

Post-Keynesian /Kaleckian demand-led growth models: the effect of distribution on growth

Prof Ozlem Onaran, University of Greenwich

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The first part of the lecture discusses the role of demand in determining growth in Post-Keynesian models, and the effect of income inequality on demand in the Kaleckian and post-Kaleckian models. The contribution of this framework to the research on inequality and growth is to bring in the role of demand in determining growth in economies operating below full employment, and to show the role of wages as a source of demand, and not just a component of cost. The total effect of a change in functional income distribution between wages and profits, e.g. a decrease in the wage share, on demand depends on the relative size of the effects on consumption, investment and net exports. If the total effect is negative, the demand regime is called wage-led; otherwise the regime is profit-led. The Post-Keynesian models show that the relationship between the wage share and growth is an empirical matter, which depends on the structural characteristics of the economy. The lecture then compares the role of inequality in the post-Kaleckian demand-led growth model with that in the Keynesian, Marxian, and neoclassical theories of growth. The second part of the lecture introduces the empirical literature and methodological approaches to estimate the characteristics of the demand regime in different countries as well as models with multiple countries incorporating effects of simultaneous changes in income distribution at the global level, i.e. the race to the bottom in the wage share. Finally, extensions of the model to incorporate finance, technological change, employment, and gender are briefly discussed.

Core readings

- Bhaduri, A. and Marglin, S. (1990). Unemployment and the real wage: the economic basis for contesting political ideologies. *Cambridge Journal of Economics*, 14(4): 375-93.
- Hein, E. Distribution and Growth after Keynes: A Post-Keynesian Guide, Edward Elgar, Ch. 5-7. Note: all of the book is useful for a comparative analysis
- Onaran, Ö. and Galanis, G. (2014). Onaran, Ö. and Galanis, G. "Income distribution and aggregate demand: National and global effects" *Environment and Planning A*, 46 (2), 373-397
- Kalecki, M. (1954), *Theory of Economic Dynamics*, London: George Allen and Unwin, Ch 3-5
- Kalecki, M. (1971), *Selected Essays on the Dynamics of the Capitalist Economy, 1933-70*, Cambridge, UK: Cambridge University Press. Ch 7-8 and Ch12

Optional readings

- Blecker, R. (1989), "International competition, income distribution and economic growth" *Cambridge Journal of Economics*, 13, 395-412
- Braunstein, E., Stavaren I, Tavani, D. (2011): "Embedding care and unpaid work in macroeconomic modelling: a structuralist approach", *Feminist Economics*, Vol. 17(4) pp.5-31
- Dutt, A. (1984), "Stagnation, Income Distribution and Monopoly Power", *Cambridge Journal of Economics*, 8, 25-40
- Onaran, Ö, E Stockhammer, and L. Grafl (2011). "The finance-dominated growth regime, distribution, and aggregate demand in the US" *Cambridge Journal of Economics* 35(4):637-661
- Rowthorn, R. (1981). "Demand, Real Wages and Economic Growth", *Thames Papers in Political Economy*, Autumn 1-39, reprinted in *Studi Economici*, 1982, (18), 3-54.
- Stockhammer, E. and Onaran, Ö. (2012). Rethinking wage policy in the face of the Euro crisis. Implications of the wage-led demand regime. *International Review of Applied Economics*, 26(2): 191-203.
- Stockhammer, E., and Ö. Onaran (2004), "Accumulation, distribution and employment: a structural VAR approach to a Kaleckian macro-model" *Structural Change and Economic Dynamics*, 15, 421-47.
- Stockhammer, E., Onaran, Ö. and Ederer, S. (2009). Functional income distribution and aggregate demand in the Euro area. *Cambridge Journal of Economics*, 33(1):139-59.
- Stockhammer, E., Stehrer, R. (2011), 'Goodwin or Kalecki in demand? Functional income distribution and aggregate demand in the short run', *Review of Radical Political Economics*, 43, 506-522.
- Taylor, L. (1985), "A Stagnationist Model of Economic Growth", *Cambridge Journal of Economics*, 9, 383-403.