POLITICAL ECONOMY RESEARCH INSTITUTE
PERI Research Brief
University of Massachusetts Amherst

10th floor Thompson Hall, University of Massachusetts, Amherst, MA 01003
(413) 545-6355, peri@econs.umass.edu, http://www.umass.edu/peri

The Return of Finance and Finance's Returns: Recent Trends in Rentier Incomes in OECD Countries, 1960-2000

Gerald Epstein and Dorothy Power[1]
November, 2002

Research Brief 2002-2

I. Introduction

Few contemporary observers would deny that, in the last several decades, the role of financial firms, financial markets and financiers has grown dramatically in many parts of the globe. This rise of finance represents a dramatic return to the global stage after the debacle of the Great Depression of the 1930's – for which finance was widely blamed – and the postwar dominance of Keynesian, Socialist, and "welfare state" economic regimes during which finance was held under tight rein (see, for example, Crotty and Epstein, 1996).

However, despite the increased role of finance and the greater attention economists have paid to it, there has been relatively little empirical work measuring the income accruing to those engaging in financial market activity and owning financial assets. Exceptions include the important work of Krippner (2002) and Crotty (2002), who have looked carefully at the increasing importance of finance in the U.S. economy, and Dumenil and Levy (2001) and Felix (1998), who have presented comparative data on the role of finance internationally, but only for a few countries. For example, Dumenil and Levy (2001) find that in the U.S. and France, the income accruing to finance – or the *rentier's,* as Keynes' (1936) referred to them – has increased significantly during the last several decades.

How widespread is this trend? Has there been a general return of finance, and, if so, does finance have the returns to show for it? In this research brief we present some new evidence which bears on these questions. We have constructed measures of the "rentier share" of income for twenty-nine OECD countries, some of them going back forty years. We then compare trends in this rentier share with the share of income accruing to non-financial corporations. We find that, indeed, the rentier share has been rising in many, though not all, of the OECD countries, while the non-financial corporate share has held more or less steady or declined. It is important

---

[1] Gerald Epstein is Professor of Economics and Co-Director of PERI, University of Massachusetts, Amherst; Dorothy Power is in the Economics graduate program, University of Massachusetts, Amherst.

to note that, simultaneously, the labor share has been eroding in many of these same countries (see, for example, Serres, *et al.*, 2002; Mishel, *et al.*, 2003; Harrison, 2002).

II. Data Definitions[2]

There is no commonly accepted definition of "rentier" income. Most authors use a definition to capture income that accrues from financial market activity and the ownership of financial assets, rather than activity in the "real sector" or the holding of "real" assets such as real estate or capital equipment.

Following this general practice, we define rentier income as the profits realized by firms engaged primarily in financial market activities plus interest income realized by all non-financial, non-government resident institutional units, i.e. the rest of the private economy, plus capital gains on financial assets realized by all non-financial non-government resident institutional units. By this definition, someone does not need to be employed by the "financial" sector to receive "rentier income". For example, a non-financial corporation that holds net financial assets or engages in financial activity would, according to our definition, receive rentier income. Now, in practice, we were able to implement this definition only imperfectly. For example, because of data limitations, we must unfortunately exclude capital gains from the data presented here, unless otherwise noted.

Rentier Income: Entrepreneurial income in the financial sector, the first component of rentier income, is used as a measure of profits for the corporate financial sector. According to the OECD, entrepreneurial income is "a concept that is close to the concept of profit and loss as understood in business accounting"[3]. Entrepreneurial income was calculated by summing property income and operating surplus for the financial sector and then subtracting reinvested earnings on foreign direct investment, property income attributed to insurance policy holders, interest payable, and rents payable for the financial sector. Rentier income was calculated by adding to entrepreneurial income interest income realized by the rest of the economy (excluding government). Interest income realized by the rest of the economy is defined as the sum of interest receivable for the corporate non-financial sector, the household sector, and the non-profit institutions serving the household sector. Information on capital gains on financial assets realized by the rest of the economy is not currently available for most of the countries and therefore has been omitted unless otherwise stated.

