Cadrisme within a post-Keynesian model of growth and distribution

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Purpose of the model

- To provide some small improvement to the canonical Kaleckian model of growth and distribution, while keeping the model simple.
- To take into account some current features of financialization, in particular the *cadrisme regime*, as called by Duménil and Lévy (2004), where managers and top bureaucrats benefit from much higher remuneration relative to ordinary workers.
- To respond to the challenge of Palley (1995), according to which Cambridge models do not pay enough attention to conflicts between classes of income recipients (managers vs ordinary workers). This would be the new site of conflict over income distribution.
- To bring out of obscurity a similar paper of mine that was published in 1996 in the *Review of Social Economics*, and that nobody seems to have noticed!

Some background

- According to Mohun (2006, p. 360), between 1979 and 2000, the share of production or direct labour in the United States income has gone down 7 percentage points while that of supervisory or overhead labour has gone up by 10 percentage points during the same time period.
- The average remuneration of CEOs in the USA, as a ratio of average workers's wages has increased from 96 in 1990 to 458 in 2000 (Petit 2006, p. 51), a period that most observers associate to the demise of managerial capitalism and to the rise of financial capitalism and rentiers.
- One would presume that other upper rank managers also benefited from this bonanza. Saez and Veall (2005) show that the top 5-percent income earners in Canada now get nearly 30% of all income, whereas their share remained at or below 25% from 1945 to 1995.

Main features

- The model starts out from the canonical Kaleckian model of growth, with its saving function, investment function, and pricing function.
- The model includes a distinction between households and firms in the saving function.
- The investment function is standard.
- The model incorporates target return pricing.
- The model has direct and overhead labour.

Links with other works

- The Kaleckian model (Rowthorn 1981, Taylor 1983 1991, Dutt 1984 1990, Amadeo 1986)
- The distinction between overhead labour (managers) and direct labour (workers): Kaldor 1964, Harris 1974, Asimakopulos 1975, Rowthorn 1981, Nichols and Norton 1991, Dutt 1992, Palley 2005.

Link with Kaldor (1964)

- «The one important aspect in which I would now amend the exposition of the theory ... relates to the assumption of constant (short-period) prime costs. I did not realise then that this assumption – which makes a constant "markup" equivalent to a constant *share* of profit in income – was not just a simplification, but was definitely misleading. In industry, short period labour costs per unit of output are not constant, but falling (mainly on account of the influence of "overhead labour"); as a result of this, changes in the ratio of investment to output can elicit corresponding changes in the *share* of profit (and hence in the savings ratio) even if the "mark up" is constant. »

Differences from Palley (2005)

- While we pick up the social classes identified by Palley (2005), the model that we suggest here is distinct from his because we assume, as suggested by Kaldor (1964), that the proportions of wages paid to workers and managers, rather than being exogenous variables, are responsive to the actual rate of capacity utilization, thus implying that average labour productivity and the profit share change with the level of capacity utilization.

Differences from Rowthorn, Dutt

- Most post-Keynesian authors assume that an increase in the cost of staff labour will have no impact whatsoever on the markup or on prices. This is because prices are assumed to depend only on unit direct costs, that is on the costs encountered on workers only – variable labour.
- Under the conditions of monopoly capitalism, *i.e.*, in the real world of megacorps surrounded by smaller firms, it is most likely that managerial staff costs can be shifted on to the consumer, and hence induce higher prices, at given nominal wage rates for variable labour, even though there are still excess reserves of capacity.
- We shall thus assume that prices are fixed through a target-return pricing procedure which takes into account direct as well as indirect costs, such as those incurred for managerial and supervisory staff, as in Lavoie (1992, p. 350-2; 1996).

Main results

- We shall discover that additional managerial costs may lead to slower accumulation, even when managers do not save, if the economy is running beyond its standard rate of capacity utilization. This will be contrasted with the results achieved by Dutt (1992) and Rowthorn (1981). Some additional remarks with regards to profit shares and the saving propensities of managers will then be made in the last sections of the paper.

