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Primary Distribution of Income 1960 - 2024

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Content:

Abstract

Macroeconomic data 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 7 to 19% of GDP. The ratio of gross investment to total domestic surplus is decreasing in all four countries from ratios around 70% in the 1970ies to current values of around 45 %.

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**.

1 Objective

The general objective of the reasearch is analysing the **long-term evolution of the distribution in income**.

The **primary distribution, i.e. the distribution between labour and capital**, is an essential element in the overall distribution of income. It indicates which share of the total income of an economy is distributed as a compensation for labour realised (here shortly denominated as wages or wage share), and the share of income distributed as a function of ownership of capital (here shortly denominated as profits or capital income).

Data on primary distribution are easily accessible, as they are included for example in the standard European system of accounts (ESA) and published regularly, for example in the EU-AMECO database [AMECO 2024].

There are important **other effects** also impacting strongly in the overall distribution of income, which are **not included in the present analysis**, the most relevant being:

- inequality of distribution of wages (the category wages includes from low wages in precarious jobs to compensation of CEO in big corporations).
- redistributive effect of the actuation of public administration by taxes, subsidies, provisions of public goods, etc.

Data for the relatively long period from 1960 to present (2024) are analysed in order to see long-term tendencies and possible structural changes.

The long term perspective also allows to see that it's not all "just capitalism", but that historically there have been structurally different forms of of capitalism with substantially different consecuences for the working class – not only, but also – in terms of income distribution.

2 Facts

2.1 Primary Distribution of Income

Figures 1 to 4 show the historic evolution of the wage and profit share in the four European countries Germany, Spain, France and Italy.

Observations:

- 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.

- A similar evolution is observed also in the former EU-15 (Western European countries including UK) and the UK and US.

