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Inflation, Monetary Policy and Functional Distribution of Income: A Comparative Case Study of European Central Bank's Class Biases in France and Germany, 2015-2024

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Master in Political Economy

Supervisor:
PhD Ana Cristina Narciso Fernandes Costa, Assistant Professor, ISCTE-IUL

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Departament of Political Economy

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Resumo

Esta dissertação oferece uma análise de economia política crítica da política monetária contracionista do Banco Central Europeu (BCE). A dissertação argumenta que a resposta do BCE à crise inflacionária pós-pandemia atua como um mecanismo de redistribuição de rendimento. O estudo critica o princípio neoclássico da neutralidade monetária a longo prazo, argumentando que os aumentos das taxas de juro reconfiguram a distribuição funcional do rendimento para benefício do capital, em prejuízo do trabalho.

Esta tese é analisada através de um estudo de caso comparativo entre a França e a Alemanha (2015–2024), cujas estruturas e configurações económicas e institucionais distintas proporcionam uma experiência relevante. Através de uma abordagem de métodos mistos, a dissertação traça os efeitos distributivos da política do BCE por meio de quatro canais de transmissão: rendimento financeiro, custos, atividade e o mercado de trabalho. Os resultados indicam que a contração monetária reduz o crescimento salarial, aumenta a precariedade e reforça tendencialmente a participação do capital no rendimento. O estudo demonstra ainda como as estruturas institucionais nacionais mediam a intensidade destes efeitos regressivos.

A dissertação conclui que o desenho institucional e o mandato restrito de estabilidade de preços do BCE são inerentemente políticos, favorecendo os interesses de credores e rentistas sob a aparência de neutralidade tecnocrática. Como resultado, destaca a necessidade urgente de democratizar a governação monetária por meio de um mandato reorientado que priorize o emprego e a equidade, apoiado por instrumentos alternativos de combate à inflação, como controlos de preços estratégicos e impostos sobre lucros extraordinários.

Palavras-chave: Política Monetária Contracionista; Distribuição Funcional do Rendimento; Banco Central Europeu; Viés de Classe; Economia Política Comparada

JEL Classification System: B51 – Current Heterodox Approaches – Marxian

E58 – Monetary Policy, Central Banking, and the Supply of Money and Credit – Central Banks and Their Policies

Abstract

This dissertation offers a critical political economy analysis of the European Central Bank's (ECB) contractionary monetary policy. The dissertation argues that the ECB's response to the post-pandemic inflation crisis acts as a mechanism of income redistribution. The study criticizes the neoclassical principle of long-term monetary neutrality, arguing that interest rate increases reconfigure the functional distribution of income to the benefit of capital, to the detriment of labor.

This thesis is analyzed through a comparative case study between France and Germany (2015–2024), whose distinct economic and institutional structures and configurations provide a relevant experience. Through a mixed-methods approach, the dissertation outlines the distributive effects of ECB policy through four transmission channels: financial income, costs, activity, and the labor market. The results indicate that monetary contraction reduces wage growth, increases precariousness, and tends to reinforce the share of capital in income. The study also demonstrates how national institutional structures mediate the intensity of these regressive effects.

The dissertation concludes that the institutional design and the ECB's restricted mandate of price stability are inherently political, favoring the interests of creditors and rentiers under the guise of technocratic neutrality. As a result, it highlights the urgent need to democratize monetary governance through a reoriented mandate that prioritizes employment and equity, supported by alternative instruments to combat inflation, such as strategic price controls and taxes on extraordinary profits.

Keywords: Contractionary Monetary Policy; Functional Income Distribution; European Central Bank; Class Bias; Comparative Political Economy

JEL Classification System: B51 – Current Heterodox Approaches – Marxian

E58 – Monetary Policy, Central Banking, and the Supply of Money and Credit – Central Banks and Their Policies

Acronym List

CBI: Central Bank Independence

CPI: Consumer Price Index

ECB: European Central Bank

EMU: European Monetary Union

ETUI: European Trade Union Institute

FED: Federal Reserve

GDP: Gross Domestic Product

LCI: Labour Cost Index

OECD: Organization for Economic Co-operation and Development

SMEs: Small and Medium-sized Enterprises

SMIC: Salaire Minimum Interprofessionnel de Croissance (France's Minimum Wage)

SVAR: Structural Vector Autoregression

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CHAPTER I

Introduction

Long-standing discussions over the function of monetary policy, its distributive implications, and the degree to which central banks exhibit class biases in the formulation and application of policy have been reignited by the recent surge in inflation in advanced capitalist economies. These discussions have taken on additional importance for the Eurozone, whose diverse member states are governed by a single monetary authority.

In response to the post-pandemic inflationary period, the European Central Bank (ECB) implemented a number of contractionary monetary policies, chiefly interest rate hikes, under the strict aegis of price stability. This kind of policy was in line with mainstream economics' common reasoning, which holds that inflation is primarily a monetary issue that can be controlled by limiting aggregate demand. However, such a strategy calls into question the distributive effects of monetary policy, particularly in a setting where supply-side disruptions, energy shocks, and market concentration were the chief causes of inflation rather than wage pressures.

Dominant economic theoretical and analytical frameworks, which maintain that Money is neutral in the long run and that controlling inflation eventually helps labor by stabilizing buying power, frequently downplay the distributive effects of monetary policy. The functional distribution of income between capital and labor is shaped by monetary policy, according to a growing corpus of critical political economy school, which challenges this neutrality. Contractionary monetary policies, according to this school, systematically shift income shares in favor of capital by lowering employment, compressing aggregate demand, and undermining labor's bargaining strength.

These consequences are essential components of a policy regime aimed at restoring profitability and safeguarding financial assets, not transient distortions. According to this perspective, central banking is a political institution entwined with the larger dynamics of capitalist accumulation and class conflict rather than an impartial technocratic endeavor.

Investigating the distributive effects of contractionary conventional monetary policy in the Eurozone, with an emphasis on the ECB's response to the inflationary period from the post-pandemic recovery to 2024, is how this dissertation addresses these discussions. By using a comparative case study methodology and examining France and Germany as distinct cases within the Eurozone, the analysis seeks to add to the body of existing literature.

Despite being governed by the same monetary policy regime, these two economies differ greatly in terms of their labor market institutions, levels of financialization, collective bargaining agreements and productive structures. In order to shed light on the ways that contractionary monetary policy affects the functional distribution of income, this arrangement offers a rare chance to investigate the interactions between homogeneous policy interventions and diverse structural and institutional settings.

The study is organized around the identification of four transmission channels that connect monetary policy to income distribution: the labor market channel, the cost channel, the activity channel and the financial income channel. The goal of the dissertation is to assess how changes in interest rates affected wage shares, real wages, and capital earnings by examining how these channels evolved in France and Germany between 2015 and 2024. Both quantitative information from Eurostat, ECB, Ameco, IMF, OECD, and national statistics institutes as well as qualitative information from ECB communications and policy reports are included in the research. A thorough investigation of causal mechanisms is made possible by this mixed approach, which also places empirical advancements within broader theoretical discussions.

This study's importance stems from both its political ramifications and its addition to the body of knowledge on monetary policy and inequality. The dissertation emphasizes the necessity of rethinking monetary policy as a tool of distributive conflict by casting doubt on the ECB's policies' objectivity and exposing its class biases. In the process, it also discusses alternate ideas put up by critical economic viewpoints, as profit taxation, strategic price controls, and public investment plans meant to address the underlying causes of inflation without placing an undue burden on labor.

The ultimate goal of this research is to show that the structural relationships of capitalist economies are inextricably linked to monetary policy. It shapes the distribution of power between capital and labor and is a components of class relations. The dissertation aims to shed light on the class dynamics that underlie monetary policy in the Eurozone and to contribute to larger discussions about how economic policy might be reoriented toward social equality and democratic accountability by examining the distributive effects of the ECB's recent contractionary turn.

CHAPTER II

Literature review

Aiming to study the causal mechanisms through which monetary policy may impact the functional distribution of income and given that monetary policy is informed by theoretical economic perspectives, this literature review seeks to critically examine existing economic perspectives on inflation and its propagation mechanisms, adequate policy responses to inflationary pressures, monetary policy, and the functional distribution of income.

Current debates on these subjects are commonly divided between two bodies of work. On the one hand, the neoclassical economic perspective, which plays a hegemonic role in the main international financial institutions, namely the European Central Bank (ECB), characterized as the dominant perspective. On the other hand, the critical political economy perspective, critical of the former and mostly engaged with the political economy traditions of Post-Keynesianism and Marxism.

Each body of work will be examined regarding its analysis of the origin of inflation and its propagation mechanisms, its policy recommendations to address inflation, and its theorization of the relationship between inflation, monetary policy, and the functional distribution of income. After this, existing literature on this dissertation's subject, mostly adopting econometric methods, will be analysed.

2.1 Dominant Economic Perspectives

The dominant economic perspective on the subject, rooted in neoclassical economics, rests on two connected principles. The first is the commitment to the classical dichotomy in the long-run, which separates the economy into a real sphere, where relative prices are determined, and a monetary sphere, whose influence on real outcomes is confined to the short-term. The second principle is the narrow belief that the spread of inflation can occur through two main channels: excess demand and / or workers' anchored expectations.

2.1.1 Origins and Propagation Mechanisms of Inflation

Within the dominant economic perspective on the origins of inflation there are few interpretations. The most prevalent one is that which considers inflation to be a result of excess aggregate demand resulting in generalized price increases.

According to the Monetarist approach, and its departure from the quantity theory of money, all processes of monetary and or budgetary expansion which are not accompanied by an equivalent rise in taxation result inevitably in a rise of the general price level. Thus, for Monetarists the growth rate of the monetary stock determines the growth rate of the price level, inflation (Friedman, 1968; Lucas, 1972).

A second approach on the origin of inflation is that of conditional excess demand, in which governments and central banks wrongly diagnosed the nature of the recession associated to the pandemic, and thus, enforced inadequate policies (Bernanke, 2022). This approach argues that institutional actors designed their policies for prolonged recession, in which hysteresis and negative expectations would hinder the economy's recovery to its equilibrium state. However, developed economies recovered much faster due to the adoption of policies aimed at maintaining income and employment.

Still within the dominant perspective, there is the approach of the Federal Reserve of the United States of America (FED) and the European Central Bank (ECB). While rejecting the thesis that inflation originated due to expansionary monetary and budgetary policies, proponents of this view argue inflation was caused by the persistence of post-pandemic supply chain disruptions and the rising prices of essential commodities as a result of the war in Ukraine.

Overall, variants of the dominant perspective on the origin of inflation converge on the importance of expectations as the central element related to the propagation of inflation in the long-term. Despite possible disagreements on its origin, inflation is believed to be spread through time due to nominal wage increase demands excessive for the inflation rate.

Regarding the labour market, the dominant economic perspective considers but one level of unemployment compatible with a stable level of inflation. As such, in the case of a positive output gap, unemployment is reduced to a level below its structural value, strengthening labour's bargaining power and motivating higher nominal wage demands. Considering profit expectations and productivity remain constant, the growth of nominal wages is translated into a rise of unitary labour costs, and thus, of prices.

At its core, the wage-prices inflationary spiral theory implies that even if nominal wage increases were not at the origin of inflation, they must be contained at all costs to avoid the propagation of inflation at no benefit, as it is believed that real wages cannot overturn the structural conditions of the economy which determine them.

2.1.2 Responses to Inflation

The prevailing consensus rests on conventional monetary policy as the most effective response to inflation. This consensus maintains that increases in the reference interest rates by central banks make access to credit difficult, limiting the availability of loans to finance consumption and investment intentions, restricting aggregate demand, and thus, reducing inflationary pressures (Clarida, Galí, & Gertler, 1999; Mankiw, 2019). Moreover, conventional monetary policy allows central banks to publicly evidence their commitment with the inflation targets in their mandates, signalling economic agents the restrictive turn of monetary policy.

To those who attribute greater importance to the expectations mechanism, monetary policy can be successful in tackling inflation without socially detrimental impacts on unemployment and income. However, if the focus is placed upon the aggregate demand mechanism, it is recognized that restrictive conventional monetary policy will negatively impact economic activity, employment and income, a necessary malaise to guarantee price stability (Blanchard, 2022).

Although for the dominant perspective the appropriate tool to respond to inflationary pressures is restrictive monetary policy, central banks generally do not disregard budgetary policies. In fact, monetary authorities have often recommended that governments should accommodate changes in monetary policy, adapting their budgetary options to restrict aggregate demand, supporting the central bank's efforts (Lagarde, 2023).

2.1.3 Inflation, Monetary Policy and The Functional Distribution Of Income

The dominant perspective on inflation and monetary policy emphasizes price stability, arguing that a stable price environment facilitates efficient resource allocation and economic growth, in benefit of all economic agents. Thus, according to neoclassical theory, while monetary policy affects aggregate economic variables, its influence on income distribution is generally considered secondary.

Neoclassical economists argue that inflation tends to erode the real value of wages, due to contract or wage rigidities that hinder the adaptation of wages to inflation (Lucas, 1972). The rise in interest rates by central banks, in the pursuit of inflation control, although suppressing aggregate demand is believed to benefit workers in the long run, as it stabilizes the purchasing power of their wages.

Expected impacts of restrictive conventional monetary policy, namely the increase in unemployment and consequent decrease in workers' bargaining power are commonly disregarded by neoclassicals, and, when considered, are deemed as unavoidable impacts of the effective policy efforts to curb inflation.

Furthermore, as money is believed to be neutral in the long-run, monetary policy is expected not to have long-run impacts on the functional distribution of income. Moreover, excessive wage demands are considered spurious as the nominal wage increases will be incorporated in the production costs of commodities, from which prices are established, ultimately eroding any purchasing power gains while increasing the price level. Therefore, curbing excessive wage demands through higher unemployment resulting from restrictive monetary policy is thought to prevent misguided efforts by workers while also avoiding the emergence and prolongation of inflationary spirals.

2.2 Critical Economic Perspectives

The critical economic perspective, drawing mostly from the traditions of Post-Keynesianism and Marxism, despite differences in theorizations of inflation, its propagation mechanisms, the adequate responses to it, and the impact of the latter on the functional distribution of income, constitutes a coherent whole in the sense of its critique of the dominant economic perspective on the subject.

The different contributions to the critical economy perspective agree on the rejection of excess demand as the cause of inflation, particularly in the post pandemic period, as economic activity was below pre pandemic levels at the beginning of the inflationary pressures. Moreover, this perspective rejects both the monetarist thesis which relates the evolution of the monetary stock to inflation and the existence of a wage-price inflationary spiral, responsible for the propagation of inflation.

Alternatively, critical economic discourses emphasize supply-side developments in originating inflation, namely the inter-sectoral relations that spread the initial price increases in strategic economic sectors through the economy, the existing relations of power in capitalist economies, namely the degree of concentration in each market and the relative power of firms over their workers to enforce price increases.

