

Functional Income Distribution, Foreign Savings and Capital Accumulation

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Abstract:

Post-Keynesian theory suggests that workers can save a bit from their income by contrast with the mainstream literature which argues workers consume all their income. Kaldor (1955-56) and Pasinetti (1962) have discussed this situation in their studies as a criticism against for Neo-Classical Theory. However, this phenomenon has remained without conclusion in related literature. The main proposition of this study empirically reveals, when workers save from their income, they may have a role on capital accumulation process in the long-term. Therefore, this study aims to investigate the impacts of functional income distribution on capital accumulation through saving behaviours of workers and capitalists by employing a dynamic simulations of Autoregressive Distributed Lag model. The study also examines the effects of foreign' savings on capital accumulation. The first results obtained from the estimation show that savings of workers and capital accumulation have a positive and significant relationship in long-term. The other results of the study reveal that savings of capitalists have a statistically significant effect on capital accumulation despite savings of foreign's have not any statistically significant effect on capital accumulation.

Keywords: Functional Income Distribution, Foreign Savings, Capital Accumulation, Dynamic Autoregressive Distributed Lag (Dynamic ARDL) Model

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