The Politics of Stashing Wealth

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

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IPES 2018
What drives the global rise of corporate savings?

Corporate surpluses are contributing to the savings glut

Money Problems
Corporate Savings Rate Dangerously High

Companies are hoarding cash - that's why growth is so slow
Michael Burke

Why Are Corporations Hoarding Trillions?
On Money
By ADAM DAVIDSON  JAN. 20, 2016
Why should we care about corporate savings?

- Contribute to rising functional income inequality (Obstfeld & Rogoff, 2009; Gruber, 2016)
- Contribute to low growth and secular stagnation (Summers, 2015, Chen et al., 2017)
- Contribute to global imbalances and financial fragilities (Poszar, 2013)
Variation in corporate savings across countries

How do domestic institutions strengthen or mitigate the trend towards higher corporate savings?
Theory - Corporate Savings & Labour power

Corporate Savings

- Labour
+ Management

Distributional Conflict

Profit-Sharing Capacities

Associational and Institutional Resources
Theory - Corporate Savings & Labour power

Corporate Savings

Labour

Management

Distributional Conflict
Theory - Corporate Savings & Labour power

Corporate Savings

Labour

Management

Distributional Conflict

Labour Power (Profit-Sharing Capacities)

Associational and Institutional Resources
Theory - Corporate Savings & Labour power

Corporate Savings

Labour

Management

Distributional Conflict

Labour Power (Profit-Sharing Capacities)

Associational and Institutional Resources
H: The larger labour’s profit-sharing capacities the lower corporate savings.
Research Design

1. Cross-country panel of 24 OECD countries between 1995 and 2013
   - DV: Corporate Saving (% of GDP)
   - IV: Trade Union Density (% union members in total workforce)

2. Regression discontinuity: Firm-level case study on the effect of parity co-determination on corporate savings in Germany
   - DV: Corporate Savings (liquid assets) at firm level
   - Treatment: Parity co-determination
Study I - Higher trade union density are associated with lower corporate savings (% GDP)

Panel Regression Results: Effect of Trade Union Density on Corporate Savings (% GDP)

Coefficient of Trade Union Density (95% Confidence Interval)
Study I - Higher trade union density are associated with lower corporate savings (% GDP)
Study II - Case Study on Co-Determination in Germany

- German Law on Co-Determination was introduced in 1976
- Firms > 2000 employees have to occupy half of supervisory boards with labour representatives
- Co-determination constitutes significant increase in labour power at the firm level
- Mandatory threshold allows for RDD to identify causal effect on corporate savings
Study II - Treatment Effect of Parity Co-Determination on Savings
Robustness of the findings

- No evidence for strategic sorting around the threshold
- No evidence for discontinuity of possible confounders
- Robust to exploiting firm-level panel structure and looking at within firm variation only
- Varying size of the bandwidth
- Placebo tests (other thresholds and same threshold in other countries)
Results & Broader Implications of the Study

Main finding

- Decline of labour power (workers’ profit-sharing capacity) contributes to the global rise of corporate savings

Broader Implications

- Demise of labour power provides an important additional driver of global imbalances
- Declining profit-sharing capacities affect not only inequality but also whether profits are reinvested into the real economy or not
Appendix
Mechanism RDD: Higher Staff Expenses & More Investment

### Mechanisms: Effect on firms’ spending behaviour

<table>
<thead>
<tr>
<th>Dividends, Staff Expenses &amp; Investment</th>
<th>Estimate</th>
<th>95% CI</th>
<th>p-value</th>
<th>bandwidth</th>
<th>controls</th>
<th>clustered SE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>-0.021</td>
<td>[−0.042, −0.0003]</td>
<td>0.047</td>
<td>165</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Staff Expenses (Wages &amp; Salaries)</td>
<td>0.073</td>
<td>[−0.075, 0.221]</td>
<td>0.334</td>
<td>170</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Staff Expenses (Other)</td>
<td>0.038</td>
<td>[0.013, 0.071]</td>
<td>0.005</td>
<td>137</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Investment (Capital Growth Rate)</td>
<td>0.068</td>
<td>[0.002, 0.133]</td>
<td>0.045</td>
<td>143</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Sorting would mean to strategically forgo growth; especially unlikely for firms close to the threshold and in publicly listed firms.

