of how much wealth neoliberalism has actually delivered to rentiers. Certainly, a great deal of energy has gone into describing the evolution of the personal distribution of income in the last several decades. Here we have substantial evidence that the personal income distribution has become more highly skewed in the US and other OECD countries in the last several decades (see, for example, Pikkety and Saez 2003). But empirical studies of the functional distribution are relatively rare and those studies that do exist focus primarily on the labor or profit share, rather than the amount of income accruing to rentiers (Rodrik 1998; Harrison 2002; for important exceptions see the work of Duménil and Lévy, this volume and 2004a; Stockhammer, forthcoming; Yeldan 2000).

To fill this gap in the literature, Epstein and his colleagues have developed a new set of estimates of rentier incomes in the OECD countries since 1960 (Power, Epstein and Abrena 2003). Using these data, Epstein and Power (2003) studied the evolution of rentier incomes. They found that they have generally gone up between the period of the 1960s and 1970s on the one hand and the 1980s and 1990s on the other. This historical dating roughly corresponds to the story we just told: the move from the Bretton Woods era of regulated finance (1960s and 1970s), to the re-emergence of rentier power and neoliberalism in the 1980s and 1990s.

One problem with Epstein and Power's estimates is that they do not adjust rentier income for the impact of inflation on the real value of financial wealth. In inflationary periods, some increases in rentier income are not 'real', but rather only serve to recoup losses in real financial wealth due to inflation.[3] In this chapter we adjust the Epstein and Power data for the impacts of inflation. We find that making the inflation adjustment serves to reinforce our earlier results: rentier shares in most OECD countries increased significantly between the 1960s and 1970s on the one hand and 1980s and 1990s on the other, in some cases by even more than with the nominal measures.

Our second contribution is to explore the determinants of these increases in rentier incomes. In particular, we are interested in studying how rentier incomes are affected by monetary and fiscal policy, financial structure, financial liberalization and the power of labor. Gaining a better understanding of the impacts of these variables on rentier incomes will help us assess a number of important questions concerning the political economy of financialization: has restrictive monetary policy helped rentiers? Has fiscal austerity promoted rentier interests? Has financial openness and financial liberalization been in the interest of the rentier class? Is greater power for labor at odds with rentier interests? We describe results here and present econometric estimates elsewhere that suggest that in most OECD countries, rentier interests have indeed benefited handsomely from neoliberal policies.[4]

The rest of this chapter is organized as follows. In the next section we define our measure of rentier incomes and describe basic trends in that measure in a sample of OECD countries since the 1960s. We also present the inflation adjustments to rentier incomes. In section three, we describe the various forces that we believe can explain the evolution of these rentier incomes. In the final section, we draw out the implications of our work and make some suggestions for future research.

RENTIER INCOMES IN OECD COUNTRIES: DEFINITION AND TRENDS

Definition of Rentier Income

There is no commonly accepted definition of rentier, rentier income or rentier class. Perhaps the most famous definition of rentier is the one offered by Keynes. In his *General Theory*, Keynes refers to the rentier as 'the functionless investor', who generates income via his ownership of capital, thus exploiting its 'scarcity-value'.[5] This notion of the *functionless investor* reflects a view Marx sometimes presented as well. In his analysis of the dynamics of the interest rate, he quotes Ramsay on the growth of a rentier class:

> as a nation advances in the career of wealth, a class of men springs up and increases more and more, who by the labors of their ancestors find themselves in the possession of funds sufficiently ample to afford a handsome maintenance from the interest alone. Very many also who during youth and middle age were actively engaged in business, retire in their latter days' to live quietly on the interest of the sums they have themselves accumulated. This class, as well as the former, has a tendency to increase with the increasing riches of the country, for those who begin with a tolerable stock are likely to make an independence sooner than they who commence with little. Thus it comes to pass, that in old and rich countries, the amount of national capital belonging to those who are unwilling to take the trouble of employing it themselves, bears a larger proportion to the whole productive stock of the society, than in newly settled and poorer districts (*Capital: A Critique of Political Economy, Volume III*, Chapter 22).

With this pedigree, the notion of the functionless investor is thus a popular and respectable way to define the term *rentier*. However, another definition, and the one we will adopt, better reflects the notion of financialization as an active process and the rentier as an active agent. Our definition thus includes profits from financial market activity of the financial industry, including, of course, banks, stockbrokers and insurance companies. Marx also has a quote about rentiers that reflects this more active notion of the rentier class:

> Talk about centralisation! The credit system, which has its focus in the so-called national banks and the big money-lenders and usurers surrounding them, constitutes enormous centralisation and gives to this class of parasites the fabulous power, not only to periodically despoil industrial capitalists, but also to interfere in actual production in a most dangerous manner-and this gang knows nothing about production and has nothing to do with it. The Acts of 1844 and 1845 are proof of the growing power of these bandits, who are augmented by financiers and stock-jobbers (*Das Kapital, Volume 3*, Chapter 33).[6]

Marx's view of the rentier class expressed here is in the same spirit as our use of the term, though, admittedly, he expresses it with more rhetorical flourish than we can muster. We have a view of the rentier that reflects the idea of an active class that is fostering and profiting from the process of financialization. As a result we have chosen not to use the definition of the rentier as the passive investor. Kalecki, too, adopted this more active view of the rentier class. As Kalecki used the term, rentier income represents the income received by owners of financial firms, plus the return to holders of financial assets generally (Kalecki 1990). This distinguishes rentier income from income earned from labor and industrial capitalists from owning nonfinancial firms.[7]

Still, there are many ambiguities, even in this definition. For example, should we include the high salaries earned by stockbrokers and bankers who operate in the financial sector? These salaries are not reflected in the financial profits data we use. It is safe to say that we probably should include these in our definition of rentier income. However, we have not been able to find data that would identify these salaries in a cross-section of OECD countries and so we have left these out. This is an important area for future research.

