A Post-Keynesian Model for Analyzing the Relationship between Distribution and Growth

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ABSTRACT

This paper reviews the existing models in Post-Keynesian economics for the analysis of the impact of distribution on accumulation, capacity utilization and employment, and presents a new model in order to answer the question whether accumulation and employment are wage-led or profit-led.

The impact of distribution on growth, accumulation and employment continues to be the focus of an ongoing debate within the discipline of macroeconomics. Does a pro-capital redistribution of income stimulate growth, accumulation and consequently employment? Post-Keynesian macroeconomics answers this question by pointing out the dual function of wages as a component of aggregate demand, as well as a cost item. Depending on the relative magnitude of these dual effects, Marglin and Bhaduri (1990) distinguish between profit-led and wage-led regimes, where the latter leads to a low rate of accumulation accompanied by a high profit share. This is a more general formulation of earlier neo-Kaleckian models analyzing the impact of distribution on growth by Rowthorn (1982), Dutt (1984), Taylor (1985) and Blecker (1989). However, the theoretical debate in the post-Keynesian tradition still needs to be improved in order to capture the dynamics within the system and has to be supplemented by empirical research. The lack of empirical research about the relationship between distribution and growth is even more pronounced in the case of developing countries, where the pro-capital incomes policies of structural adjustment programs implemented in the last two decades are still far from fulfilling their promises in many cases.

The model presented here is a post-Keynesian open economy model. It consists of behavioral functions for investments, savings, and international trade defining the goods market; the producer's equilibrium curve, which relates capacity utilization and labor market pressures to the distribution of income; and an employment equation. The two important contributions of the model presented here, compared with previous work, are employment and its effect on income distribution. Firstly, producer's equilibrium, i.e. income distribution, is determined not only by the pricing behavior of firms, but also by a bargaining relationship. Secondly, employment is explicitly modeled by a version of Okun's Law. These two extensions incorporates the labor market to the analysis, allowing an interaction between distribution, accumulation, capacity utilization and employment, rather than implicitly defining labor demand as a passive outcome of the system.

The second motivation behind this study is to model the dynamic relationship between distribution, accumulation, capacity utilization and employment considering both lagged and contemporaneous interactions within a systems approach, that goes beyond the limited framework of comparative statics. Consequently we present a structural vector autoregression (SVAR) method to estimate the analytical model for selected developing countries (Chile, India, South Korea and Turkey). This estimation, which is a novel application within the post-Keynesian literature, is, implicitly, the second aim of the paper in order to point out the driving force behind accumulation and employment.

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