

## Flash Economics

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### The dynamics of capitalism is now clearly that foreseen by Karl Marx

In OECD countries today there is clearly the series of developments foreseen by Karl Marx:

- 1- A decline in corporate efficiency (a slowdown in total factor productivity) would, *ceteris paribus*, lead to a fall in companies' return on capital;
- 2- Companies are responding to this development by reducing wages (distorting income distribution in favour of profits);
- 3- But this strategy has a limit, which is reached when low wages become too low (equal to the subsistence wage) and the "capitalists" then enter speculative operations which lead to financial crises.

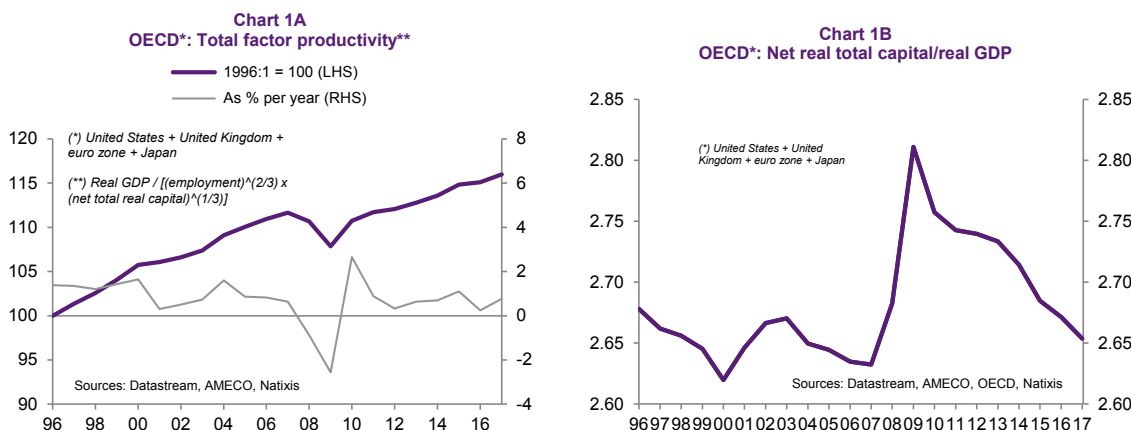
**Patrick Artus**  
Tel. (33 1) 58 55 15 00  
patrick.artus@natixis.com  
 @PatrickArtus

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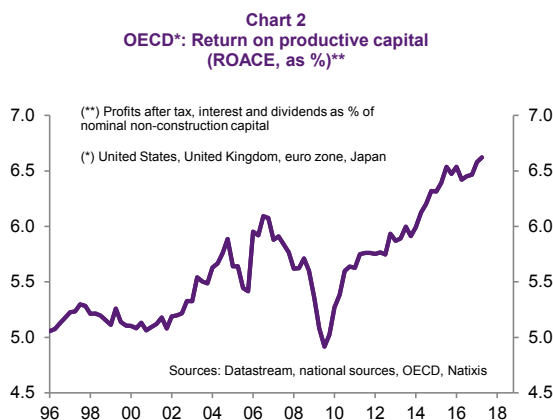
## Stage 1 of the dynamics of capitalism: A decline in the efficiency of companies in OECD countries

We consider **the OECD as a whole**, defined for simplicity's sake as United States + United Kingdom + euro zone + Japan.

The decline in the efficiency of companies in OECD countries is perceptible from the declining total factor productivity growth (Chart 1A), declining capital productivity (Chart 1B), and a rising capital/GDP ratio.

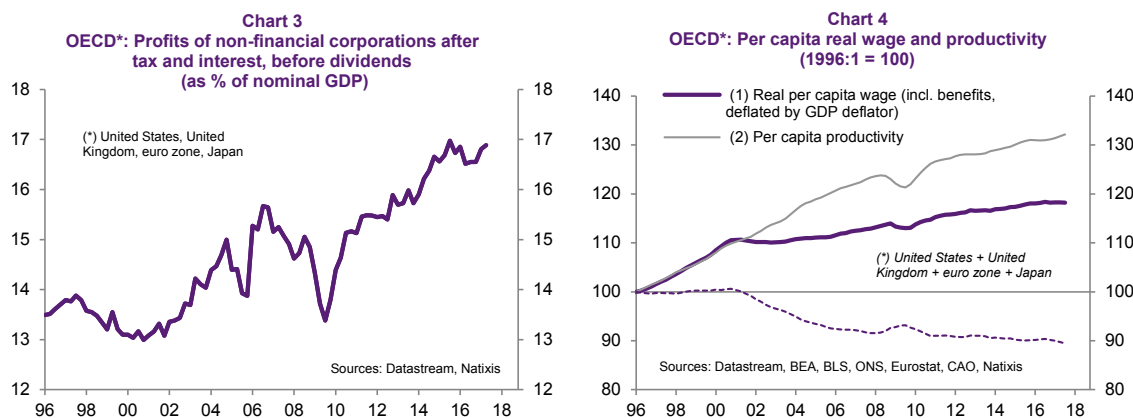


*Ceteris paribus*, the decline in total factor productivity or capital productivity would lead to a decline in the return on capital (Chart 2). But we can see that, on the contrary, the return on capital has increased.



## Stage 2 of the dynamics of capitalism: The squeeze on wages

To respond to the risk of a decline in their return on capital, companies in OECD countries are boosting their profitability (Chart 3) by squeezing wages, i.e. by distorting income distribution to the detriment of wage-earners (Chart 4).