2.2.1 Origins and Propagation Mechanisms of Inflation

Departing from the rejection of inflation as a result of excess demand over the potential productive capacity of the economy, the critical economic perspective attributes the origin of inflation to an array of supply-side developments, considering inflation a process driven by developments in the cost structures of capitalist enterprises and their ability to translate these into price increases, related to the degree of market power in each sector.

On the one hand, this perspective attributes the causes of the post-pandemic inflationary period to the inter-sectoral connections that spread the initial price rises in sectors of the economy that produce goods later productively consumed by other sectors (Weber et al., 2022). On the other hand, the critical perspective considers inflation to be influenced by the existing power relations in capitalist economies, as the sectoral degrees of concentration and the relative power of firms over workers shape the transmission process of inflation.

Developing on the work of Michal Kalecki, an important figure for authors of the different strains composing the critical economic perspective, this perspective generally argues that firms establish their prices based on their cost structure, adding a percentual margin, the firm's mark-up[1], over the unitary costs of labour and material goods and services (Lavoie, 2022). However, the ability of firms to enforce their chosen mark-up over the unitary costs of their product varies according to the degree of monopolization of capital found in each sector of the productive economy.

The Post-Keynesian school of political economy emphasizes how the mark-up on costs added by firms to deliver profits to the owners of capital is influenced by market power, wage bargaining, and input costs. Proponents of this school argue that firms in oligopolistic markets have a greater ability to enforce prices that are aligned with their interests, ultimately resulting in prices increases and, thus, contributing to inflationary pressures.

Concurrently, the Marxist Political Economy tradition considers prices to be the result of a transformation of value, shaped by class relations and capital's drive for accumulation. As the dynamics of capital accumulation imply competition among individual capitals, a tendency for the profit rate to converge across all sectors of the economy and for this general profit rate to fall develops. Consequently, capital owners attempt to offset this tendency through intensified

1 As defined by the European Central Bank (ECB), the firm's mark-up is defined as the ratio of prices to marginal costs, the latter being calculated using average costs as proxy. This indicator is used to assess firms' pricing strategies in a context of market power, and thus, ability to determine the commodity prices of their produce.

exploitation of labour, technological innovation spurring productivity developments, and adoption of monopoly pricing strategies when possible (Khun, R., 2016). As such, firms operating in oligopolistic and monopolistic markets can enforce prices which exceed the labour value incorporated in them. This sectoral concentration of power hinders price stability and originates inflation, through the efforts of individual capitals to counter the tendency of the profit rate to fall (Kotz, D., 1982).

From this, the critical economic perspective regard price increases in any sector of the economy to have a direct impact on inflation, as they correspond to a share of the representative basket of goods and services considered to account for inflation, and an indirect impact, as the produce of one sector may be incorporated into the production of other sectors and, thus, its price directly influences the cost structure of other sectors of the economy. In the post-pandemic period, the rising prices of energy and food distribution, central commodities for the production processes of other sectors of the economy and for the labour force itself, were responsible for spreading inflation across the global economy (Weber et al, 2022).

In principle, the critical economic perspective conceptualizes inflation as a temporary phenomenon, expected to banish when the supply side disruptions originating it are addressed. Nonetheless, there are various factors which may contribute to the persistence and amplification of inflationary pressures, namely the tendencies of capital concentration and centralization and, consequentially, the tendency of the general profit rate to fall.

As such, the persistence of inflation to this perspective results from the interaction of supply side shocks and the general dynamics of capital accumulation. In an inflationary context firms will successively revise their prices simultaneously, allowing each firm to increase its prices without losing any market share through the explicit or implicit coordination of prices (Singer, 2022).

In sum, the critical economic perspective, through its critique of the dominant interpretation of inflation and its transmission mechanisms, proposes an alternative which comprehends inflation as an extension of productive conflicts resulting from the social relations of production characteristic of the capitalist mode of production. An extension which manifests itself heterogeneously on the origins of inflationary phenomena, their persistence and propagation to a single factor, through various mechanisms and dynamics.

2.2.2 Responses to Inflation

According to the critical economic perspective, addressing inflation through contractionary conventional monetary policy is inadequate, due to social unfairness and economic inefficiency. Socially unfair as it aims to control the price level through a restriction of aggregate demand, negatively impacting economic activity and the livelihood of workers in sight of inflation control through income compression. In this sense, any response to inflation must incorporate a policy for wage growth, as to avoid that an inflationary shock becomes a living cost crisis, reframing wages as a social and economic stabilizing factor rather than an inflationary pressure. Moreover, this perspective considers conventional monetary policy to be inefficient as it does not act upon the causes of inflationary pressures.

A response to inflation discussed and proposed by various authors writing from the critical economic perspective is that of price and/or margins control, combined with strategies to tax extraordinary profits. Price controls may be developed for specific sectors, namely those in which inflation was initially concentrated and that spread throughout the cost structure of the majority of the rest of the economy's sectors, as is the case with energy production, food supplies and distribution. According to Isabella M. Weber, et al. (2022):

"The policies of price stabilization may take various forms, from legislation preventing speculative increases of prices, automatic taxing of extraordinary profits for prices systematically significative which are activated during crisis periods, to the definition of limits to strategic prices."

Strategic pricing and margin controls are in this sense a policy which allows responsible authorities to act upon the supply constrains at the origin of the generalized price increase while mitigating the living cost pressures faced by consumers, thus addressing inflation both more directly and equitably than conventional monetary policy.

Nonetheless, the best response to inflation is to address its current root cause, the supply constraints of essential raw materials. For that, it is necessary to promote a public investment plan and a plan for the reorientation of private investment directed at increasing the production, storage and distribution of renewable energies.

Lastly, critical economists have proposed institutional reforms to the international financial and monetary system to address inflation. First, Jayati Ghosh (2022) has argued that within international raw supply markets transactions must occur in regulated markets that previously establish rules on speculative operations, future derivatives should only be exchanged by agents

with direct operational interests on the respective raw materials and limits should be defined regarding each participant's positions in these markets.

Moreover, as central banks are currently the main actors in the design and implementation of responses to inflation, their independence regarding democratic power must be re-evaluated. Historically, the rationale behind central bank independence has been to insulate monetary policy from political pressures and interests, alternatively focusing on inflation control as the primary goal (Dow, S., 2014). However, this singular focus on price stability result in a neglect of broader economic and social outcomes, such as employment, wage growth and equity (Rochon, L., Vallet, G., 2022).

Therefore, the current performance of central banks, in line with the interests of financial markets, results in policies that prioritize low inflation at the expense of social welfare, instead of focusing on the need for direct financing of States by central banks, namely of socially useful investments supported by democratic options.

2.2.3 Inflation, Monetary Policy and the Functional Distribution of Income

Departing from a critique of the dominant perspective on the relationship between inflation, monetary policy and the functional distribution of income, the critical political economy perspective argues that orthodox approaches neglect structural inequalities in the design and impacts of monetary policy. Moreover, the critical economic perspective identifies long-run effects for monetary policy which suppress labour's share of income for the benefit of capital.

According to Henryk Grossman (2016), monetary policy cannot be divorced from the broader dynamics of capitalist accumulation and class struggle, as money – a medium of exchange and a measure of value – is deeply embedded in the structural contradictions of capitalism. As such monetary policy is expected to have persistent and significant effects on real variables, particularly employment and real wage level. In this sense, monetary policy plays a role in shaping aggregate demand and, consequently, the functional distribution of income (Rochon, L., Setterfield, M., 2023).

Ultimately, the role and functions of money and monetary policy in the capitalist mode of production cannot be abstracted away from the institutional and historical processes of money. As argued by Rochon (2014) money creation and allocation are inherently political processes, shaped by power relations among classes, states, and markets. In these processes central banks play a role in defining the functional distribution of income, despite the ambiguity surrounding their distributive biases (Epstein, G., 2002). Through the adoption of inflation targeting as the

central mandate of central banks, pro-capital biases are embedded into the core of economic policy under the guise of social and economic neutrality among different classes and countries (Kotz, 1982).

From this, conventional monetary policy as the most effective tool for inflation control ought to be excluded. Conventional monetary policy implies aggregate demand suppressing effects which disproportionately impact labour through job losses and wage stagnation, resulting in a shift in the income distribution in favour of capital (Kuhn, R., 2016).

While these policies are presented as neutral, their function is instrumental in restoring the profitability of capital through the weakening of organized labour and a reduction of wage pressures (Hung, H., Thompson, D., 2016). Contrary to conventional discourse, low inflation primarily serves the interests of financial capital by ensuring stable returns on investments (Fine, B., 2013).

Further, the fixation on price stability neglects broader social costs of unemployment and wage stagnation, which undermine labour's purchasing power more than does inflation (Rochon, L., Setterfield, M., 2023). Nonetheless, even if the singlehandedly emphasis on price stability as a goal of monetary policy is accepted, its efficacy is severely questioned, as one-size-fits-all interest rate adjustments ignore sector-specific dynamics, supply factors and cost-push inflation in key industries (Kappes, S., et al 2023).

Therefore, monetary tightening is indeed both ineffective and a regressive policy instrument from the viewpoint of labour's objective interests. Alternatively, fiscal policies in the form of targeted subsidies and wage supports are considered more effective in preserving workers' purchasing power without imposing the economic costs of monetary contraction (Medlin, A., Epstein, G., 2022).

In this sense, the critical economic perspective advocates for the rejection of the orthodox aversion to fiscal activism, given the role of public spending in mitigating supply-side constraints that may lead to inflation. Furthermore, fiscal interventions enable more precise targeting of inflationary origins (Qanas, J., Sawyer, M., 2023).

Furthermore, in the contemporary stage of financialized capitalism, the redistribution of income in favour of capital through monetary policy is expected to be further exacerbated as central banks increasingly prioritize asset price stability over real economic outcomes. Inflation-targeting regimes are increasingly designed to protect the wealth of asset-holding agents, as low inflation preserves the real value of financial assets and sustains investor confidence. Complementarily, higher interest rates disproportionately benefit creditors while

imposing greater burdens on debtors – often lower-income households, composed of labourers, and small businesses (Medlin, A., Epstein, G., 2022).

The commitment of monetary authorities to the economic interests of financial asset owners can only be grasped through a critique of central bank independence (CBI). Often defended as a safeguard against political pressures that could lead to inflationary biases, CBI entrenches the interests of financial capital while undermining democratic accountability. Its institutionalization represents a mechanism that insulates central banks from democratic oversight, enabling them to prioritize policies representative of financial capital's interests (Hung, H., Thompson, D., 2016; Kotz, D., 1982; Sawaya, R., 2013).

2.3 Analysis of Previous Empirical Studies

In the context of the post-pandemic inflation and consequential reversion of conventional monetary policy's tendency over the last two decades, the impact of conventional monetary policy on the functional distribution of income has garnered scholarly attention. This literature particularly aims at elucidating how monetary policy, as exercised by central banks, influences the distribution of income between labour and capital.

One pivotal study in the field is Lass André Raa's (2017) "Distribution Effects of Central Bank Independence", which investigated the distributional implications of central bank independence (CBI) using a panel dataset of 134 countries spanning from 1980 to 2012. Raa's findings challenge the assumption of CBI as a safeguard of neutral policy options and promotor of universally beneficial outcomes. The study demonstrates that higher levels of CBI are associated with a redistribution of income favouring capital over labour. Raa's panel data analysis employs fixed-effects regressions, controlling for macroeconomic variables such as inflation, GDP growth, and trade openness.

The statistically significant negative correlation between CBI and labour's share of income relationship is attributed to Central Bank's priority of price stability over employment and wage growth. Further, Raa highlights how the redistributive effect of central bank independence varies across income levels and institutional contexts. In developed economies, the bias is more pronounced, partly due to the more developed capital markets relative to emerging economies, underscoring the role of institutional frameworks in mediating the impacts of monetary policy.

Another important study in the subject is that by Stefano Di Bucchianico and Antonio Lofaro (2022), "The Impact of Monetary Policy on Functional Income Distribution: A panel SVAR Analysis (1970-2019)", provides an analysis of the causal pathways linking monetary

policy to income distribution. Using a Structural Vector Autoregression (SVAR) approach, the authors examine 20 advanced economies over nearly five decades. Their results find that conventional monetary policy disproportionately favours capital income.

The authors distinguish between the short-term and long-term effects of monetary policy on the functional distribution of income. In the short term, expansionary monetary policies can temporarily benefit labour by stimulating employment and wage growth. However, over the long term, the same policies tend to increase asset prices, benefitting capital owners disproportionately. Conversely, contractionary policies, aimed at controlling inflation, directly suppress labour's income share by curbing wage growth while safeguarding returns on capital.

Furthermore, David Ontaneda Navarrete's (2016) MSc dissertation, "Monetary Policy and Functional Income Distribution (1875-2010)", offers a long-term historical perspective on the subject. Examining data from various countries over a century long, Navarrete identifies consistently regressive patterns from labour's economic interests viewpoint in the relationships between monetary policy and income distribution. The author concludes that periods of tight monetary policy correspond to declining labour income shares. The pattern identified by Navarrete is particularly stark during periods of developing financialization, such as the late 19th century and the post-1970s era.

Existing literature provide robust empirical evidence that conventional monetary policy exacerbates functional income inequality to the benefit of capital. First, through the commitment to low inflation, which disproportionately impacts wage earners. Second, the degree of income redistribution found in these studies consensually attributes centrality to the institutional and regional contexts in mediating the impacts of monetary policy on the wage share. Lastly, in most of the literature analysed, temporal dynamics play an important role, as short-term impacts of monetary policy do not necessarily match the long-term effects on labour's income share.

This evidence reinforces that monetary policy cannot be considered class neutral or distributionally agnostic. The design and implementation of monetary policy inherently affects the functional distribution of income, with significant socio-economic implications.

The findings of existing literature underscore the need to reconceptualize monetary policy, considering its interconnections with income policy. Without greater accountability and alignment with democratic objectives, central banks, in their conduction of conventional monetary policy, function as a mechanisms for perpetuating structural inequalities, entrenching the domination of capital over social and economic life.

CHAPTER III

Methodology

Whenever the relation between conventional monetary policy and the functional distribution of income has been studied, with few exceptions, it was either through theoretical discussion or econometric analysis. Therefore, a gap remains in the literature for the employment of alternative methodologies, namely that of comparative case studies.

The employment of this method may contribute to a more profound understanding of the processes that, departing from the increase of interest rates by central banks, ultimately results in a transference of income from labour to capital (Di Bucchianico & Antonino Lofaro, 2023; Rochon & Seccareccia, 2023).

