PRACE NAUKOWE UNIWERSYTETU EKONOMICZNEGO WE WROCŁAWIU
RESEARCH PAPERS OF WROCŁAW UNIVERSITY OF ECONOMICS **nr 482 • 2017**

Wrocław Conference in Finance: Contemporary Trends and Challenges ISSN 1899-3192
e-ISSN 2392-0041

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GROWING LABOR PRODUCTIVITY AND SECURITIZATION – THE TWO SURPRISING FACTORS OF INCOME INEQUALITY

WZROST EFEKTYWNOŚCI PRACY I SEKURYTYZACJA – DWA NIESPODZIEWANE CZYNNIKI NIERÓWNOŚCI DOCHODOWYCH

DOI: 10.15611/pn.2017.482.19
JEL Classification: E24, E58

Summary: The paper tries to indicate two reasons for worldwide growing income disparity. The first one is capitalism transformation from individual ownership to anonymous, broadly diversified portfolio holders, who do not adhere to a particular company for a long time. The leading role is played by the company management, especially its CEO. Capital owners become finance holders who look only at temporarily best investment opportunities. Therefore, the managers are compelled to race for higher rate of return. To ensure that the assets portfolio of financial owners is diversified, financial capitalists prefer short-time investment strategies, focusing more on short-time efficiency than on long-time development, mainly on cost reductions, including workers' salaries. Such efforts are accompanied by a strong and continuous rise in labour productivity (the second factor). Over time, fewer people are needed to participate in the production process, which contributes to the weakness of the labour force in the struggles for salary. This constrains the income rise for a big part of the society and leads to a global demand squeeze.

Keywords: LTRO, money supply, income distribution.

Streszczenie: Powszechnie rosnąca różnica między dochodami jest dobrze znana. W artykule przedstawiono dwa powody rosnącej dysproporcji dotyczącej dochodów na całym świecie. Pierwszy to transformacja kapitalizmu od indywidualnej własności do własności anonimowej, szeroko zdywersyfikowanych posiadaczy portfela, którzy od długiego czasu nie wiążą się z konkretną firmą. Wiodącą rolę odgrywa kierownictwo firmy, w szczególności jej dyrektor generalny. Właściciele kapitału stają się posiadaczami finansów, którzy szukają tylko chwilowych najlepszych możliwości inwestycyjnych. Dlatego menedżerowie są zmuszeni do wyścigu o wyższą stopę zwrotu. Aby zagwarantować dywersyfikację portfela aktywów właścicieli finansowych, kapitaliści finansowi wolą krótkoterminowe strategie inwestycyjne, skupiając się raczej na efektywności krótkoterminowej niż na długoterminowym rozwoju, głównie na redukcji kosztów, w tym na wynagrodzeniach pracowników. Takim staraniom towarzyszy silny i ciągły wzrost wydajności pracy (drugi czynnik). Z biegiem czasu potrzeba mniej osób, aby uczestniczyć w procesie produkcyjnym, co przyczynia się do osłabienia siły roboczej w walce o wynagrodzenie. Powoduje to ograniczenie wzrostu dochodów w dużej części społeczeństwa i prowadzi do wyhamowania popytu na całym świecie.

Słowa kluczowe: LTRO, podaż pieniądza, podział dochodów.

1. Introduction

The growing participation of the richest in the national income is becoming the main focus of economic discussion now. Some prominent economists foresee a global disaster if this process is not halted. They propose a radical jump in taxation of outstanding income and property of the social upper class [Piketty 2014]. Their opponents (e.g. Reisman) believe that the implementation of such means would be a real catastrophe, as it would paralyze endemic factors of development. The struggle between these two approaches seems to form the main front line of modern economics. Nevertheless, the author of this paper has some doubts as to whether it is really the essence of the current transformation of the market economy. After all, income inequality seems to be the result of – and not the reason for – this transformation.