---

[2] Because of differences in data availability across countries, several methods and sources were used to calculate rentier income. Whenever possible, we used the 2001 revision of the national accounts data published by the OECD; when these were not available we used the 1997 revision of the national accounts data published by the OECD (OECD, 2002). These data are equally comprehensive, but of an earlier revision, which made for considerable differences in many of the series. When these data were not available we used bank profitability data. Data on bank profits were obtained from the 2000 edition of the OECD publication *Bank Profitability: Financial Statements of Banks*. Data for non-financial corporate profits and GDP were also taken from the OECD National Accounts. For more information on the sources and methods used to construct these data see Power, Epstein and Abrena, forthcoming 2003.

[3] United Nations, 1993*, System of National Accounts* Section 7.18.

Rentier share is defined as *rentier income* as a share of GDP measured according to the expenditure approach less government sector GDP.

Non-financial Corporate Profit Share: Non-financial corporate income and share were defined in an analogous way to the entrepreneurial income and share for the financial sector, except that interest payments were not included in non-financial corporate profits.

III. Trends in Rentier Income

Table 1 presents our estimates of the share of rentier income and the non-financial corporate profit share of (non-government) GDP for all OECD countries for which we have data – twenty-nine countries in all. In most of the countries for which we have data going back at least to the 1970's, the rentier income share rose dramatically between the decades of the 1960's and/or 70's, on the one hand, and the 1980's and 90's, on the other. In some cases – namely, Denmark, France, UK and the U.S. – these increases were almost 100% or more. In others – namely Australia, Belgium, Germany, Luxembourg and Norway – they were greater than 50%. In only four cases, Iceland, Korea, Spain and Sweden, did the rentier share fall, on average, over this period. Korea, the site of a major financial crisis in the 1990's, saw the most spectacular decline of rentier share of the group, a decline of over 200%.

As for non-financial corporate profits, in several countries the share declined over the period – Australia, Finland, Germany and Japan – and in only one country, Korea, did the non-financial share do better than the financial share. However, as we just saw, in the case of Korea the decline in the rentier share was catastrophic over this period.

In short, the increase in the share of income going to financial activities that observers have noted in the U.S. and France appears to be rather widespread. And while the rentier share has been increasing over this period, the share of income going to traditional non-financial corporate activities has, with few exceptions, gone up but little, stagnated, or even declined.

The Case of the U.S.

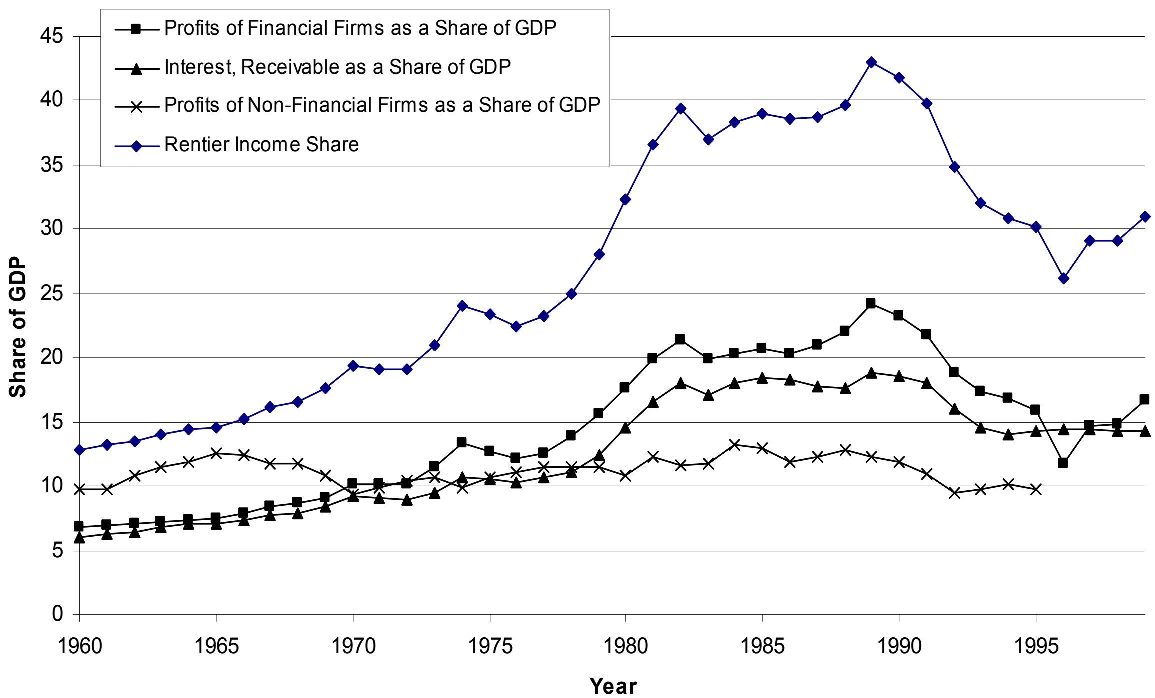
Disaggregating the data in the case of the U.S. will give additional insight into the evolution of rentier and non-financial corporate shares over the post-War period. Figure 1 presents the rentier share, its two components – entrepreneurial income of the financial sector and interest receivable – and the non-financial corporate profit share for the period 1960-1999. The main picture that emerges from this graph is that, while the rentier share was gradually increasing throughout the 1960's and 1970's, the big acceleration in its rise began around 1979 or 1980. During the period of the Volcker monetary policy of high real interest rates and the Reagan policy of large budget deficits, the rentier share leaped. It declined during the early nineties but then started to increase again, driven mostly by an increase in the share of entrepreneurial income.

