Regimes of Interest Rates, Income Shares, Savings, and Investment: A Kaleckian Model and Empirical Estimations for some Advanced OECD-Economies

Eckhard Hein (WSI in der Hans Böckler Stiftung)*

Carsten Ochsen (Carl von Ossietzky Universität Oldenburg)

Abstract

Within a simple Kaleckian aggregate demand-aggregate supply model we have studied the effects of the monetary variable „interest rate" on the real variables capacity utilisation and capital accumulation. Within our model the monetary interest rate has a profound influence on the real equilibrium position of the economic system. But the response of the equilibrium to a variation in the interest rate is not unique. It depends on the reaction coefficients in the investment and the savings function. The equilibrium position of the economic system is therefore highly sensitive to the values of the coefficients in the model.

Confronting our model with the data of some major OECD-countries and estimating the coefficients we found that the real effects of the monetary interest rate indeed vary between economies and between periods of accumulation. Over the whole time period considered, from the early 1960s to the mid 1990s, interest rate variations have had an inverse impact on output, investment and the profit rate in France and Germany whereas the impact in the UK and the USA has been rather positive due to a lower propensity to save of rentiers and a lower responsiveness of investment. Comparing the sub-periods from the 1960s to the early 1980s and from the 1980s to the mid 1990s, each economy analysed seems to have moved towards the constellation of the UK and the USA. A positive relation between interest rates and economic activity as well as capital stock growth, therefore, seems to be empirically possible in some countries and in some time periods, if we follow our estimation results.

Applying our estimation results to the explanation of the general falling or stagnating trends of output growth and capital accumulation since the early 1960s, we found that in the first

* Corresponding author: Dr. Eckhard Hein, Wirtschafts- und Sozialwissenschaftliches Institut (WSI) in der Hans Böckler Stiftung, Bertha-v.-Suttner-Platz 1, 40227 Düsseldorf, Germany.

period until the early 1980s, for which we estimated a significantly negative impact of interest rate variations on these two variables for some countries, interest rates did not increase dramatically. Therefore, interest rate hikes cannot be made generally responsible for the slowdown in this period. This slowdown rather has to be explained by falling profit shares, because profitability had a positive impact on investment in this period, and by the general erosion of the „golden age” constellation of accumulation.

For the second period, starting in the early 1980s, interest rates increased dramatically but our estimations, assuming constant income shares, suggest that there was no inverse impact on investment and output. We suppose that this apparent paradox could be explained by a rapid adjustment of the economic system to higher real interest rates at the expense of labour income in this period, i.e. through variations in functional income distribution. Decreasing labour income shares, a significantly lower propensity to save out of labour income than out of rentiers’ income and a high responsiveness of investment to demand seem to have been main causes for stagnating GDP growth and falling capital stock growth from the early 1980s to the mid 1990s. The relationship between real interest rates and the profit share, however, which is crucial for this explanation and which seems to vary between time periods, has to be explored in further research.