Note: the share corresponding to labour income of self-employed has been continuously decreasing due to the decreasing share of self-employed in the total of the working population.
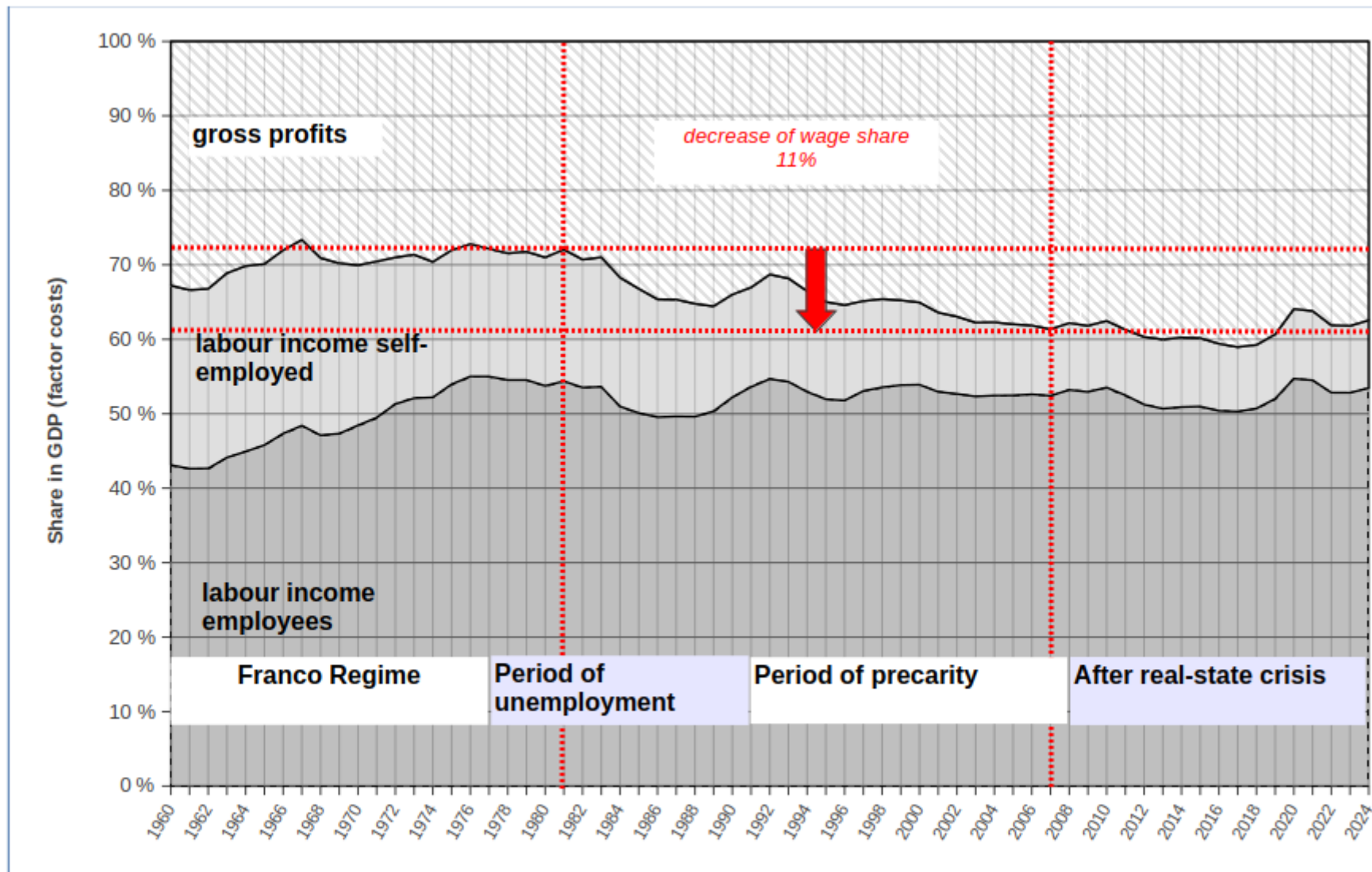
Figure 1. Spain. Historic evolution of wage and profit share in GDP (by factor costs). Source: own elaboration based on AMECO data.
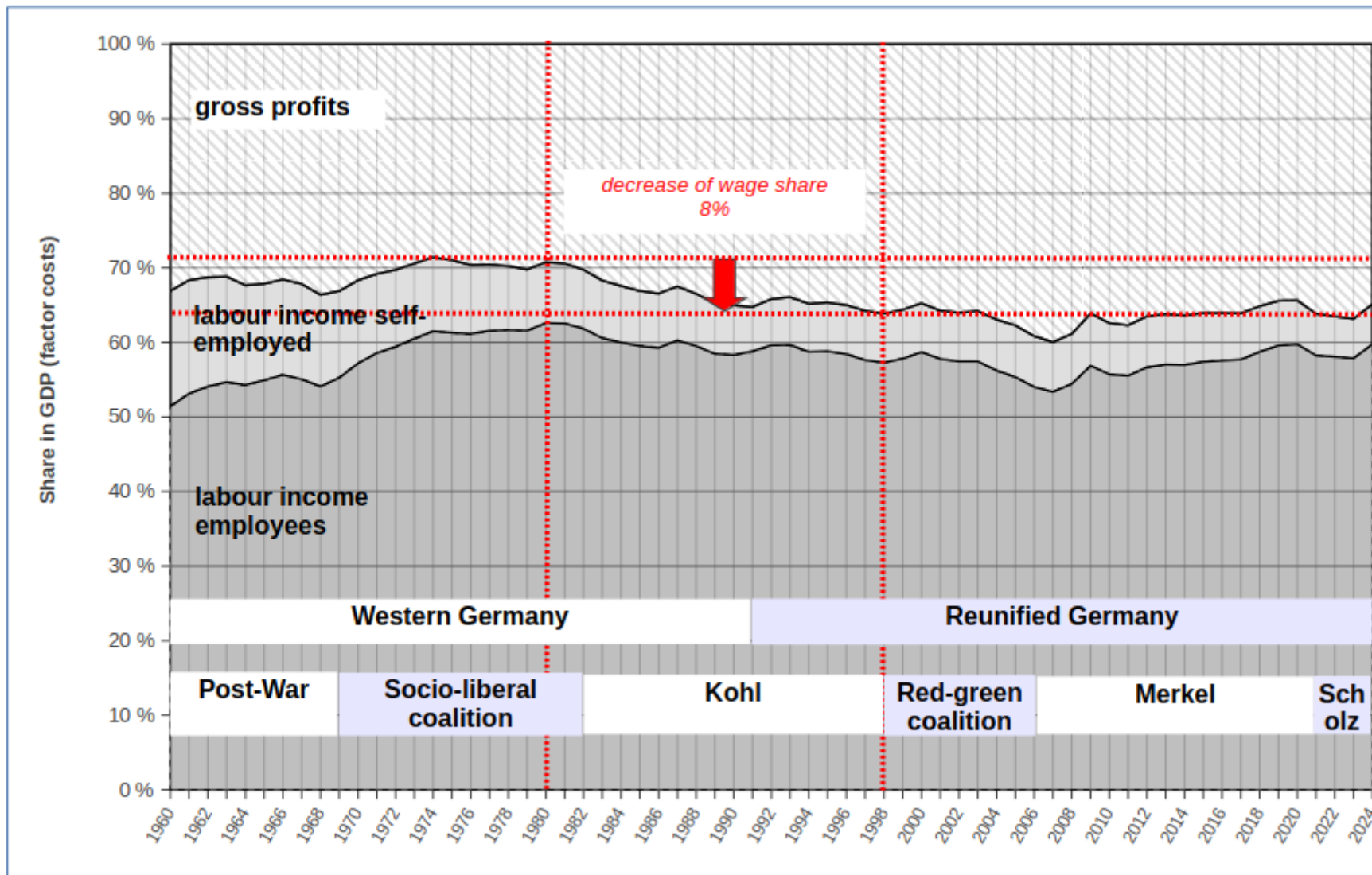
Figure 2. Germany. Historic evolution of wage and profit share in GDP (by factor costs). Source: own elaboration based on AMECO data.