TABLE 1. Rentier Income in Selected OECD Countries, 1960-2000

Country	**Years Reported**		**Average Decade Share 1960s (Percent of GDP)**		**Average Decade Share 1970s (Percent of GDP)**		**Average Decade Share 1980s (Percent of GDP)**		**Average Decade Share 1990s (Percent of GDP)**		**Percentage Change over the Period 1960s/1970s and 1980s/1990s**	
	Rentier Income Share	*Non-Financial Sector Profit Share*	*Rentier Income Share*	*Non-Financial Sector Profit Share*	*Rentier Income Share*	*Non-Financial Sector Profit Share*	*Rentier Income Share*	*Non-Financial Sector Profit Share*	*Rentier Income Share*	*Non-Financial Sector Profit Share*	*Rentier Income Share*	*Non-Financial Sector Profit Share*
AUSTRALIA	1969-1998	1969-1995	6.67	12.66	7.92	8.10	14.50	5.24	12.97	7.91	76.55	-26.76
AUSTRIA	1987-1999	1995-1999	---	---	---	---	8.53	---	6.34	13.49	---	---
BELGIUM	1970-1999	1970-1999	---	---	11.69	11.66	21.81	12.92	21.28	14.66	84.36	18.30
CANADA	1982-1999	---	---	---	---	---	12.22	---	13.15	---	---	---
CZECH REPUBLIC	1993-1999	---	---	---	---	---	---	---	-0.64	---	---	---
DENMARK	1970-1999	1981-1999	---	---	4.94	---	11.62	6.45	11.75	16.05	136.69	---
FINLAND	1960-2000	1960-2000	5.61	14.28	6.04	7.37	6.58	6.72	8.75	10.56	32.39	-19.33
FRANCE	1970-1999	1970-1995	---	---	6.24	6.39	10.62	5.97	21.19	11.07	155.00	23.25
GERMANY	1960-1999	1960-1999	2.98	16.23	5.02	12.09	7.83	9.80	7.43	11.16	90.87	-26.02
GREECE	1989-1998	---	---	---	---	---	0.29	---	0.59	---	---	---
HUNGARY	1994-1999	---	---	---	---	---	---	---	0.24	---	---	---
ICELAND	1979-1999	---	---	---	0.65	---	0.34	---	0.34	---	-47.11	---
IRELAND	1995-1998	---	---	---	---	---	---	---	2.72	---	---	---
ITALY	1980-1999	1980-1999	---	---	---	---	18.77	11.68	18.08	16.12	---	---
JAPAN	1960-1999	1960-1998	9.00	11.96	12.30	9.02	14.27	9.91	11.22	8.25	19.69	-12.54
KOREA	1975-1999	1975-1995	---	---	4.70	7.32	8.63	7.93	-18.21	8.23	-201.90	9.90
LUXEMBOURG	1979-1999	1979-1999	---	---	6.14	6.14	6.43	6.43	12.41	12.41	53.31	53.31
MEXICO	1989-1999	1993-1999	---	---	---	---	1.52	---	6.74	23.92	---	---
NETHERLANDS	1977-1999	1977-1999	---	---	13.47	9.86	18.69	13.06	20.97	15.33	47.17	43.90
NEW ZEALAND	1990-1999	---	---	---	---	---	---	---	7.71	---	---	---
NORWAY	1978-2000	1978-1999	---	---	6.03	10.74	10.45	12.44	9.56	15.20	65.60	29.31
POLAND	1993-1999	---	---	---	---	---	---	---	0.63	---	---	---
PORTUGAL	1986-1998	1986-1998	---	---	---	---	15.92	14.90	16.90	11.87	---	---
SPAIN	1979-1999	1985-1999	---	---	14.47	---	12.53	8.70	13.21	9.22	-11.05	---
SWEDEN	1979-1998	1980-1999	---	---	13.61	---	12.34	2.95	12.30	5.51	-9.47	---
SWITZERLAND	1979-1999	1990-1995	---	---	5.61	---	7.34	---	9.14	7.34	46.81	---
TURKEY	1983-1999	---	---	---	---	---	0.70	---	1.19	---	---	---
UK	1968-2000	1968-2000	3.97	14.82	6.33	13.45	10.85	15.83	14.16	15.95	112.13	16.19
US	1960-1999	1960-1995	14.81	11.31	22.47	10.65	38.26	12.18	33.49	10.33	92.43	4.62