This paper does not try to specify what shape of income distribution is required and focuses on the reasons for growing income inequality. Therefore, there are no recommendations for the means directly influencing the income structure. At the end of the article, there is only a suggestion that the key of this problem resides in the monetary policy, which should go beyond the classic boundaries, concerning first of all the public expenses. Last experiences point out that they really help to overcome the post-crisis stagnation trap. The foregoing concept to do that by increasing liquidity of the banking system seems to be failed. Even with the basic rate equal to zero, this way appears to be inefficient to leverage growth or even to stop banks' over-liquidity.

Finally, we have too much money, a too small demand, very insufficient GDP growth, and many proposals on how to come out of this situation. The majority of them try to find a solution in the reform of the distribution sphere.

2. The new economy, dual economy and technological changes on their background

It seems that the most frequent problem is not finding the reason for growing income inequality, which occurs in the most developed countries. Researchers think first of all how to stop this process using the means to regulate the income structure, yet without any visible results. However, there are many depictions of the income disequilibrium, and currently it is difficult to obtain explanations other than the spectacular answer: the richest become richer, because they are rich. The whole mechanism behind this process seems to be still unrecognized.

One of the attempts to clarify this process is the concept of Norman Kurland, one of the authors of the 'dual economy'. According him, property works like gravitation: the bigger the object, the stronger the power to attract capital. The reasons for this are complex and numerous. One is presented as such: "wealthy people can attract capital credit (i.e., other people's money) to add new and more powerful productive assets to their existing ownership stakes, because wealthy people can pledge their previous accumulations as collateral, thus eliminating the potential risk to lenders in the event that the loan cannot be repaid" [Kurland et al. 2002, p. 177]. This concept could be supported by the data from the stock exchange, where the subject of interest are the biggest companies only. In the USA, companies from S&P dominate absolutely (80% of available market capitalization), but what is interesting is that the process of concentration is going on outside the group of these companies. On smaller stock exchanges, the level of concentration is much higher. On Central and Eastern European stock exchanges, 20 largest companies account for more than 95% of the turnover. Thomas Piketty [2014] sees growing inequality as a result of the difference between the yield obtained by society ('g') and the rate of return on capital ('r'). The latter rate is much higher than the economic growth ('g'), which gives capitalists immense power.

Undoubtedly, large capital is an attractor for small capital owners. People would like to share the success of 'big boys' buying blue chips issued by large companies. They believe that in the long run this is the optimal investment according to stability and efficiency criteria. Such an idea is deeply grounded in the Sharpe-Markowitz CAPM model.

Currently, access to capital is as easy as never before. There are no institutional or other barriers to borrowing money cheaply. Financial capital is sufficient to cover the needs of everybody who produces efficiently. Such phenomena as crowding out effect, caused by large budget borrowing, have disappeared. In spite of the disinflation process, cheap money is easily accessible. The problem of income disparity lies not in the channels of money distribution, but in the social relations created by the property difference.

A long time ago, the borders of social friction were of cultural nature, and have now disappeared as such; therefore, social advancement is easier. Unfortunately, it does not mean that the society is irrevocably on the way of inside integration. The distance between the richest percent and the rest of the society is becoming greater and greater. The problem lies in the worsening of the labour opportunities. However, the number of jobs is not decreasing in general; the structural changes in technology make it necessary to make big efforts to follow new technical challenges. A hundred years ago, one could say that everybody was able to do everything. A new employee got qualifications in a short time. Now, the era has come when almost each job needs very sophisticated and specialized equipment, accompanied by proper knowledge. The process of getting proper qualifications is now much longer and costly.