To take another example, should we include the dividends that households earn from owning shares of stock from nonfinancial corporations? Some might conclude that the increased ownership of stock does reflect the process of financialization and that it would be arbitrary to include interest earnings from nonfinancial corporate bonds, but exclude dividend payments. Others would argue – and this is our position – that it is important to distinguish between the profits of enterprise and the returns to finance; as a result, rentier income should *not* include dividends from nonfinancial corporations (Crotty 2002). Excluding dividends of nonfinancial firms thus allows us to talk about possible divergences of interest between finance and industry, an obvious concern expressed in the Marx quote above, as well as by Keynes in his many writings on the political economy of modern capitalism.' Luckily – it turns out – it does not make much difference to the results whether we include these dividends or not. For the rest of the chapter, we present data that exclude the dividends of nonfinancial corporations.[8]

Empirical Definition of Rentier Income

Rentier income, as calculated in this chapter, consists of the profits earned by firms engaged primarily in financial activities plus interest income realized by all nonfinancial non-government resident units, i.e. the rest of the private economy.[9] In addition, in principle, rentier income should include capital gains on financial assets but in practice good data on capital gains are impossible to obtain in a cross-country sample. As a result, capital gains are *not* included in this chapter. In turn, the rentier share is the rentier income as defined above divided by gross national product (net of government expenditures since we have excluded the government income from rentier income, the numerator). These are nominal figures.

As discussed in more detail below, we further adjust this nominal measure of rentier income to take into account the effects of inflation on net financial assets. These form the basis for our inflation-adjusted measures of rentier shares.

Overall trends of rentier income share

Nominal measures Table 3.1 summarizes for each country the trend of nominal rentier income share and compares it to the profit share in the corporate nonfinancial sector. While there is no single trend of rentier income share among all of the countries, patterns do emerge. The most important pattern is this: for most countries for which we have data, rentier income share was higher in the 1980s and 1990s than it was in the 1960s and 1970s (subject, of course, to data availability). These data, then, are consistent with the story told above that rentier shares have gone up since the time the neoliberal period was initiated in the late 1970s and early 1980s.

To take a few examples, between the 1970s and the 1990s, the rentier share in the UK went from 11.48 percent to 24.5 percent; it doubled in Korea (from 7 percent to 15 per cent); and it went up by 40 percent in the U.S (from 24 percent to 35 per cent). Only two out of the thirteen countries for which we have data for more than a decade – Italy and Denmark – experienced declines in rentier share from the beginning of the data observation to the end. These negative differences, however, were small (see also Table 3.2).

Table 3.2 also presents data on the nonfinancial profits share for many of the countries in our sample. The first column of Table 3.2 shows that out of the thirteen countries for which we have sufficient data, five experienced a decline in nonfinancial corporate profit share over this period. The rest of the countries witnessed an increase in nonfinancial shares, but these increases were generally much smaller, in percentage terms, than the increases in rentier shares.

So the overall message in Tables 3.1 and 3.2 is that, between the 1960s and 1970s, on the one hand and the 1980s and 1990s on the other hand, rentier shares of national income made a significant increase in most of the OECD countries, while nonfinancial profit shares generally either made a

Table 3.1 Rentier share and nonfinancial profit share in some OECD countries

Country	Nonfin. sector profit share ave. (1960s)	Rentier share ave. (1960s)	Nonfin. sector profit share ave. (1970s)	Rentier share ave. (1970s)	Nonfin. sector profit share ave. (1980s)	Rentier share ave. (1980s)	Nonfin. sector profit share ave. (1990s)	Rentier share ave. (1990s)
Australia	10.74	8.48	6.44	8.69	4.31	14.73	6.88	15.12
Belgium			9.16	13.42	10.44	23.29	11.72	27.64
Denmark					6.67	13.83	13.21	12.51
Finland	12.36	7.66	5.69	7.63	5.52	9.09	7.81	12.63
Germany	14.39	13.93	9.86	14.12	8.01	16.02	9.6	16.75
Italy					9.17	32.31	14.03	30.49
Japan	9.64	11.32	7.37	13.34	8.58	15.46	7.49	13.04
Korea			5.67	7.01	6.89	10.26	7.23	15.07

Mexico							18.88	32.77
Holland			7.45	14.50	10.22	20.10	12.39	25.19
Norway					10.47	13.04	11.91	13.66
Spain					7.17	14.03	7.81	14.15
Sweden					2.23	11.49	4.04	12.20
UK	12.81	6.78	10.42	11.48	13.06	18.76	13.95	24.50
USA	9.12	16.93	8.59	24.02	9.83	37.45	8.57	35.24

Table 3.2 Change in rentier share and nonfinancial profit share in some OECD countries (%)

Country	Nonfinancial sector profit share between 1960s and 1990s	Rentier share between begin and end period	Coverage for Nonfinancial sector profit share	Coverage for rentier share
Australia	–3.86	6.64	1969–1995	1969–1998
Belgium	2.56	14.22	1970–1999	1970–1999
Denmark	6.54	–1.33	1981–1999	1970–1999
Finland	–4.55	4.97	1960–2000	1960–2000
Germany	–4.79	2.82	1960–1999	1960–1999
Italy	4.86	–1.82	1980–1999	1980–1999
Japan	–2.15	1.72	1960–1998	1960–1999
Korea	1.57	8.05	1975–1995	1975–1999
Mexico	NA	NA	1993–1999	1989–1999
Holland	4.94	10.69	1977–1999	1977–1999
Norway	1.45	0.61	1978–1999	1978–2000
Spain	0.64	0.13	1985–1999	1979–1999
Sweden	1.81	0.72	1980–1999	1979–1998
UK	1.14	17.72	1968–2000	1968–2000
US	–0.55	18.31	1960–1999	1960–1996
Average change for sample	0.69	5.96		

modest increase or declined. So, if the 1980s and 1990s were the decades of the rentier, in most countries the nonfinancial corporations did not have to foot the bill.[10] In most cases, it was labor, most likely, that experienced declines in its income shares.

Inflation adjusted shares One possible objection is that these data might give a misleading picture of the actual rentier income shares when there is rapid inflation. The reason is that with inflation, the real value of net financial wealth declines. In this case, some of the rentier income will serve simply to compensate wealth holders for the loss in the value of financial wealth rather than truly augmenting their income. Hence, in an inflationary environment, the level of rentier income will be overestimated. We have therefore calculated a data set of inflation-adjusted rentier incomes, as follows:[11]

$$R(N) = R\,(r/i) \tag{3.1}$$

Where $R(N)$ means rentier income, net of inflation: it is inflation adjusted rentier income. R is the nominal rentier income, r is the (ex-post) real interest rate, defined as the nominal rate of interest minus the inflation rate, and i is the nominal interest rate. The inflation-adjusted rentier share is $R(N)$ divided by the appropriate measure of national income. Note that in equation (3.1) if inflation is zero, then the nominal interest rate equals the real interest and inflation-adjusted rentier income ($R(N)$) equals the nominal rentier income (R) (see Appendix 3.B for complete definitions and sources of data). We present these inflation-adjusted rentier shares in two forms: in summary form in Tables 3.3 and 3.4 and in graphical form in Figures 3.1–3.4.

