Wages as Income but also as a Cost of Production: An Amended Neo-Kaleckian Short-Run Model

Olivier Allain

Université Paris Descartes, Sorbonne Paris Cité,

& Centre d'Economie de la Sorbonne

While orthodox economists consider wages as costs but neglect their role as incomes, post-Keynesians consider wages as incomes but neglect their role as costs. Actually, high labor costs never directly deter firms from increasing their production, even in all the many models of income distribution in which the effect is indirect, going through the aggregate demand components. The aim of this article is to take into account both features of wages: as incomes, but also as costs. Accordingly, we explore the properties of a neo-Kaleckian model that includes two specific assumptions: the labor productivity differs from one firm to another, and production must be profitable. In such framework, the model remains stagnationist as long as the price level is higher than the macroeconomic break-even point. Under this point, however, the model becomes exhilarationist: a rise in the real wage fuels the aggregate demand, but firms decide to reduce output because of a cut in their profitability on the less efficient equipment.