What could be surprising is that these opportunities appear to be insufficient for improving the workers' situation. Well-qualified workers have a strong position in the company, but only as long as their jobs are needed. Unfortunately, technology and structural changes are reducing many job types which seemingly could not be substituted years ago. Now they can. However, the system creates new jobs for very well qualified workers, but new areas of production activities are still appearing. This compels people to change their knowledge and qualifications, which requires much effort. Some of them are difficult to be learned outside the company, a situation that occurred never before. Many people (mostly young) are ready to work for free to get some experience. This gives them a chance to find a job, a chance that was earlier close to zero. They are ready to work for even a few years being grossly underpaid. This is the result of the situation where the employer has in his hands not only the job offer as such, but also the necessary education.

However, social diversification still exists, yet it is not so pronounced as before. First of all, the division of society into two parts: capital owners and workers, although still existing, is now fuzzier. People's roles in the economy are more differentiated, given a more complex production process and rich social organization (political parties, associations, fan clubs, etc.). Also, society – divided into two groups only: employers and employees; does not fit cognitive needs. Additionally, some people who are very important for the economy work on the self-employment basis. This equally concerns plumbers, software creators, designers, architects, etc. Social connections are less shaped along the worker-employer dimension. Intellectual needs and common interests are becoming more important.

If the socio-cultural reason for stratification becomes less important, what remains? Probably only one thing: money. People are now differentiated by income, but what is interesting is that the structure determined according to these dimensions is very poor. As a matter fact, one can specify only two groups that correspond to a very popular opposition: one versus ninety-nine percent. A very small fraction of society has giant property. According to the Report of the Credit Suisse Bank [2015], 1% of the global population has 50% of global wealth. The share of the richest in the global private property was decreasing until the subprime crisis (44% in 2009), but anyway 1% of the US citizens absorbed 60% of the GDP in 1977-2007 [Piketty 2014]. Three years after the crisis, the power of the richest started growing again (see also Figure 1) and the distance between them and the others was becoming greater and greater.

Fortunately, the boundaries in this major part of society (99%) are not becoming stronger and their existence is not the key problem of people's integration. In the richest countries, the current standard of living, even for the poorer half of the society, is generally accepted, but it does not mean that the poorest are satisfied. Their problem is fear about the future which is more and more unclear, heightening

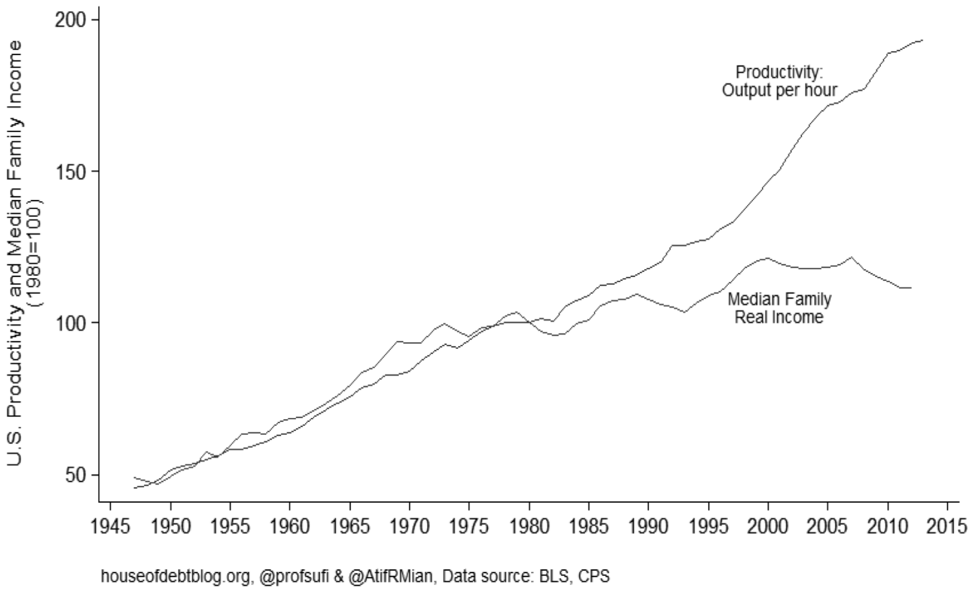

Fig. 1. Divergence of income and productivity

Source: [Thoma 2016].

