Title: Neo-Kaleckian Growth Dynamics and the State of Long-Run Expectations: Wage-versus Profit-Led Growth Reconsidered
(for session on The Role of Effective Demand in Keynesian Models of Growth, organized by Carlo Panico)

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Abstract

In neo-Kaleckian growth theory, growth is demand-led because both the rates of accumulation and profit are influenced by an independent (of saving behaviour) investment function. As discussed by Robinson (1962), Asimakopulous (1991, chpt.8) and Lavoie (1992, p.286), the structure of this investment function is properly conceived as being influenced by the state of long-run expectations (SOLE), in an environment in which expectations are formed under conditions of fundamental uncertainty.

However, the canonical model in contemporary neo-Kaleckian growth theory is essentially a static equilibrium model (see, for example, Blecker (2001) for a survey). It describes the existence and stability of equilibrium rates of accumulation and profit determined by exogenously given data. It is not obvious that this methodology is consistent with the view that the structure of the investment function is influenced by firms= SOLE and that macrodynamic processes occur in historical time (Asimakopulous, 1991, chpt.8).

The purpose of this paper, then, is twofold. First, variations in the SOLE are introduced into the adjustment dynamics of neo-Kaleckian growth theory. This transforms the canonical neo-Kaleckian model from a traditional equilibrium model (in which equilibrium outcomes are defined and reached independently of the path taken towards them) into one in which outcomes are path dependent and the rate of growth is conceived as being determined by sequential processes unfolding in historical time. It is shown that this model is capable of generating growth cycles rather than a steady state growth rate

(as in the canonical model).

Second, one of the main results of neo-Kaleckian growth theory - the paradox of costs, according to which increases in wages raise the rates of accumulation and profits - is re-examined. The sensitivity of this result to the precise form of the investment function is well known (Marglin and Bhaduri, 1990; Blecker, 2001). The purpose here is to re-think the question as to whether growth is wage-led or profit-led in light of the assumed variability in firms= SOLE. In particular, it is shown that in both wage-led and profit-led growth environments, the potential for changes in the state of long run expectations makes it harder to generate faster growth by re-distributing income towards wages/profits, but reinforces the negative growth consequences of re-distributions towards profits/wages. In other words, regardless of whether growth is wage- or profit-led, the variability of firms= SOLE makes it harder to increase and easier to decrease the growth rate through the re-distribution of income.

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