This is achieved thanks to wage-earners' weaker bargaining power and greater labour market flexibility.

### Stage 3 of the dynamics of capitalism: Speculative activities

But the wage squeeze and the resulting increase in profits have a limit, i.e. wages cannot be reduced below a certain level (the "subsistence wage"). In OECD countries at present, for example, there are rising or new minimum wages (**Table 1**).

**Table 1: Minimum wage (in proportion of median wage)**

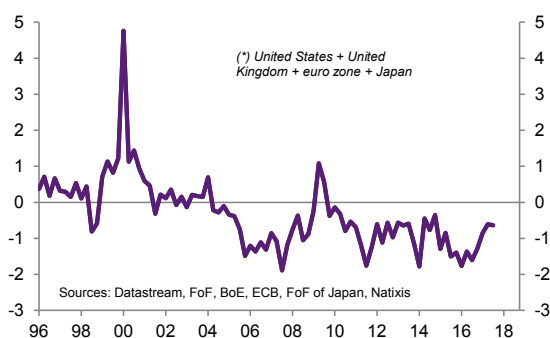
	United States	United Kingdom	Germany	France	Spain	Japan
1996	0.36	-	-	0.54	0.38	0.31
1997	0.39	-	-	0.54	0.37	0.31
1998	0.39	-	-	0.55	0.37	0.31
1999	0.38	0.42	-	0.55	0.37	0.32
2000	0.36	0.41	-	0.56	0.36	0.32
2001	0.34	0.40	-	0.58	0.36	0.32
2002	0.34	0.43	-	0.57	0.35	0.33
2003	0.33	0.42	-	0.58	0.35	0.33
2004	0.32	0.43	-	0.59	0.35	0.34
2005	0.32	0.45	-	0.60	0.37	0.33
2006	0.31	0.45	-	0.61	0.39	0.34
2007	0.31	0.47	-	0.61	0.39	0.34
2008	0.34	0.46	-	0.62	0.39	0.35
2009	0.37	0.46	-	0.62	0.39	0.36
2010	0.39	0.46	-	0.61	0.38	0.37
2011	0.38	0.47	-	0.61	0.38	0.38
2012	0.38	0.47	-	0.62	0.38	0.38
2013	0.37	0.47	-	0.61	0.38	0.39
2014	0.37	0.48	-	0.61	0.37	0.39
2015	0.36	0.49	0.48	0.61	0.37	0.39
2016	0.35	0.49	0.47	0.61	0.37	0.40

Source: OECD

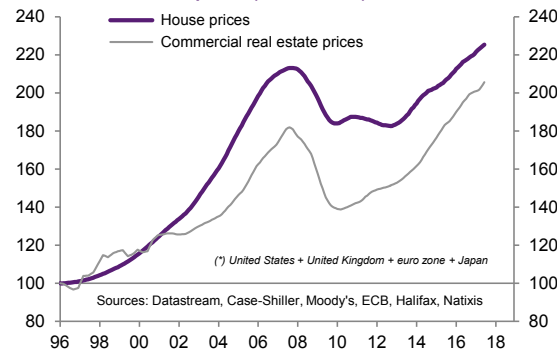
To bolster the return on capital, the "capitalists" are therefore using speculative operations, such as:

- Share buybacks by companies (**Chart 5**) to drive up their share prices;
- Real estate speculation (**Chart 6**);

**Chart 5**  
OECD\*: Net share issuance by non-financial corporations (as % of nominal GDP)

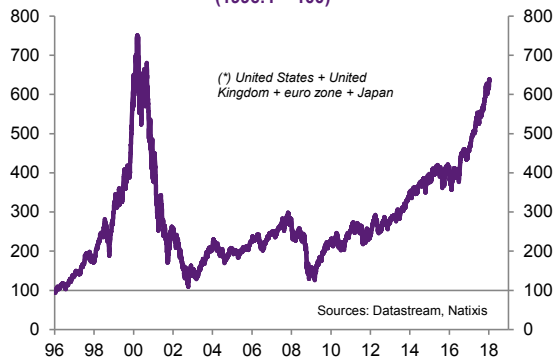


**Chart 6**  
OECD\*: Residential and commercial real estate prices (1996:1 = 100)



- Share buying, especially in new-technology firms (**Chart 7**), buying of all sorts of speculative assets (rare commodities, Bitcoin, etc.), a growing number of LBOs (**Table 2**) at increasing valuations, etc.

**Chart 7**  
OECD\*: Equity market indices in technology (1996:1 = 100)



**Table 2: Private equity (LBO funds raised)**

USD bn	United States + Europe
1996	54.45
1997	82.61
1998	115.07
1999	132.08
2000	224.99
2001	125.31
2002	65.09
2003	77.07
2004	111.62
2005	226.87
2006	325.03
2007	376.73
2008	322.65
2009	112.07
2010	99.66
2011	148.44
2012	163.51
2013	231.29
2014	219.29
2015	203.86
2016	212.60

Sources: EVCA, NVCA, Natixis

## Conclusion: The logic of this dynamics of capitalism is rather implacable

We clearly find in recent developments the dynamics of capitalism described by Karl Marx:

- A decline in companies' efficiency which could reduce the return on capital;
- A reaction to the fall in the return on capital by distorting income distribution in favour of profits and to the detriment of wage-earners;
- When this distortion reaches its limit, the use of speculative operations to increase the return on capital.

This dynamics inevitably leads not only to growing income inequality, but also to financial crises.

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