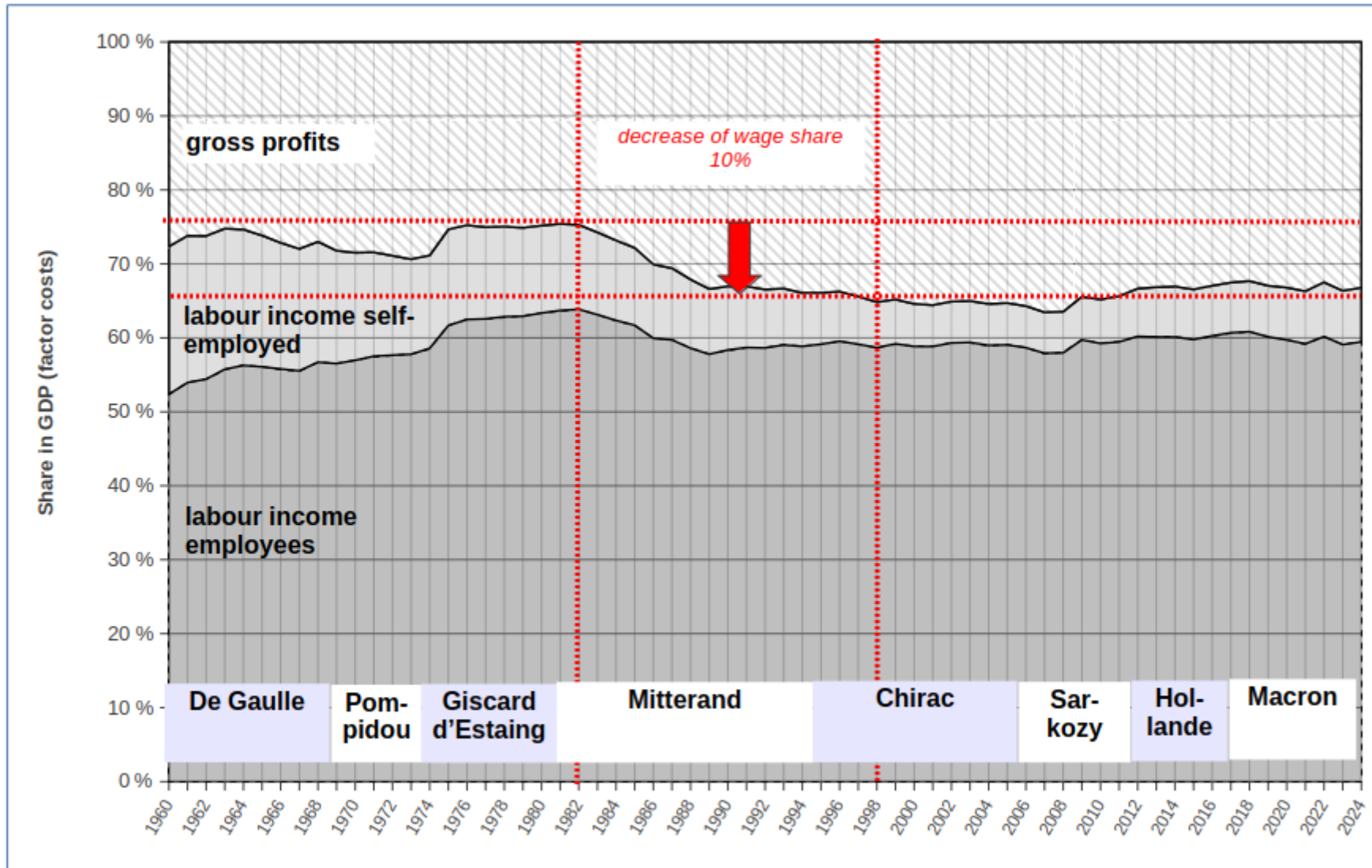
Figure 3. France. Historic evolution of wage and profit share in GDP (by factor costs). Source: own elaboration based on AMECO data.
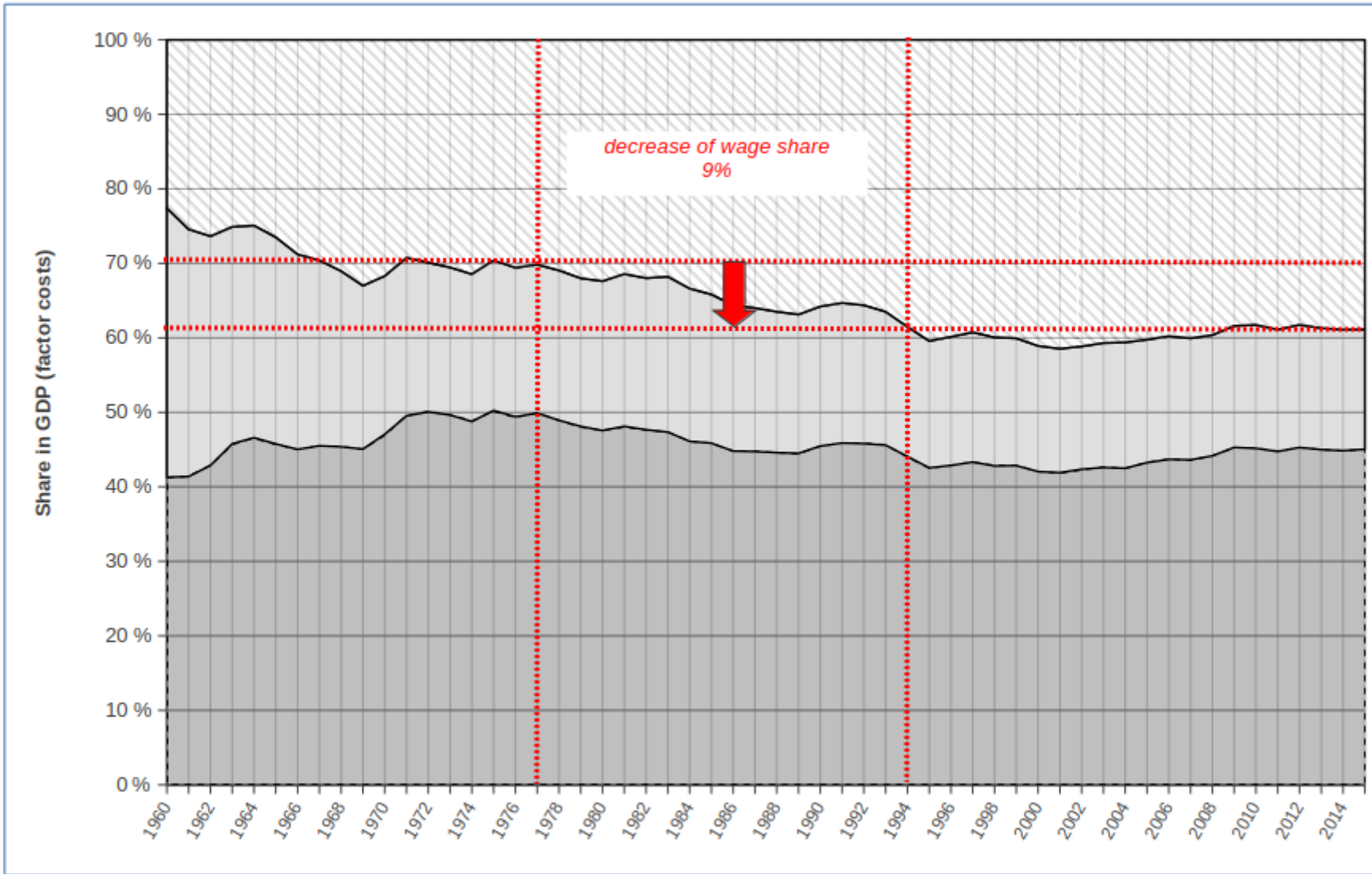
Figure 4. Italy. Historic evolution of wage and profit share in GDP (by factor costs). Source: own elaboration based on AMECO data.
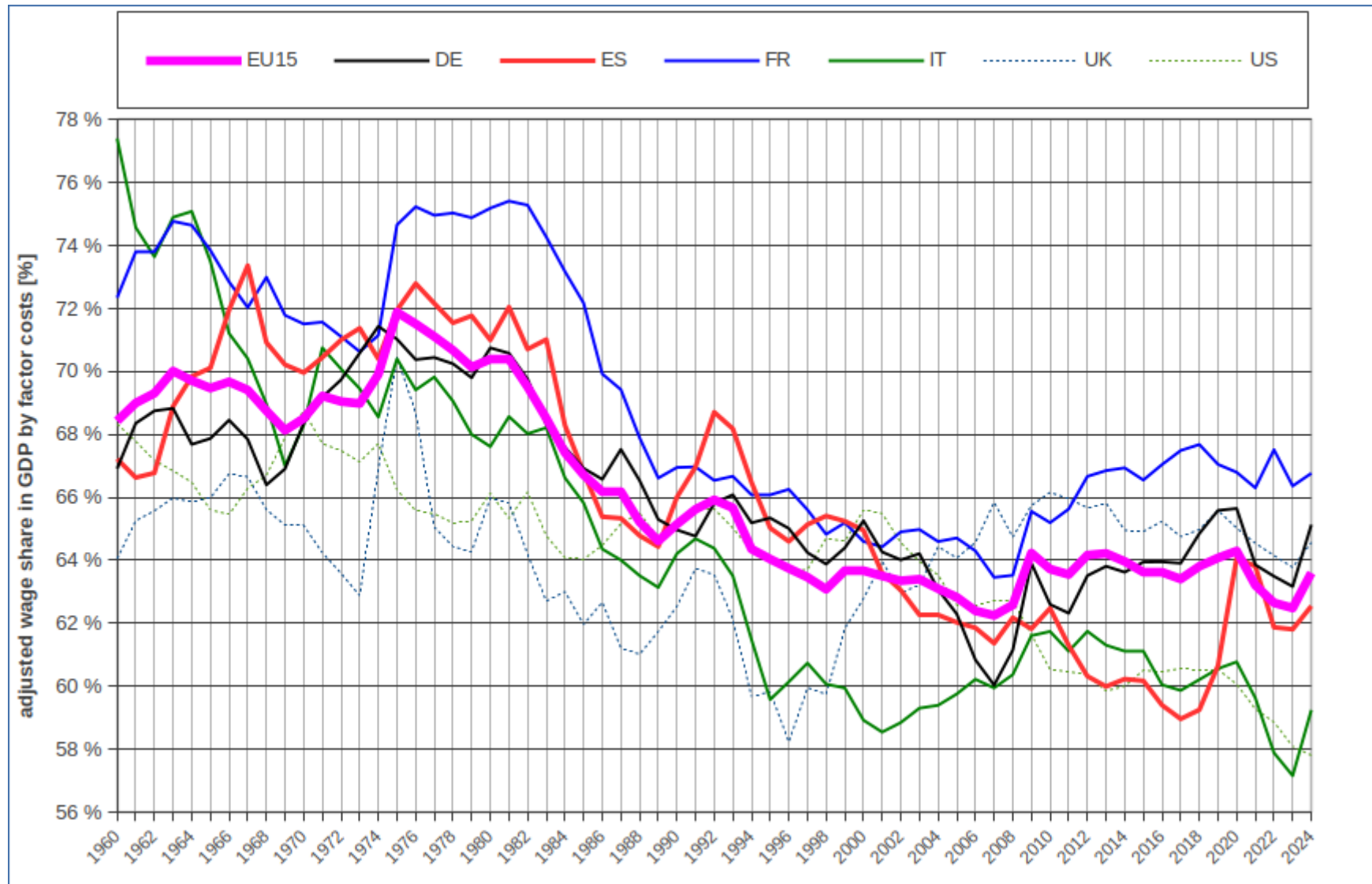
Figure 5. International Comparison. Historic evolution of the adjusted wage share in GDP (by factor costs). Source: own elaboration based on AMECO data 2024-11-15.