The results in Tables 3.3 and 3.4 are striking. In the 1970s, adjusting rentier shares for inflation makes a huge difference, dramatically reducing the rentier share in most countries and in some cases making the 'shares' negative.[12] In the 1980s and the 1990s, the inflation adjustment also lowers the rentier shares, but by less, in most countries. However, the adjustments also make the contrast much greater between the high inflation period of the 1970s on the one hand and the 1980s and 1990s on the other. The contrast is most dramatic between the 1970s and 1980s: in some countries, rentier shares were negative in the 1970s and significantly positive in the 1980s. In the UK for example, the (adjusted) rentier 'share' was –4.21 percent in the 1970s and 7.3 per cent in the 1990s. In the US, the (adjusted) share was 3.99 per cent in the 1970s and 22.11 percent in the 1980s, obviously a huge difference. On average, for the countries for which there are data from the 1960s through the 1990s, the average adjusted share between 1960s–1970s and the 1980s–1990s increased by about 5 per cent in nominal terms and by well over 7 per cent in inflation-adjusted terms.

Table 3.3 Rentier share and inflation-adjusted rentier share in some OECD countries (in %)

Country	Rentier Share Average (1960s)	Adjusted Rentier Share Average (1960s)	Rentier Share Average (1960s)	Adjusted Rentier Share Average (1960s)	Rentier Share Average (1960s)	Adjusted Rentier Share Average (1960s)	Rentier Share Average (1960s)	Adjusted Rentier Share Average (1960s)
Australia	6.02		7.19	0.16	13.18	5.76	12.56	10.58
Belgium			10.11		12.08	15.25	14.76	20.20
Denmark					7.63	9.44	7.64	9.43
Finland	5.37		5.48	-0.18	5.94	1.42	7.62	5.42
Germany	2.86		4.40	2.36	6.73	4.88	6.63	5.16
Italy					16.19	4.36	16.39	9.76
Japan	8.45	2.60	11.28	-0.07	13.06	8.55	10.22	8.56
Korea			4.70		8.98	1.80	13.59	1.33
Mexico							8.64	
Holland			10.54	7.55	15.21	12.11	17.85	12.81

Norway					9.50	4.57	8.56	5.35
Spain					11.22	4.52	11.89	6.93
Sweden					9.85	4.21	10.13	7.12
UK	3.71	0.08	5.64	-2.07	9.78	3.84	13.11	7.21
US	12.74	6.00	20.04	3.03	33.20	19.61	30.39	18.82

Table 3.4 Change in rentier share and inflation-adjusted rentier share in some OECD countries (%)

Country	Rentier share between pre-1980 begin. period and 1990s	Adjusted rentier share between pre-1980s begin. period and 1990s	Coverage for nonfinancial sector profit share	Coverage for rentier share
Australia	6.54	10.42	1969–1998	1975–1995
Belgium	9.75		1970–1999	1981–1999
Denmark	–1.11		1970–1999	1988–1999
Finland	2.25	6.62	1960–2000	1977–2000
Germany	3.77	2.80	1960–1999	1978–1999
Italy			1980–1999	1980–1999
Japan	1.87	5.96	1960–1999	1961–1997
Korea	8.89		1975–1999	1981–1995
Mexico			1989–1999	
Nthrlnds	7.31	2.26	1977–1999	1978–1999
Norway	–0.44		1978–2000	1980–2000
Spain	0.77		1979–1999	1985–1999
Sweden	0.28		1979–1998	1981–1998
UK	9.60	7.13	1968–2000	1968–2000
US	17.65	18.0	1960–1995	1961–1995
Average difference	5.2	7.6		

Note: Rentier share measured without dividends

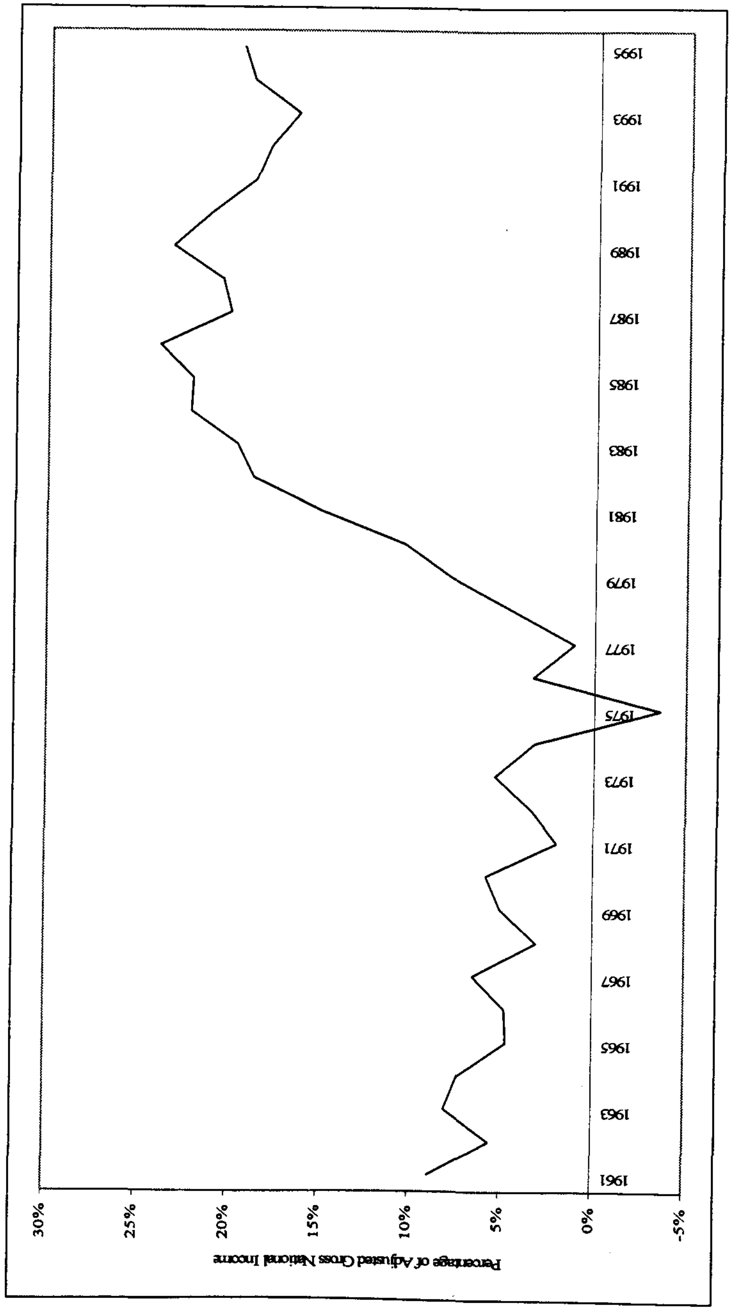

Figure 3.1 Inflation-adjusted rentier share in the USA (1961–1995)

