'Wage-led growth' and Development

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Outline

- What is the development challenge?

- Key conclusions from WLG

- Congruency between WLG and stylized picture of development?

- Neo-Kaleckian models vs. Harrod-Domar

- History of thought: Kalecki and Robinson

- A 'Structuralist' approach

The development challenge

- Long-run growth
  - Growth over several decades
- Structural transformation (sectoral changes)
- Unlimited supplies of labor/hidden unemployment
- Income distribution as an outcome
- Capital shortage or deficient effective demand?

Long-run structural transformation
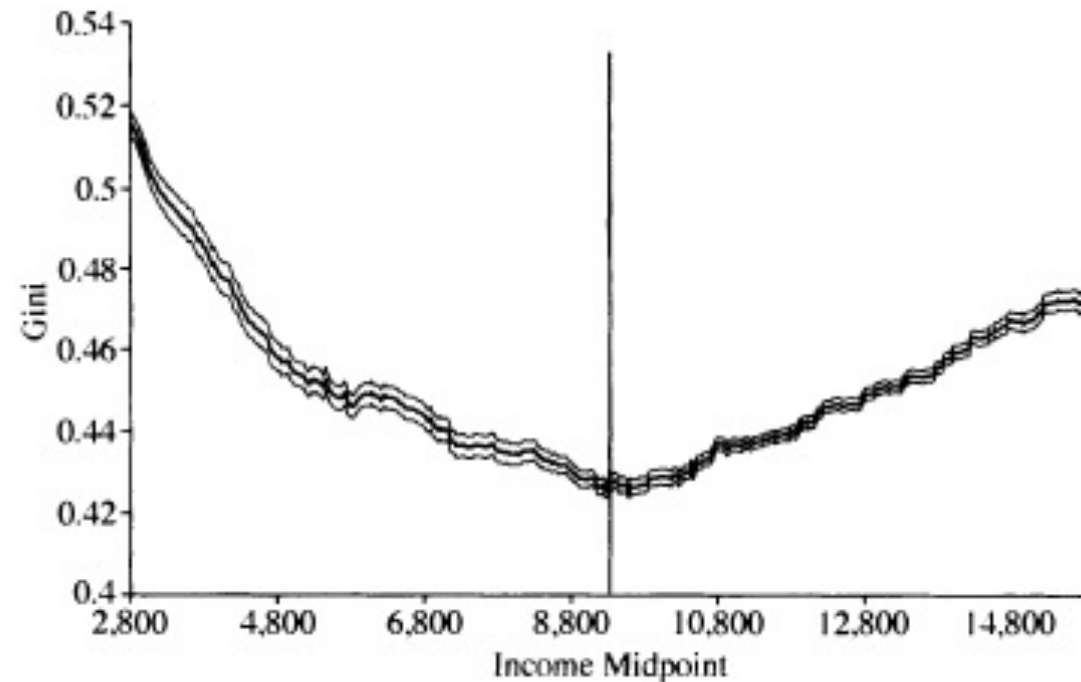
Imbs and Wacziarg (2003)

FIGURE 1. ESTIMATED CURVE (NONPARAMETRIC)—GINI INDEX—ILO 1-DIGIT EMPLOYMENT DATA

Brief characterization of WLG

- Summarized through the saving and investment functions
  - Goods market equilibrium condition
  - Key results: 'paradox of thrift', 'paradox of costs'
- The stability condition
  - Slopes of the saving and investment functions
  - The short-run (key issue)
- Exogeneity of income distribution
  - No labour supply constraints
  - Fixed mark-up – no price adjustment to demand conditions
- Canonical Kaleckian model a one-sector model