FIGURE 1

Components of Rentier Income Not Including Capital Gains in the United States 1960-1999



Capital Gains

Figure 2 shows the U.S. rentier share, this time including two different measures of capital gains on financial assets.[4] Not surprisingly, including capital gains leads the rentier share to continue increasing in the late 1990's, a reflection of the stock market boom of the period. Otherwise, although it is considerably less stable, the general trend in the U.S. rentier share is not much altered by inclusions of capital gains on financial assets.

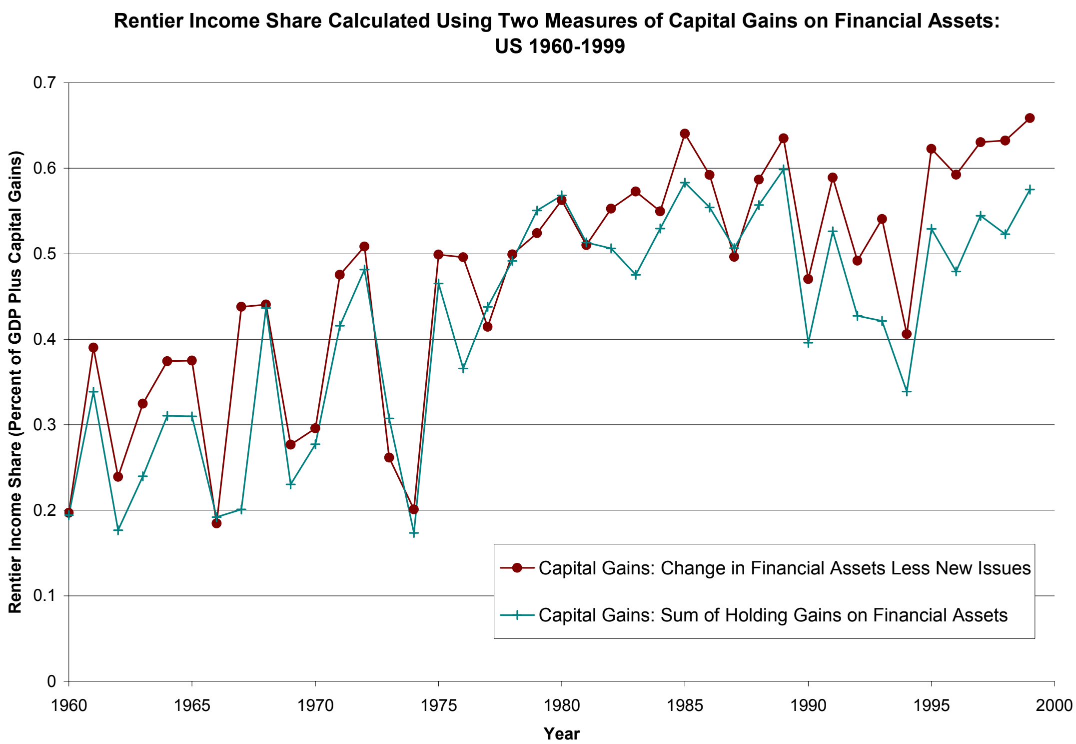
Conclusion

As these data show, finance has, indeed returned. The data also suggest several important questions for future research. First, what accounts for this widespread increase in rentier share? Certainly, the increase in real interest rates first initiated by Paul Volcker in the late 1970's, and widespread financial liberalization associated with neo-liberalism have played an important role. Second, what is the impact of this shift in the distribution of income on important economic outcomes, such as investment and growth? Using different data, Stockhammer, 2000, for example, estimates the impact of this shift on the investment equation for several OECD

[4] One measure estimates capital gains by subtracting net issues of financial assets from the annual change in the value of total financial assets; the second measure adds financial asset holding gains of the household and non-financial corporate sectors. Both sets of estimates are constructed are from the U.S. *Flow of Funds Accounts:* http://www.frb.gov.

countries and finds that productive investment suffers as a result of the change in income distribution. It would be important to see how robust and widespread these results are. And, finally, if this shift in income distribution is in fact found to be detrimental to economic growth, what policies can be undertaken to reverse these deleterious effects? One important suggestion, for example, is to impose a securities transaction tax to reduce the amount of speculative financial trading (Pollin, *et al*., 2001) and, presumably, the share of returns flowing to the financial sector.

FIGURE 2



References