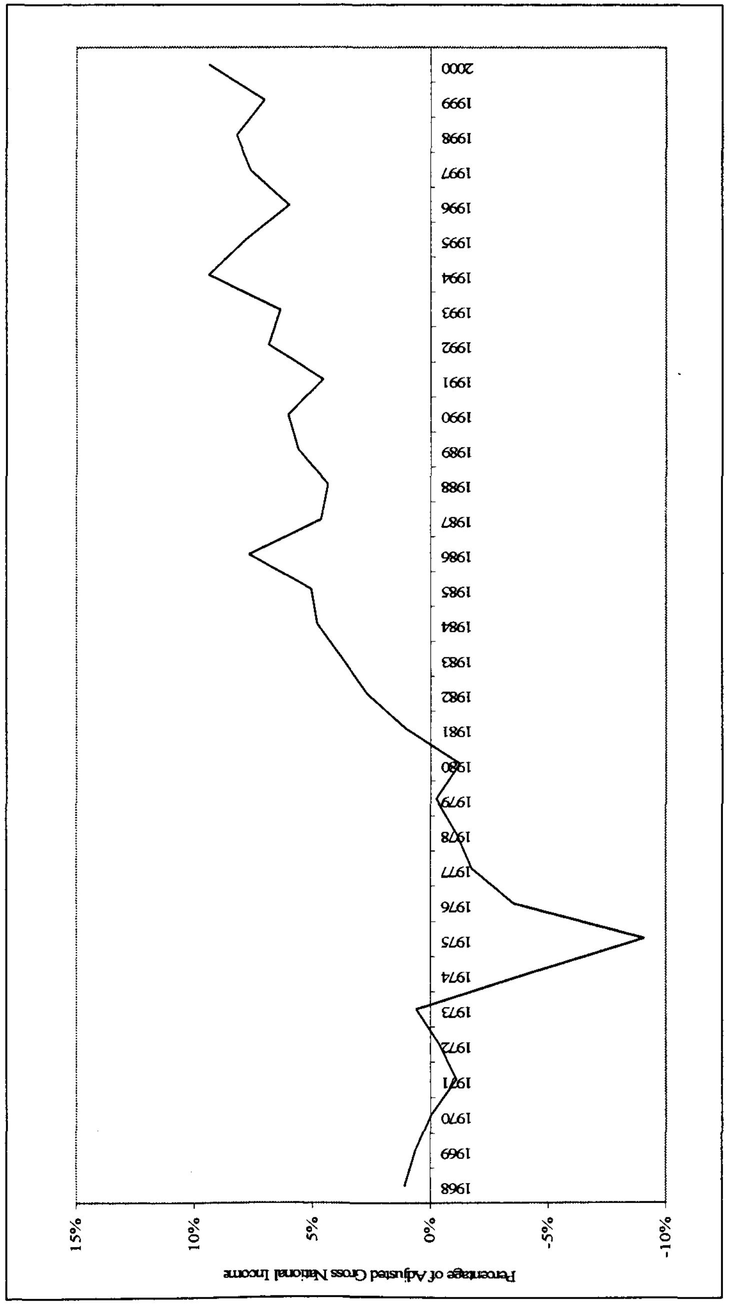

Figure 3.2 Inflation-adjusted rentier share in the UK (1968–2000)

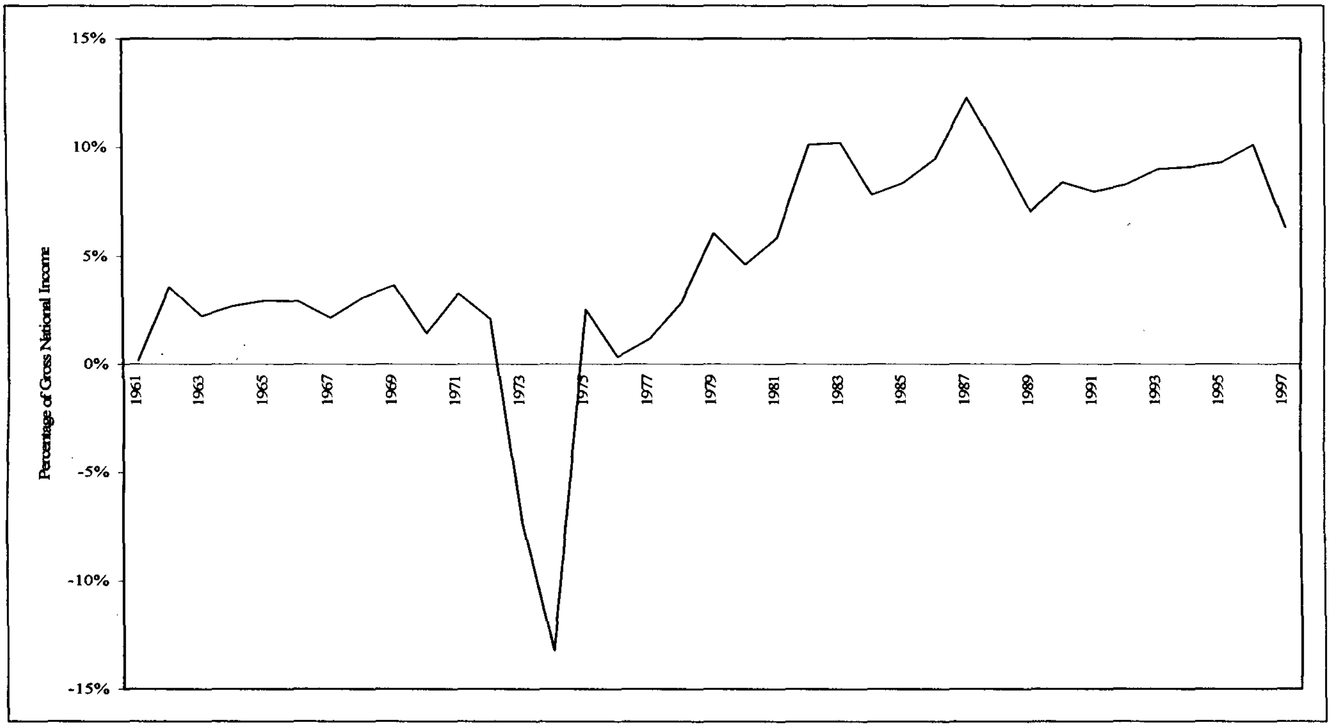

Figure 3.3 Inflation-adjusted rentier share in Japan (1961–1998)