Graphical representation
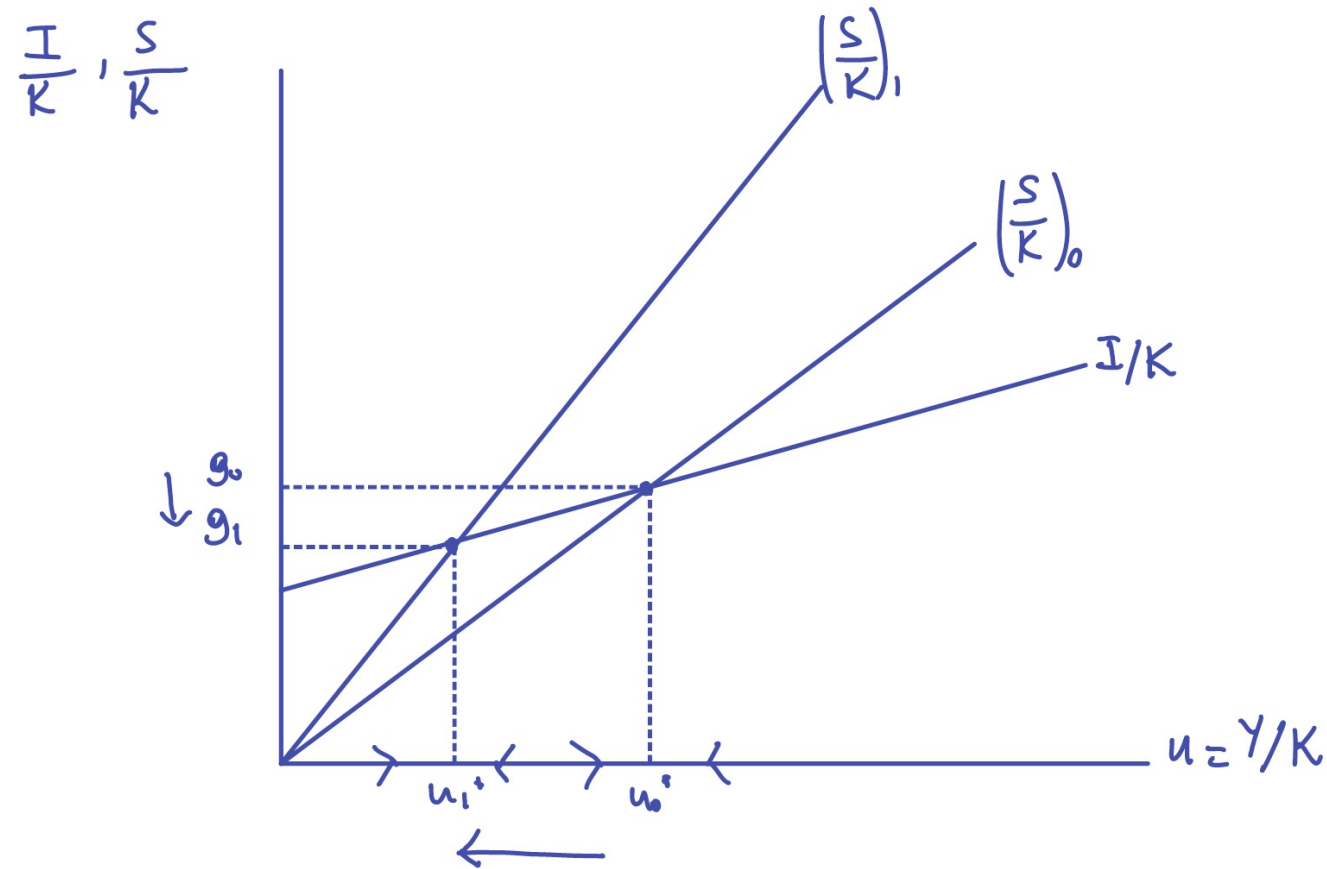
Harrod-Domar

- Extending static Keynesian model to dynamic long-run. Particularly used for development planning.
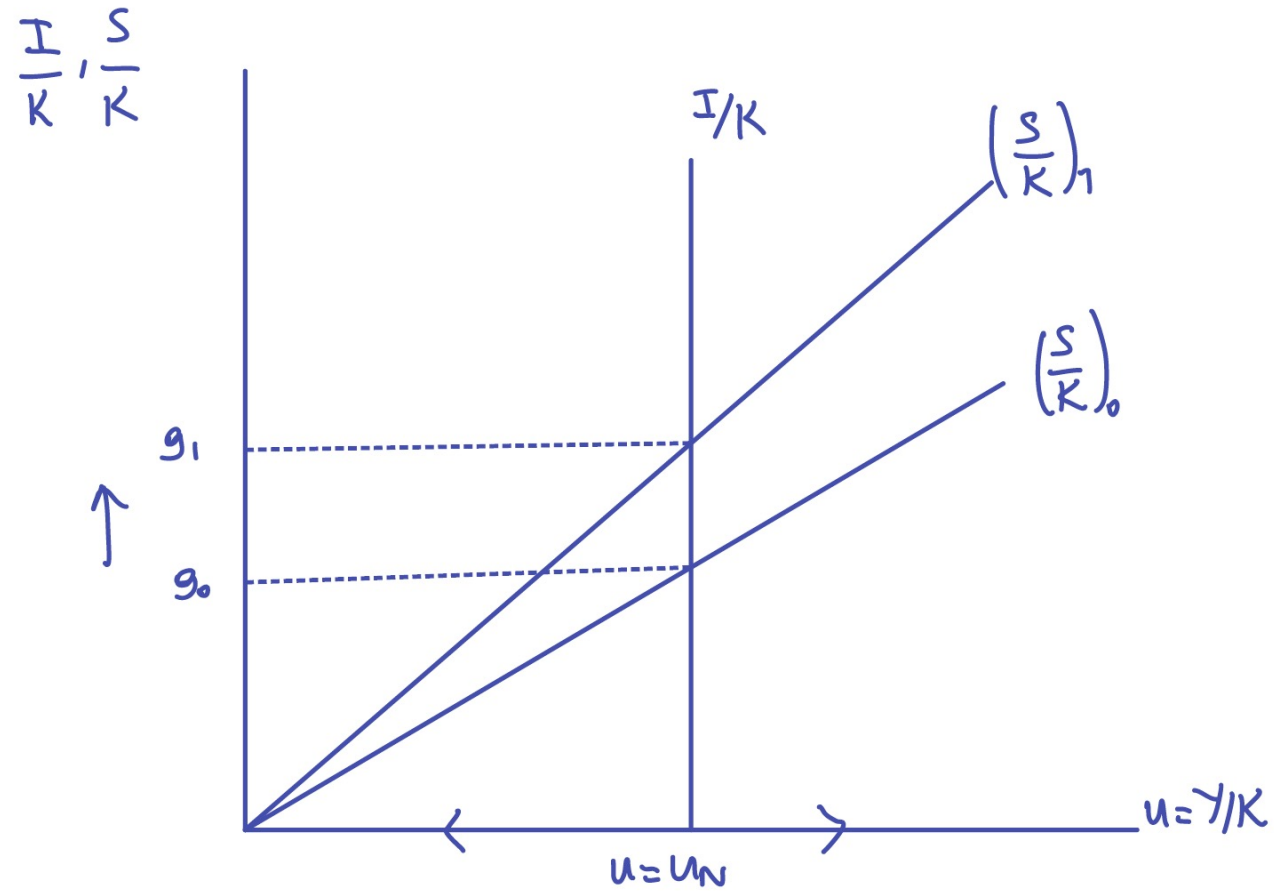
$$Y = uK \qquad\qquad (1)$$
$$\dot{K} = I \qquad\qquad (2)$$
$$S = sY \qquad\qquad (3)$$
$$I/K = S/K \qquad\qquad (4)$$
$$\hat{Y} = \hat{K} = \frac{\dot{K}}{K} = su \qquad (5)$$

- A higher 'warranted growth rate' (the growth rate corresponding to goods market equilibrium) requires a higher saving rate

- If your structural unemployment requires raising the rate of investment, you need a higher saving rate? Development problems are more classical than Keynesian?

Graphic representation

Summary: basic incongruency

- The short run vs. the long run
- One sector models vs. changing sectoral structure
- Exogenous vs. endogenous income distribution
- Limitations to Harrod-Domar

"The problem of unemployment in underdeveloped countries differs fundamentally from that in developed economies. In the latter, unemployment arises on account of inadequacy of effective demand. During periods of depression unemployed labor coexists with underutilized equipment. The situation may, therefore, be tackled by measures designed to stimulate effective demand, such as loan financed government expenditure. Unemployment and underemployment in underdeveloped countries are of an entirely different nature. They result from the shortage of capital equipment rather than from deficiency of effective demand."

(Kalecki 1960: 3)

"Keynesian remedies can be effective as a solution to a problem of under-utilization of capacity, but it is evident that they cannot create a capacity that doesn't already exist"

(Joan Robinson, quoted from Lavoie 2014: 278)

Disarticulation

- The need for a 'structuralist' approach
- Concretizing theory to the context of interest
- The pattern of consumption and 'Engel's Law'
- Income concentration could sustain demand for sophisticated commodities (Taylor and Arida 1988)

Other issues

- Domestic demand constraints overcome by size of large international market

- Balance of payments constraints

- Instrumentalizing income distribution?

Some questions to think about…

- Is development a one-size fits all Keynesian aggregate demand problem or something more complex?

- Is income distribution predominantly the cause or effect of growth in the development process?
  - What role does surplus labor play in determining distributive outcomes?

- What institutions promote greater equality in capitalist societies and how do they emerge?
  ➢ Unions and industrialization?

- What is the role for the state to promote development?

- Do the East Asian late industrializers show the way for wage-led growth or not?