the feeling of instability. So many things have changed and people are still in the process of changing their position. All that results in a more fuzzy and dynamic social structure than before. Technological progress is continuously creating new jobs for people and shedding old ones. The feeling of uncertainty and fears of losing a job for the sake of technology make workers significantly less brave with their requirements. Of course, they should get some aid from the government, but where and on what scale? Such aid may weaken labour motivation and a country's position in international cooperation. Now, the social economic system is more complex than before. Earlier, the most important challenge for the government was the coordination of labour and capital. Now, it concerns first of all four production factors: qualified workers, capital, technology and raw materials [Acemoglu, Robinson 2013]. Access to technology (patents, licenses), smooth delivery of such products as crude oil, metals, professional skills, etc., are becoming fundamental elements of stable development upon condition of their harmonic organization. Does it mean a stable position of an average individual? Unfortunately, no.

Direct supervision by public authorities seems to be impossible in this respect. One should find a systemic solution which should rely on a new balance between labour and capital. Previous remedies to achieve and maintain such a balance failed, to a large extent as a result of changes in the economic regulatory system.

3. A new place of top management in the society

A growing problem for organizations is caused by top management as the leading group substituting capitalists in decision-making. Now, capital owners' role is, to some extent, similar to the former gentlemen's life. They make very important decisions on financial flows, but in any case, they are not involved in the production processes. This creates specific relations between these two groups. Top managers take efforts to make companies attractive to financial capital owners. Stock price rise, innovation, etc. become the elements of the road show. Depending on what it looks like, its actors draw more or less money from the finance owners. Capitalists are like the jury in a beauty contest. They do not take part in it, but distribute all awards.

There is a big change in relation to the old paternalist capitalism, where the owner was active in the production process. Now, this model is gone. Managers are independent in their decisions concerning almost all aspects of commercial activity. No bother what decisions were made, the results have to be spectacular and attractive. If not, managers will lose their lucrative positions in a few years.

Such a model has a substantial disadvantage for the workers. Now, they are subordinated to people who should show their indispensability, additionally – in a short time. Ownership ensures a leading position for a long time, which is not ensured in the managerial contract. The tenure of the CEO lasts only a few years. During this time, officers have to show how efficient their work had been. Therefore, in the whole managerial milieu, there is a competition: who achieves the best result as regards company profit and return on capital. This generates extremely strong pressure on decreasing the costs, the cost of labour first of all.

In these circumstances, the workers (working class) face the following problems:

- technological progress crowds out human work,
- structural changes cause unpredictability of movements in removing and creating jobs,
- strong pressure on company yield keeps salaries at an almost unchanged level.

People with special qualifications are still needed, but nobody knows which specialization will be useful in the near future and how long it will last. The equilibrium between labour demand and labour supply could be stable, but in the macro scale. In the local business environment, it is fragile, which has a significant impact on workers' mentality. Fears of losing a job are still very deep, even there where jobs are objectively not jeopardized. The future is always unpredicted, but now it seems that the level of uncertainty is rising.

Altogether, the situation of capital owners is different. Capital allocation is now very easy to change in opposition to human skills. Of course, if it is big enough and allows its safe diversification, then capital owners have a natural advantage over the workers as regards the stabilization of the money stream and fears that it will be disrupted. The investment portfolio could be flexible and shaped fast, which is not possible with human skills. When somebody has large capital, which is the source of livelihood for him, he has a big chance that his comfortable existence will last long. Workers, even those with very high qualifications, cannot be so sure. Nowadays, only big money becomes the source of stability. That has a strong impact on the attitude and negotiation power represented by capital and labour.

It seems that currently the society could be divided into two main groups: first – people with ensured stable livelihood and money meeting all their needs, and second (the majority of the society) – the people with a weak feeling of stabilization and a significant shortage of needs coverage.

