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Book Review

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Book review

Tridico, Pasquale (2017): *Inequality in Financial Capitalism*, Abingdon, UK and New York, NY, USA (235 pages, Routledge, hardcover, ISBN 978-1-138-94412-1)

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In recent years, the theme of income and wealth inequality has been gaining a central role in academic and economic policy debates. This has been underlined by the extraordinary success of Thomas Piketty's (2014) bestseller *Capital in the Twenty-First Century* and the number of other books recently published on the subject, including the latest work by Tony Atkinson (2015), *Inequality: What Can Be Done?*, the great economist and pioneer of studies about economic inequalities who recently passed away.

The book by Pasquale Tridico, *Inequality in Financial Capitalism*, belongs to this strand of the literature. In his volume, Tridico addresses the reasons for the growth in inequality registered in almost all developed countries over recent decades and proposes an interpretation of the mechanisms underlying this growth, in which the main role is represented by the transition from 'welfare capitalism' to 'financial capitalism'.

Specifically, Tridico proposes a unique explanation of the increasing inequality issue – even if not truly original in its causal links. He considers the financialization of capitalist economies, which started from Reagan and Thatcher's 'liberal revolutions' in the US and the UK, as the lever that has generated a radical change in income distribution since the early 1980s. This change has increased inequality in the functional distribution between wages and profits, as evidenced by the general fall in wage shares of national income in almost all Western economies, and in the personal distribution, as confirmed by the generalized rise in the Gini index of disposable income distribution. Furthermore, financialization has been the main driver of the huge increase in the differences in earnings between median employees and super-rich workers (for example, CEOs in large companies, superstars in showbusiness).

In line with authors such as Atkinson (2015), Franzini/Pianta (2015) and Stiglitz (2013), Tridico does not believe that the growth in inequality depends on forces exogenous to the functioning of the economic system and to policy choices, representing 'a world that has changed' where 'there is no alternative'. This has been suggested, instead, by authors who consider the increase in inequality as the unavoidable outcome of factors such as the globalization and the skill-biased technological change that cannot be changed.

On the contrary, for Tridico inequality is an explicit outcome of the way in which, from the end of the 1970s, our societies have chosen to run the economic system, in order to continuously reduce workers' bargaining power. Since Reagan's and Thatcher's elections – albeit with different modalities in countries other than the US and the UK – financialization has led to a series of phenomena that have worsened workers' conditions (with the exception of the wealthiest), such as the weakening of the role and power of trade unions, the mitigation of the importance of centralized bargaining, and the continued flexibilization and deregulation of the labour market (also aimed at favouring outsourcing of low value-added activities to less developed countries). Furthermore, in order to pursue a decrease in labour costs and reduce

public deficits, mechanisms associated with financialization have led to the retrenchment of the welfare state, primarily its redistributive components.

In other words, contrarily to the view of wages and welfare benefits as factors supporting aggregate demand and, thus, promoting growth, equity and social cohesion, financial capitalism in line with supply-side economics has considered workers and the welfare state as two enemies to counter, seeing in them only cost factors. Tridico points out in his book that this strategy is, however, absolutely short-sighted, as shown by comparing the economic performances of what he calls the countries of financial capitalism (Anglo-Saxon and Mediterranean countries) and the countries of welfare capitalism (Nordic and Continental European countries). Therefore, Tridico also proposes a new taxonomy of 'welfare state regimes'.

The mechanisms which have caused the increase in inequality (the subject covered in the first part of Tridico's book) are attributed to financialization, and the economic and financial crisis that started in 2007–2008 is attributed to the interaction between financialization and inequality (as discussed in the second part of the book). Indeed, in Tridico's view the crisis was mostly due to the weakening of aggregate demand and the continued rise of indebtedness of the working-class households, whose purchasing power collapsed as a result of the growing inequality induced by financial capitalism.

Tridico's book has many merits. Primarily it refuses an interpretation of the rise in inequality based only on exogenous forces that should be allowed to operate in order to promote long-term shared well-being and prosperity, as suggested by those who believe in the 'trickle-down economy'. Indeed, if, on the one hand, no trickle-down from the richest to the medium and the poorest groups has emerged so far, on the other hand, there is no doubt that inequalities, especially those created by labour and financial markets, have greatly increased. Moreover, in a period of permanent austerity where taxes are seen as the worst of all evils and not as a means for financing public goods and services, the space open to redistribution is undoubtedly limited.

To clarify his message, Tridico only focuses on a single mechanism of creation and propagation of inequality, that is, the financialization of capitalistic societies. Inequality is, however, a complex phenomenon with many mechanisms and many forces, sometimes even acting in opposite directions, that shape individuals' disposable income and, hence, their living standards. These include the factors that drive labour-market outcomes, affect household composition and the number of income recipients within each household, and influence the characteristics of taxes as well as cash and in-kind welfare transfers. In this process, the whole set of public choices that can influence markets' outcomes – not only the redistributive measures – should be carefully taken into account.

Therefore, an exhaustive picture of inequalities – also useful to define effective policies to counteract inequality both in the markets and by means of compensatory redistribution – requires further analyses extending the mechanisms, certainly crucial and responsible for the dynamics observed so far, highlighted by Tridico.

One might, for example, ask what is the role played in this process by the intergenerational transmission of economic advantages from parents to their children, considering that contemporary labour markets seem to greatly reward some characteristics such as soft skills or membership in more advantaged social networks that parents can pass on to their children regardless of their educational attainment. Or one may ask whether the mechanisms of financialization and the weakening of the labour-market institutions are sufficient factors to explain the sustained growth in most European countries of wage inequality within groups of individuals with the same education. Or one might inquire about the possible 'vicious' interactions between financialization and inequality in a world where greater income inequality stimulates forces that further accentuate financialization; or which, at the same time, favour processes (such as those linked to intergenerational transmission of inequalities

or to the growth of the power of managers, CEOs and superstars) which make contemporary wage and income inequality less acceptable. Lastly, one should wonder about what did not work in Western societies, if – contrarily to the expectations of the median theorem and other political economy models – a vision of the economy that clearly favoured small but very influential elites has not been contained by the existing rules of democracy.

These are all issues that, of course, cannot be analysed in a single book, such as that by Pasquale Tridico. However, this book certainly helps readers to compose a picture of the processes that have been in place for decades, and which have made the features of economic inequality much more serious and less acceptable than those which emerge from listening to the minimizing and reassuring vision often proposed by the leading elites and by many politicians and academics in the developed countries.

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