2.2 Utilisation of Profits

The total domestic surplus[1] (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.

Figures 6 to 9 show the historic evolution of the share of gross investment and the non-invested share of profits. In Figure 10 the ratio of gross investment to the total domestic surplus is compared for several countries and the former EU-15

Observations:

- There is an **increased share of profits which is not re-invested, amounting to from 7 to 19% of GDP** in all four countries from historic maxima in the 1970ies to the average after the 2008 financial crises.

- The **ratio of gross investment to total domestic surplus is decreasing in all four countries** from ratios around 70% in the 1970ies to current values of around 45 %, 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.

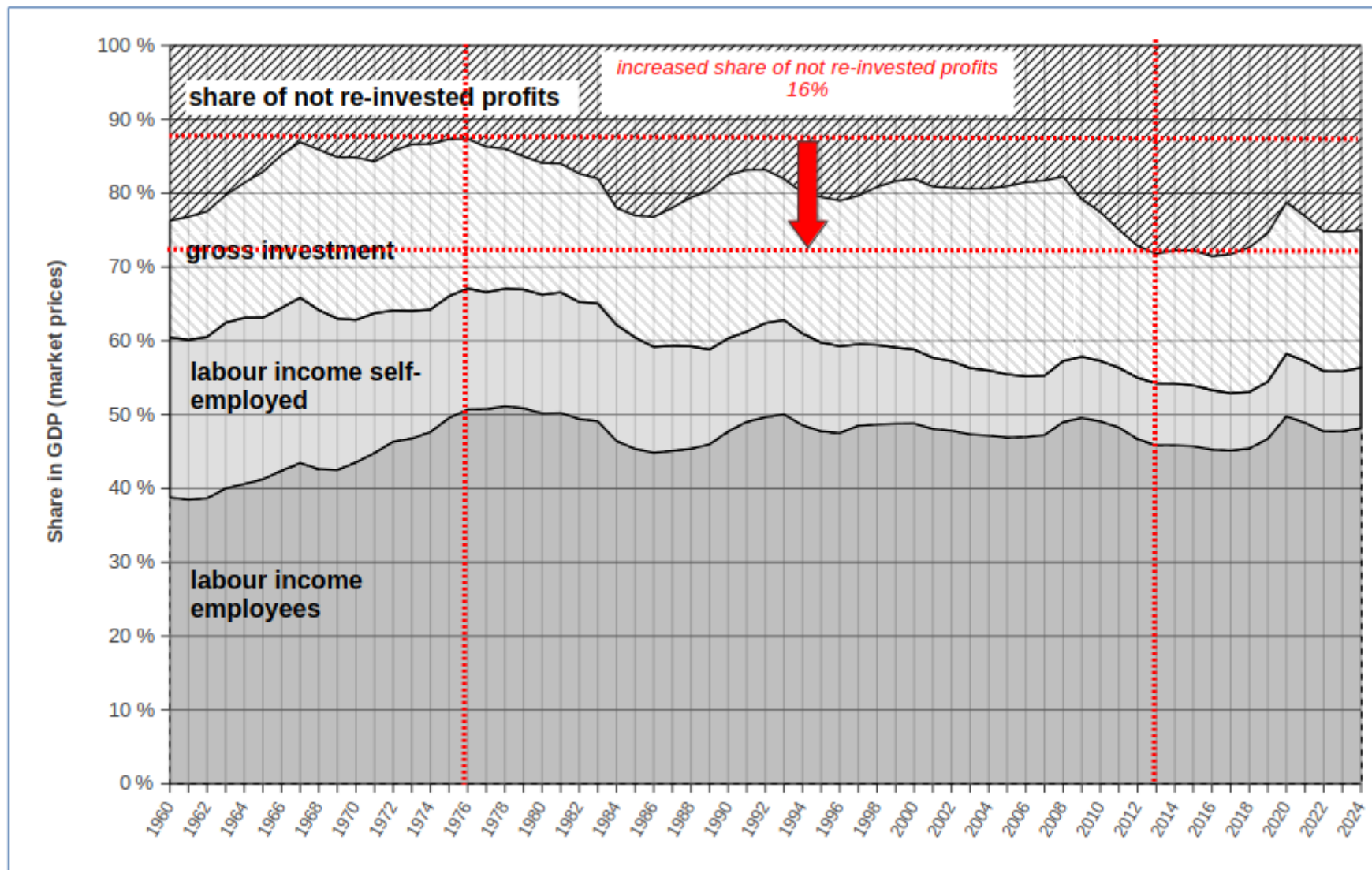[1] *Understood here as the total GDP in market prices minus total labour income*