Such methodology allows for a profound analysis of the causal relations between the increase in interest rates and the corresponding changes of the functional distribution of income, while allowing for a nuanced understanding of the specific institutions and policy options which deter or enhance the predicted relationship between the two according to the theoretical efforts identified in the literature. Additionally, the comparative case study method enables a detailed exploration of the causal pathways linking policy interventions to distributive outcomes, emphasizing the institutional and structural dynamics that mediate these relationships, this method is particularly suited to the research question at hand.

Comparative case studies allow for in-depth analysis of causal relations, focusing on comprehending mechanisms and dynamics rather identifying empirical patterns. As Della Porta (2008) emphasizes, the strength of comparative analysis lies in its ability to uncover the interplay of institutions, structures, and processes that give rise to observed outcomes.

In order to examine the relationship between contractionary monetary policy and the functional distribution of income in diverse economic and institutional contexts, the period from historical lows of ECB interest rate, the year of 2015, to the most recent for which data is available, 2024, is to be established as the period of analysis. This period includes an inflexion point of ECB's conventional monetary policy to a phase of substantial interest rate hikes, motivated by the inflationary pressures faced through the globe.

The Eurozone is selected as the primary spatial focus of this study due to the contradictory enforcement of a single monetary policy across a diverse array of institutional and structural characteristics of member states. The institutional arrangement which attributes the European Central Bank (ECB) as the central monetary authority for all member states enables a comparative analysis of how a single monetary policy interacts with heterogeneous economic and social structures, impacting the functional distribution of income of the latter.

To ensure a representative and comprehensive analysis, two case studies are selected within the Eurozone, that of France and Germany. These cases evidence varying economic structures, from differing levels of industrialization, degrees of financialization, and labour market flexibility. Additionally, there are variations among the two cases in collective bargaining arrangements, union density, and labour protections, which are factors expected to influence the transmission of monetary policy to the functional income distribution (Trade Unions - Union Density | Worker Participation, 2019). Furthermore, France and Germany diverge in their sensitivity to interest rate variations, due to differing credit dependencies and levels of financial market integration at the national level (Robertson, 2024).

Thus, the choice of France and Germany as cases to study the subject at hand are particularly relevant, as in the Eurozone, a single monetary authority, the European Central Bank (ECB), is responsible for the design and enforcement of a homogeneous monetary policy across countries with heterogeneous social and economic structures and both France and Germany represent relevant economies at the Eurozone and global levels, both in relative and absolute while exhibiting different economic and institutional features, which allow for greater analytical depth and breadth.

The option for divergent cases is oriented to the identification and comprehension of unity within diversity, a feature that Tarrow (2010) identifies as critical in addressing research questions characterized by causal complexity. Through the comparison of the structural characteristics and institutional frameworks of France and Germany, the analysis aims to illuminate how the same monetary policy produces varying distributive outcomes.

As a means to the realization of this study, both quantitative and qualitative data are to be used. Quantitative data, obtained from Ameco, Eurostat, the ECB, and national authorities of both France and Germany, include time-series datasets on interest rates, inflation, wage shares, unemployment rates, and GDP growth for each case. Alternatively, qualitative data include policy reports from national and European governing bodies, ECB communications, and secondary literature to support the arguments being developed.

The computation of wage-share indicators is grounded in official national-account data and is implemented in the analytical workbook through precise formulas and explicit unit conversions. The key input series comprise nominal gross domestic product (GDP), total compensation of employees, and employment. In the workbook, monetary aggregates are expressed in million euros at current prices, while employment is recorded in thousands of persons. Price indices are expressed as annual averages, with the consumer price index (CPI) anchored at a base of 100 and the GDP deflator presented as a chain-linked index with 2010 as the reference year.

To ensure coherence across series and enable the derivation of per-worker measures, explicit multiplicative conversions are applied within the workbook, involving scaling by 10^6 for million-euro monetary aggregates and by 10^3 for employment. These adjustments allow per-worker averages and ratio-based indicators to be expressed in standard monetary units, maintaining internal consistency across all computations.

Total compensation of employees serves as the primary numerator in the calculation of labour's share, encompassing both direct remuneration, such as wages and salaries, and employers' social contributions, as reported in national accounts. Denoting total compensation

for country *i* in year *t* as W_{it}, the series is recorded in euros following the applied unit conversion:

$$W_{it} = \text{Total Compensation of Employees}_{it} .$$

To convert the series into euros for per-worker calculations, the formula multiplies the recorded value by 10^6. Total compensation of employees is widely recognized in the literature as the standard proxy for aggregate labour income, as it captures the full scope of remuneration borne by employers. It should be noted, however, that this measure does not account for the labour component of mixed or self-employment income, thereby representing an unadjusted wage share in the strict national-account sense.

Employment is measured as the total headcount of employed persons, denoted L_{it}, and serves as the denominator in per-worker computations:

$$L_{it} = \text{Total Employment}_{it} .$$

Conversion to absolute counts of individuals is achieved by multiplying the recorded value by 10^3. Employment measurement based on headcount, rather than full-time equivalents, does not capture variations in hours worked or contractual arrangements, which may influence the interpretation of per-worker aggregates and limit the comparability of wage-share measures across countries or over time.

The average nominal wage per worker, w_{it} is derived as the ratio of total compensation to employment, incorporating the necessary unit conversions:

$$w_{it} = \frac{W_{it} \times 10^6}{L_{it} \times 10^3} .$$

After simplification, the scaling factors cancel, yielding a per-worker value expressed in euros. This average wage is a critical intermediate variable for per-worker analysis of the wage share, reflecting both cash wages and employer social contributions.

Average nominal productivity, y_{it} defined as output per worker, is obtained analogously by dividing nominal GDP by employment:

$$y_{it} = \frac{Y_{it} \times 10^6}{L_{it} \times 10^3} .$$

To account for price-level changes over time, the workbook constructs real per-worker series by deflating nominal wages with the consumer price index and nominal output with the GDP deflator:

$$w_{it}^{real} = \frac{w_{it}}{\mathrm{CPI}_{it}} \times 100, \qquad y_{it}^{real} = \frac{y_{it}}{Def_{it}} \times 100.$$

Multiplication by 100 adjusts for the CPI's base index. It is important to emphasize that, because wages and output are deflated using distinct indices, the ratio of real wages to real productivity does not coincide algebraically with the nominal wage share. Therefore, longitudinal analyses using real per-worker ratios must consider both functional-distribution dynamics and the relative evolution of price indices.

The nominal wage share, WS_{it}, is computed either as the ratio of total compensation to nominal GDP:

$$\mathrm{WS}_{it} = \frac{\mathrm{W}_{it}}{\mathrm{Y}_{it}},$$

or equivalently as the ratio of average nominal wage to average nominal productivity:

$$\mathrm{WS}_{it} = \frac{\mathrm{w}_{it}}{\mathrm{y}_{it}},$$

Both formulations produce identical values following the unit conversions applied within the workbook, ensuring internal consistency, and facilitating replication. The per-worker formulation further allows for the decomposition of wage-share changes into relative movements in wages and productivity, offering enhanced analytical insight into the determinants of functional income distribution.

Several methodological considerations are inherent in this construction. Unit conversions are explicitly applied to reconcile differing scales of monetary and employment data. Employment is measured as a headcount rather than full-time equivalents, which may bias per-worker indicators in contexts with heterogeneous working hours. Real per-worker measures employ distinct deflators for wages and output, implying that ratios of real series diverge from nominal wage shares. National-account aggregates are also subject to methodological

revisions, including updates to base years and adjustments in the treatment of social contributions, which may affect temporal comparability. Furthermore, missing observations in some country-year cells require consistent handling to preserve the integrity of the panel data.

Replication of the wage-share series is straightforward. Dividing the total compensation cell by the nominal GDP cell for each country-year reproduces the unadjusted series as reported in the workbook. Robustness can be assessed through the per-worker formulation, careful application of unit conversions, and comparison of nominal and real per-worker series to disentangle functional-distribution dynamics from relative price effects. This framework ensures analytical rigor, transparency, and reproducibility in the construction of wage-share indicators, forming a robust methodological foundation for subsequent comparative analysis.

The present research seeks to identify the key mechanisms through which contractionary monetary policies operate the relative transference of labour income to capital income and to assess how institutional and structural characteristics articulate such transfer, considering the transmission channels identified in the theoretical literature.

As dominant economic theories consider inflation to be a monetary phenomenon, grounded in the classical dichotomy which deliberately divides the monetary sphere of the economy from its real essence, it is argued that money is neutral over the long run. Thus, as previously discussed, authors from this paradigm disregard any impacts that monetary policy may have on real economic variables.

Conversely, proponents of critical political economy emphasize the distributive effects of inflation and monetary policy, arguing that restrictive monetary policy exacerbates exploitation through the relative transfer of income from labour to capital (Hung & Thompson, 2016; Setterfield & Rochon, 2008).

Departing from the existing literature on the subject, namely from the works of Louis-Phillipe Rochon and Mario Seccareccia (2023) and Stefano Di Bucchianico and Antonino Lofaro (2023), four transmission channels from monetary policy to the functional distribution of income are identified – the cost channel, the labour market channel, the activity channel, and the financial income channel.

The financial income channel, according to Rochon and Seccareccia (2023), corresponds to a direct mechanism that links changes in the rate of interest to the income attributed to labour and capital, as the rate of interest is an income for financial asset-holders. This channel predicts that increases in the interest rate are expected to decrease the wage share of income. The financial income channel, for instance, will be analyzed through data on interest rates, asset income, and wage shares. Higher interest rates, a central feature of contractionary monetary

policy, are expected to increase income for financial asset holders while reducing labour's share of income. By comparing how these dynamics manifest in France and Germany, the study aims to uncover the institutional factors that intervene along this particular channel.

From the increases in the cost of working capital and rents caused by interest rate hikes, the cost channel expects the price level itself to increase, thus, eroding the real wages of labour, ultimately contributing to a decrease in the labour share of income. Moreover, the cost channel will explore the effects of rising interest rates on the costs of working capital and their subsequent impact on wages and labour's income share. In this channel, higher interest rates increase borrowing costs for firms, leading to higher production costs and a potential erosion of real wages. The study will examine how these dynamics vary across the two cases, emphasizing structural factors such as the sectoral composition of each economy and the prevalence of credit-dependent industries.

Lastly, the labour market channel and the activity channel have integrated dynamics. The activity channel begins by acknowledging that higher interest rates harden the credit conditions for private and public borrowers and that this pushes the GDP level downward. Further, the activity channel examines how contractionary policies restrict credit availability, reduce aggregate demand, and ultimately suppress GDP growth. As they increase unemployment, these policies weaken labour's bargaining power, thereby reducing wage growth and labour's income share. The study will assess how these effects differ in France and Germany, considering factors such as unemployment benefit systems, collective bargaining arrangements, and labour market flexibility. In particular, Germany's strong labour protections and wage-setting mechanisms may buffer workers against the adverse effects of contractionary policies, whereas France's less coordinated labour market may amplify these effects.

As according to the activity channel, a fall in the GDP is then expected to increase unemployment, which corresponds to the point of departure of the labour market channel, which associates higher unemployment rates to decreases bargaining power of labour and, consequently, to lower nominal wage increases and a corresponding decrease of real wages, both of which contribute negatively to the labour share of income. Finally, the labour market channel will be analyzed by examining how higher unemployment and weakened labour bargaining power influence wage dynamics and income distribution. Variables such as union density, collective bargaining coverage, and labour market segmentation will be compared across the two cases. The study will also explore how institutional factors—such as minimum wage laws and employment protection legislation— mediate the effects of contractionary monetary policy on labour's share of income. For example, Germany's stronger collective

bargaining institutions may mitigate the wage-suppressing effects of restrictive monetary policy, whereas France's more fragmented labour market may exacerbate these effects.

The analysis will cover the four key transmission channels through which monetary policy affects the functional distribution of income, as identified in the literature - the financial income channel, the cost channel, the activity channel, and the labour market channel – ultimately integrating the four and their mutual relations into an analysis of the total relationship between monetary policy and the functional distribution of income. For each channel and corresponding mechanisms, several variables of interest are identified, and their relationships to one another and the whole are examined in depth.

The findings of this dissertation aim to contribute to the literature on monetary policy and income inequality, but also provide transformative insights to those objectively interested in addressing the distributive implications of monetary interventions. Through this methodological approach, the research seeks to move beyond generalized claims about the class biases of contractionary monetary policy, offering a concrete analysis of how these biases manifest in different economic and institutional contexts.

Despite the methodological robustness and comprehensive design of this study, some limitations related to the methodology's application to the research question, the particular case study strategy, and case selection require further consideration. These restrictions are central to placing the research's scope and potential contributions in context, while acknowledging its constraints and attempting to minimize them.

Comparative case study methodology has inherent limitations, even though it is suited for analyzing causal mechanism in intricate social and economic phenomena. The emphasis on in-depth examination of a limited number of cases necessarily implies the prioritization of depth over breadth, which limits the generalizability of findings.

While the emphasis on causal pathways and mechanisms enriches our understanding of dynamics, it does so at the expense of capturing broader patterns across larger samples. Furthermore, comparative case studies are subject to the researcher's ability to reflect upon the interaction of institutional and structural factors, which are critical components of comparative case studies, raising the risk of selection bias, in which the variables considered and the cases selected may not accurately reflect the phenomenon under investigation.

There are further difficulties in applying the comparative case study methodology to the distributive effects of conventional contractionary monetary policy on the functional income distribution. Because of the intricate and dynamic nature of the research question, it is

necessary to integrate both quantitative and qualitative analyses, which may yield contradictory results.

Furthermore, due to the homogeneity of ECB's monetary policy, unique limitations arise. Although this social and economic configuration at the transnational level allows to examine institutional and structural diversity in a unique manner, it restricts the analysis to a particular regional context, which may limit the generalizability of the findings to other social and economic units and levels of analysis.

Additionally, the 2015-2024 period is characterized by notable economic disruption and instability, such as the COVID-19 pandemic and geopolitical conflicts, which could mask the direct impacts of monetary policy on income distribution and make it more difficult to identify the underlying causes.

The limitations of the study are also a result of the case strategy and the choice of France and Germany as divergent cases to be studied. Their selection excludes smaller and/or peripheral Eurozone economies that might show different dynamics given their size, degree of development, or distinctive structural and institutional configuration. This omission could unintentionally favour the experiences of larger, more economically significant member states at the risk of oversimplifying the Eurozone's diversity.

The results of this study should be regarded as indicative and contextually specific rather than broadly generalizable in view of these limitations. The methodological and contextual limitations mentioned above inevitably limit the insights obtained from the comparative study of France and Germany, even though it is anticipated that these insights will significantly advance our understanding of the distributive effects of monetary policy. The insights produced by this study could be further improved and expanded upon by addressing these limitations in subsequent research.

