Money and distribution: can the theory explain recent empirical trends?

Domenica Tropeano

Abstract

The paper examines some trends in the distribution of income that have prevailed in the last two decades, in particular the opposite tendencies to a fall in the wage share and an increase in the profit and rent share. Moreover both profit rates and real interest rates have increased in OECD countries. Some theoretical models are examined to see whether they may explain those tendencies. The focus is on models in the Keynesian-Kaleckian tradition. In those models it is possible, for some combinations of parameters, that an increase in real interest rates may lead to an increase in profit rates. Unfortunately, however, those values of parameters which would be required and which correspond to assumptions on the behaviour of agents, do not reflect historical values. Thus, though Kaleckian-Keynesian models may offer an explanation of these trends, this explanation does not seem to apply to the recent history of OECD countries. Another strand of literature is also examined which goes back to Sraffa and the monetary theory of distribution. The two approaches are compared. The paper also looks for the possibility of a synthesis.