Figure 6. Spain. Historic evolution of share of investment and not re-invested profits in GDP (by market prices). Source: own elaboration based on AMECO data.
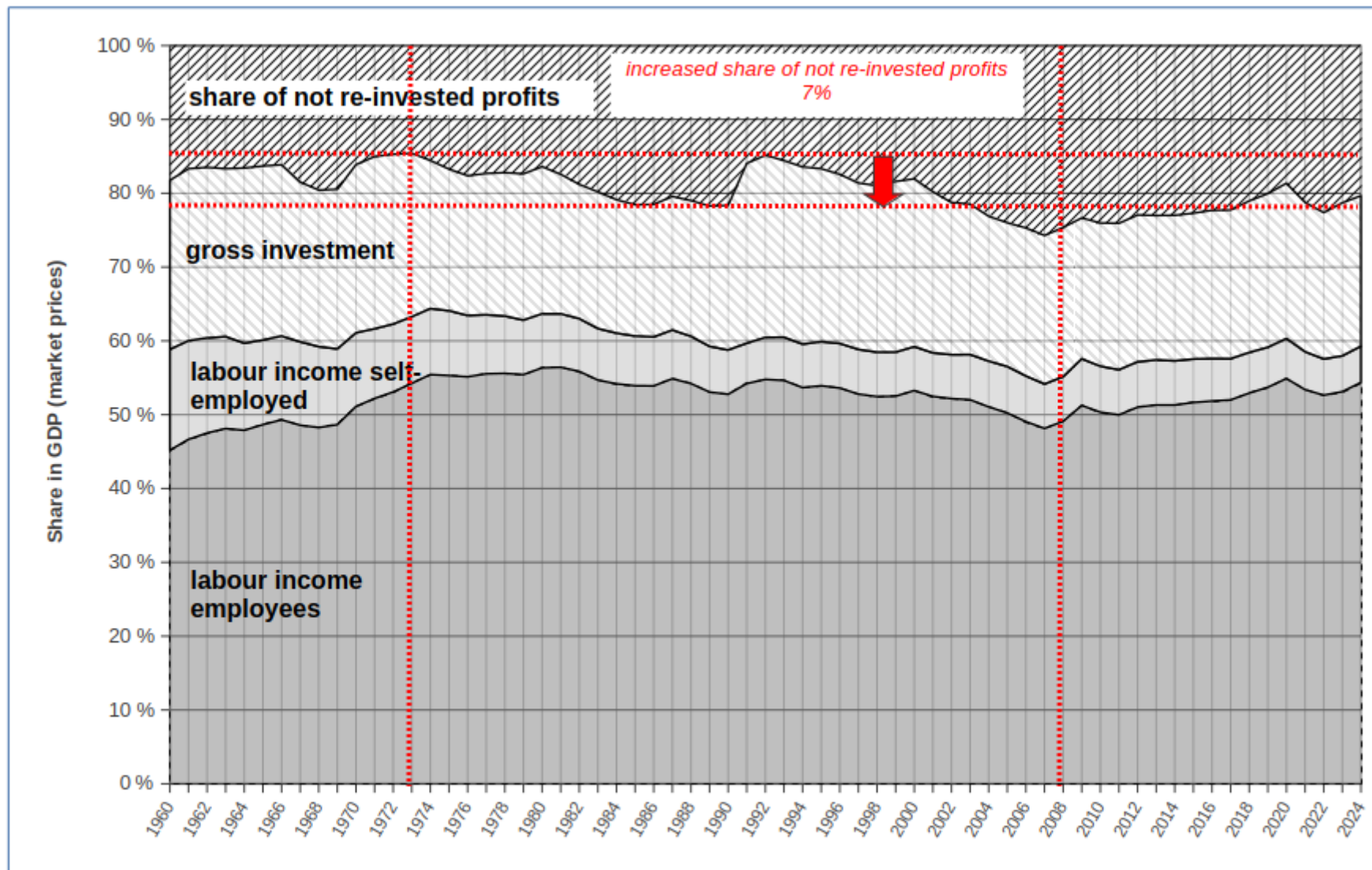
Figure 7. Germany. Historic evolution of share of investment and not re-invested profits in GDP (by market prices). Source: own elaboration based on AMECO data.
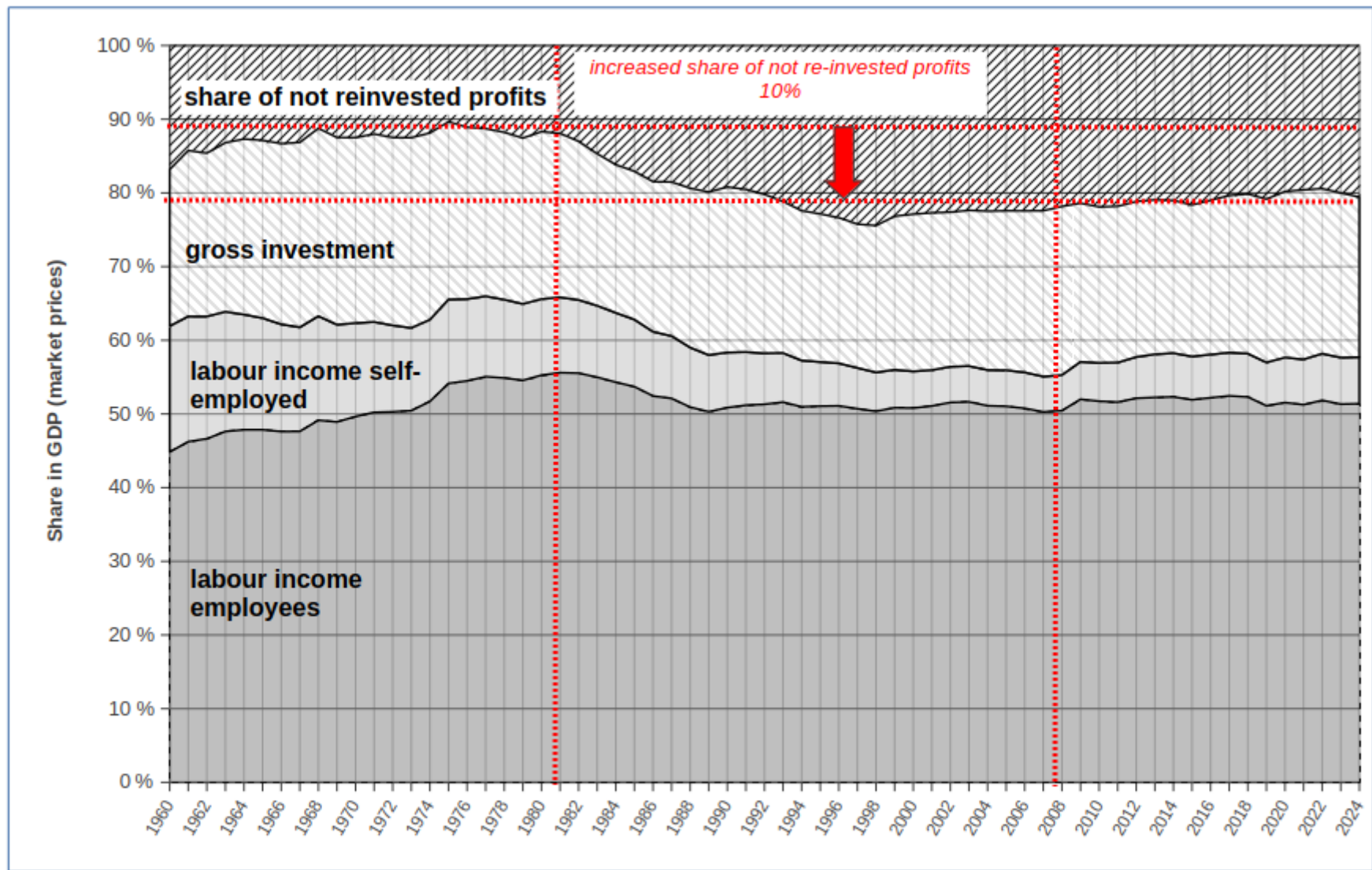
Figure 8. France. Historic evolution of share of investment and not re-invested profits in GDP (by market prices). Source: own elaboration based on AMECO data.
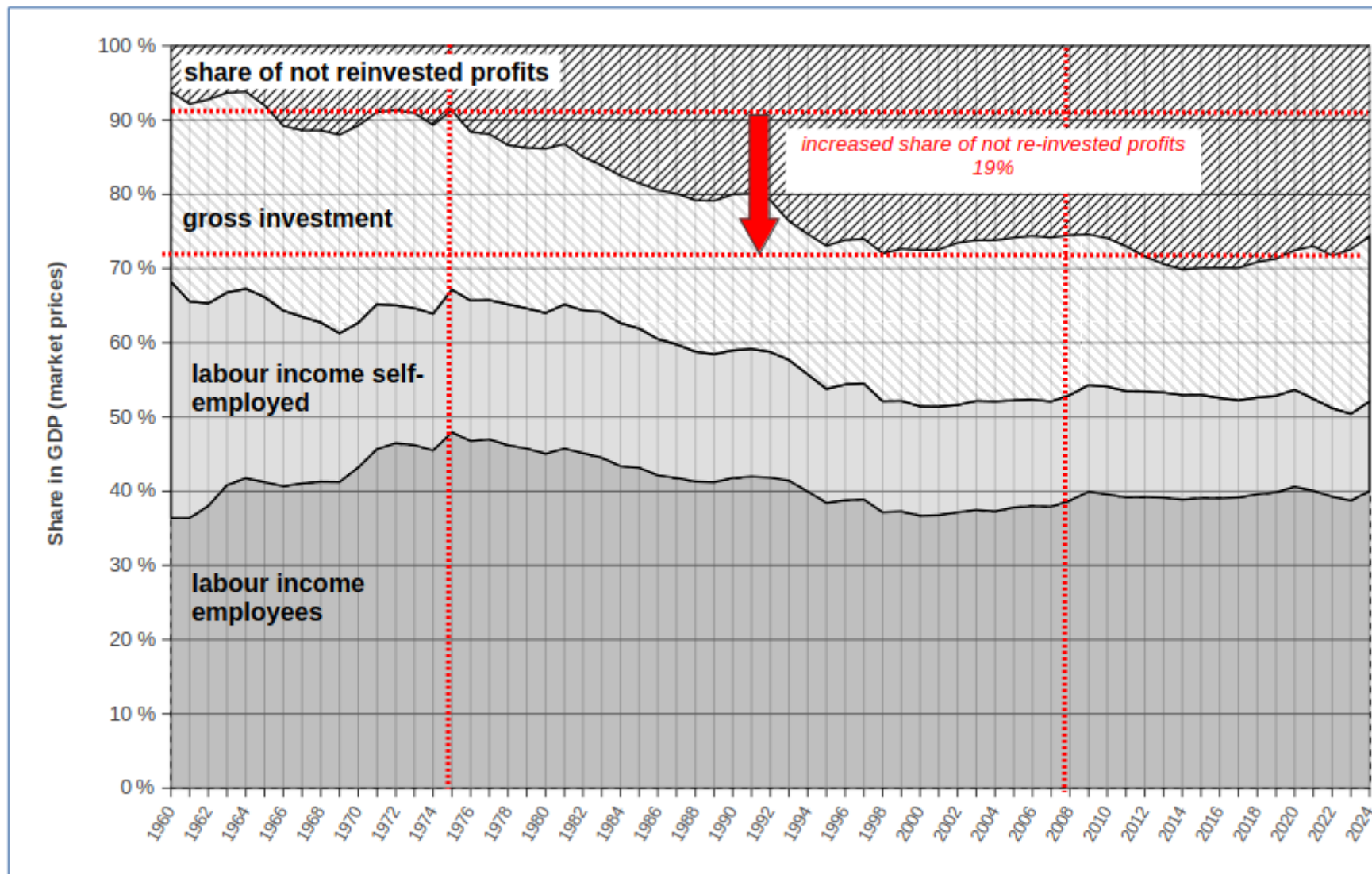
Figure 9. Italy. Historic evolution of share of investment and not re-invested profits in GDP (by market prices). Source: own elaboration based on AMECO data.
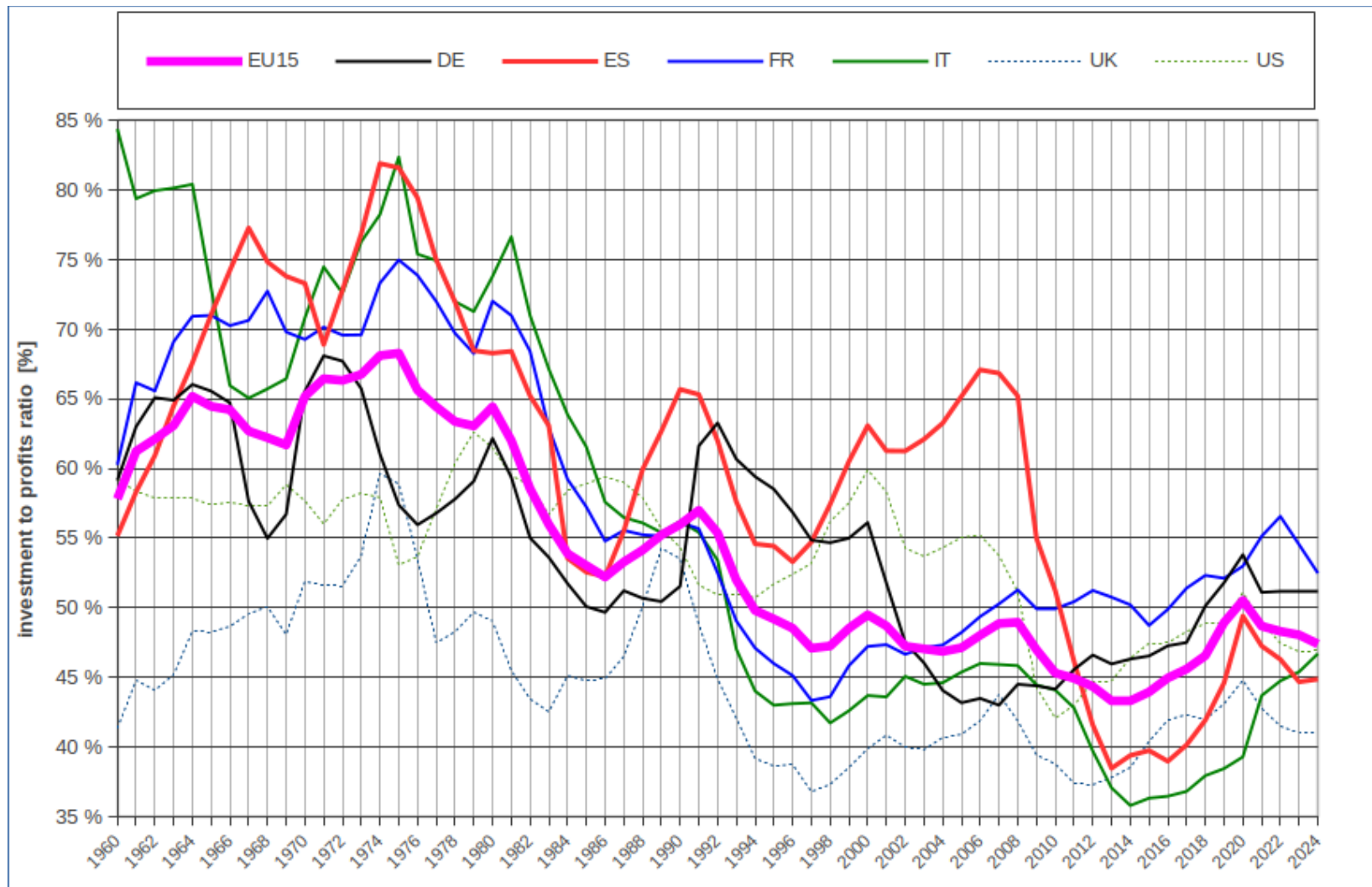
Figure 10. International Comparison. Historic evolution of the ratio of gross investment to total domestic surplus (defined as gross operating surplus plus taxes minus subsidies on production). Source: own elaboration based on AMECO data.