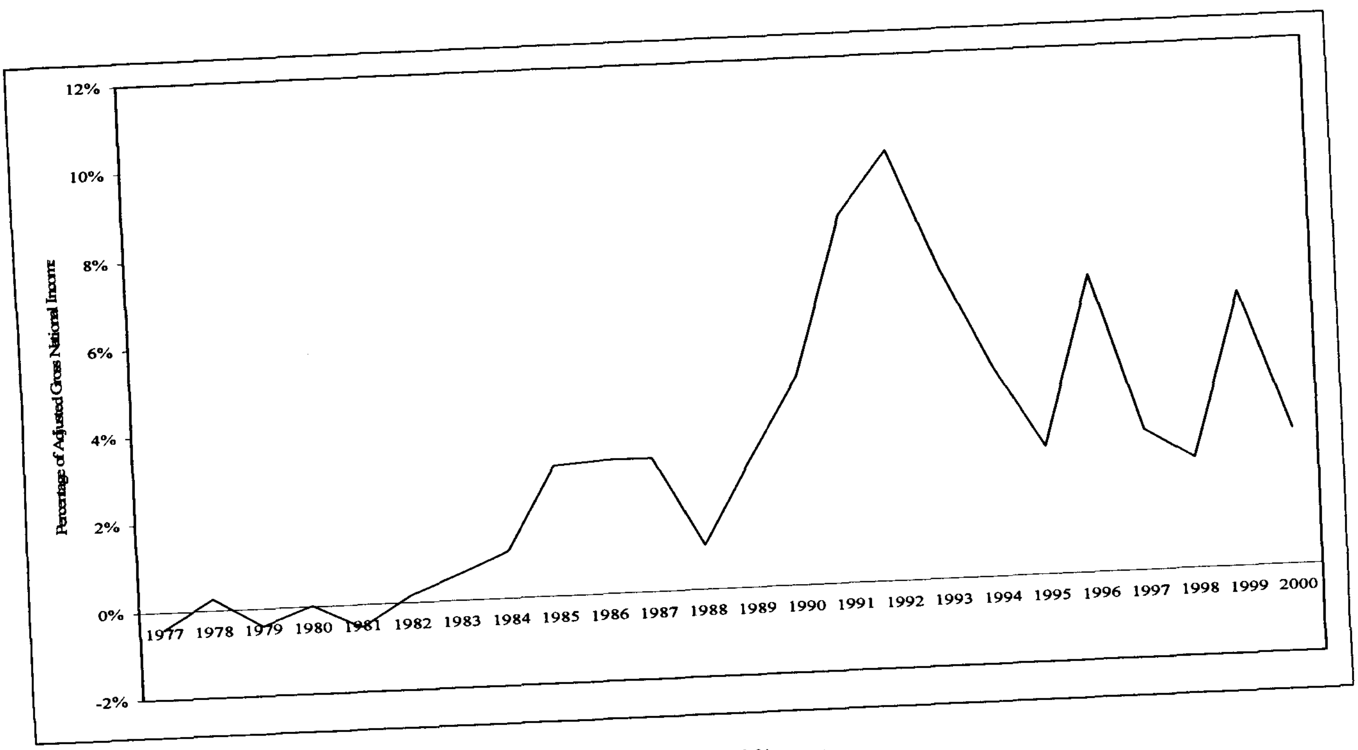

Figure 3.4 Inflation-adjusted rentier share in Finland (1977–2000)

Figures 3.1–3.4 show time series charts of the inflation-adjusted shares for the US, UK, Japan and Finland. The time profiles are by no means uniform for all countries. For most of the countries where data are available, however, the (adjusted) rentier share in the 1980s and 1990s is much higher than in the high inflation period of the 1970s, in keeping with the countries shown here. One can surmise that over this period, some major structural or policy changes occurred that had significant effects on rentier incomes, whether calculated in nominal or inflation-adjusted terms.

DETERMINANTS OF THE EVOLUTION IN RENTIER SHARE: A FIRST LOOK

What can account for the increases in rentier incomes in so many of these OECD countries starting in the mid- to late 1970s or so? Is there evidence for the political economy story described above?

There are at least four likely factors that contributed to the trends we observe. The first is the shift to tight monetary policies in the UK and US around 1979 or 1980, implemented by the 'monetarists' of the Thatcher regime and by Paul Volcker, Chair of the US Federal Reserve at the end of the Carter presidency (Epstein 1981; Greider 1987). These policies ushered in an era of much lower inflation and high real interest rates, an era that, with some variation across time and space, is still with us. Tables 3.5 and 3.6 report data on inflation and on real interest rates in the OECD countries, showing the contrast between the 1960s and 1970s on the one hand and the 1980s and 1990s on the other. The table shows that in most countries, real interest rates rose significantly between the two periods, partly reflecting lower inflation rates and partly caused by interest rate liberalization. They reflect the profound change in monetary policy ushered in by Thatcher and Volcker that spread throughout the OECD by political pressures for central bank independence, inflation targeting and through the interlinking of interest rates brought on by financial liberalization and international capital mobility.

Financial liberalization is the second important factor accounting for the increase in rentier incomes. Widespread financial liberalization allowed for increases in real interest rates and for the dramatic expansion of financial activities and profits. The elimination of capital controls in most of these countries also likely contributed to higher rates of returns on financial assets and increased opportunity for financial sector profit.

The third structural and policy change – fiscal austerity – has, in principle, mixed effects on rentier incomes. On the one hand, lower government deficits reduce the rate of increase of government debt and thereby, all else being equal, reduce government interest payments to rentiers. On the other hand, to the extent that reductions in budget deficits reduce inflationary pre-

Table 3.5 Average inflation rates and real interest rates in some OECD countries

Country	1960s		1970s		1980s		1990s	
	Inflation rate	Real interest rate	Inflation rate	Real interest rate	Inflation rate	Real interest rate	Inflation rate	Real interest rate
Australia	2.31		9.83	–0.01	8.4	6.43	2.50	9.06
Belgium	2.92		7.13	–	4.9	7.59	2.14	7.16
Denmark	5.79		9.28	5.42	6.9	7.93	2.09	7.87
Finland	5.25		10.40	–0.62	7.32	2.13	2.13	5.94
Germany	2.49		4.81	–	2.90		2.35	8.31
Italy	3.86		12.32	0.39	4.70	6.83	4.12	2.28
Japan	5.54	2.28	9.09	–0.16	2.53	4.22	1.20	3.63
Korea	11.32		15.21	–	8.41	3.17	5.72	3.96
Mexico	2.47		14.61	–	69.04	–	20.4	9.90
Netherlands	4.32		4.32	9.71	2.86	7.58	2.44	6.12
Norway	3.82		8.37	6.25	8.34	6.96	2.44	7.80
Spain	6.25		14.39	–2.80	10.2	4.46	4.22	5.30
Sweden	3.72		8.57	1.73	7.93	6.46	2.44	7.55
UK	3.81	1.83	12.60	1.83	7.43	64.08	3.07	4.26
USA	2.42	2.40	5.50	1.08	5.55	6.25	3.00	5.73

Sources: Inflation rates: Global Development Finance and World Development Indicators.
Real interest rates: Global Development Finance and World Development Indicators.

