NATIXIS BEYOND BANKING

Flash Economics

15 February 2019 - 231

OECD: A double transfer of risks

The recent trend in relations between companies and employees has been characterised by a transfer of risks (economic and corporate) from the companies to the employees.

Since the employees bear more risks, they turn to governments to demand protection against these risks through more generous welfare benefits, protectionism against competition from other countries, pay increases and rejection of immigration.

Ultimately, OECD companies (their shareholders) will have preserved a very high return on their equity while transferring the risks to the government.

Patrick Artus
Tel. (33 1) 58 55 15 00
patrick.artus@natixis.com
@PatrickArtus

www.research.natixis.com

ECONOMIC RESEARCH

Transfer of risks from companies to employees

We examine **the OECD as a whole**, defined, for sake of simplicity, as United States + euro zone + United Kingdom + Japan.

In OECD countries, the relationship between companies and employees has been characterised by **a transfer of risks from companies to employees**, made possible by greater labour market flexibility.

Let us examine **how employment and corporate profits respond to recessions**.

Charts 1 to **4 show the far greater variability of employment than profits in recessions.**

Chart 1
OECD*: Real GDP and employment (Y/Y as %)

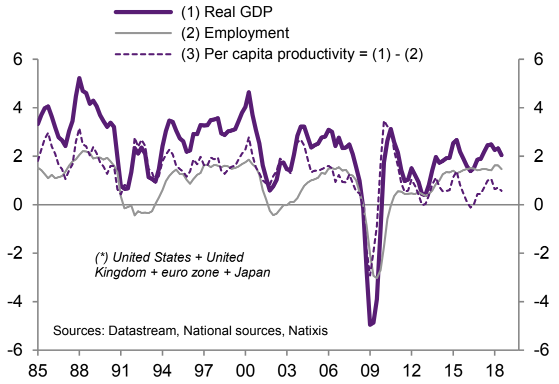


Chart 2
OECD*: 12-quarter empirical standard deviation of real GDP and employment (Y/Y as %)

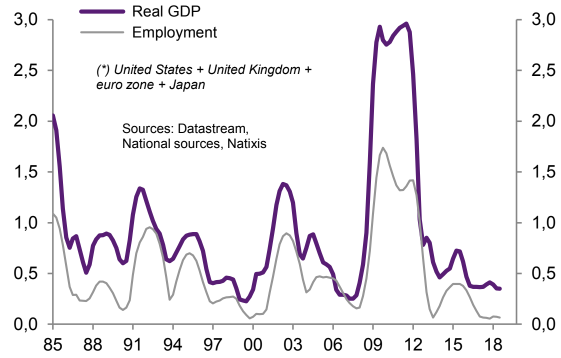


Chart 3
OECD*: Real GDP and profits after tax, interest and dividends

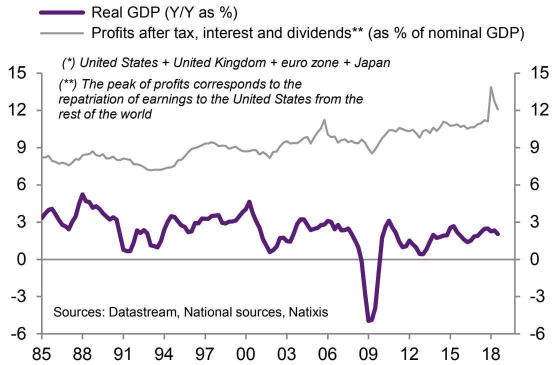
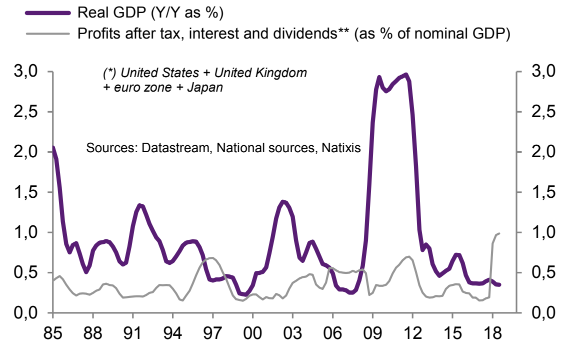


Chart 4
OECD*: 12-quarter empirical standard deviation of real GDP and profits after tax, interest and dividends



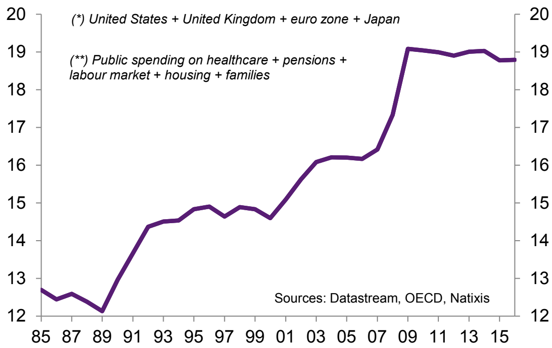
The employees therefore demand to be protected by governments

So companies transfer the risks (economic and corporate) to employees.

It is therefore logical that the employees demand that governments protect them in various ways:

- Increased welfare spending **(Chart 5)**;

Chart 5
OECD*: Public spending on social welfare**
(as % of nominal GDP)



- Protectionism against competition from other countries (especially in the United States);
- As we have seen in Italy and France, a demand for higher wages, financed by the government and not by companies;
- A reaction against immigration.

Conclusion: Ultimately, companies push the risks on to governments

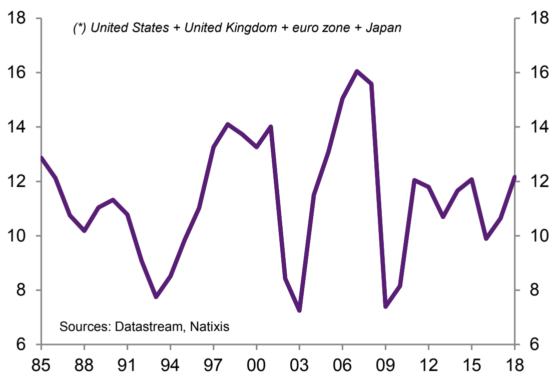
As we have seen:

- **Companies push the risks on to employees**, notably via a more drastic adjustment of employment in economic cycles;
- As a consequence, **the employees (households) demand to be protected against the risks by their governments**.

This would therefore lead to a situation in which:

- **Companies maintain a very high return on equity (Chart 6); and**

Chart 6
OECD*: RoE (as %)



- **Companies ultimately push the risks on to governments.**

Disclaimer