For a formal reason, top managers should belong to the second group. They earn big money, but its source is temporary. Nevertheless, this classification is wrong. Maybe it was proper a long time ago when there was not such a big income gap between the top management and the workers. Nowadays, they get such big money that it is sufficient to live as very wealthy for a long time. As a matter of fact, after losing their position in the company, they become the same capitalists as those who hired them before. Now, they will look where to invest the money accumulated. One can say that top managers, even if currently not playing the role of capital owners, will do so in the future. However, these people are also theoretically company workers hired for a limited period of time. It is true, but means noting. Top managers have so much money that they can transfigure themselves into financial capital owners without any problems. Even if they retired early, their savings, golden parachutes and special premiums (e.g. a ban on work for the competitors) would deliver enough money to be rich to the end of life and sometimes make well calculated financial operations. As regards their consumption behaviour, it is unchanged, identical to that when they were in the position of the manager and later, substantially remaining the same.

If company performance improves and costs are stable, the area of financial freedom appears to reward efficiency creators. Not only capital owners, but also the authors of the company's good parameters get money, grasping the opportunity to conceal labour productivity growth. This process is probably more visible if we take into account that the salaries of the CEOs of S&P companies are more than 200 times median of their workers' salaries [Chamberlain 2015].

In this way, we have the stable process whereby the richest become richer and the majority of workers think not to rise their salary, but to keep it as not worse than before.

4. The impact of income inequality on the economy. Methods for counteracting negative processes

The growing income inequality probably cannot be eliminated by any economic instrument. It creates social problems, but unfortunately also causes economic disequilibrium. Weak opposition against salary stabilization also suppresses domestic demand growth. When growing production output does not face proper demand, then the use of production factor potential is very limited.

Domestic demand depends not only on income, but also on saving inclination and – later – saving transformation to investment. If too much or too little is invested, the economic balance is failed. Unfortunately, this is not only a problem of the total value of saving, but also of its social structure (who has this money). The shift of income to the richest part of society creates a special problem. The richest people save more money than the rest of the society. This is a result of a decreased marginal value of consumption, which was already established in the 19th century.

Consumption needs could be treated as non-limited, but it does not mean that the consumption vector is independent of the income group. For example, at a high level of income, consumption of some goods and services is stable, because there is no need to use more of them. People become satisfied with them and look for new objectives. Unfortunately, very rich people focus their consumptions on goods that do not come from the production process. First of all, they are interested in goods that are not commonly accessible: unique, very rare, like specific real estate, jewellery, antique furniture, sophisticated craft products, etc. Traditionally, they are clients of art galleries, looking for opportunities for making prestigious investments and causing a fast price climb. The prices of the most spectacular pictures rise rapidly. Van Gogh's 'L'Allée des Alyscamps' was sold in May 2015 for USD 66.3 million, six times more than within 10 years [Alindogan 2015]. Such a price jump was caused by a fast-growing demand.

A fast price growth has been observed in this market for many years. It was interrupted at the time of the subprime crisis, but later it was reactivated. It increased in the main galleries from USD 6 billion in 2011 to 8.3 billion in 2015 [Deloitte 2016].

A similar process is taking place in the real estate market. In the USA, based on All Transaction House Price Index [Bank of Federal Reserves of Saint Louis 2016], since 2012 the prices have risen by 16%, two times more than the GDP. During the last 3 years, they have risen by 8%, which is also two times higher than the GDP growth. The same process is present in the EU as shown by the House prices statistics [European Commission 2016].

These opportunities are shifting the demand to rarely accessible products, which is significantly harmful to the economy. This results in a reduction in necessary demand directed to the base production sphere. Money in the hands of the rich does not drive economic progress. Therefore, there is no sense in pumping money into the economy if it reaches the richest only. Unfortunately, the market as such and the current monetary policy model are contributing to the growing income inequality. The more money the richest have, the worse the opportunity to achieve a balance between domestic supply and demand.