Table 3.6 Change in inflation rates and real interest rates in some OECD countries

Country	Change from 1970s to 1990s Inflation rate	Real interest rate	Coverage (inflation)	Coverage (real interest rate)
Australia	–7.33	9.07	1961–1999	1975–1999
Belgium	–4.98	NA	1961–1999	1981–1999
Denmark	–7.17	2.45	1961–1999	1978–1999
Finland	–8.27	6.56	1961–1999	1977–1999
Germany	–2.56	NA	1961–1999	1977–1999
Italy	–8.20	1.89	1961–1999	1971–1999
Japan	–7.88	3.79	1960–1999	1966–1999
Korea	–9.49	NA	1967–1999	1974–1999
Mexico	5.70	NA	1961–1999	1977–1999
Netherlnds	–4.60	–3.59	1961–1999	1960–1999
Norway	–5.92	1.55	1961–1999	1972–1999
Spain	–10.10	8.10	1961–1999	1972–1999
Sweden	–5.20	5.82	1961–1999	1963–1999
UK	–8.91	2.43	1961–1999	1960–1999
USA	–4.09	4.65	1961–1999	1960–1999

Note: Missing data filled in from Easterly, Rodriguez and Schmidt-Hebbel.

Source: See Table 3.5.

ssures, they might contribute to increases in real interest rates and to increases in rentier incomes.

The fourth factor is the redistribution in political and economic power away from other classes and toward the rentier class. International liberalization has been shown to be associated with a decline in labor shares in many countries (Jayadev 2003; Lee 2003; Diwan 2000; Harrison 2002). A decline in labor share means that at least one other class is increasing its share of national income. With financial liberalization and tight monetary policy, the rentier class is certainly well positioned to reap these benefits. The position of nonfinancial corporations in this food chain is unclear. While they too can reap the benefits from lower power of labor, greater international trade competition, higher real interest rates and financial liberalization might mean a more difficult profit environment for nonfinancial corporations unless, of course, they become more and more like financial firms themselves (Crotty 2002).

Some Descriptive Evidence

In this chapter we present some simple descriptive evidence linking rentier shares to some of the neoliberal policies described above. Figures 3.6, 3.7 and 3.8 provide some preliminary evidence suggesting that neoliberal policies contribute to increases in rentier shares. Jayadev and Epstein (2004) present econometric evidence along the same lines. In these figures, we use the nominal shares data.

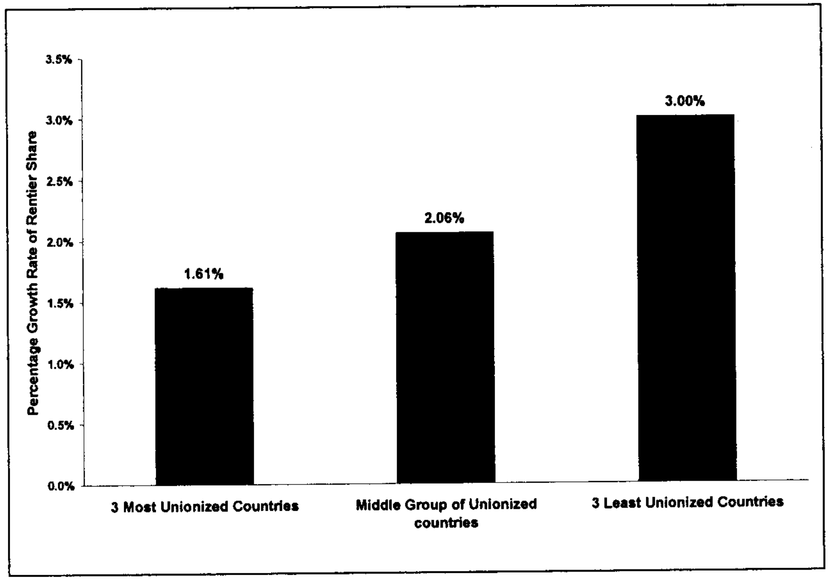

Figure 3.5 Unionization rates and growth of rentier shares

Figure 3.5 shows the rate of growth of the rentier share of income in different countries by the degree of unionization rates. The pattern is clear: for the three most unionized countries, the compounded annual rate of growth of the rentier share of income is the lowest, while for the three least unionized countries, the annual rate of growth of the rentier share is the largest.[13] This provides prima facie evidence for the claim that labor solidarity provides an impediment to appropriation of economic rents by financial interests. Econometric analysis presented in Jayadev and Epstein (2005) confirms these results.

Figure 3.6 shows the average rentier share in the first four years of financial liberalization (including the year of liberalization) and the average rentier share in the four years preceding. In every country, there are increases in rentier shares post-liberalization, sometimes large increases.

