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Unequal distribution of income among the different strata of the population has been an intrinsic part of the capitalist system. Despite detailed discussions on growth with equity and the 'trickle down' effect, there has not been a consensus among economists on this issue. Inequality of income seems to be a necessary by-product of the growth process under capitalism. It is only through the intervention of the state in the form of wage controls, progressive taxation, subsidies that there has been a partial reversal of the inequality of income. Two separate questions have been addressed by economists on the issue of growth and distribution of income. While one deals with the effect of growth on inequality, the other deals with the effect of distribution on growth. The focus of the present work is on the second question.

Debates on the effects of distribution on growth within Economics have invariably coincided with periods of high inequality. The present study on the concentration of capital too has been prompted by the significant increase in inequality in the decades of the 1980s and 90s, in the advanced capitalist countries. Concentration of capital has taken place at two levels. First, there was an increased consolidation of business as a result of the merger waves across the advanced capitalist countries. Second, this was also a period of a significant increase in income as well as wealth inequality.

While there are similarities in the increase in levels of concentration and the consequent growth process across the advanced capitalist countries, the United States stands out in terms of its size and the control that it exercises over the global economy. Its role as the driving force of both growth and crises in contemporary capitalism has led us to make it the subject of the present thesis.

The purpose of this thesis is to study, both theoretically and empirically, the implications of higher concentration in business along with the increase in inequality of income and wealth in the 1980s and 1990s in the US. These were the decades of significant economic developments in the US. First, the scale and reach of the Mergers and Acquisitions (M&As) in the 1980s and 1990s was unprecedented in the history of the US. This was accompanied by widening wealth and income disparities. The extent of these disparities can be gauged from the fact that the level of income inequality, after a decrease in the post war years, bounced back to almost the same level as the 1920s. Second, there was a
remarkable increase in the share of consumption as a proportion of GDP from 62 percent in 1980 to more than 70 percent towards the end of the 1990s. In the Keynesian framework, this would mean an increase in the income multiplier.

Third, despite the increase in the consumption-GDP ratio, there was a significant decline in the rate of growth in the US economy as a whole compared to the high rates of growth of the 1950s and the 1960s. While GDP per capita for the US grew at an average of 2.70% during 1950–1973, it slowed down to an average of 1.13% during 1973–2000. Though there was a spurt of growth in the late 1990s and the first half of the present decade, the average rate of growth over the entire business cycle of the 1990s was still much lower than that of the 1950s or 1960s. As far as the present decade is concerned, the US economy is witnessing a prolonged recession, which makes the calculation of the average rate of growth indeterminate for the present business cycle. But it seems quite obvious from the extent of the decline that the present business cycle would record a lower average growth rate than the 1990s. Fourth, despite very low unemployment rates in the 1990s, the economy did not face high inflation. After a long gap, the US witnessed an unemployment rate of around 4 percent for a substantial part of the 1990s.

The 'corporate restructuring' or the Mergers and Acquisitions of the 1980s and 90s have been at the centre of intense debate in the US. However, the studies on the effects of M&As have mainly been microeconomic in character, stretching at most to the industry level effects. In this thesis, we try to study their macroeconomic impact. In the light of the experience of the US economy vis-à-vis growth and distribution since the late 1970s, we try to address the following questions.

- What is the extent of the increase in concentration in business as well as the inequality of income and wealth? Are these two forms of increasing concentration linked to each other?

- What is the relationship between increasing inequality and growth in a capitalist economy? There are three extant views in this regard: the neoclassical view, the stagnationist view and the exhilarationist view. We put all the three theories to test in the context of the recent developments in the US. We argue that since both the neoclassical and the exhilarationist views give primacy to the supply side factors, they do not adequately capture the working of a capitalist economy. But even the stagnationist view, which, despite being based on the demand side factors, does not explain the recent developments in the US economy.
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- If the stagnationist theory is also inadequate in explaining the recent experience in the US, then does that warrant rejection of this entire framework or does it require modifications to make it relevant once more? We choose the second path and present these modifications both in a theoretical as well as an empirical framework.