CHAPTER IV

Results

4.1. Wage Share Trends in Germany and France

Between 2015 and 2023, Germany's wage share exhibited relative stability with minor fluctuations, increasing gradually. However, the real wage share faced downward pressure in the years following 2020, as inflationary trends eroded purchasing power. The data indicate that while nominal wages continued to rise, real wage growth decelerated, suggesting that inflation-adjusted labor income did not keep pace with overall economic expansion.

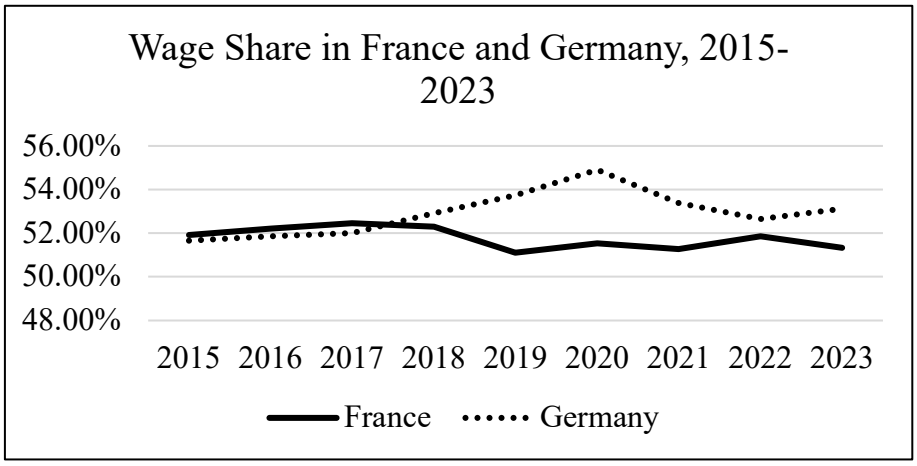


Figure 1. Wage Share in France and Germany, 2015-2023. Source: Own calculations drawing on AMECO database *(European Commission, 2024).*

In contrast, France's wage share displayed greater variability over the same period. Nominal wage growth was more moderate compared to Germany. The wage share experienced a notable decline during the economic contraction of 2020, followed by a partial recovery in subsequent years. Similar to Germany, the real wage share in France also faced constraints from rising consumer prices.

4.2. Decomposition of Wage Share Components

In Germany, nominal wages grew moderately from 2015 to 2019, followed by a fall associated with the COVID-19 pandemic. From 2020 onward, however, nominal wages have been growing at a faster rate than in previous years, likely due to workers' demands for wages to keep pace with the rising living costs.

Germany's employment levels expanded steadily over the observed period. This expansion contributed to a stable wage share by distributing labor income across a growing workforce.

Productivity trends further elucidate the dynamics of wage shares. In Germany, average real productivity grew at increasing rates from 2015 to 2023, peaking at a 5.73% annual growth rate for the last year observed. In contrast, France experienced lower and more volatile growth rates of real productivity for the majority of the period analyzed, with a few years experiencing falls in productivity – namely 2015, 2016 and 2021 – despite peaking at a 4.19% growth rate for 2023.

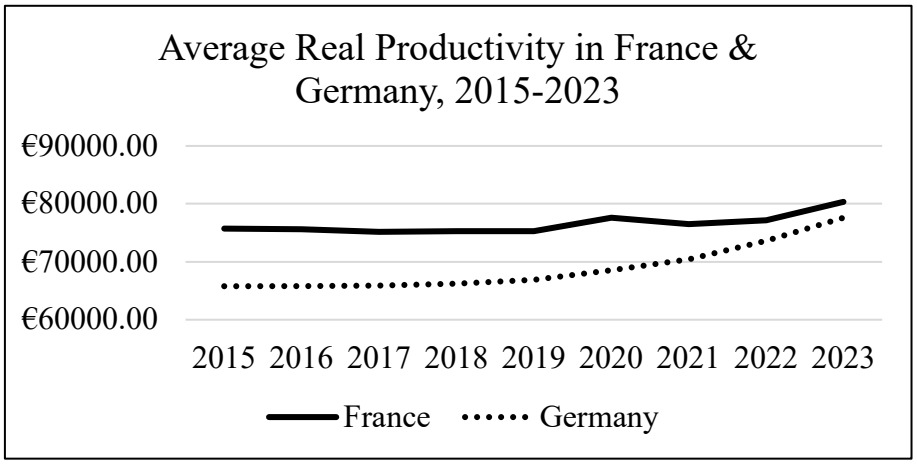


Figure 2. Average Real Productivity in France and Germany, 2015-2023. Source: Own calculations drawing on AMECO database *(European Commission, 2024).*

Inflation played a critical role in shaping real wage shares in both countries. In Germany, inflation was kept at values significantly lower than the 2% target established by the ECB, except in 2022 and 2023, when inflation surged. In the latter years of the period, inflation tempered real wage growth despite nominal increases. France experienced similar inflationary patterns, despite more volatile inflation rates and facing inflation rates above the 2% threshold already in 2021.

Regarding real wages, these have been growing at a decreasing rate in Germany, achieving negative values in the order of 3.58% in 2022, followed by insufficient growth to compensate for the loss in real purchasing power of workers in the following year. In France a similar dynamic is at play, however, at a more severe rhythm. For the majority of the period, real wage rate decreases, and when the growth of average real wages was positive, it was so at low rates that they were not able to overcompensate for losses in previous years.

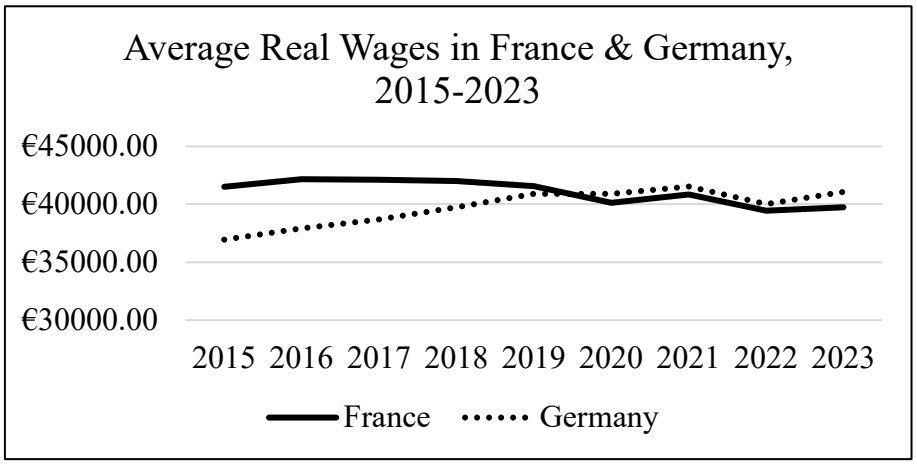


Figure 3. Average Real Wages in France and Germany, 2015-2023. Source: Own calculations drawing on AMECO database *(European Comission, 2024).*

The data indicate that nominal wage increases were insufficient to fully offset rising living costs, resulting in a stagnation or a slight decline in the real wage share. Additionally, both countries experienced a temporary contraction in the wage share during the 2020 economic downturn, primarily in 2021 and 2022, followed by a partial recovery in 2023.

The descriptive analysis of wage share trends in Germany and France reveals distinct patterns shaped by labour market structures, sectoral compositions, and inflationary pressures. Germany's wage share evidenced a trend inversion during the COVID-19 Pandemic, while France's wage share had already inverted its medium-term trend earlier and subsequently displayed greater stability, at around 51.5% of real GDP. Both countries faced challenges in maintaining real wage growth amid rising inflation.

4.3. Activity Channel

France exhibited higher levels of domestic credit to the private sector compared to Germany throughout the period. In 2015, France's credit-to-GDP ratio stood at 94.95%, peaking at 125.40% in 2020 before declining to 112.73% in 2023. Germany's ratio was lower, starting at 76.62% in 2015 and remaining relatively stable, reaching 81.81% in 2022.

France consistently recorded higher government expenditure as a percentage of GDP than Germany. In 2015, France's expenditure was 57.60%, declining to 56.99% by 2023. Germany's government expenditure as a percentage of GDP was lower, starting at 44.51% in 2015 and increasing to 48.38% in 2023. Both countries experienced a surge in expenditure during 2020, due to pandemic-related fiscal measures.

Public sector borrowing costs for both countries were on a decreasing trend from 2015 to 2020. Afterwards, borrowing costs of the state of France and Germany began increasing

consistently, reflecting broader trends in global interest rates. France's costs increased from 0.84% in 2015 to 2.97% in 2024, with a notable dip into negative territory (-0.15%) in 2020. Germany's costs were consistently lower, starting at 0.50% in 2015 and reaching 2.32% in 2024, with a sharper decline to -0.51% in 2020 and -0.37% in 2021.

Public employment in the French economy was significantly higher than Germany's throughout the period. In 2015, France's public employment stood at 22.18%, gradually declining to 21.13% by 2021. Germany's share was lower, starting at 10.67% in 2013 and increasing slightly to 11.13% by 2021. The data highlights France's larger public sector, which aligns with its higher government expenditure. Germany's smaller but growing public sector suggests incremental expansions in state employment.

Regarding tax revenues as a percentage of GDP, France’s were more than double than that of Germany. In 2015, France's tax revenue was 23.17%, remaining stable around this level until 2023. Germany's tax revenue was lower, starting at 11.26% in 2015 and fluctuating modestly, ending at 11.01% in 2023.

In France, the higher domestic credit levels and government expenditure likely supported wage growth, particularly in the public sector, where employment shares remained elevated. The decline in borrowing costs post-2013 may have further eased fiscal pressures, allowing for sustained wage expenditures. In Germany, the more restrained credit environment and lower government expenditure suggest a more modest impact on wage dynamics. However, the slight increase in public employment and stable tax revenues indicate gradual adjustments in labour income shares.

4.4. Cost Channel

Germany and France exhibited distinct trajectories in labour costs during the period. Germany's labour cost index rose steadily from 87.1 in 2015 to 107 in 2022, reflecting consistent wage growth. France's index followed a similar upward trend, increasing from 91.9 in 2013 to 105.3 in 2022. Both countries experienced a notable acceleration in labour costs post-2020, likely due to pandemic-related adjustments in the labour market. However, Germany's labour costs grew at a marginally faster pace.

Unit labour costs (ULCs)[2], another metric for wage competitiveness, diverged notably. Germany's ULCs surged from 84.37 in 2015 to 146.72 in 2024, with a sharp rise post-2020. France's ULCs grew more moderately, increasing from 90.41 in 2015 to 111.4 in 2024.

Market concentration trends diverged significantly between the two economies. Germany's Herfindahl-Hirschman (HH) index increased from 0.0389 in 2015 to 0.0396 in 2022, indicating a slight increase in market concentration. France's HH index decreased despite remaining above that of Germany, from 0.0491 in 2015 to 0.0482 in 2022.

Operating surplus, reflecting capital income, grew in both countries but with differing magnitudes. Germany's operating surplus increased from €637.7 billion in 2015 to €758.2 billion in 2023, highlighting robust capital income growth. France's surplus also expanded, rising from €381.3 billion in 2015 to €474.4 billion in 2023, though at a slower pace.

Investment trends, measured by gross fixed capital formation, revealed contrasting patterns. Germany's index grew from 100 in 2015 to 108.4 in 2023, with fluctuations during the pandemic. France's index exhibited stronger growth, rising to 119.1 in 2023.

In Germany, the combination of rising labour costs, higher market concentration, and robust operating surplus growth suggests that monetary policy may have influenced wage dynamics through tighter labour markets and higher capital incomes. The surge in ULCs further indicates that wage growth outpaced productivity gains, particularly post-2020.

In France, a slower growth in operating surplus points to a different transmission mechanism. The stability in ULCs and higher capital formation suggest that wage growth aligned more closely with productivity, potentially due to France's greater reliance on public investment and labour market policies. The divergence in ULC trends between the two countries highlights the varying impacts of monetary policy on wage shares.

The comparative analysis reveals distinct economic patterns in Germany and France from 2013 to 2024. Germany experienced faster labour cost growth, rising market concentration, and stronger capital income gains, leading to a significant increase in ULCs. France, meanwhile, maintained competitive markets, moderate labour cost growth, and higher investment levels, resulting in more stable ULCs. These trends underscore the divergent

2 According to Eurostat, “the nominal unit labour cost index per hour worked is defined as the ratio of labour cost to labour productivity, where labour cost is the ratio of compensation of employees, and labour productivity is the ratio of gross domestic product to total hours worked.

pathways through which monetary policy may influence labour's share of income in the two economies.

4.5. Financial Income Channel

Germany and France exhibited distinct trajectories in financial balance sheet growth relative to GDP. Germany's financial balance sheets expanded from 260.7% of GDP in 2015 to 311.1% in 2023, reflecting steady growth with a notable surge during the pandemic to 312.9% in 2020. France's financial balance sheets were consistently higher, rising from 325.4% in 2015 to 390.9% in 2023, with a sharper pandemic-driven peak (404.9% in 2021).

Household debt trends diverged significantly. Germany's household debt ratio declined steadily from 54.92% in 2015 to 50.14% in 2024, reflecting conservative household financial behavior. In contrast, France's household debt ratio increased from 55.72% in 2013 to 67.96% in 2024, indicating rising indebtedness.

Net financial transactions revealed contrasting sectoral patterns. Germany's total economy consistently recorded surpluses, peaking at €282.1 billion in 2013 and €237.9 billion in 2023, driven by strong household savings (€195.6 billion in 2019) and non-financial corporate surpluses. France's total economy, however, oscillated between deficits and surpluses, with households accumulating net financial assets (€109.3 billion in 2023) but the government running persistent deficits (-€151.9 billion in 2023).

Wealth concentration trends were asymmetric. Germany's top 10% wealth share remained stable (58.64% in 2015 to 58.45% in 2023), while France's increased slightly (57.9% to 59.70%). The top 1% share also rose considerably in France (24.5% to 27.3%) but moderately in Germany (27.0% to 27.8%). Conversely, the bottom 50% in Germany saw marginal gains (3.5% to 3.4%), while France's bottom 50% share declined (5.1% to 4.9%).

In Germany, low household debt, high savings, and robust operating surpluses suggest that monetary policy may have reinforced capital income growth, potentially compressing labour's share. The stability in wealth inequality further indicates that financial gains were broadly distributed, albeit with limited gains for lower-income groups.

In France, rising household debt and financial balance sheets point to a different transmission mechanism. The growth in operating surplus and wealth concentration among the top 1% suggests that monetary policy may have exacerbated income inequality, with financial assets disproportionately benefiting wealthier households. The decline in the bottom 50%'s

wealth share underscores the dual role of financialization in driving both aggregate income growth and inequality.

The comparative analysis reveals divergent financial income dynamics in Germany and France from 2013 to 2024. Germany's low household debt, high savings, and stable wealth distribution reflect a financial system that supports capital income growth without significantly exacerbating inequality. France's rising debt, financialization, and wealth concentration highlight a more uneven distribution of financial gains, with implications for labour's share of income.

