

The Politics of Stashing Wealth

The demise of labour power and the global rise of corporate savings

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Abstract

This paper investigates the political economic roots of the global rise of corporate savings. In recent years, firms throughout advanced economies have started to accumulate enormous savings. Instead of using their revenues to reinvest or raise wages, many firms now stash their profits on financial markets, contributing to sluggish growth, financial fragilities and a deepening of economic inequalities. I argue that political institutions that determine the balance-of-power between firms and employees play an important role in shaping this trend. The stronger unions are, the more they will pressure firms into using revenues for wage raises and investment. The more their influence erodes, the stronger the rise of savings. Using panel data from 25 OECD countries as well as a regression discontinuity design leveraging the German law on co-determination, I find robust and causal evidence supporting this claim. The political distribution of power between employers and employees substantially affects whether profits are saved or find their way back into the real economy.