2.3 Real Wages and Productivity

In section 2.1 the share of wages and profits in GDP has been analysed. Here the evolution of (real) wages and productivity is analysed in absolute terms.

"wages" here is used as a short term for the concept of "compensation of employees" as used by AMECO comprising (gross) wages before taxes and contributions to social security, per number of employees.

Productivity is used as the relationship between total output (GDP) to the total number of employed persons (employees and self-employed).

Figures 11 to 14show the evolution of real wages and productivity and their respective growth rates. In Figure 15 the difference of productivity and wage growth is shown. If productivity is growing faster than real wages (positive values of the difference), the wage share is decreasing, and vice versa.

As both real wages and productivity are calculated based on the number of persons employed, the evolution of this number and its relative size with respect to total population are analysed in Figures 16 and 17.

Observations:

- 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, and **in Italy and Spain real wages are practically stagnating since 1990**.

- 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[2], there is a **continuously increasing tendency in Germany** since the onset of the neoliberal era reaching about 55% at present (2024).

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[2]with some tendency to increase since 2015. But this is still a too short period in order to see whether this is some long term trend or just a cyclic fluctuation.
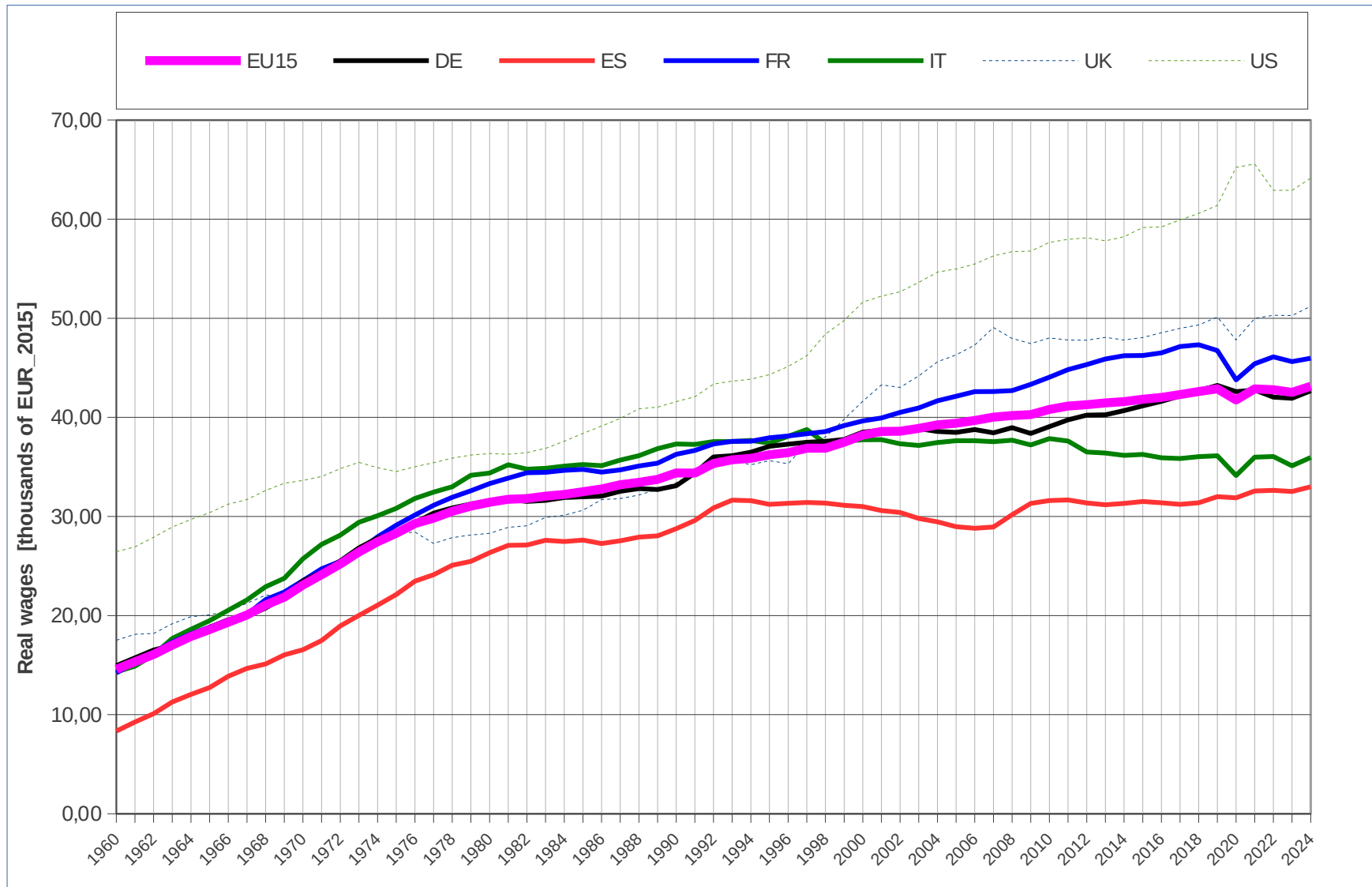
Figure 11. Real wages (real compensation per employee including wages and social contributions before taxes). Source: own elaboration based on AMECO data.
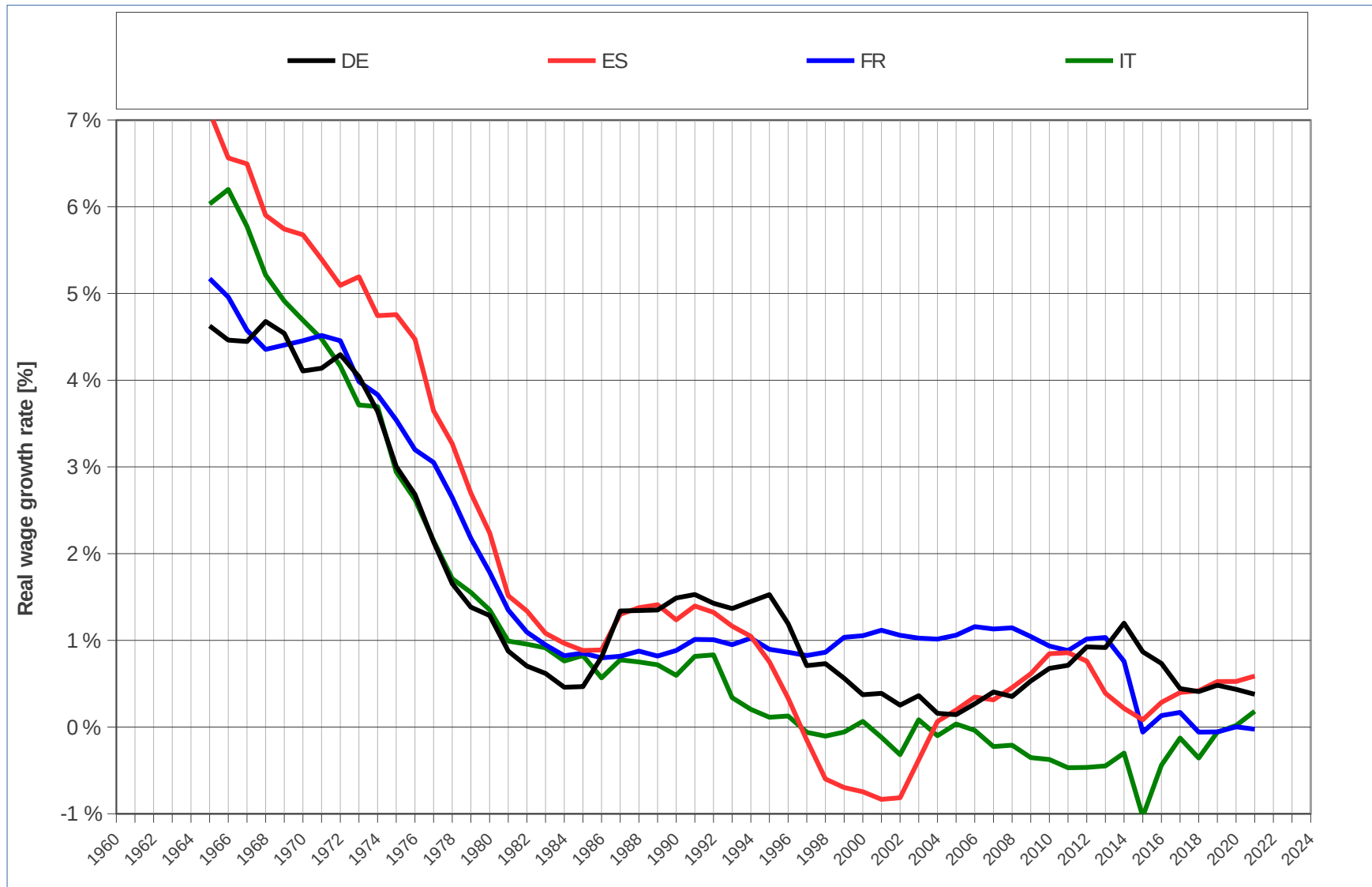
Figure 12. Yearly real wage growth (smoothed curve: 10-year averages). Growth rate of data in Figure 11.
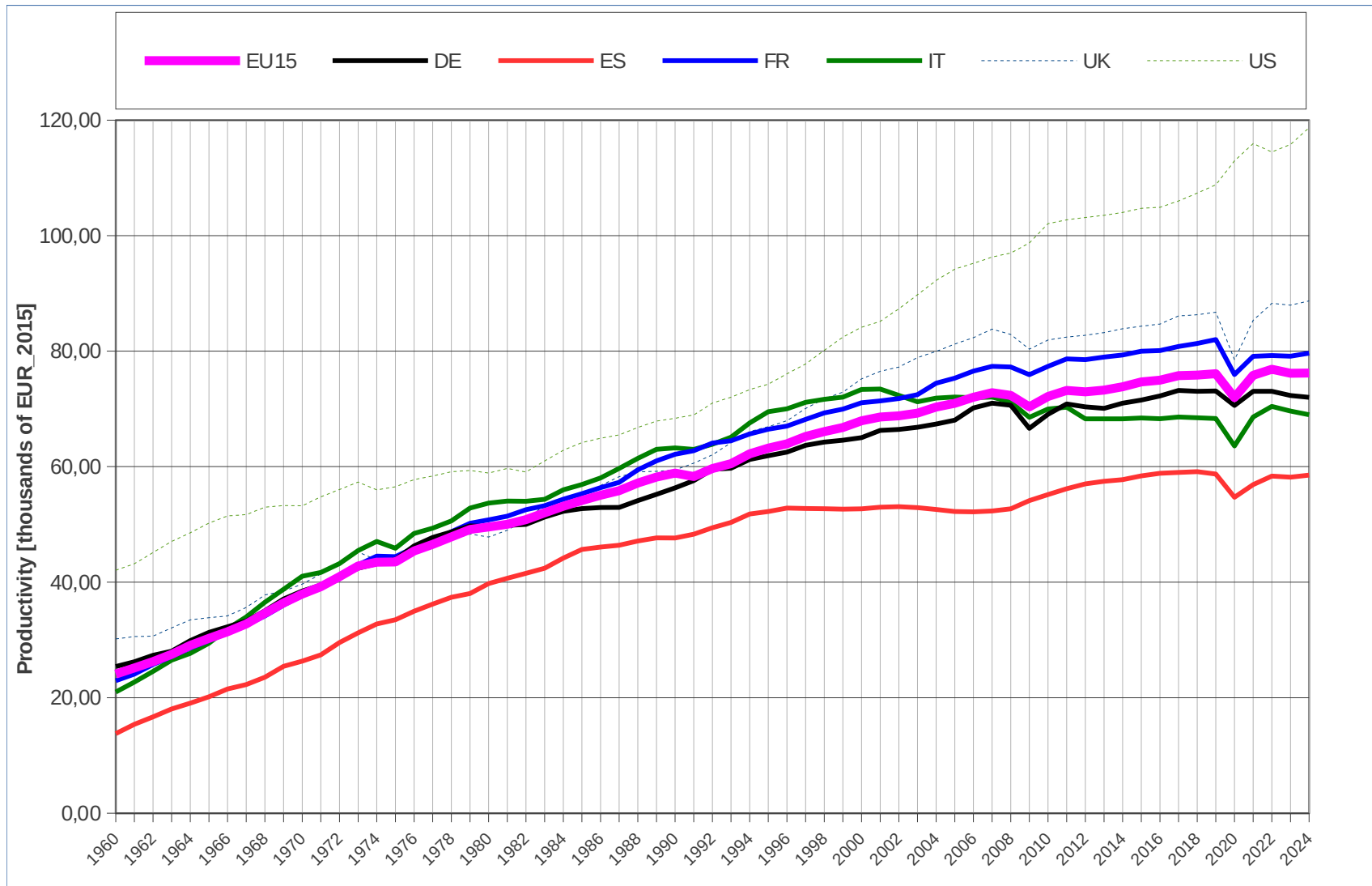
Figure 13. Productivity (GDP per person employed – employees and self-employed in constant prices (EUR$_{2015}$). Source: own elaboration based on AMECO data.
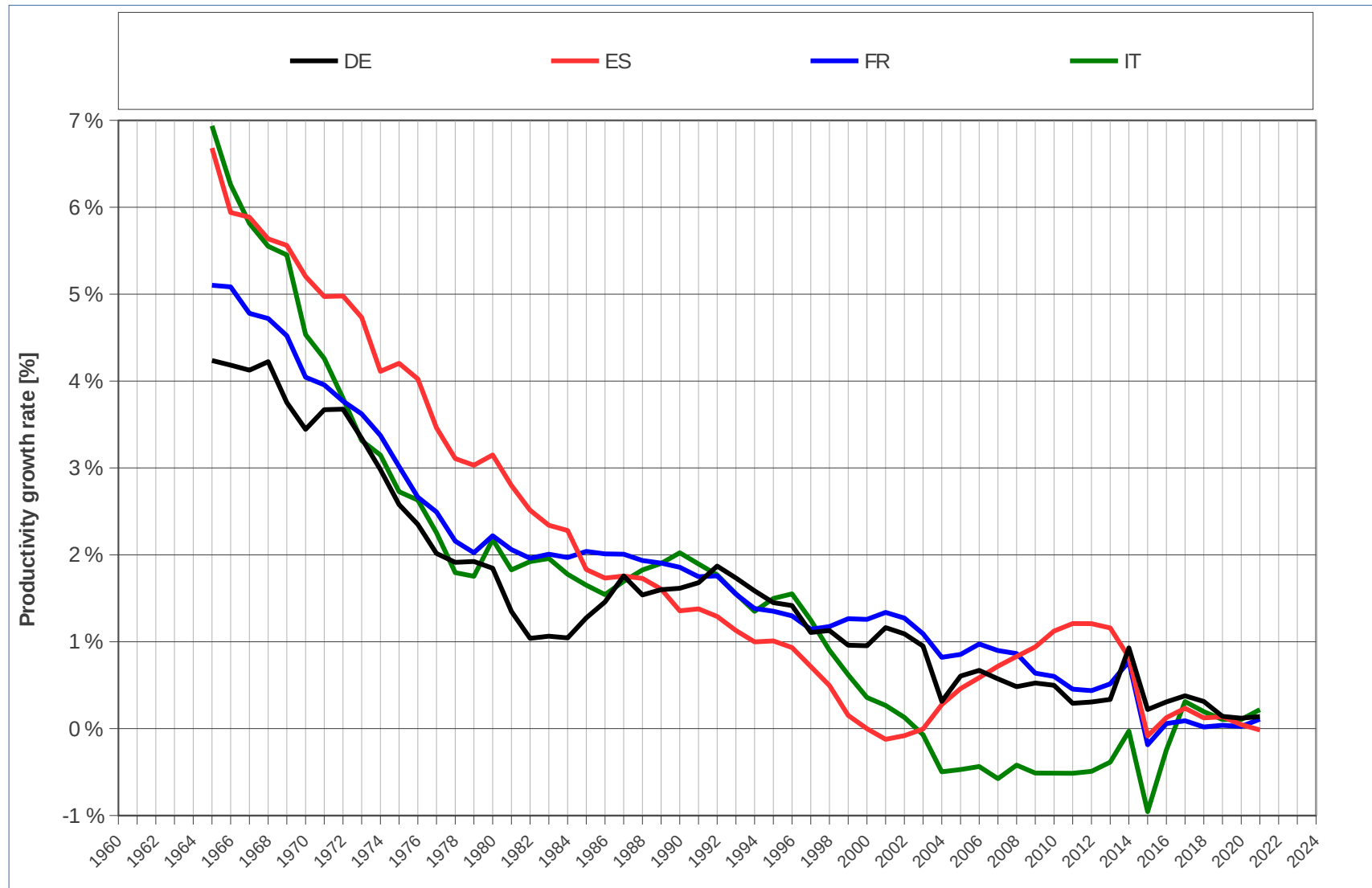
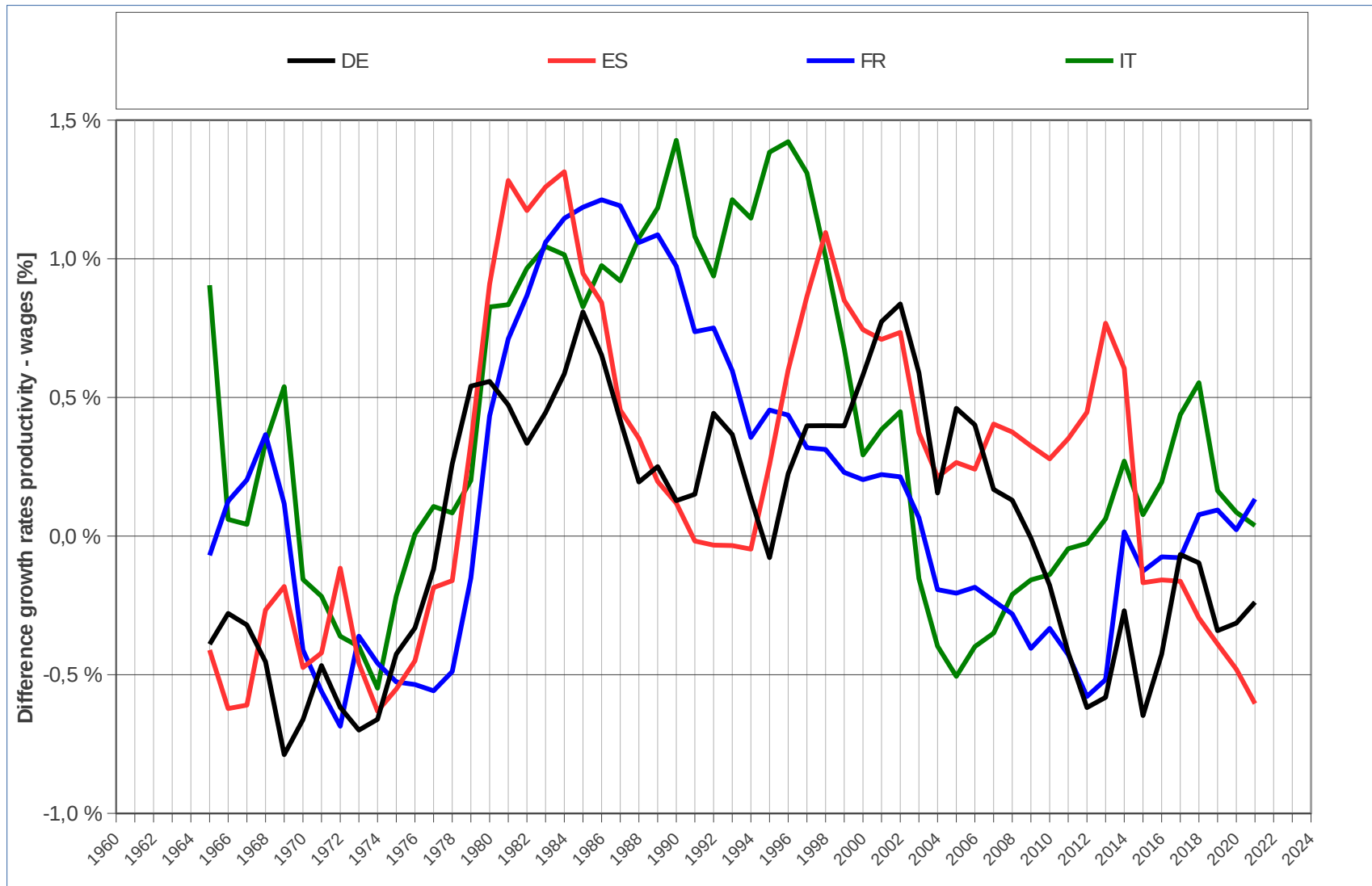**Figure 14. Yearly productivity growth (smoothed curve: 10-year averages). Growth rates of data in Figure 13.**