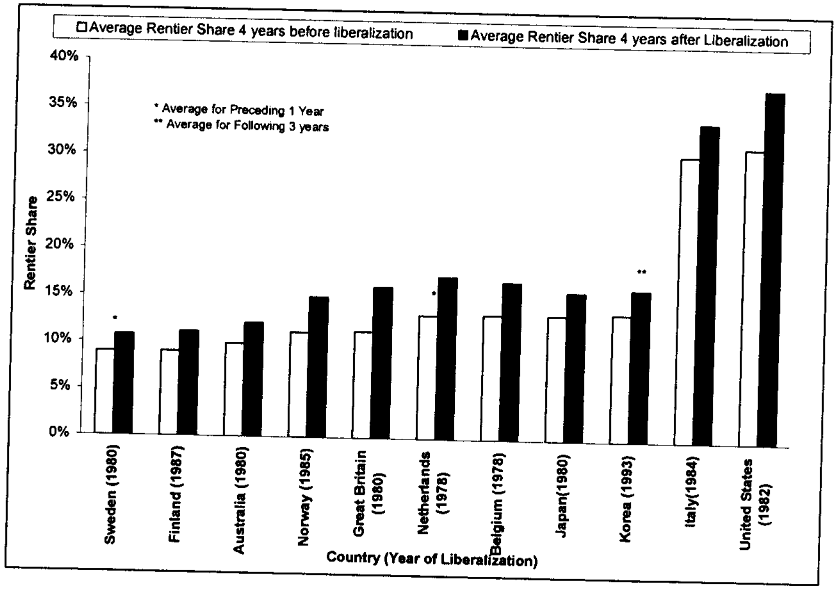

Figure 3.6 Interest rate liberalization and rentier shares

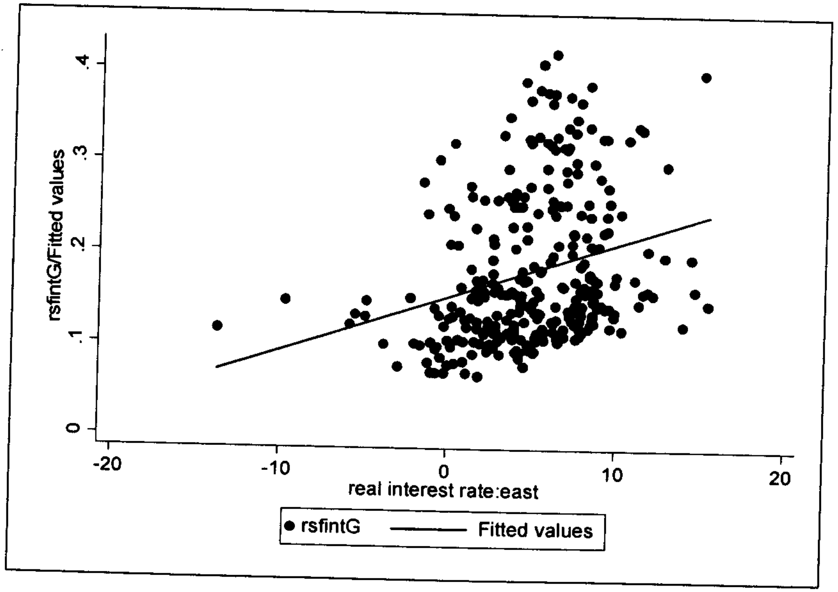

Figure 3.7 Real interest rate and rentier shares

Again, while we cannot infer causality from this diagram, it is evidence that rentier interests have benefited in the years following liberalization. Figure 3.7 shows a scatter plot of the growth rate of the rentier share of income over the period against the real interest rate. One of the dominant features of neoliberal policy in the last two decades has been the monetary policies targeted to lowering inflation and raising the real interest rate. As Figure 3.7 suggests, this policy is also associated with increases in rentier shares in the OECD countries.[14]

SUMMARY AND CONCLUSIONS

The results presented in this chapter show that, both in nominal and inflation adjusted terms, the incomes flowing to rentiers went up dramatically between the 1960s and 1970s on the one hand and the 1980s and 1990s. These results strongly suggest that neoliberalism and financialization pay for those owning financial assets. Our informal analysis suggests that rentier incomes go up when real interest rates increase; they are helped by financial liberalization and economic openness; and rentiers tend to lose when labor is more politically unified. Since financialization pays the rentier class, one can surmise that the rentiers promote policies that fatten their bottom lines.

Of course, much future work remains to be done to demonstrate these connections. A first task is to test these relationships econometrically (see Jayadev and Epstein 2004). Second, it would be useful to construct rentier data series for more countries and especially for developing countries. Third, more work needs to be done on the impact of increases in rentier incomes on economic outcomes such as investment and economic growth. Finally, we should expand our notion of rentier incomes to include those profits of nonfinancial corporations that come from financial activities. Such an extension would help us to expand our notion of the rentier class in ways that might better capture its true significance in contemporary capitalist economies.

APPENDIX 3.A

Rentier Data Definition

The data on rentier incomes were constructed from the OECD *National Accounts Vol. II*, 1997 and 2001. Rentier income is the sum of financial sector profits, interest (and in some cases, dividends) receivable by all nonfinancial non-government resident institutional units. Rentier income share is rentier income as a share of GNP. Data on nonfinancial sector profit share were taken from the National Accounts.[15]

More specifically, using the United Nations accounting definitions from the 1993 system of national accounts, our definition of rentier income is as follows:

> Rentier income = (entrepreneurial income of the financial sector) + (interest receivable by households) + (interest receivable by not-for-profit organizations)

Entrepreneurial income of the financial sector, in turn, is defined as follows:

Entrepreneurial income of the financial sector = operating surplus + property income – interest payable – rent payable

Property income of the financial sector is defined as:

> Property income of the financial sector = dividends + reinvested earnings + insurance income received + rent received + interest received

Thus, rentier income, as defined in this chapter, is the profits of the financial sector, plus the interest received by households and not-for-profit organizations. In turn, the rentier share is the rentier income as defined above divided by gross national product (net of government expenditures since we have excluded the government income from rentier income, the numerator).

Table 3.A1 Definition of Variables

Data	Definition
Rentier Income Share	Sum of profits earned by firms engaged primarily in financial intermediation plus interest income realized by all nonfinancial non-government resident units as a fraction of Gross National Income
Real interest rate (Figures 3.5–3.7)	Deposit interest rate less the rate of inflation as measured by the GDP deflator
Domestic interest rate liberalization dummy	0 for every year prior to liberalization, 1 following year of freeing interest controls and/or allowing interest rates to be market-determined
Unionization rate	Union membership in non-agricultural employment divided by total labor force

Table 3.A2 Coverage and source of variables

Data	Source	Years of coverage
Rentier income share	Power, Epstein and Abrena (2003)	1960–2000 Australia: 69-95, Belgium 70-94 Denmark 88-99, Finland 60-00 Germany 60-99, Italy 80-99, Japan 60-97, Korea 75-95, Mexico 93-99, Holland 77-99, Norway 80-00, Spain 85-99, Sweden 80-98, UK 68-00, USA 60-95
Real interest rate (for figures 3.5–3.7)	Global Development Finance and World Development Indicators	1960-2000 Australia 75-95, Belgium 81-94, Denmark 88-99, Finland 77-99, Germany 92-99, Italy 80-99, Japan 61-97, Korea 80-95, Mexico 93-99, Holland 78-99, Norway 80-98, Spain 85-99, Sweden 80-98, UK 68-99, USA 61-95
Unionization rate	Visser (1996)	1960-1994 Australia N/A, Belgium 72-92, Denmark N/A, Finland 60-93 Germany 60-93, Italy 80-92, Japan 61-93, Korea N/A, Mexico N/A, Holland 77-94, Norway 80-94, Spain N/A, Sweden 80-94, UK 68-93, USA 60-92

APPENDIX 3.B

Inflation-adjusted rentier shares

As discussed in the text, inflation erodes the value of net financial wealth. Therefore, some portion of rentier income represents compensation for that erosion of wealth, rather than net income. We adjusted for this illusory increase in rentier income in the following way.