Main equations

- Relative wages
- $w_f = \sigma w_v$
- *The target return pricing equation*

$$p = \left(\frac{u_s + f\sigma}{u_s - r_s v}\right)\frac{w}{y_v}$$

$$\frac{w}{p} = \frac{(u_s - r_s v)y_v}{(u_s + f\sigma)}$$

Main equations (2)

- The share of gross profits, that is, profits plus overhead costs, is equal to:
- (11) $m = \theta/(1 + \theta) = (r_s v + f\sigma)/(u_s + f\sigma)$

- while, naturally, the share of wages, the labour income going to workers, i.e., direct or blue-collar workers, is equal to:
- (12) $1 - m = \omega = (u_s - r_s v)/(u_s + f\sigma)$

- The profits cost equation,
- (14) $r^{PC} = [(f\sigma + r_s v)u - (u_s - r_s v)f\sigma]/v(u_s + f\sigma)$

- In terms of the gross profits margin m: :
- (15) $r^{PC} = [mu - (1 - m)f\sigma]/v$

Main equations

- The saving equation:
- (16) $g^s = s_p r$

- The investment function is assumed to be the canonical Kaleckian investment function, given by:
- (17) $g^i = \gamma + g_u u + g_r r$

- The realization curve or effective demand function (ED):
- (18) $r^{ED} = (g_u u + \gamma)/(s_p - g_r)$

Figure 1: The standard paradox of costs
Macroeconomic impact of an increase in managerial costs, **without** target return pricing

