Income distribution, growth and financialization: the Italian case.

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Abstract

The paper investigates whether the current decline of the Italian economy could be traced back to financialization. In principle financialization could not be so important for an economy in which many firms are not quoted in the stock exchange and for which shareholders' interests should not matter. The author argues that financialization may have deep effects in such an environment by changing the perceived financial norm and the target return on capital. The author draws on a model by Lavoie (1995) extending it to an open economy. She uses this model by looking at the effects of an appreciation, thus replicating the appreciation of the euro in the last years and its possible effects on the Italian economy. The results of such an appreciation would be a fall in the rate of growth, accumulation and in the realized rate of profit. This picture, however, does not fit in well with some stylized facts. In Italy, the rate of growth and the capital accumulation have slowed down while the rate of profit and the profit share have clearly increased. The increase concerns the average profit share and the average profit rate while indeed the profit rate is declining in the manufacturing sectors, but rising in the services sector. At this point a different interpretation is presented, which is no more based on the financialization hypothesis but rather on the increase in the degree of monopoly power in the Italian industrial sectors, given the increase in the mark-up. This process would have been favoured by the privatization process of previously public enterprises. The author shows what might have happened by using a model by Dutt (1995) with two sectors. In this model in the long-run the accumulation of capital is still governed by aggregated utilization and profitability, but the allocation of capital among sectors and their growth depends on the profit rate differential. The profit rate differential might have shifted resources to the service sectors, which would have been favoured by the privatization process. In this case, financialization would be a consequence of the increase in monopolistic competition, which in turn could be responsible for the decline.

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