Let:

$R(N)$ = inflation-adjusted rentier income

$\dot{p}$ = the inflation rate
R = nominal rentier income
NW = financial net worth
i = nominal interest rate
r = real interest rate

Let:

$$R(N) = \text{net rentier income} = R - \dot{p} * NW \quad (3.\text{B}1)$$

So, net rentier income is rentier income minus the loss of wealth due to inflation.

$$R(N) = i*NW - \dot{p} * NW \quad (3.\text{B}2)$$

$$R(N) = rNW \quad (3.\text{B}3)$$

Now the problem is that for all the countries, sectors and time periods we are interested in, we do not have NW data. So we use relationship (3.B4) instead.

$$NW = R/i \quad (3.\text{B}4)$$

Then substituting (3B.4) into (3B.3) we get:

$$R(N) = R - \dot{p} * (R/i) \quad (3.\text{B}5)$$

$$R(N) = R(1 - \dot{p}/i) \quad (3\text{B}.6)$$

Finally, we get the equation presented in the text:

$$R(N) = R\ (r/i) \quad (3\text{B}.7)$$

Equation (3.B7) is the key result. Our inflation-adjusted rentier income takes the nominal rentier income and then multiplies it by the ratio of the real interest rate to the nominal interest rate. The adjusted rentier share is then equal to $R(N)$ divided by gross national income (net of government spending).

Data on the real interest rate and the nominal (lending) interest rate were obtained from the World Development Indicators. The real interest rate is defined as the lending interest rate less inflation as measured by the growth of the GDP deflator.

NOTES

1. The authors thank Dorothy Power for her painstaking efforts in putting together the basic rentier data used in this chapter and the Political Economy Research Institute (PERI) at the University of Massachusetts, Amherst, for financial support. Thanks also to Peter Skott, Tom Dickens, Lawrance Evans and Andrew Glyn for comments on previous drafts and particular thanks to Michael Ash, Jim Crotty and James Heintz for help throughout. All remaining errors are ours, of course.
2. Pollin (2003) retells the famous story, reported in Bob Woodward's *Agenda*, of the education of the new President Clinton to the realities of rentier power. Only weeks after winning the election of 1992, Treasury Secretary Robert Rubin, an ally of Federal Reserve Chief Alan Greenspan, was telling Clinton, in Clinton's paraphrasing '(So). We're Eisenhower Republicans here. We stand for lower deficits, free trade and the bond market. Isn't that great?' (Woodward, quoted in Pollin 2003: 21).
3. The authors thank Peter Skott for reminding us of this point.
4. See Jayadev and Epstein (2005) for the econometric analysis.
5. Keynes might have been surprised at the resurgence of finance we see today. In the 1930s, Keynes wrote: 'I see, therefore, the rentier aspect of capitalism as a transitional phase which will disappear when it has done its work. And with the disappearance of its rentier aspect much else in it besides will suffer a sea-change. It will be, moreover, a great advantage of the order of events which I am advocating, that the euthanasia of the rentier, of the functionless investor, will be nothing sudden, merely a gradual but prolonged continuance of what we have seen recently in Great Britain and will need no revolution.' John Maynard Keynes, *General Theory of Employment, Interest and Money,* Chapter 24.
6. In his typical forceful and caustic manner, Marx goes on to say: 'Should anyone still doubt that these esteemed bandits exploit the national and world production solely in the interests of production and the exploited themselves, he will surely learn better from the following homily on the high moral worth of bankers: 'Banking establishments are... moral and religious institutions... How often has the fear of being seen by the watchful and reproving eye of his banker deterred the young tradesman from joining the company of riotous and extravagant friends?... What has been his anxiety to stand well in the estimation of his banker?... Has not the frown of his banker been of more influence with him than the jeers and discouragements of his friends? Has he not trembled to be supposed guilty of deceit or the slightest misstatement, lest it should give rise to suspicion and his accommodation is in consequence restricted or discontinued?... And has not that friendly advice been of more value to him than that of priest?' (G. M. Bell, a Scottish bank director, in *The Philosophy of Joint Stock Banking,* London, 1840, pp. 46, 47.) (Capital, Vol. 3, Chapter 33).

7. Certainly, a worker can receive some 'rentier income' to the extent that he or she owns financial assets. The same goes for the CEO of an industrial firm. This allows us to include the returns that owners of industrial firms receive from their direct ownership of financial assets, but we are not able to separate out the amount of industrial firms' profit that comes from financial market activities. (See Crotty 2000, on the data difficulties involved.) Krippner (2003) discusses this issue at length and has very interesting estimates of the share of nonfinancial corporate profits that come from financial transactions. According to her figures, they have risen a great deal in the case of the USA since 1970 or so. Of course, in most OECD countries the ownership of financial assets is very highly concentrated.
8. The exception to this are Figures 3.5–3.7, where the rentier shares do include dividends.
9. See Power, Epstein and Abrena (2003) for detailed definitions and data sources. Also see www.unstats.un.org/unsd/sna1993/introduction.asp for information on the National Accounts used in our calculations.
10. This might reflect increased shares of income received by nonfinancial corporations from financial returns as discussed in Krippner (2003).
11. See Appendix 3.B for a deriviation of the inflation adjustment equation and the data sources and definitions we used.
12. It might seem strange to have a 'negative share' of income. But remember that the inflation adjustment reduces the nominal rentier income by the amount of real wealth lost from inflation. If there are negative real interest rates, as there were in some countries in the 1970s, then the overall adjusted income (and therefore the share) can be negative (see equation 3.1 above with a negative 'r').
13. The pattern persists with the four most unionized and four least unionized countries as well.
14. Jayadev and Epstein (2005) also present information on the effects of fiscal policy, international openness and financial structure on rentier incomes.
15. See Power, Epstein and Abrena (2003), for more details on sources and methods of data construction.

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PART TWO

Financialization and the US Economy