4.6. Labour Market Channel

France and Germany exhibited stark differences in collective bargaining coverage. France maintained near-universal coverage, at 98% throughout the observed period, reflecting its centralized wage-setting institutions. In contrast, Germany's coverage declined from 57.6% in 2013 to 54% in 2018, signalling an erosion of collective bargaining institutions.

France's EPL strictness score was consistently higher, ranging from 2.81 in 2015 to 2.68 in 2019, compared to Germany's stable score, 2.33 throughout 2013–2019. These differences likely contributed to variations in wage rigidity and employment adjustment mechanisms during economic shocks.

Germany's union density declined from 18% in 2013 to 16.3% in 2019, while France's remained stable at ~11%. Despite its lower density, France's high bargaining coverage indicates unions retain significant influence, whereas Germany's declining density may weaken their wage-setting power.

Germany had higher rates of part-time and temporary employment, from 33.3% in 2015 to 29% in 2024, compared to France, 18.9% to 16.5% over the same period. However, Germany's temporary employment share declined sharply during the pandemic, 27.8% in 2020–2022, while France's decrease was more gradual.

Regarding labour force participation, in Germany the rate rose steadily from 76.4% in 2013 to 80.2% in 2024, outpacing France's more modest increase, from 72.3% to 74.5% in 2021. Germany's unemployment rate declined sharply from 5% in 2013 to 3.1% in 2023, while France's rate fell more gradually (10.3% to 7.3%).

In Germany, declining collective bargaining coverage and union density, coupled with flexible employment forms, suggest that monetary policy may have reinforced wage

moderation and labour market adaptability. Rising median incomes and low unemployment indicate that these adjustments did not preclude broad-based income gains.

In France, high bargaining coverage and strict EPL imply that monetary policy is transmitted through more rigid wage structures. Stable union density and centralized bargaining likely supported wage floors, but higher unemployment and slower income growth point to potential trade-offs between job security and labour market dynamism.

The comparative analysis reveals divergent labour market trajectories in Germany and France from 2013 to 2024. Germany's flexible, decentralized system facilitated low unemployment and rising incomes, albeit with growing atypical employment.

4.7. Comparative Analysis of Patterns and Trends in France and Germany

The activity channel reveals important differences in how monetary policy conditions interacted with credit markets and fiscal policies in the two economies. In Germany, domestic credit to the private sector remained relatively stable, moving from 81.8% of GDP in 2013 to 83.8% in 2022. Government expenditure showed similar stability, fluctuating within a narrow band between 45% and 48% of GDP throughout the period. The country experienced a significant decline in public sector borrowing costs, falling from 1.57% in 2013 to a negative rate of -0.51% in 2020 before rising to 2.43% by 2023.

France presented a contrasting picture in terms of credit and fiscal dynamics. Domestic credit to the private sector remained consistently higher than in Germany, beginning at 95.9% of GDP in 2013 and reaching 112.7% by 2023. Government expenditure followed a gradual downward trajectory from 58.6% of GDP in 2013 to 57% in 2023, though it peaked at 61.7% during the pandemic year of 2020. French borrowing costs mirrored the general downward trend seen across Europe, starting at 2.20% in 2013 and reaching a low of -0.15% in 2020 before rebounding to 1.70% in 2023.

The cost channel analysis highlights distinct patterns in production costs and profitability between the two nations. Germany experienced substantial growth in unit labor costs, with the index rising from 79.3 in 2013 to 135.9 by 2023. This increase coincided with strong growth in operating surplus, which expanded from €1.11 trillion in 2013 to €1.61 trillion in 2023. Market concentration, as measured by the Herfindahl-Hirschman index, showed a slight increase from 0.0367 in 2013 to 0.0396 in 2022.

France displayed different cost dynamics during the same period. Unit labor costs grew more moderately, increasing from 89.0 in 2013 to 107.8 in 2023. The operating surplus also

expanded, though at a slower pace than in Germany, rising from €734.9 billion to €1.03 trillion. Market concentration in France remained relatively stable, with the HH index moving from 0.0476 to 0.0482 over the observation period.

The financial income channel reveals significant structural differences between the two economies. Germany maintained relatively low levels of household debt, which actually declined from 55.5% of GDP in 2013 to 50.1% by 2024. Wealth distribution remained remarkably stable, with the share held by the top 10% of the population barely changing from 58.3% to 58.4% over the decade. The country consistently recorded net lending surpluses, beginning with €282.1 billion in 2013.

France exhibited different financial patterns during the same period. Household debt rose steadily from 55.1% of GDP in 2013 to 67.7% by 2024. Wealth concentration increased slightly, with the top 10% share growing from 57.9% to 59.7%. Financial balance sheets expanded significantly, rising from 273.1% of GDP in 2013 to 390.9% by 2023. Unlike Germany's consistent surpluses, France's net lending position showed greater variability throughout the period.

The labor market channel analysis uncovers fundamental differences in employment structures and wage-setting mechanisms. Germany's collective bargaining coverage declined gradually from 57.6% in 2013 to 54% by 2018. The country maintained a stable employment protection legislation score of 2.33 throughout the period. Unemployment fell significantly from 5% in 2013 to 3.1% by 2023, while median equivalized net income rose from €20,668 in 2015 to €27,556 by 2024.

France presented a contrasting labor market profile. The country maintained near-universal collective bargaining coverage at 98% throughout the observation period. Employment protection remained stricter than in Germany, with scores hovering around 2.8. Unemployment declined more gradually, from 10.3% in 2013 to 7.3% in 2023. Median income growth was more modest, increasing from €21,415 in 2015 to €24,179 by 2023.

This comparative analysis has documented significant differences in how wage share and its components evolved in Germany and France between 2013 and 2024. The examination of multiple transmission channels revealed distinct patterns in credit markets, production costs, financial structures, and labor market institutions.

The data show that these two major European economies followed divergent paths in terms of income distribution, labor market outcomes, and financial structures during the period under examination. These differences persisted through various economic conditions, including the post-financial crisis recovery, the pandemic period, and subsequent recovery years. The

findings provide a foundation for further research into the complex relationships between monetary policy, economic structure, and distributional outcomes in advanced European economies.

CHAPTER V

Comparing Wage Share and Average Real Wage Evolution

5.1 Introduction

This chapter discusses the empirical findings of the dissertation, which examines the distributive effects of contractionary conventional monetary policy in France and Germany between 2010 and 2023. The central aim is to assess how interest rate hikes and related tightening measures by the European Central Bank (ECB) have influenced the functional distribution of income.

The analysis investigates how monetary policy has shaped labour's share of income, and how the institutional and structural characteristics of each country mediate these effects. Given the divergence between France's and Germany's political economies, the chapter adopts a comparative lens to uncover the distinct distributive mechanisms at play. It begins with an overview of wage share trends in both countries, followed by a decomposition identifying the contributions of productivity, employment, and wage dynamics. The core sections are structured around four key transmission channels through which monetary policy impacts distribution: the activity channel, the cost channel, the financial income channel, and the labor market channel.

The chapter concludes with a synthetic assessment, integrating findings across channels to identify structural and institutional factors that either reinforce or counteract pro-capital redistribution, thereby laying the groundwork for the theoretical and policy discussion in the final chapter.

5.2 Comparative Evolution of the Wage Share (2015–2024)

Between 2015 and 2023, while France experienced a decline in the wage share of approximately 0.6 p.p., in Germany the wage share increased by 1.47 p.p. over the period analyzed. While in France this evolution was more stable and positive until 2018, in the German case the growth rates are more volatile and positive until 2020, from which onwards they become negative. The different evolution in both countries, despite France and Germany operating under the European Monetary Union (EMU), underscores the mediating role of national structures in shaping the distributive effects of common monetary policies.

Germany's increase, in a somewhat volatile trajectory, occurred within a model emphasizing fiscal restraint, export competitiveness, and labor market flexibility. Germany has entrenched a dual labor market characterized by part-time and temporary contracts. Although employment expanded and macroeconomic performance remained strong, wage growth was able to keep pace with the evolution of these latter variables.

In France, the labour share declined as average real wages grew below the growth rate of average real productivity. However, high collective bargaining coverage, due to state procedures of collective agreement's extension, ensured broad application of sectoral wage standards, coupled with the inflation-indexed minimum wage (SMIC) ensured a more stable trajectory for the evolution of the wage share. These features limited the transmission of contractionary monetary policy into labor income losses.

5.3 Trends and Patterns in the Decomposed Wage Share of France and Germany

To understand the decline in the labor share of national income in France and Germany between 2010 and 2023, it is essential to move beyond aggregate trends and examine the underlying determinants. The wage share—defined as total employee compensation relative to GDP—can be decomposed into the ratio of real wages to labor productivity. Stability in the wage share requires real wages to increase in line with productivity. If wage growth falls behind that of productivity, a shift in income distribution occurs, moving away from labor. A detailed investigation of these proximate drivers clarifies how contractionary monetary policy translated into distributive outcomes in each country.

In France, real wages grew broadly in step with productivity—approximately 8% versus 10.5% productivity growth—resulting in a moderate reduction in the wage share. Institutional mechanisms such as the inflation- and wage-indexed minimum wage (SMIC) and the extensive extension of sectoral collective agreements to non-unionized firms helped preserve wage coordination despite declining union density.

Conversely, Germany exhibited a pronounced divergence: productivity rose nearly 14%, while real wages increased by just over 6%, intensifying downward pressure on labor's share. Nonetheless the faster growth of productivity in Germany, it remained lower throughout the period when compared to the productivity in the French economy, implying a trend of convergence in productivity between the two economies.

This gap reflects deeper structural changes rooted in the Hartz IV reforms, which fostered precarious employment forms—mini-jobs, fixed-term contracts, and part-time work—particularly in low-productivity sectors. The expansion of such marginal employment, combined with declining collective bargaining coverage (from 62% to 54%), fragmented wage-setting and suppressed wage growth, allowing firms to appropriate a larger share of value added.

Employment composition further accentuated these trends. France's relatively large public sector, providing stable jobs with administratively determined wages, insulated labor from pressures stemming from the inversion in the monetary policy trajectory. Moreover, France's labor market exhibited less growth in peripheral employment compared to Germany, maintaining stronger wage bargaining power. Germany's workforce saw a significant rise in low-paid, precarious jobs—accounting for nearly 29% by 2023—characterized by limited social protections and exclusion from collective bargaining. The comparatively smaller German public sector (10–11%) constrained the state's role as an income stabilizer, amplifying downward pressures on wages.

Unit labor costs (ULCs) evolved similarly in both countries from 2015 to 2019. However, from 2020 onward, the ULCs in both countries began to diverge, as growth in Germany surged while remaining relatively stable in France. In the latter, ULCs increased by about 21%, while in Germany this index rose over 62. As firm's mark-ups are relatively higher in France than in Germany, despite Germany evidencing a more concentrated economy due to the prevalence of manufacturing over its economic structure, the French economy is in better condition to translate wage increases to prices, thus leading to the evolution of the wage share observed (Deutsche Bundesbank, 2017).

5.4 The Activity Channel: Credit, Fiscal Policy, and Demand Effects

Between 2013 and 2024, France and Germany were exposed to the same international shocks, although to different degrees and intensity, and subject to the European Central Bank (ECB) and its monetary policy options. In France, during the COVID-19 crisis the French state engaged in a forceful expansion of liquidity and guarantees—private sector debt surged to 125.4% of GDP in 2020—before retreating to 112.7% by 2023 as the emergency measures were phased out. Simultaneously, government spending peaked at 61.7% of GDP, underpinned by robust automatic stabilizers and discretionary programs such as the "activité partielle" scheme, aiming to preserve employment and consumption capacity.

Germany, in contrast, pursued a path of fiscal restraint and internal financial conservatism, reinforcing its export-led growth model. Even at the height of the pandemic, private debt reached only 96.8% of GDP and quickly declined, reflecting limited credit intermediation and a reliance on retained earnings, which by the early 2020s financed 67% of non-financial corporate investment. This preference for endogenous firm financing constrained the

expansion of domestic demand and attenuated the transmission of ECB accommodation to the real economy.

Public expenditure followed a similar trajectory: although the constitutional Schuldenbremse was suspended, fiscal expansion remained subdued, with spending peaking at just 51.1% of GDP in 2020 before quickly reverting to pre-crisis norms. The swift return to consolidation underscored the enduring influence of fiscal conservatism, which privileges fiscal discipline over counter-cyclical flexibility and casts the state primarily as a guarantor of monetary and budgetary stability rather than as an agent of demand management or redistribution.

Empirically, these contrasting approaches produced divergent distributive outcomes. In France, while the long-term decline in the wage share was not reversed, coordinated fiscal and credit interventions dampened the distributive impact of ECB tightening. In Germany, by contrast real wages lagged behind productivity growth, labor markets became more segmented, and fiscal policy offered limited mitigation.

5.5 The Cost Channel: Labor Costs, Capital Investment, and Markups

The evolution of the cost channel in France and Germany between 2010 and 2023 reveals how divergent institutional configurations, firm structures, and modes of integration into the global economy shaped distributive dynamics under conditions of monetary tightening. In France, labor costs increased steadily—the labor cost index (LCI)[3] rose from 81.8 in 2008 to 105.3 in 2022, with unit labor costs growing by 58% between 2000 and 2024.

However, firms' capacity to preserve profit margins through mark-up adjustments was constrained by intensifying market competition. The decline in the Herfindahl-Hirschman Index from 0.0491 (2015) to 0.046 (2022) indicates a mild reduction in market concentration, slightly undermining firms' pricing power. This erosion of mark-up capacity disproportionately affected small and medium-sized enterprises (SMEs), which lacked the scale and financial buffers to absorb cost pressures through productivity gains or strategic pricing. As a result, gross operating surplus in France fluctuated sharply—from €399 billion in 2015 to €474 billion in 2023—exposing firms to volatility that was more acute at the lower end of the corporate hierarchy.

3 The labour cost index (LCI), as measured by Eurostat, represents the total cost on an hourly basis of employing labour.

These developments reflect the structural logics of a competitive capitalist economy in which rising labor costs, absent monopolistic protections or external pricing outlets, compress profitability and compel firms to seek compensatory gains through investment. Yet such investment was unevenly distributed, with larger firms able to channel resources toward capital deepening and technological upgrading, while smaller firms faced tightening margins and limited avenues for expansion. The resultant profit squeeze is not merely a reflection of imperfect markets but a manifestation of capitalism's structural contradictions—where competitive imperatives erode the conditions for stable reproduction among weaker capitals.

Consequently, the cost channel in France contributed to a moderate erosion of labor's distributive position, through a growth of operating surplus mixed income and of gross fixed capital formation that largely exceeds that of labour compensation, whether measured by UCL or LCI.