If the market economy is not able to manage itself, measures should be taken beyond the market mechanism. This approach is now called the new economy or the economy of the third way. It represents a wholly new attitude to the goals which should be reached by the economy. The system should be transformed from profit-looking to the executor of human values, such as social solidarity, common safety, access to all education levels, use of raw materials and social infrastructure, etc. A leading representative of this school is Giddens [2000]. Much earlier, such ideas were propagated by such an institution as the Center for Social and Economic Justice and were based on the works by such authors as Kelso [1967], Ferree [1997], Kurland [2002]. The list of authors is very broad. Some authors among them rate also politicians, like Tony Blair in England, Manuel Valls in Spain and others.

This doctrine is becoming very popular and is presented in many forms. For all of them, one thing is universal – the belief that the money stream should be directed first of all to the people who are objectively underpaid and have trouble meeting basic needs (housing, health and social insurance, etc.). This direction may ensure smooth social development, a healthy demographic structure and a lack of inside struggles. In addition, this group has also the biggest possibility to increase the domestic demand, given their real consumption needs.

Among different attitudes, in the 'economy of the third way', it is easy to find one consensus. It concerns targets of the economic policy, but the ways of pursuing them are not the same. According to the author's concept, one of two ways should be taken into account:

- implementation of fiscal instruments for income transfer between the rich and the poor,
- financing of some institutions and groups of society by state authorities.

The first way is well known, and unfortunately numerous failures of its implementation are also known. The group of the richest has such a big political power to reject proposals for new tax burdens that more restricted taxation oftentimes remains in the intellectual discourse only.

The use of monetary methods, like quantitative easing and some form of the so-called helicopter money, seems to be more valuable. The first solution was well tested after crises and countries decided that its implementation brought about significantly better GDP growth.

Unfortunately, this method solves one important problem, namely demand shortage, but creates another one – large budget indebtedness. In this case, the lender is the central bank, not commercial bodies as usual.

According to the law, the bank is obliged to help the government in its policy if monetary targets are reached. The government money could be borrowed by the government at any interest rate. The profit of the central bank obtained in this process is always transferred to the budget. In case when the whole credit is given to the government, no problem exists because the level of the interest rate is neutral for the government; larger or smaller profit of the central bank goes to the budget. A problem appears when a significant part of the credit issue (government bonds) goes to the private sector. Its income, generated by the coupon interest, remains in that sector. The higher the interest, the higher the profit for the commercial sector and, in parallel, the cost for the budget.

The result of the use of the central bank interest rate is, and should be, very important for budget expenses. Public debt, according to common rules, is directed first of all to the private sector. Therefore, quantitative easing makes sense when interest rates are close to zero. In this case, the public debt can be rolled on, without significant cost of its service. When, for any reason, the interest rate is at the level of a few percent, finding money for debt service becomes a serious problem. When public debt amounts to almost 100 percent of the GDP so much more money is preserved to cover the debt service cost, that public expenditure plan becomes unviable. To meet such expenses, the other ones should be reduced in the not acceptable scale. In such a situation, the government should give up the expenditure corresponding to the whole budget positions (like health service, national defence, etc.). This is not a way out. Therefore, higher credit costs compel the state to borrow more money and make a step on the path of accelerated debt spiral, which is extremely difficult to keep under control.

Anyway, in spite of the advantageous credit opportunities which could be offered by the central bank, credit as such remains and raises fears about the financial equilibrium. Public debt in the most developed countries is rising not only in its nominal value, but also as part of the GDP. *The Global Debt Clock* [economist.com 2016], informs that the current debt in the USA is 97% of the GDP, and in other countries 99% (UK), 86% (Germany), 98% (France), 249% (Japan). Less developed countries have smaller public debt: Slovakia – 48.6%, Poland – 53%, Ukraine – 47%. It is quite impossible to repay such debt or service in case of an interest rate jump. A few years ago, Cecchetti, Mohanty and Zampolli [2011] calculated that in order to come back to the public debt/GDP relations before the crisis, one needs 20 years with the surplus of 2.4%, the same rate in the Eurozone and the USA. Now, it should be much more, given the years elapsed since that calculation.