Figure 15. Difference in growth rates of output (GDP) and real wages (adjusted to total number of employed persons). Data from Figures 12 and 14.
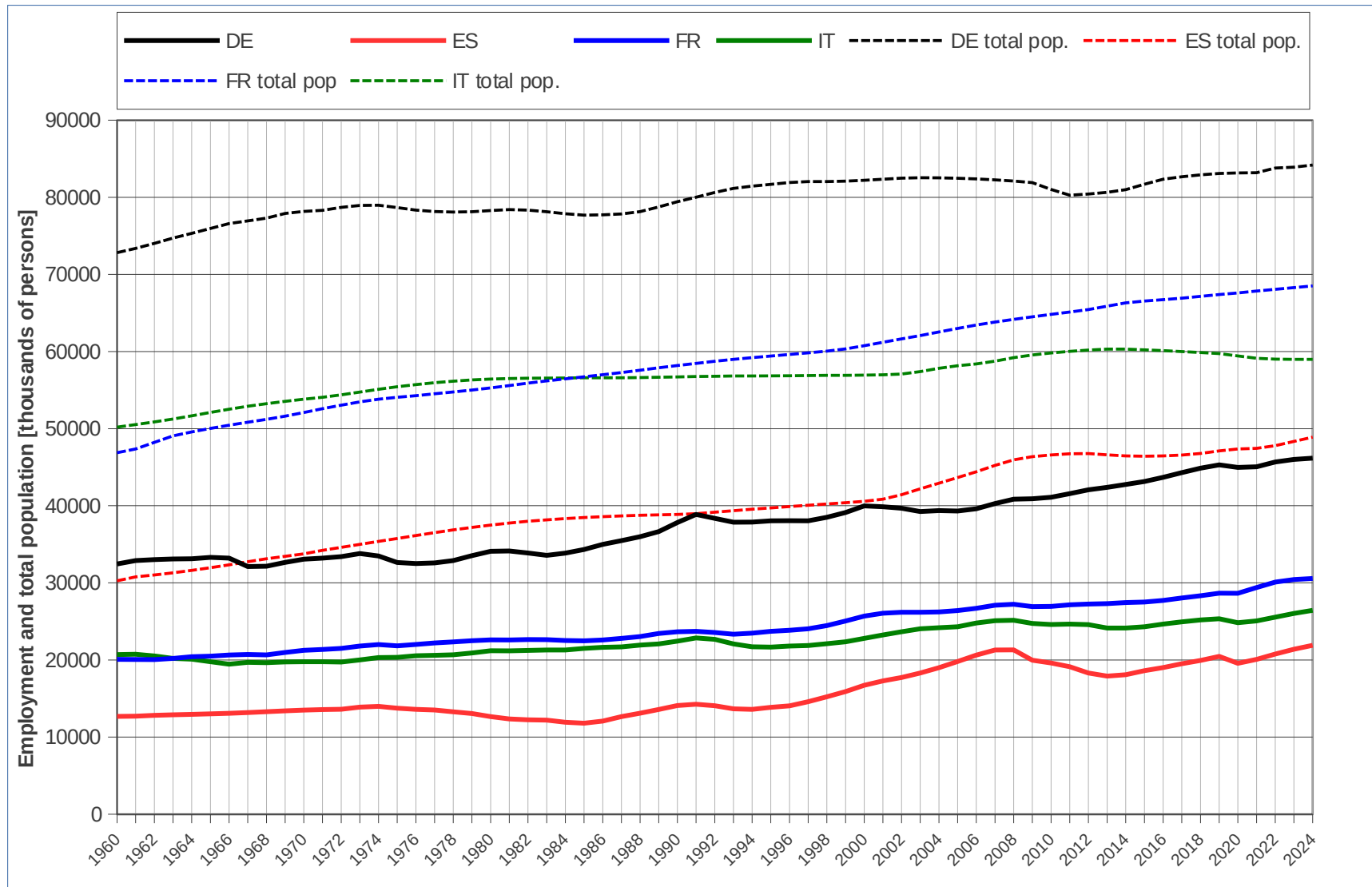
Figure 16. Evolution of total population and number of employed persons (employees and self-employed). Source: AMECO.
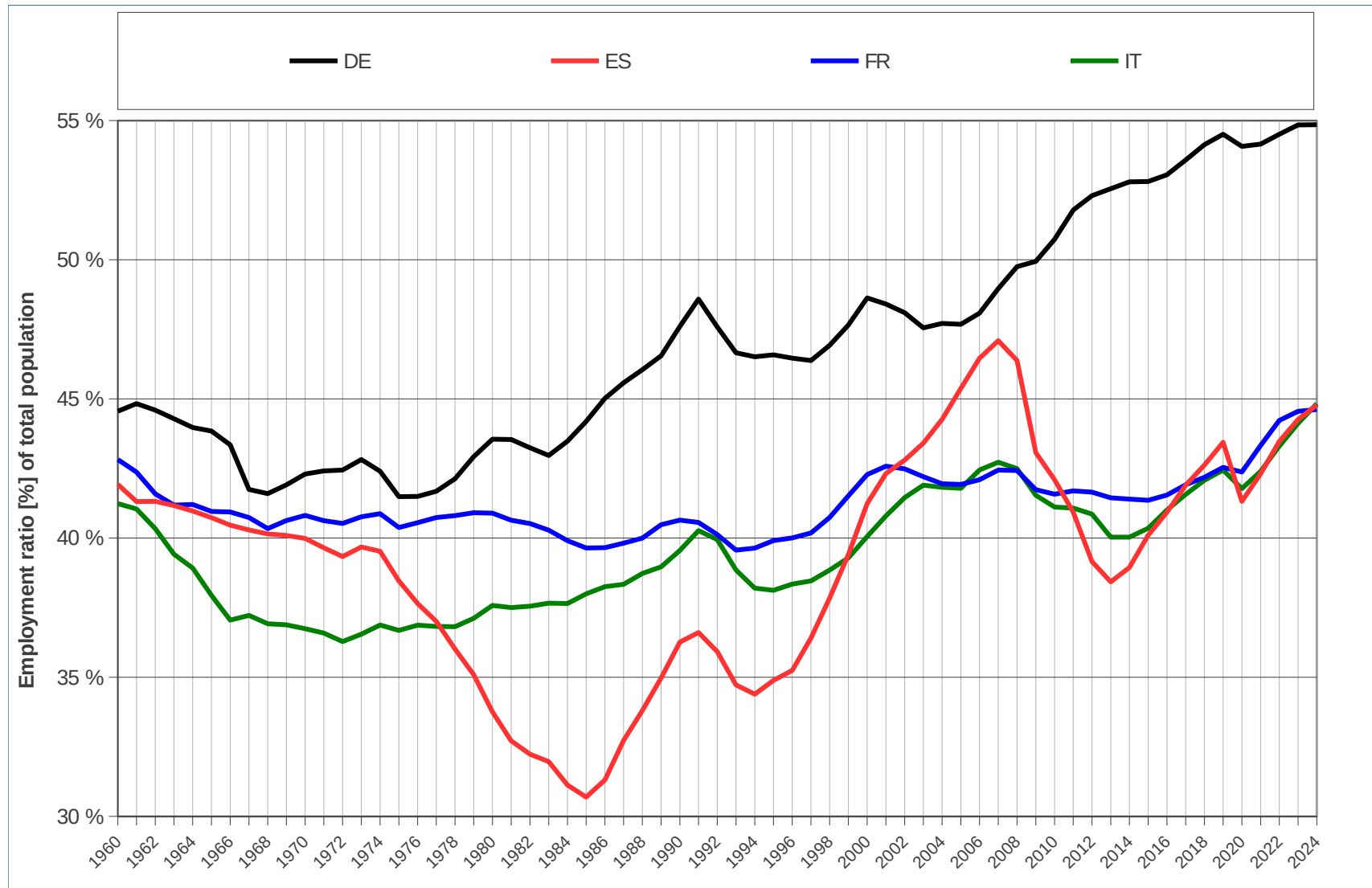
Figure 17. Ratio of employed persons to total population. Source: own elaboration based on AMECO data.

3 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:

a) by types of income (primary distribution)

$Y = R + W + TS$ (profits + wages + taxes minus subsidies on production)

or

$Y\_fc = R + W$, wher $Y\_fc = Y - TS$, denominated the GDP by "factor costs".

The concept of "compensation of employees" (here shortly denominated as "wages" for simplicity") includes gross wages before taxes, but also indirect income in form of contributions to social security systems. "gross operating surplus" (or shortly: "profits") includes 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 (or "operating surplus") corresponding to compensation of self-employed individuals or company owners for their own work.

$W\_adj = W + W\_self\_employed$

$R\_adj = R - W\_self\_employed$

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%.

b) 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: export minus import)

The breadown 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.

As a proxy for the not productively used part of profits the difference of R and I is used (not re-invested profits).

References

[AMECO 2024]   European Commission: Annual macro-economic database. Version from November, 15th, 2024.

https://economy-finance.ec.europa.eu/economic-research-and-databases/economic-databases/ameco-database_en