The institutional framework—characterized by relatively high collective bargaining coverage and employment protection—mitigated downward wage adjustments, but it could not fully shield labor from the secondary effects of investment asymmetries and firm-level margin compression. The result was a differentiated impact both between labor and capital and within the capitalist class itself, revealing the extent to which distributive outcomes are shaped by the interplay of market structure, institutional arrangements, and firm capabilities under monetary constraint.

Germany, meanwhile, exhibited a distinct cost channel trajectory. Labor costs rose markedly—the Labor Cost Index increased from 65.8 in 2008 to 107 in 2022, and unit labor costs rose nearly 50% over the 2000–2024 period. Yet rather than triggering a compression of wages or employment, these pressures were absorbed through high levels of capital investment and productivity-enhancing technological change. Gross operating surplus expanded from €440 to €758 billion, reflecting capital's capacity to maintain and even increase profitability despite rising labor costs.

This outcome was facilitated by the structural characteristics of the German economy: large firms in export-intensive sectors such as automotive and chemicals leveraged global value chains, technological capabilities, and reputational advantages to pass on costs externally, while domestically concentrated market structures provided pricing power and scope for mark-up expansion.

Such conditions rendered the cost channel a mechanism of income differentiation rather than compression. Firms with external market access and advanced productive capacities could

convert labor cost pressures into incentives for capital deepening, thereby extracting relative surplus value through labor-saving technologies.

This dynamic, while ensuring macroeconomic resilience, entrenched distributive asymmetries. Productivity gains did not translate into commensurate wage growth, particularly outside the core export sectors. Germany's dual labour market—underpinned by sectoral wage coordination in strategic industries and declining bargaining coverage, as evidenced by an increase in the percentage of employees not covered by a collective agreement from 43% in 2015 to 51% in 2023 and a decrease in the percentage of employees in firms in which there is a work council decreasing from 48% to 43% over the same period—reinforced wage stagnation and fragmentation among lower-tier workers, with nominal wages of the lower income quartile growing at a slower rate than that of the highest quartile, from 2022 to 2024 (Eichhorst & Marx, 2025).

The cost channel thus functioned as an amplifier of class differentiation, consolidating the distributive hegemony of capital while institutional mechanisms limited labor's capacity to reclaim value added.

In comparative perspective, France and Germany offer contrasting illustrations of how national economies navigate the distributive tensions embedded in the cost channel under monetary tightening. In France, heightened competition and fragmented firm structures constrained mark-up responses and diffused margin pressures unevenly, curbing capital income among smaller firms while moderating the immediate erosion of labor's share. In Germany, capital's structural advantages—institutional, technological, and international—enabled a resolution of cost pressures that preserved and extended profitability, reinforcing income inequality despite aggregate economic strength. Across both contexts, the cost channel emerges not as a neutral transmission mechanism but as a contested terrain shaped by class relations, institutional capacities, and firm-level asymmetries within the broader dynamics of capitalist reproduction.

5.6 The Financial Income Channel: Assets, Debt, and Inequality

From 2013 to 2024, the development of the financial income channel in France and Germany unfolded along diverging paths, shaped by each country's fiscal orientation, monetary integration, and socio-economic institutions. In France, corporate debt has been historically higher than household debt, with the former peaking in the 1970s, while household

debt has been growing ever since the 1950s, particularly at a faster rate since the beginning of the 2000s (Gouzoulis, G., 2021).

As a result, in France the value of financial assets has surged to 391% of GDP, propelled by persistent asset appreciation and growing portfolios held by firms and households alike. Concurrently, household indebtedness climbed to 67.7% of GDP, reflecting expanded access to credit—especially mortgages and consumer loans—underpinned by the European Central Bank's prolonged accommodative stance and the deployment of unconventional policy tools such as quantitative easing, a central feature of the neoliberal financialization process in France (Gouzoulis, G., 2021).

Theoretically, the expansion of mortgage debt is expected to correspond to wage share stagnation and compression, as the deepening of household indebtedness allows capital to extract value from wages beyond the immediate sphere of production (Duménil, G., & Lévy, D., 2004). In period characterized by real wage stagnation, household borrowing is simultaneously a means for labour to sustain and or increase its consumption and a profitable avenue for financial capital accumulation (Lapavitsas, C., 2013).

However, despite these inflationary pressures in the asset sphere and rising household liabilities, France managed to temper some of the regressive distributive effects commonly associated with financial expansion, namely due to strong social movements that push for universal coverage of the French welfare system (Gouzoulis, G., 2021). This relative moderation was largely attributable to redistributive mechanisms embedded in the French fiscal structure. Instruments such as the solidarity tax on wealth (ISF) and its successor, the real estate wealth tax (IFI), alongside inheritance levies and sustained public spending on housing and education, collectively softened the impact of financial stratification.

From a theoretical standpoint, this configuration reflects the inherent duality of financialized capitalism. While asset prices soared under low interest rates and QE, the French state's relatively robust redistributive apparatus curbed the extent to which such dynamics translated into entrenched inequality. Yet these institutional correctives operated within clear constraints. Public debt expanded, limiting future fiscal flexibility, and the increasing dependence on privately held assets to fund pensions and secure living standards pointed to a deeper reorientation of social provisioning.

The proliferation of fictitious capital and the shift toward rent-based revenue streams signified an ongoing decoupling of earnings from productive labor. Households became progressively enmeshed in financial networks—reliant on credit to maintain consumption and exposed to market volatility through asset-linked wealth (Hudson, 2021; Wood, 2016). Though

the French state exercised some degree of regulatory agency, this did not the gradual reconfiguration of class relations in which surplus extraction increasingly bypassed the wage relation, reasserting capital's primacy in novel forms (Savignac et al., 2024).

Nonetheless, inequality was not absent. Asset windfalls accrued overwhelmingly to owners of real estate and financial securities, particularly in urban cores, while renters and younger cohorts contended with mounting housing burdens and limited access to wealth-generating instruments. Redistribution, while effective at the margins, did not fundamentally alter the evolving dominance of capital gains in shaping income hierarchies. Rather, France exhibited a tempered financialization: mitigated in its extremes, but clearly advancing in form and scope.

Germany, by contrast, exhibited a distinct profile, characterized by greater concentration of financial gains and less comprehensive institutional buffering. Financial asset holdings expanded more modestly—from 179% to 311% of GDP—primarily driven by external surpluses and capital inflows into low-risk instruments. Yet household debt followed an opposite trend to France, declining from 70.5% to 50.1% of GDP. This reflected both cultural inclinations toward thrift and a more conservative credit environment, but also suggested deeper patterns of exclusion from credit-fueled asset accumulation, particularly among lower-income strata.

The distributive consequences of this trajectory were pronounced. The wealthiest 1% increased their share from 26.6% to 27.8%, while the bottom half of the population controlled a mere 3.4% of total wealth. The absence of meaningful redistributive counterweights rendered asset appreciation a primary engine of inequality. Germany's institutional context—shaped by fiscal restraint and limited interventionism in wealth taxation—offered little to counterbalance these structural imbalances.

This phenomenon evidences a persistent excess savings regime, driven by export surpluses and the accumulation of capital in rentier-safe havens. These surpluses recirculated into domestic asset markets, fueled inflation in financial and real estate sectors without translating into widespread gains.

Simultaneously, the analysis of the financial income channel in Germany highlights the consolidation of surplus appropriation through non-productive channels. The expansion of rentier incomes and the intensification of asset concentration can be seen as extensions of capitalist restructuring, where value generation is increasingly subordinated to the imperatives of financial accumulation.

Conversely, these imperatives of financial accumulation came to strengthen their grip of Germany's economy through the successive neoliberal reforms to financialize the country's

economy, namely the abolition of the stock exchange tax in 1991, the legalization of share buybacks in 1998, the abolition of capital gains taxes for corporations in 2002, and the legalization of hedge funds in 2004 (Detzer, 2014).

Moreover, the apparent reduction in household indebtedness masked a significant segmentation of financial inclusion. While wealthier households leveraged asset ownership to consolidate financial advantages, others were left outside key circuits of capital accumulation, unable to access credit or participate in the appreciation of real estate and equities.

In summary, financialization, whether in the form of mortgage debt accumulation or shareholder value orientation, is associated to decreases in labour's share of income. For that, the financial income channel operated along different logics in France and Germany, with each case revealing the complex entanglement of monetary policy, fiscal capacity, and institutional design in mediating the distributive implications of financialization. France's trajectory reflected a managed form of financial expansion—where state intervention curbed the sharpest edges of inequality, albeit without reversing its structural direction. Germany's experience, in contrast, epitomized a more exclusive variant, where fiscal orthodoxy and market dominance allowed capital to entrench its position with minimal constraint. In both instances, however, financialization reasserted itself as a dominant force in the configuration of income and wealth, reordering the foundations of social reproduction and reinforcing class asymmetries in increasingly financialized terms.

5.7 The Labor Market Channel: Bargaining Institutions and Employment Structures

Between 2013 and 2024, developments in the labor markets of France and Germany followed markedly different trajectories, each reflecting distinct institutional logics and shaping how monetary and structural economic transformations impacted income distribution.

However, both countries were impacted by the new European economic governance on wages and collective bargaining, which shifted considerable decision-making powers from the national to the European level from 2008 onwards. This new European interventionism reflected the transformation in the accumulation process of EU's political economies to one of fiscal austerity and cost competitiveness, making wages the crucial adjustment variable of national economies (Schulten & Muller, 2012).

The new European Economic Governance, composed of the European Semester and the Six-Pack, imposed on member countries of the EMU not only the general statements and recommendations of the ECB, but also a scoreboard and financial sanctions for economies that

exceed the nine-p.p. margin over three years for wage developments. Ultimately, the country specific recommendation in the European Semester and the exchange of reforms for financial support amidst the Global Financial Crisis represent a frontal attack on the previously established systems of multi-employer bargaining (Schulten & Muller, 2012).

In France, sectoral level collective agreements have been the pillar of the bargaining system. However, during the period of the 1980s to the 2000s workplace level bargaining was promoted due to concerns with worker participation. Without surprise, in the following decades, employer's associations advocated for company agreements without trade union mediation. As a result, only around one-tenth of the workforce participated in their trade unions.

Nonetheless, nearly all wage earners benefitted from sector-wide agreements mandated by law, which ensured the application of negotiated wage minimum far beyond the bounds of direct union representation, allowing for the configuration of labor protections sustained a relatively cohesive wage environment, despite subdued union participation. Although this legal mechanism acted as a key institutional equalizer, securing wage floors, and preserving purchasing power even as broader market liberalization and financial expansion unfolded.

Employment trends in France showed cautious improvement over the period. The unemployment rate edged down to 7.4% by 2023, notwithstanding the turbulence following the global financial crisis and Eurozone instability. Non-standard forms of employment, while still prevalent, declined modestly suggesting a trend toward slightly more secure job conditions. Income dispersion remained restrained: the wage Gini coefficient stabilized around 0.29, and earnings at the lower end of the distribution (decile one) remained above 60% of the median. These figures attest to the stabilizing function of institutional tools such as the SMIC and the automatic extension of collective accords, which helped maintain a relatively compressed wage structure and shield lower-income groups from wage devaluation.

Broad-based income stability sustained domestic consumption, offsetting the deflationary pressures generated by wage restraint and the financialisation of accumulation. While expansionary monetary policy amplified asset inflation and redistributed income towards rentier fractions of capital, France's wage-setting institutions provided a partial buffer. These institutional mechanisms tempered the most acute distributive effects of financialisation by securing a degree of wage regularity. From this perspective, labour institutions played a compensatory role, mitigating the tendency of monetary easing to reinforce inequality and preventing the immediate translation of financialised dynamics into deep social polarisation (P. H. &. F. Savignac, 2023).

Yet beneath this relative resilience lay enduring vulnerabilities. While institutional norms preserved wage floors, the broader dynamics of labor commodification persisted, as low union density restricted workers' capacity to influence structural conditions. While the statutory minimum wage (SMIC) was periodically increased, reaching €11.65 per hour in 2024, these measures often functioned as mechanisms of containment. The segmentation of the labor force was evident, with a significant proportion of workers employed under fixed-term (CDD) or temporary contracts, which were associated with lower wages, reduced training opportunities, and limited job security (Goury & Haure, 2024). Despite legal frameworks aiming to constrain wage dispersion, they did not fully offset the segmentation of the labor force or the expanding recourse to flexible contracts. These dynamics reflect the broader capitalist tendency to adapt labor to the imperatives of capital accumulation, with institutional mediation serving as containment rather than emancipation.

Germany, by contrast, witnessed a more marked shift in the balance of labor relations, driven by policy reforms and a reorientation of industrial relations. Historically, the German collective bargaining system has been characterized by a dual representation of interests in collective agreements.

At the sectoral level, association agreements were established between the employer association and the trade union. Complementarily, there were company agreements, at the workplace level, established between the firm and the respective work council. Moreover, there was a favorability principle which only allowed company agreements to departure from the sectoral ones in the cases of greater benefits for the employees (Holst, 2015; Schulten, T., & Bispinck, R., 2017).

However, since the 1990s, this system has been eroded, as a consequence of the German reunification crisis and the opportunity it provided to employer's associations, and the mainstream economists at their service, to reassert their economic interests. Achieved mostly through opening clauses of company level derogations the erosion of the German dual system for collective bargaining benefitted disproportionately the owners and managers of German firms, as trade unions loss their regulatory power and small and medium sized firms lack company level worker's councils (Holst, 2015; Schulten, T., & Bispinck, R., 2017).

Particularly, since the early 2000s, the implementation of the Hartz packages, significantly decentralized wage bargaining and encouraged firm-level negotiation over coordinated agreements. As a result, collective bargaining coverage dropped from nearly 68% to just over half the workforce, and union membership declined in tandem. The erosion of standardized wage-setting was accompanied by a pronounced restructuring of employment conditions

(Lehndorff, 2014). Namely, the gap between the growth rate of actual wages and that of collective bargaining wages, associated to the drop in the latter's coverage rates, remained for the period observed, as evidenced by the annual reports of WSI Collective Agreement Archive, for the years covered. (Aumayr-Pintar, 2024; WSI Collective Agreement Archive, n.d.)

Although headline unemployment dropped to a historic low of 3.4% by 2023, the composition of the labor force shifted toward high levels of marginal employment as a result of the replacement of unemployment benefits with a means tested system that requires acceptance of low wage job offers, the abolition of restriction in temporary employment, the extension of atypical employment though public subsidies for low wages and the promotion of mini-jobs, and the abolition of several pathways to early retirement (Lehndorff, 2014). As a result, roughly 29% of workers were employed in low-wage, part-time, or mini-job arrangements characterized by limited benefits and minimal security, leading to the emergence of a 'paradox of employment and poverty' in the country.