Lin, Schmid & Xuan (2016); Kim, Maug & Schneider (2014) - no evidence for sorting.

Government Commission 2005: "very few cases of companies avoiding board-level representation"
RDD - No Sorting II

P-value density test: 0.27
### RDD - Continuity Assumption

Falsification tests: effect of parity co-determination on pre-treatment covariates

<table>
<thead>
<tr>
<th>Outcome: Pre-treatment Covariates</th>
<th>Estimate</th>
<th>95% CI</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership Concentration (Share Largest)</td>
<td>10.436</td>
<td>[-48.35, 69.21]</td>
<td>0.73</td>
</tr>
<tr>
<td>Ownership Concentration (Mean Share 5 Largest)</td>
<td>0.829</td>
<td>[-34.344, 36.00]</td>
<td>0.963</td>
</tr>
<tr>
<td>Single Owner Dummy</td>
<td>-0.043</td>
<td>[-0.892, 0.805]</td>
<td>0.912</td>
</tr>
<tr>
<td>Manufacturing Dummy</td>
<td>0.143</td>
<td>[-0.221, 0.509]</td>
<td>0.440</td>
</tr>
<tr>
<td>Service Dummy</td>
<td>-0.069</td>
<td>[-0.322, 0.184]</td>
<td>0.593</td>
</tr>
<tr>
<td>Tech &amp; Transport Dummy</td>
<td>-0.026</td>
<td>[-0.212, 0.159]</td>
<td>0.781</td>
</tr>
<tr>
<td>Trade Dummy</td>
<td>-0.063</td>
<td>[-0.213, 0.086]</td>
<td>0.407</td>
</tr>
<tr>
<td>Year</td>
<td>-1.093,</td>
<td>[-3.799, 5.986]</td>
<td>0.661</td>
</tr>
</tbody>
</table>

Columns 1-3 list the RDD estimate, confidence intervals and p-values of the pre-treatment covariate listed on the left at the cutoff of 2000 employees. All estimates are calculated with MSE-optimal bandwidths. Standard errors for the confidence intervals and p-values are robust to the bandwidth selection.
RDD - Placebo Test

Negative Effect on Savings Occurs only at the 2000 Employees Threshold
<table>
<thead>
<tr>
<th></th>
<th>SavingsRatio_{t0}</th>
<th>SavingsRatio_{t1}</th>
<th>SavingsRatio_{t2}</th>
<th>SavingsRatio_{t3}</th>
<th>SavingsRatio_{t4}</th>
<th>SavingsRatio_{t5}</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Parity Codetermination</strong></td>
<td>-0.035*** (0.010)</td>
<td>-0.028*** (0.010)</td>
<td>-0.025*** (0.009)</td>
<td>-0.020** (0.009)</td>
<td>-0.023** (0.010)</td>
<td>-0.028*** (0.010)</td>
</tr>
<tr>
<td><strong>Observations</strong></td>
<td>919</td>
<td>848</td>
<td>777</td>
<td>709</td>
<td>642</td>
<td>575</td>
</tr>
<tr>
<td><strong>R²</strong></td>
<td>0.658</td>
<td>0.688</td>
<td>0.728</td>
<td>0.742</td>
<td>0.756</td>
<td>0.776</td>
</tr>
<tr>
<td><strong>Adjusted R²</strong></td>
<td>0.618</td>
<td>0.648</td>
<td>0.692</td>
<td>0.704</td>
<td>0.717</td>
<td>0.737</td>
</tr>
<tr>
<td><strong>Residual Std. Error</strong></td>
<td>0.087 (df = 821)</td>
<td>0.082 (df = 751)</td>
<td>0.072 (df = 684)</td>
<td>0.070 (df = 618)</td>
<td>0.069 (df = 552)</td>
<td>0.067 (df = 488)</td>
</tr>
<tr>
<td><strong>F Statistic</strong></td>
<td>16.295*** (df = 97; 821)</td>
<td>17.241*** (df = 96; 751)</td>
<td>19.937*** (df = 92; 684)</td>
<td>19.714*** (df = 90; 618)</td>
<td>19.239*** (df = 89; 552)</td>
<td>19.714*** (df = 86; 488)</td>
</tr>
</tbody>
</table>

*Note: \*p<0.1; \**p<0.05; \***p<0.01*