DIFFERENT APPROACHES AND THEIR CRITIQUE To understand the different approaches that analyse the effect of distribution of income on growth, we present a basic growth framework. For a closed economy, without the government sector, private savings have to be equal to investment for an equilibrium. The rate of growth can be written as the investment capital ratio. This equilibrium condition can be written as the following,

$$\frac{g}{K} = \frac{S}{K} = \frac{S}{\Pi \cdot O \cdot O^*} \cdot \frac{O^*}{K} = s_n h u \beta$$

where,

- $g$ = Growth rate
- $I$ = Investment
- $S$ = Savings
- $K$ = Capital stock
- $\Pi$ = Total profits
- $O$ = Output
- $O^*$ = Potential output
- $s_n$ = Rate of savings out of profits
- $h$ = Profit share
- $u$ = Rate of capacity utilisation
- $\beta$ = Technologically given output-capital ratio

The Neoclassical Approach: In the neoclassical approach, savings are always invested in the long run. So, the causality in the equation above runs from right to the left. As far as their approach towards the relation between distribution and growth is concerned, they argue that the since the rate of growth is exogenously given by the rate of growth of population and the rate of growth of technology, distribution of wages and profits are merely a by-product of the growth process.
The real wage rate and profit rate are determined in the respective markets of labour and capital based on the equilibrium between demand and supply. If, however, there are market imperfections in the form of indivisibilities of capital and skill or market structures other than perfect competition, then the role of distribution need not necessarily be a passive one. In such a situation, an increase in inequality or increase in concentration in various industries increases the possibility of higher growth.

The reasons provided for the positive linkage between inequality and growth are many. First, inequality in earnings is a reflection of the dispersion of 'ability' of individuals in any given population. Any attempt to reverse the inequality generated in this manner would involve a distortion in the incentive structure. This would produce an inferior result for the society, reflected in the form of lower growth. Second, concentration within business through mergers are often 'efficient' in character since it leads to pruning of the industries.

The Exhilarationist Approach: Unlike the neoclassical framework, the exhilarationist view assumes investment to be autonomous in the short run and the causality in the savings-investment equation above moves from the left to the right. They argue that, in the long run, investment is determined not only by the state of demand but also the profit margin, especially at higher levels of capacity utilisation. If investment is made a positive function of the profit margin, then an increase in the profit share \((h)\) might increase both the LHS and the RHS in the same proportion, thereby, increasing the rate of growth. Since the investment function is responsive both to the degree of capacity utilisation as well as profit margin, the overall effect of profit margin on investment is dependent on the relative strength of these two factors.

They provide arguments in favour of the investment function in its present form. According to them, at low rates of capacity utilisation, increases in profit margins fail to induce increase in investment because of the presence of high idle capacity. As opposed to this, at higher rates of capacity utilisation, entrepreneurs may enthusiastically respond to changes in the profit margin because they do not have to worry about investing in idle capacity.

The Stagnationist Approach: The stagnationist school, starting from Kalecki, argued that an increase in the profit margin in any given period increases the RHS of the equation above. To use a Marxian term, an increase in the profit margin increases the produced surplus value. But, since the investment is autonomously given from outside in any period, to maintain the equilibrium, something has to decline to compensate for the increase in the profit share. In the absence of the possibility of a change in either the parametrically given savings
rate or the technologically given output-capital ratio, the burden of adjustment falls entirely on the rate of capacity utilisation. This process can be understood in simple terms. An increase in the profit share means a decline in the share of consumption in the economy, since, the consumption out of profits is much less than that of wages. A decrease in demand in the current period, in turn, has an adverse effect on the investment demand in the next period. This process would start a vicious spiral with decrease in both investment and the rate of capacity utilisation till the economy reaches a point of stagnation.

We find that all the extant approaches are inadequate to capture the contemporary reality of the US economy. As far as the efficiency argument is concerned, the main question is that if the restructuring had started way back in the early 1980s, why did it take more than a decade and a half for it to create a positive effect on the US economy? As for the exhilarationist argument, there is no reason why the investment function should depend on the profit margin. In this approach, there seems to be some confusion between the concepts of rate of profit and profit share. Moreover, if indeed there is an exhilarationist regime then why did the investment climate not recover in the US in the 1980s when the profit margins had recovered. The stagnationist argument fails to explain an increase in the consumption share in the 1980s and 90s even as there was an increase in concentration as well as income inequality.

THE BASIC FRAMEWORK This thesis is inspired to a great extent by Steindl's *Maturity and Stagnation*. Steindl explained the linkage between growth and concentration by extending the explanation beyond underconsumption. He outlined three routes through which increased concentration leads to stagnation in the economy. First, an increase in oligopolisation of the industries increases the overall profit margin of the economy. It is this increase in overall profit margin which leads to an increase in the profit share of the economy and the consequent underconsumption. Second, with increased concentration, the possibility of collusion increases within the firms which results into a tendency towards underinvestment. Investment in Steindl's model is positively dependent on the difference between the actual and the desired rate of capacity utilisation. While the actual rate of capacity utilisation is entirely determined by the present demand conditions in the economy, the desired rate is decided by the capitalists based on the requirements of the market. If the markets are more secure, as happens with increased oligopolisation, the need to maintain a higher level of desired excess capacity to limit the competitors also declines. The increase in the desired rate of capacity utilisation in turn decreases the rate of investment in
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the absence of counteracting tendencies. Third, growth in the size of businesses makes them even more wary of risk and they prefer stability over risk which adversely affects their desired gearing ratios (ratio of external over internal resources used to finance investment). This would again adversely affect the investment decisions of the firms.