This transformation was accompanied by an upswing in wage inequality. The Gini coefficient rose to around 0.34, and more than one in five workers found themselves in low-pay occupations. As discussed in the previous chapter, real wages stagnated for many, falling behind productivity growth and reflecting a general weakening of labor's capacity to capture value added. This restructuring undermined the potential for wage-driven growth. The suppression of labor incomes constrained aggregate demand, amplifying the uneven effects of monetary accommodation. Fiscal and labor market institutions failed to compensate for this dynamic, reinforcing a model that channeled surplus toward capital and external surpluses rather than domestic consumption.

The rise of precarious employment in Germany, part of a broader strategy to discipline labour and reassert capital's control over the wage relation, produced a stratified labor force with reduced bargaining power, where the fragmentation of working conditions hindered collective resistance and deepened structural inequalities (Brady & Biegert, 2017). The decline in union influence and the proliferation of insecure work arrangements helped to consolidate capital's command over surplus extraction, while relegating growing segments of the population to subordinate, market-dependent positions. In this sense, the German model advanced the logic of financialized capitalism by reengineering labor markets to support capital accumulation and surplus appropriation through repression of wage growth.

Taken together, the labor market channels in France and Germany illustrate how institutional design and political choices mediate the distributive consequences of monetary regimes. France's institutionalized wage-setting mechanisms contained wage polarization and

supported a more equitable income structure, even if they fell short of addressing deeper structural asymmetries. Germany's path, by contrast, prioritized flexibility and competitiveness, with labor market reforms facilitating the redistribution of income upward through the proliferation of insecure work and the disempowerment of labor. These contrasting cases reveal the critical importance of labor institutions in shaping how capitalist economies absorb and transmit the pressures of financialization and macroeconomic policy.

5.8 Structural Mediators of Distributional Outcomes: How Institutions Condition Monetary Policy's Effects

The distributive repercussions of contractionary monetary policy across advanced capitalist economies are shaped more by the structural and institutional contexts within which they operate than by the uniform logic of monetary transmission mechanisms. The cases of France and Germany exemplify how national configurations of labor market governance, fiscal structures, and welfare institutions mediate the extent to which monetary tightening reinforces concentration of income in the hands of capital owners.

In France the regressive implications of restrictive monetary conditions have been somewhat tempered by institutional buffers. Sectoral wage-setting mechanisms, underpinned by the automatic legal extension of collective agreements, have maintained a degree of wage compression and sustained real earnings across the income distribution—even in the context of markedly low union density. At the same time, statutory mechanisms such as the inflation and median-wage indexation of the SMIC have operated as counter-cyclical devices, helping to prevent the erosion of real wages during periods of disinflationary pressure induced by monetary tightening.

By stabilizing wage incomes and reducing uncertainty, France's institutional framework has mitigated the deflationary vicious circle typically associated with contractionary interest rate policies. In this context, macroeconomic policy does not operate in isolation but is embedded in a broader set of distributive institutions that constrain the consolidation of rentier income.

However, the protective capacity of France's model must be situated within broader structural constraints. While the wage share may be shielded from drastic decline, the underlying dynamics of accumulation—driven by profitability imperatives and the expansion of financial logics—remain largely intact. The capacity of these institutional arrangements to fully counteract the commodifying tendencies of financialized capitalism is therefore

inherently limited, as workers' structural position within the circuit of capital remains fundamentally unaltered.

Germany's trajectory over the same period illustrates how institutional restructuring can intensify the regressive effects of monetary tightening, particularly when labor is deprioritized in favor of competitiveness. The early 2000s saw the implementation of labor market reforms that disassembled key pillars of the postwar welfare state. The Hartz IV package facilitated a marked shift toward decentralized wage bargaining and eroded benefit entitlements, contributing to the proliferation of low-wage, insecure employment. These transformations were not merely technocratic adjustments but constituted a strategic reorganization of labor's role within the national accumulation regime, aimed at enhancing external competitiveness by suppressing labor costs.

Such changes undermined the possibility of sustaining demand through wage growth, redirecting the economy toward an export-driven path that relied on wage restraint and trade surpluses rather than domestic consumption. The weakening of collective bargaining structures diminished labor's ability to claim productivity gains, thus decoupling wages from output growth and facilitating the redistribution of income toward capital. Simultaneously, Germany's constitutional commitment to fiscal consolidation—manifested in debt brake provisions and a strong anti-deficit norm—restricted the capacity of public policy to act as a redistributive counterweight to monetary restriction.

Monetary tightening, in this context, operates through a transmission channel stripped of institutional buffers, more directly translating into downward pressure on labor's share of income.

Additionally, this institutional reconfiguration entrenched class divisions by cultivating a segmented labor market and reinforcing a disciplinary apparatus over wage earners. The expansion of marginal employment, such as mini-jobs and involuntary part-time work, generated a reserve army of labor that exerted downward pressure on wage demands and fractured collective labor power.

The dismantling of solidarity mechanisms—both in wage-setting and social protection—strengthened capital's capacity to appropriate surplus while intensifying workers' dependence on market-mediated income. The shift from coordinated bargaining to firm-level negotiations transformed the wage relation into a site of individualized vulnerability, exposing workers to both horizontal inequality and vertical subordination.

Taken together, the comparative experiences of France and Germany illustrate how the functional income elasticity of monetary policy, the degree to which changes in interest rates

affect income shares between capital and labor, is decisively shaped by institutional context and economic structure.

In France, mechanisms of wage coordination, minimum income protection, and redistributive taxation have collectively worked to dilute the inequality-enhancing effects of monetary restriction. These elements have not overturned the logic of capital accumulation but have moderated its most exclusionary tendencies.

Germany, in contrast, presents a model in which labor market deregulation, fiscal austerity, and wage suppression converge to magnify monetary policy's redistributive asymmetries, consolidating a regime in which financial capital predominates and labor's bargaining position erodes.

These outcomes reaffirm that monetary policy is not a neutral or exogenous force but interacts dynamically with the political-economic architecture in which it is embedded. The capacity of contractionary policy to produce regressive outcomes is not inevitable but contingent upon the presence—or absence—of institutional mediators capable of cushioning its impact. Thus, any meaningful attempt to confront the distributive consequences of monetary tightening must address the broader matrix of labor, fiscal, and welfare institutions.

5.9 Cross-Channel Integration and Class-Based Effects

The transmission of contractionary monetary policy through both financial income and labor market channels operates via interlocking mechanisms that traverse class structures, institutional arrangements, and sectoral boundaries, shaping the macro-distributional dynamics of capitalist economies.

Rather than functioning as discrete vectors, these channels are mutually constitutive, reinforcing patterns of income concentration and demand fragility within the context of financialized accumulation. The comparative experiences of France and Germany illustrate how these dynamics unfold, contingent not on the technical features of policy instruments alone but on historically specific configurations of class power, institutional mediation, and economic structure.

Interest rate hikes exert downward pressure on aggregate demand by raising borrowing costs across the economy. This dampens household consumption and curtails productive investment, particularly in labour-intensive and domestically focused sectors.

Crucially, this process disproportionately impacts wage-dependent households, whose financial margins are narrower and whose livelihoods are more directly tethered to employment

stability. Income insecurity is exacerbated in segmented labor markets, where the proliferation of precarious contracts and part-time employment weakens workers' bargaining position and constrains wage growth. These effects are not incidental but reflect deeper tendencies of wage repression and employment insecurity function as disciplinary mechanisms integral to surplus extraction.

Simultaneously, the financial income channel accentuates distributive asymmetries by privileging asset holders and rentier actors. As interest rates rise, returns on government bonds, deposits, and other financial instruments increase, bolstering income for capital-rich households and institutional investors.

The inflow of these types of income is largely decoupled from productive activity, reinforcing a class-based cleavage in which gains accrue not to those engaged in labor, but to those positioned within capital's sphere of circulation. The same monetary tightening that constrains wage-led demand also facilitates an upward redistribution of income through elevated interest earnings and asset price adjustments, thereby consolidating the dominance of capital over labour. This bifurcation of distributive outcomes underscores the extent to which financialized monetary regimes operate through structurally embedded class relations, in which policy instruments serve not simply as economic levers but as mechanisms of social reproduction.

The dual movement of suppressed wages and rising financial income engenders a broader transformation of investment patterns. Productive capital formation—already marginalized by subdued consumption expectations and corporate short-termism—is further displaced by speculative allocation toward rent-generating assets. Investment becomes increasingly oriented toward short-term high-return financial instruments rather than the development of the productive forces. This reorientation not only undermines long-term growth potential but also entrenches a dual-track economy, wherein capital accumulation proceeds formally independent of labour absorption.

Within this configuration, the role of national institutions becomes pivotal in mediating, amplifying, or mitigating the functional income elasticity of monetary policy. France's institutional architecture helped to maintain wage compression and preserve consumption capacity, limiting the translation of tighter monetary conditions into regressive distributive outcomes. Public employment initiatives and targeted transfers function as stabilizing mechanisms, cushioning households from macroeconomic shocks and constraining the transmission of interest rate adjustments into widespread inequality.

Germany, by contrast, illustrates a different institutional environment, shaped by more profound labor market liberalization, decentralization of collective bargaining, and entrenched fiscal conservatism. These structural shifts render the economy more susceptible to the regressive effects of contractionary policy, enabling a more direct transmission of monetary tightening into reduced labor shares and increased returns to capital. These findings are in line with that of Hein and Schoder (2011) which associate lower rates of capacity utilization, capital accumulation, and profit, combined with a redistribution of income at the expense of labour income with long-term increases in the real interest rate.

Across both cases, monetary policy operates as a vector of capitalist reproduction, reinforcing the subordination of labor while facilitating new forms of surplus appropriation through financial mechanisms. The traditional wage-profit conflict is thus extended into a terrain where rentier incomes and fictitious capital play an increasingly dominant role. Income is no longer merely extracted from the labor process but appropriated through the control of assets, interest-bearing claims, and financial intermediation. This transformation does not eliminate the exploitation of labor but reorganizes its function within a broader logic of financialized accumulation.

These dynamics expose the fallacy of viewing monetary policy as a technocratic domain insulated from distributive considerations. On the contrary, its implementation and effects are deeply embedded in class relations and institutional power. What appears as macroeconomic necessity is, in fact, a politically conditioned outcome, structured by decisions about whose incomes are protected, whose claims are prioritized, and whose livelihoods are made expendable.

Ultimately, contractionary monetary policy reinforces functional inequality by simultaneously suppressing wages, destabilizing employment, and concentrating financial returns. These effects are magnified in institutional contexts that fragment labor organization and limit redistributive capacity. Confronting these dynamics requires more than compensatory policies; it demands structural reforms that re-empower labor, democratize credit allocation, and subordinate financial interests to social objectives. Without such transformations, monetary policy will continue to serve as a conduit for the consolidation of capitalist class power and the entrenchment of distributive asymmetries.

CHAPTER VI

Conclusion

This dissertation's work has attempted to refute the widely held belief that monetary policy is distributionally neutral and that its impacts are restricted to short-term changes in price stability and aggregate demand. The study has shown that contractionary monetary interventions like those implemented by the ECB in response to the post-pandemic inflationary period, have significant distributive effects by placing monetary policy within the larger context of class relations and capitalist accumulation. These policies reinforce the incomes of capital and financial assets holders while disproportionately burdening workers through job instability, real pay erosion, and diminished bargaining power. They are far from protecting worker's bargaining power.

The empirical investigation into France and Germany has uncovered similarities and differences in the ways that contractionary monetary policy affects the distribution of income. In both situations, operating surpluses and financial revenues increased while real wages stagnated or decreased in the face of rising inflation. This validates the function of the four transmission channels that have been identified in the literature: the activity channel slowed output growth and suppressed aggregate demand; the labor market channel weakened workers' bargaining power by increasing precarity and unemployment risks; the cost channel increased production costs and eroded real wages; and the financial income channel secured higher returns for creditors and asset holders. Despite being portrayed as neutral tools for

reestablishing macroeconomic stability, these mechanisms collectively show how interest rate increases realign distributive outcomes in favor of capital.

However, the comparative method also emphasized how crucial structural and institutions mediations are. Although it came at the expense of promoting atypical employment and further eroding union density, Germany's economy was able to withstand some of the distributive shocks due to its reduced family debt, robust export performance, and decentralized but flexible labor market institutions. Higher household debt, a more centralized wage-setting system, and a more robust public sector created a different trajectory in France. Although collective bargaining coverage offered some defense against outright wage suppression, increasing debt and wealth concentration exacerbated regressive effects trough the financial income channel. These differences highlight the fact that the distributive effect of monetary policy varies depending on the institutional environment and the arrangement of class forces in each economy.

The work has wider theoretical ramifications in addition to these empirical findings. It restates the ECB's policy framework's reliance on the neoclassical paradigm's limitations. The prevailing viewpoint ignores the structural and distributive aspects of monetary policy by adhering to the theory of long-run money neutrality and attributing inflationary pressures to unanchored expectations or excessive demand. It ignores the political economy of income shares and normalized unemployment as a prerequisite for price stability. By doing this, it validates a class bias that systematically devalues labor while favoring capital incomes.

However, a more convincing framework for comprehending the recent inflationary event and the distributive effects of the ECB's response is offered by the critical political economy perspective. It reveals causal mechanisms hidden by conventional narrative by highlighting the importance of financial speculation, oligopolistic pricing, and supply-side disruption in causing inflation. Furthermore, by emphasizing the distributive battle between labor and capital, it exposes monetary policy as a field of class conflict rather than an impartial technocratic endeavor. This viewpoint not only clarifies the empirical patterns seen in France and Germany, but it also suggests other approaches to policy that can reduce inflation without unduly hurting workers.

These findings have important normative consequences. The current institutional setup of central bank independence, limited inflation targeting, and fiscal policy's subordination to monetary orthodoxy needs to be critically reexamined if monetary policy is fundamentally distributive. Beneath the rhetoric of neutrality and reliability, the ECB's pro-capital tilt bias has been solidified by its insulation from democratic accountability. Both the mandate and the

institutional underpinnings of monetary policy must be reconsidered in order to realign it with more general social objectives. Alternatives that are feasible include the re-politicization of central banking under democratic control, the coordination of monetary and fiscal policy, and multi-mandate frameworks that combine employment and equity objectives.

The substantive policy tools that could alleviate inflationary pressures without making inequality worse are equally significant. The origins of cost-push inflation, especially in the food and energy sectors, might be immediately addressed by regulating speculative, financial activity, taxing abnormal profits, and implementing strategic price restrictions. Public spending on infrastructure, industrial policy and renewable energy could increase productive capacity and ease supply constraints, so reducing inflationary pressures in a way that is socially progressive. In order to reconcile price stability and distributive fairness, wage supports and coordinated bargaining could protect purchasing power while averting inflationary spirals. These actions evidence that there are viable and essential alternatives to contractionary orthodoxy.