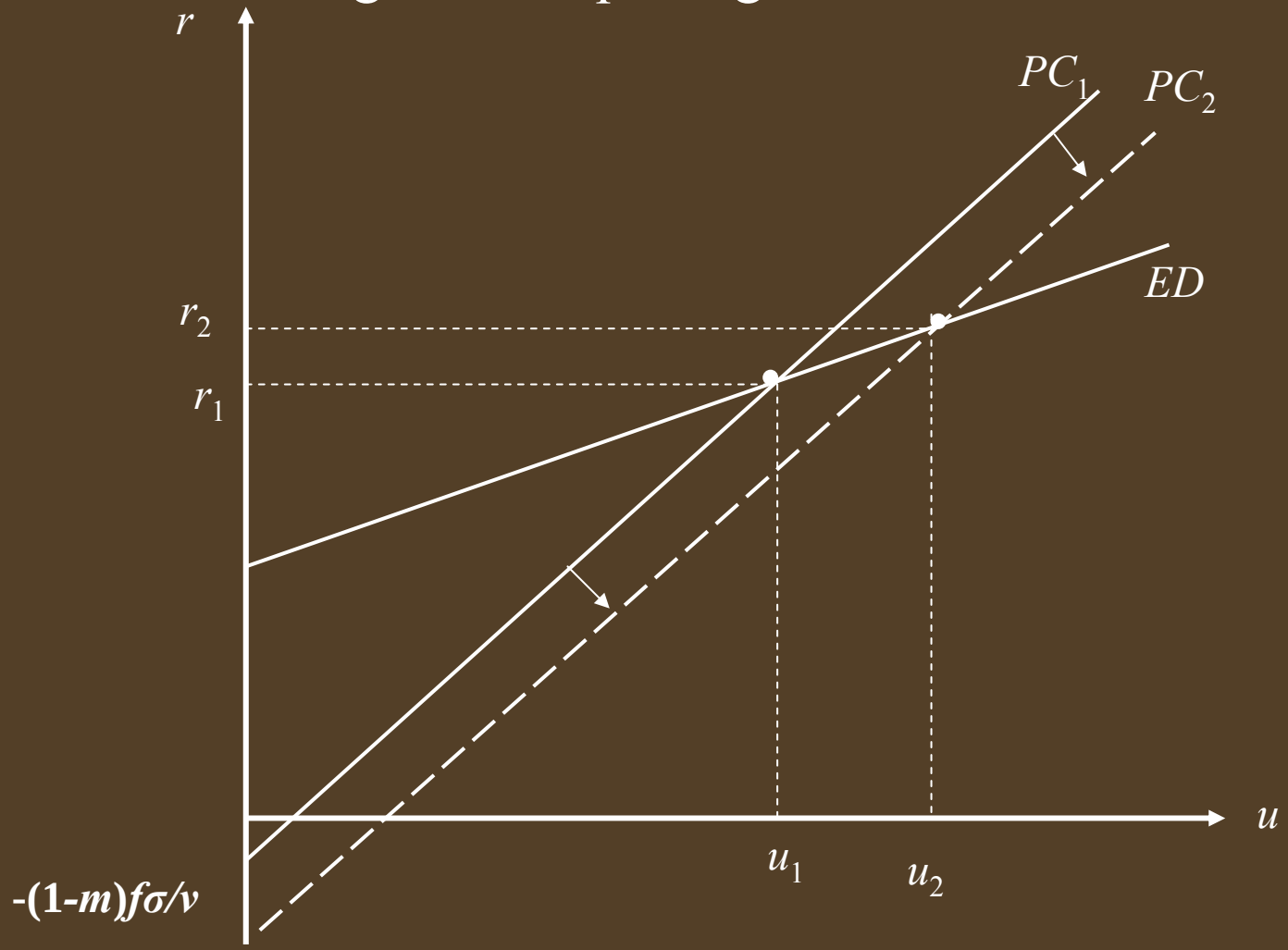


Figure 2
Macroeconomic impact of an increase in managerial costs, with target return pricing

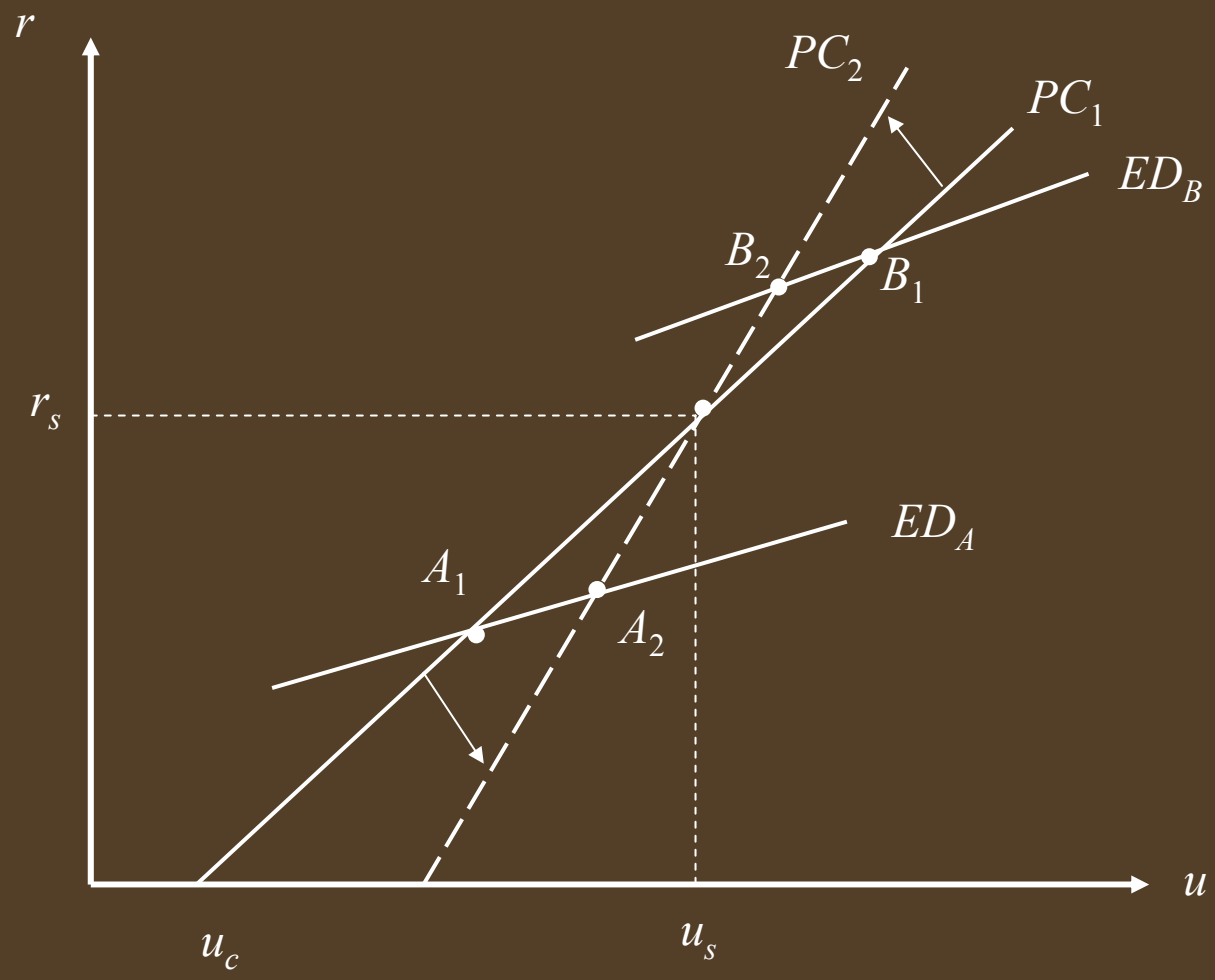


Figure 3: Microeconomic impact of an increase in managerial costs, with target return pricing