These three routes are at the heart of Steindl's theory which sought to understand the stagnation in the American economy in the late twenties and the thirties. Steindl argued that the Great Depreession was a result of the development of oligopoly that was taking place in the American capitalism since the turn of the twentieth century. His main conclusion was that with the development of oligopoly under capitalism, the system is doomed to be stuck in a process of either stagnation or stunted growth.

However, a prolonged period of high growth spanning almost three decades since World War II questioned this analysis. Steindl provided an answer to this reversal in the growth rate by arguing that there is a possibility of higher growth even in conditions of concentration provided the state injects extra demand into the system through active fiscal intervention. This is precisely what happened in the US economy till the late 1960s. He also noted that an increase in growth need not necessarily be egalitarian in nature because the increased fiscal expenditure could primarily be on account of military expenditure. This did happen in the US during the period since the beginning of the Second World War.

By the early 1970s, however, the US economy was once again stuck in a process of stunted growth. Steindl argued that the process of active state intervention under capitalism was fraught with its own contradictions. A prolonged period of near full employment since the Second World War led to an opposition from the capitalists against active state intervention. The process of high growth through state intervention not only made the capitalists passive players but, to use a Kaleckian phrase, the sack ceased to play its role as a disciplinary measure as a result of near full employment. Thus, there was a resurgence of the free market policies in the early 1970s which sought to take the economy to the pre-Keynesian era in a significant manner. The essence of this policy shift was to restrict the intervention of the state both in demand management and in the functioning of the markets.

The Steindlian analysis about the US economy for the period between late 1920s to early 1980s forms the backdrop of our study. We would like to examine the US economy since the early 80s in the same framework. A few words in favour of choosing the Kaleckian framework are in order. For the process of
accumulation in a capitalist economy, the essential component has to be the primacy of demand factors rather than the supply side factors, which dominate the neoclassical theory of growth. The basic assumption, in the neoclassical growth models, that the economy runs at full employment, at least in the long run makes the dynamics of the savings in the economy the driving force behind the growth. That is the reason why there is no independent investment function in these models. Such an assumption, we believe, does not capture the essence of the working of a capitalist system in which investment decisions taken by the capitalists are not coordinated with each other. These decisions are based on the expectations about the future that each of these capitalists (or corporations) have which are not likely to be uniform. In such a system of atomistic decision making, there is no reason why all the savings would be necessarily invested. This makes the investment decision the centre of any serious study of the growth process under capitalism.

Having laid down the reasons for choosing the Kaleckian growth framework over the neoclassical framework, we return to the questions raised at the beginning. It is our contention that these questions can be resolved within the Kaleckian framework by modifying some of its aspects.

The change that we propose to the Steindlian analysis is the introduction of various counteracting tendencies within the consumption function which could alleviate the underconsumptionist tendency. There could at least be two such routes. First, the tendency towards underconsumption is premised on the shift of present income from the workers to the capitalists. But if there is a possibility of injection of demand from a source, say increased value of accumulated wealth, which is independent of the stream of income generated in the present period, then the decline in consumption of the workers can be compensated by the increase in consumption of the wealth owners. Second, if the process of concentration and the associated financial deregulation lead to an increase in the dividend-payout ratio, then even that would act an extra injection to the present stream of income of the dividend holders. One could argue that whether the dividends remain as the internal savings of the corporation or distributed to the shareholders, it merely means a transfer of income from one source to the other so, why should that increase the demand? The point, however, is that while there is no guarantee that the internal savings of the corporations would be necessarily invested, it is certain that an increase in dividends in the hands of their owners would increase their consumption in accordance with their consumption propensities.
Our contention is that both these effects could have played a crucial role in the increase in the share of consumption through the 1980s and 1990s. In the 1990s, there was a dramatic increase in the wealth owing to the booming stock market. There was also a simultaneous ‘shareholder revolution’ which argued for distribution of a larger share of profits to the shareholders rather than its wasteful expenditure by the corporations. We present a formal model of how both of these could affect the overall consumption function of the economy. It is noteworthy that even if the propensity to consume out of wealth might be very small, the sheer increase in the wealth makes the overall absolute effect on consumption to be enormous.