However, this study clearly recognizes the limits of its scope and methods. Although their structural importance and different institutional settings justify the focus on France and Germany, it ignores smaller and peripheral Eurozone economies that can show different patterns. The 2015-2024 period, which was characterized by notable disruptions like the pandemic and geopolitical conflicts, makes it more difficult to separate the impacts of other shocks. Furthermore, the study of informal or less obvious aspects of class conflict, including workplace-level bargaining dynamics or political mobilization against austerity, is limited by the dependence on readily available quantitative measures. These drawbacks suggest directions for further investigation, such as comparing peripheral Eurozone economies, conducting more extensive historical examinations of monetary regimes, and closely examining the relationship between monetary policy and political movements.

In conclusion, is tis impossible to interpret the ECB’s contractionary response to the most recent inflationary event as neutral technocratic policy. It worsens structural inequality in the Eurozone and has distributive effects that support the interests of capital. The study emphasizes the need to rethink monetary policy as a tool of class politics by exposing the ways in which it shifts income from labor to capital. The results add to a growing corpus of research aimed at democratizing monetary governance and incorporating distributive considerations into the main framework of economic planning.

The wider implication is clear: the continuous dependence on contractionary dogma poses a threat to solidify inequality and erode social cohesiveness in a period of recurring crises. A

reorientation of monetary and fiscal policy toward equity, sustainability, and democratic accountability is not merely desirable but imperative. Economic policy can only serve the interests of the many instead of preserving the privileges of the few by undergoing such a transformation.

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Annex A: Wage Share Calculations for France & Germany (2015-2023)

A.1 Wage Shares

Wage Share (France and Germany, 2015-2023)									
TIME / **GEO (Labels)**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
France	51.93 %	52.20 %	52.46 %	52.31 %	51.11 %	51.55 %	51.26 %	51.86 %	51.34 %
Germany	51.66 %	51.86 %	52.01 %	52.93 %	53.72 %	54.91 %	53.39 %	52.65 %	53.12 %

Source: Own calculations drawing on AMECO database *(European Commission, 2024).*

A2. Average Real Wages

Average Real Wages (France & Germany, 2015-2023)									
TIME / **GEO (Labels)**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
France	€41534.91	€42170.75	€42151.67	€42035.89	€41596.93	€40147.76	€40859.72	€39452.14	€39724.15
Germany	€36952.13	€37938.95	€38689.05	€39752.00	€40907.56	€40934.85	€41536.34	€40048.62	€41094.28

Source: Own calculations drawing on AMECO database *(European Commission, 2024).*

A3. Average Real Productivity

Average Real Wages (France & Germany, 2015-2023)									
TIME / **GEO (Labels)**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
France	€75765.38	€75611.91	€75168.73	€75252.68	€75275.65	€77561.91	€76506.88	€77114.40	€80348.41
Germany	€65812.31	€65801.70	€65857.01	€66206.51	€66925.21	€68592.13	€70378.36	€73649.03	€77602.25

Source: Own calculations drawing on AMECO database *(European Commission, 2024)*.

Annex B: Transmission Channels of Monetary Policy to the Functional Distribution of Income for France & Germany (2015-2023)

B1.1. France: Activity Channel

France - Activity Channel	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Government expenditure, percent of GDP (% of GDP)	51.69	51.66	52.87	53.40	53.26	53.57	52.98	52.61	53.28	56.74	56.63	57.01	57.89	58.59	58.39	57.60	57.38	57.67	56.37	55.34	61.70	59.46	58.40	56.99
Public Sector Borrowing Costs (%)	5.40	4.95	4.88	4.14	4.10	3.41	3.80	4.30	4.24	3.65	3.12	3.32	2.54	2.20	1.67	0.84	0.47	0.81	0.78	0.13	-0.15	0.01	1.70	2.99
Share of Public Employment (% of Total Employment)	22.35	22.26	22.59	22.62	22.19	21.96	22.06	22.15	22.18	22.09	21.84	21.54	21.31	21.47	21.13	-	-	-	-	-	-	-	-	-
Tax Revenues (% of GDP)	23.47	23.50	22.70	22.23	22.27	22.34	22.60	22.16	22.03	20.71	21.94	21.78	22.54	23.18	23.12	23.17	23.09	23.69	24.25	24.57	24.65	23.91	24.47	-

Source: ECB Data Portal (ECB, 2025); IMF Data Portal (IMF, 2025); OECD Data Explorer (OECD, 2025)

B1.2. Germany: Activity Channel

Germany - Activity Channel	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Government expenditure, percent of GDP (% of GDP)	45.10	47.61	47.95	48.46	47.07	46.91	45.35	43.51	44.05	48.10	47.87	45.27	45.08	45.15	44.50	44.51	44.72	44.57	44.69	45.56	51.13	50.71	49.00	48.38
Public Sector Borrowing Costs (%)	5.26	4.80	4.78	4.07	4.04	3.35	3.76	4.22	3.98	3.22	2.74	2.61	1.50	1.57	1.16	0.50	0.09	0.32	0.40	-0.25	-0.51	-0.37	1.14	2.43
Share of Public Employment (% of Total Employment)	11.42	11.29	11.42	11.44	11.07	10.86	10.78	10.73	10.67	10.58	10.57	10.57	10.64	10.87	11.13	-	-	-	-	-	-	-	-	-
Tax Revenues (% of GDP)	11.59	10.85	10.71	10.86	10.29	10.49	10.67	11.14	11.28	11.39	10.97	11.25	11.39	11.39	11.26	11.26	11.08	11.20	11.24	11.21	10.41	11.02	11.01	-

Source: ECB Data Portal (ECB, 2025); IMF Data Portal (IMF, 2025); OECD Data Explorer (OECD, 2025)

B2.1. France: Cost Channel

France - Cost Channel	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Labour Cost Index									81.8	83.1	85.3	87.9	89.9	90.5	91.0	91.9	93.1	94.3	96.3	98.0	100.0	101.3	105.3	:
HH Market Concentration Index	0.066	0.063	0.062	0.062	0.06	0.059	0.059	0.058	0.053	0.051	0.051	0.051	0.047	0.048	0.049	0.049	0.049	0.045	0.047	0.046	0.046	0.046	0.048	
Operating Surplus Mixed Income (Millions of €)	396455.1	318227.8	319273.4	324870.4	342276.2	349283.8	369177.0	400143.4	409018.0	350117.3	373191.4	377350.2	363023.3	373727.5	381296.6	399201.9	390788.0	388966.2	388418.3	401737.5	369842.1	422525.1	409842.0	474383.3
Unit Labour Costs	68.43	69.8	72.82	74.91	76.11	78.43	79.84	81.9	83.31	84.7	86.06	87.11	87.92	88.96	89.65	90.41	90.73	92.26	92.9	93.53	100	98.59	101.8	107.8
Gross Fixed Capital Formation	86.719	88.519	87.674	89.741	92.974	95.733	99.920	105.378	106.649	96.806	98.513	100.583	100.330	99.781	99.385	100.000	102.759	106.559	110.291	114.824	108.131	118.657	118.600	119.062

Source: ECB Data Portal (ECB, 2025); Eurostat (Eurostat, 2025); IMF Data Portal (IMF, 2025)

B2.2. Germany: Cost Channel

Germany - Cost Channel	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Labour Cost Index	66	68	69	71	71	71	72	73	74.4	76.4	77.2	79.4	82.2	82.9	85.0	87.1	89.	91.8	94.7	97.7	100.0	101.2	107.	:
HH Market Concentration Index	0.047	0.045	0.045	0.044	0.043	0.042	0.04	0.039	0.037	0.037	0.037	0.037	0.037	0.037	0.038	0.039	0.037	0.037	0.037	0.037	0.038	0.038	0.04	
Operating Surplus Mixed Income (Millions of €)	440009.	472634.	481837.	482865.	522992.	547337.	607480.0	642952.	620182.0	514409.	582217.	619327.	594156.	595699.	628218.	637720.	660034.0	684476.	661155.	644160.	609589.	697715.	707457.0	758162.
Unit Labour Costs	65.72	66.51	66.6	67.79	67.69	67.51	68.14	70.56	71.83	76.5	74.9	75.38	78.52	79.27	80.45	84.37	84.98	87.42	89.95	97.98	100	107.5	128.1	135.9
Gross Fixed Capital Formation	91.628	89.235	83.814	82.459	82.087	82.82	89.060	92.284	93.738	84.678	89.508	96.175	95.967	94.863	98.273	100.000	103.792	106.536	110.383	112.623	109.29	109.989	109.770	108.448

Source: ECB Data Portal (ECB, 2025); Eurostat (Eurostat, 2025); IMF Data Portal (IMF, 2025)

B3.1. France: Financial Income Channel

France - Financial Income Channel	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Financial Balance Sheet (% of GDP)	179	182	161	177	196	242	270	284	258.	271.9	282.1	276.8	259.3	273.1	318.7	313.7	325.4	315.4	314.2	342.1	383.5	404.9	396.4	391
Household Debt Ratio (% of GDP)	33.73	33.91	34.54	35.45	37	39.07	41.98	44.37	46.71	49.57	52.4	53.68	54.74	55.13	55.55	55.72	56.29	58.25	59.26	60.29	61.3	62.95	65.35	65.96
Wealth Share Top 10%	0.6047	0.596	0.5809	0.5729	0.5665	0.5583	0.6	0.5672	0.6	0.5663	0.5832	0.5766	0.5721	0.5785	0.5866	0.5886	0.6	0.5874	0.591	0.5902	0.5882	0.5955	0.6	0.597
Wealth Share Top 1%	0.298	0.284	0.266	0.256	0.251	0.238	0.234	0.237	0.23	0.227	0.246	0.242	0.238	0.245	0.257	0.26	0.256	0.257	0.263	0.262	0.259	0.27	0.269	0.273
Wealth Share Bottom 50%	0.0566	0.0581	0.0603	0.0602	0.0605	0.0606	0.058	0.0558	0.0563	0.0536	0.0474	0.0505	0.053	0.051	0.0499	0.050	0.0499	0.0498	0.0494	0.0495	0.0497	0.0488	0.049	0.0487

Source: Banque de France's statistical portal (Banque de France, 2025); Eurostat (Eurostat, 2025); OECD Data Explorer (OECD, 2025); World Inequality Database (WID, 2025)

B3. 2. Germany: Financial Income Channel

Germany - Financial Income Channel	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Financial Balance Sheet (% of GDP)	157	173	175	181	190	218	230	247	255.5	248.6	252.	252.7	267.9	247.8	262.7	260.7	263.3	258.5	261.8	280.4	312.9	322.9	314.4	311
Household Debt Ratio (% of GDP)	70.48	69.71	69.34	69.08	68.4	67.27	66.12	62.87	60.85	59.59	58.96	57.1	55.99	55.52	55.27	54.92	54.24	53.6	52.81	52.55	52.33	52.13	51.9	51.54
Wealth Share Top 10%	0.5741	0.571	0.5707	0.571	0.5794	0.5867	0.6	0.6005	0.6	0.5964	0.591	0.5877	0.5823	0.5832	0.5864	0.5864	0.6	0.5857	0.5885	0.586	0.5833	0.5859	0.6	0.5845
Wealth Share Top 1%	0.266	0.262	0.263	0.266	0.274	0.278	0.28	0.286	0.289	0.277	0.273	0.271	0.266	0.27	0.276	0.277	0.279	0.278	0.285	0.28	0.276	0.28	0.278	0.278
Wealth Share Bottom 50%	0.0401	0.0386	0.0369	0.0352	0.033	0.0309	0.029	0.0267	0.0249	0.0271	0.0293	0.0312	0.033	0.0347	0.0344	0.034	0.0343	0.0343	0.0341	0.0343	0.0345	0.0343	0.034	0.0344

Source: Banque de France's statistical portal (Banque de France, 2025); Eurostat (Eurostat, 2025); OECD Data Explorer (OECD, 2025); World Inequality Database (WID, 2025)

B4. 1. France: Labour Market Channel

France - Labour Market Channel	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Collective Bargaining CV Rate	97.70	97.70	97.70	97.70	97.70	98.00	98.00	98.00	98.00	98.00	98.00	98.00	98.00	98.00	98.00	98.00	98.00	98.00	98.00					
Trade Union Density	10.80	10.80	10.80	10.80	10.50	10.50	10.50	10.50	10.60	10.60	10.80	10.80	10.80	11.00	11.00	11.00	10.80	10.80	10.80					
EPL Strictness														2.83	2.81	2.81	2.81	2.79	2.68	2.68				
Part-time and Temporary Employment (% of Total Employment)																18.90	18.80	18.70	18.50	18.00	17.5	17.1	16.2	16.30
Part-time Employment (% of Total Employment)																12.5	12.5	12.9	12.6	12.1	11.2	11.9	12.7	12.2
Total Unemployment Rate														10.3	10.3	10.3	10.1	9.4	9.	8.4	8.	7.9	7.3	7.3
Labour Force Participation Rate	70.4	70.5	70.4	70.4	70.4	70.6	70.9	71	70.8	71.4	71.8	72	72.2	72.3	72.4	72.8	72.6	72	73	73.6	73.9	74.5		
Median Equivalised Net Income																21415	21713	21960	22220	22562	22143	22732	23053	24179

Source: Eurostat (Eurostat, 2025); OECD Data Explorer (OECD, 2025)

B4. 2. Germany: Labour Market Channel

Germany - Labour Market Channel	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Collective Bargaining CV Rate	67.80	68.80	67.80	67.60	65.80	64.90	63.30	61.70	61.30	61.70	59.80	58.90	58.30	57.60	57.80	56.80	56.00	55.00	54.00					
Trade Union Density	24.60	23.70	23.50	23.00	22.20	21.50	20.60	19.80	19.00	18.80	18.90	18.40	18.30	18.00	17.70	17.60	17.00	16.70	16.60	16.30				
EPL Stricteness														2.33	2.33	2.33	2.33	2.33	2.33	2.33				
Part-time and Temporary Employment (% of Total Employment)																33.30	33.20	33.40	33.30	33.70	27.8	27.8	27.8	28.50
Part-time Employment (% of Total Employment)																10.8	10.9	10.7	10.5	9.9	9.1	9.3	9.9	9.5
Total Unemployment Rate														5.	4.7	4.4	3.9	3.6	3.2	3.	3.7	3.7	3.2	3.1
Labour Force Participation Rate				:	:	:	:	:	:	75	75.4	76	76	76.4	76.5	76.4	76.7	77	77.5	78	77.3	78.5	79.3	79.7
Median Equivalised Net Income																20668	21275	21920	22713	23515	26008	24946	24925	26274

Source: Eurostat (Eurostat, 2025); OECD Data Explorer (OECD, 2025)