Crotty, James. 2002. "The Effects of Increased Product Market Competition and Changes in Financial Markets on the Performance of Nonfinancial Corporations in the Neoliberal Era." PERI Working Paper, Number 44. http://www.umass.edu/peri/

Crotty, James and Gerald Epstein. 1996."In Defense of Capital Controls", *The Socialist Register*.

Dumenil, Gerard and Dominique Levy, 2001." Costs and Benefits of Neoliberalism: A Class Analysis." http://www.umass.edu/peri/finagenda.html#alphalist

Felix, David. 1998. "Asia and the Crisis of Financial Globalization." In Dean Baker, Gerald Epstein and Robert Pollin, eds. *Globalization and Progressive Economic Policy*. Cambridge: Cambridge University Press, 163-91.

Harrison, Ann. 2002. "Has Globalization Eroded Labor's Share? Some Cross-Country Evidence", mimeo, University of California, Berkeley.

Keynes, J.M 1936. [1965] *The General Theory of Employment, Interest and Money*. New York: Harcourt, Brace, & World.

Krippner, Greta R. 2002. "What is Financialization". mimeo, Department of Sociology, University of Wisconsin, Madison. Paper Presented to PERI Conference on Financialization, December, 2001. (Contact: gkrippner@ssc.wisc.edu)

Mishel, Lawrence, Jared Bernstein and Heather Boushey. 2003. *The State of Working America*. Washington, DC: Economic Policy Institute.

Organization of Cooperation and Development (OECD).2002. *National Income and Product Accounts: Detailed Tables*. http://www.sourceoecd.org

Pollin, Robert N. Dean Baker, and Marc Schaberg, 2001. *Securities Transaction Taxes for U.S. Financial Markets*, PERI Working Paper Number 20. http://www.umass.edu/peri/research.html

Power, Dorothy, Gerald Epstein and Matthew Abrena, 2003 forthcoming. "Trends in Rentier Income in Some OECD Countries, 1960-2000: Estimates, Data and Methods". PERI Working Paper.

Serres, Alain de, Stefano Scarpetta and Christine de la Maisonneuve. 2002. "Sectoral Shifts In Europe And The United States: How They Affect Aggregate Labour Shares And The Properties Of Wage Equations" OECD, Economics Department Working Papers No. 326. http://www.oecd.org/eco/eco

Stockhammer, Engelbert. 2000. "Financialization and the Slowdown of Accumulation". Vienna University of Economics and Business Administration. Working Paper No. 14. http://www.wu-wien.ac.at/inst/vw1/gee/workp.html