While the Steindlian framework needs the correction vis-a-vis the underconsumption effect, we believe that the argument of underinvestment is still relevant. Apart from the reasoning that decline in competition results in a decrease in the level of the desired excess capacity, there could be two other ways in which concentration could adversely affect investment. First, an increase in concentration or a decline in competition also affects the need to innovate negatively. This argument seems to run counter to the Schumpeterian logic of monopoly as the most conducive atmosphere for innovations. Schumpeter’s argument about monopoly rents derived from innovations is valid mainly for lower levels of concentration. The relation between concentration and innovation has been found to be an inverse U shaped one rather than an increasing function as Schumpeter had argued. Diminution of rivals as result of increased concentration not only diminishes the urge to innovate but it also decreases the chances of fruition of an innovation.

Second, the process of financialisation that facilitated the process of concentration in the US could have independent negative effects on investment. This could be due to the shortening of investment horizons in the presence of short term high gains available from short-term financial assets. We argue that an increase in the level of concentration further aggravates the situation. A relative as well as absolute increase in the size of firms makes them manage the risks involved in such high speculation by spreading it out over the small shareholders while cornering all the returns from the short-term risky assets. Moreover, their sheer size it imperative for the government to bail them out in times of crisis. They become ‘too big to fail’. This factor makes them reckless in their behaviour towards the risky financial assets. Given that the returns from financial assets have increased, it also increases the desired rate of profit from real investment. Therefore, all the projects that have a rate of profit lower than the increased desired rate are now left out from the plans of the capitalists.
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In the context of these two counteracting tendencies of underinvestment and overconsumption, one could locate the behaviour of the US economy over the last few decades. It is our contention that for the 1980s and the early 1990s, the underinvestment effect dominated the overconsumption effect which led to a stunted growth regime. The underinvestment effect, which is always present in the oligopolistic set up, gets adversely affected by an increase in the degree of oligopoly. Therefore, there would always be a tendency towards stagnation in a capitalist economy where the level of concentration is increasing. But whether this tendency would translate into reality would depend on the counteracting forces, like the wealth effect generated by the process of concentration. We argue that though the increase in consumption was taking place through the entire period of the 1980s and 1990s, it was only after the stock market boom in the second half of the 1990s that there was a sudden spurt in consumption. It is this additional consumption in the US economy which could have compensated for the decline in growth as a result of underinvestment.

Such a growth process, which is generated through the wealth effect especially dependent on the capital gains achieved in the asset price markets, has its own loopholes. Since the asset price markets are volatile in character, the growth process dependent on the success in these markets also becomes volatile. The instability of such a growth process is evident from the fact that it depends on one speculative bubble or another. Therefore, while the boom of the 1990s was entirely driven by the DotCom bubble, that of the 2000s rode the housing market boom. The cost of the transition from one bubble to the other is not only enormous but is highly iniquitous in character. Unlike the higher growth periods of the 1950s and 1960s, which resulted in some improvement in the standard of living of the working class. The higher growth rates of the recent periods have had a detrimental effect on their life because of the resultant increase in absolute as well as relative deprivation. The extent of instability and its debilitating effect are clearly visible in the present economic crisis that has engulfed the US along with the entire world.

PLAN OF THE THESIS We chalk out the plan of the thesis below.

Extent of Concentration in the US: In Chapter 1, we provide evidence in favour of the increase in the concentration ratios in different industries along with the increase in the inequality in income and wealth that has taken place in the US economy in the 1980s and 1990s. We also argue that there could be a linkage
between these two seemingly disparate processes, viz. concentration in business and increase in inequality.

**Concentration, Distribution and Growth:** Chapter 2 presents the extant theoretical formulations which have analysed the relationship between distribution and growth. After discussing these formulations, we present their critique to show the limitations of each of these apparatus, especially in the light of the US experience in the 1980s and 90s.

**Overconsumption and Underinvestment:** In chapter 3, we present our own macroeconomic model studying the relationship between concentration and growth. In this chapter, we demonstrate how the process of concentration could give rise to two opposite tendencies in the form of underinvestment and overconsumption, especially in the presence of liberalised asset price markets and the possibility of easy credit. We present these possibilities in the form of two models, one in which we assume only the wealth effect and in the other the possibility of credit for the workers. These models explore both the possibilities where the growth rate decreases when the underinvestment effect dominates the overconsumption effect and vice versa.

**A Statistical Illustration:** In the last chapter, we empirically establish the arguments of overconsumption and underinvestment of our model. We estimate the consumption function of the economy econometrically to establish the presence of wealth effect along with the effect of underconsumption. We also estimate the investment function for different sizes of firms to establish the tendency of underinvestment. This chapter ends with a discussion on the DotCom boom and the housing market boom of the last and the present decade respectively.