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Rent Extraction by Capitalists☆

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Abstract

Rent extraction by capitalists is present if the capital income share exceeds the capital output elasticity. Based on a sample of 111 countries during the period 1970-2010, panel model estimates show that: (i) the average capital income share significantly exceeds the average capital output elasticity; (ii) the difference between the average capital income share and the average capital output elasticity has increased over time; (iii) in democracies the average capital income share is not significantly different from the average capital output elasticity. The findings suggest that there exists more rent extraction by capitalists in autocracies and anocracies than in democracies.

JEL codes

E0, O4

Keywords

Capital output elasticity, capital income share, rent extraction

1. Introduction

Income inequality is currently receiving quite a bit of attention in policy circles and the academic literature. Thomas Piketty (2013), in a much discussed book, points to the rise of inequality in recent decades.[1] One of Piketty's main indicators of rising inequality is the increase in the capital income share. Figure 1 plots the average capital income share for a sample of 111 countries during 1970-2010 based on Penn World Table data (Feenstra et al., 2013). The figure is consistent with Piketty's claim that the capital income share has been rising over the past decades: The

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[1] For a discussion of the book by Piketty, see, for example, Acemoglu and Robinson (2015) or Jones (2014). For related papers on the topic of income distribution and rent-seeking, see, e.g. Angelopolous et al. (2009); Di Gioacchino and Sabani (2009); Ng (2015); or Thaize (2010).