The indebtedness comparison between the most and less developed countries cannot lead to the conclusion that the second country group has better governance. It could be nonsense, because better governance has to ensure a better place in the GDP ranking. What is more logical is to state that the problem of demand shortage appears at the highest level of development only. Other countries are not in the situation when fast public consumption growth is necessary to maintain GDP growth.

The majority of economists still believe that the necessity of these extraordinary budget expenses is temporary only and that a public debt reduction will be possible in the near future. The author of this paper thinks that such a belief is the biggest and most harmful illusion nowadays. Private demand is not able to follow labour productivity; therefore, potential economic growth is far away from what is reached in reality. The linear character of labour productivity growth could not fit the line of consumer satisfaction, which has a parabolic character. Additionally, the process of growing income inequality reduces the demand in such groups of society where needs are significantly unmet.

If private demand is too low, only public demand remains. Its use in the form of public expenses causes giant public debt, which accompanies all developed economies. Public debt to the GDP becomes bigger and bigger and the end of this process is not visible. Economic development could be supported by public debt acceleration for a long time, as evidenced by Japan, but finally this should be stopped, at least because of the limited demand for public debt securities. Money to cover additional expenses in the public and private sectors should be obtained through an additional money stream, originating from the central bank. The first sign of this method is LTRO done by the ECB, however now with limited success.

In this situation, a solution that allows for money to be delivered for public expenses should be found, supplementing shrinking private demand and also helping the less wealthy to reduce the uncertainty about maintaining a decent standard of living. Therefore, although it sounds extremely heretic (fortunately, not to all), helicopter money should be the sole real solution to step on the path of economic development. It means that the central bank should regularly give a financial gift to the government or its agencies in the near future. And what could be interesting is that it is not a wholly new solution in the history. It resembles the old sovereign income that appeared just in antique times (Croesus, King of Lydia) and was in successful use in the Middle Ages, especially in China in the times of paper money (Tang and Ming Dynasties).

5. Conclusion

The contemporary paradigm of monetary equilibrium seems not to be in force now. Budget expenses, significantly higher than the budget income, should not be treated as an inflation incentive any longer. Given that money is engaged in the financial game on a larger and larger scale, money shortage appears in the groups of society that are outside this game, which harms the global demand, thereby constraining production output. Unfortunately, improvement of the income structure by decreasing its inequality becomes a very tough task. The efficiency of fiscal instruments (like progressive tax tariffs) is very low and meets strong obstacles from the political side. In the meantime, the process of income inequality growth is continuing in the commercial sector and seems unlikely to be interrupted in the future. It is caused by the growing role of CEOs who take control of the companies from the hands of capital owners. Due to the scattered capital ownership, stock holders are looking now at the stock exchange only. They accept extremely high remuneration of the top managers in order to make the CEOs increase the stock prices in the medium or short term. Because the stock run depends on the company efficiency and demand for its products is relatively stable, a big pressure on the cost reduction remains most desirable.

The victims of this process are workers, whose salaries have at least stopped increasing in spite of the growing labour productivity. The existence of this mechanism offers no chance to break the spiral: insufficient demand – pressure on a salary decrease – more insufficient demand – higher pressure on a salary decrease. Only public expenses creating more jobs in the economy and improving life stabilization are able to strengthen the workers' position and support the salary growth. From where does one take the money? The answer is simple – from the central bank. That sounds nowadays very heretic. Fortunately – to theoreticians, not to these governments that save their economic growth thanks to the application of such a heretic idea.

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