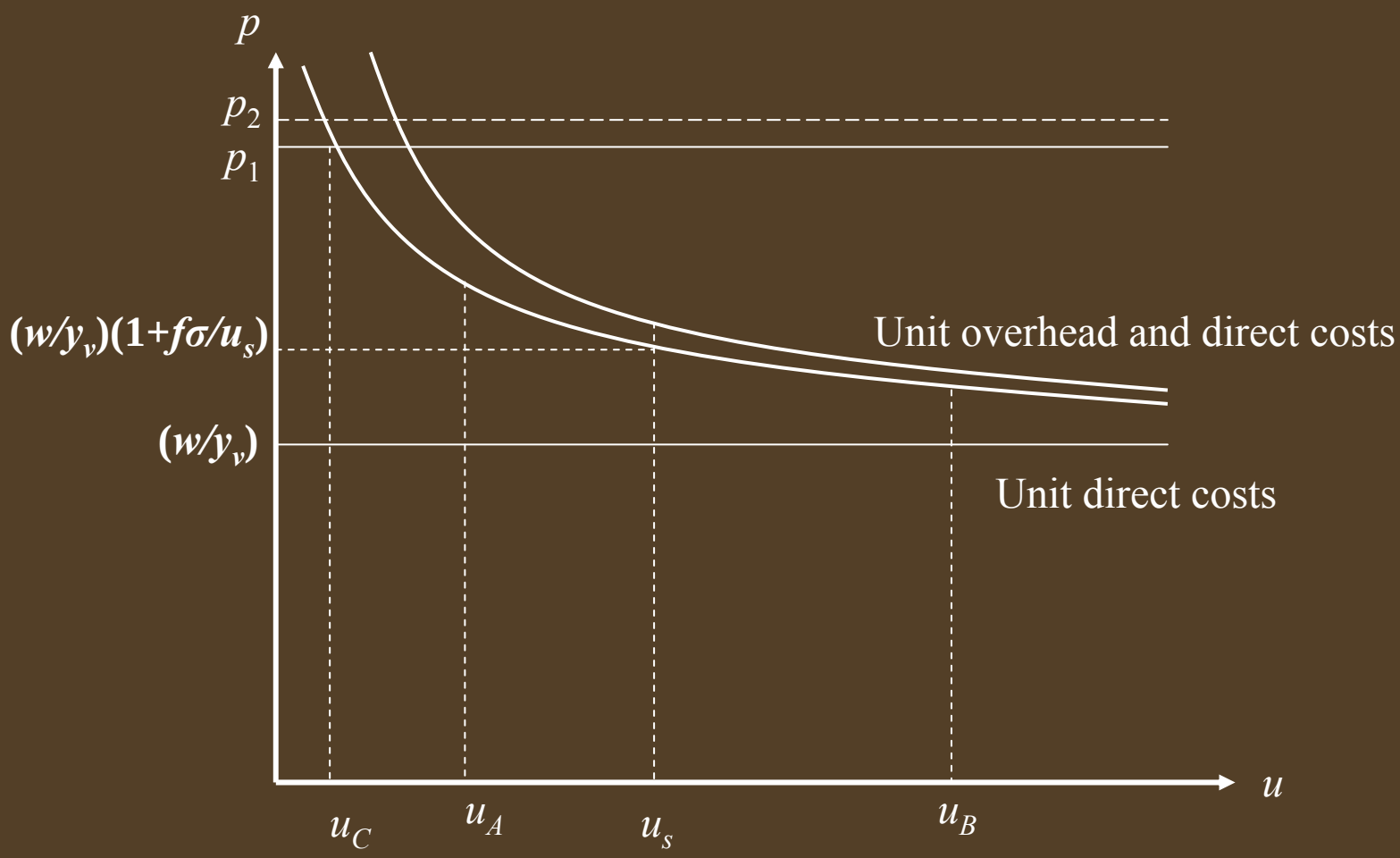


Figure 4
Impact of an increase in managerial costs on the net profit share, with target return pricing, when the investment constant is positive

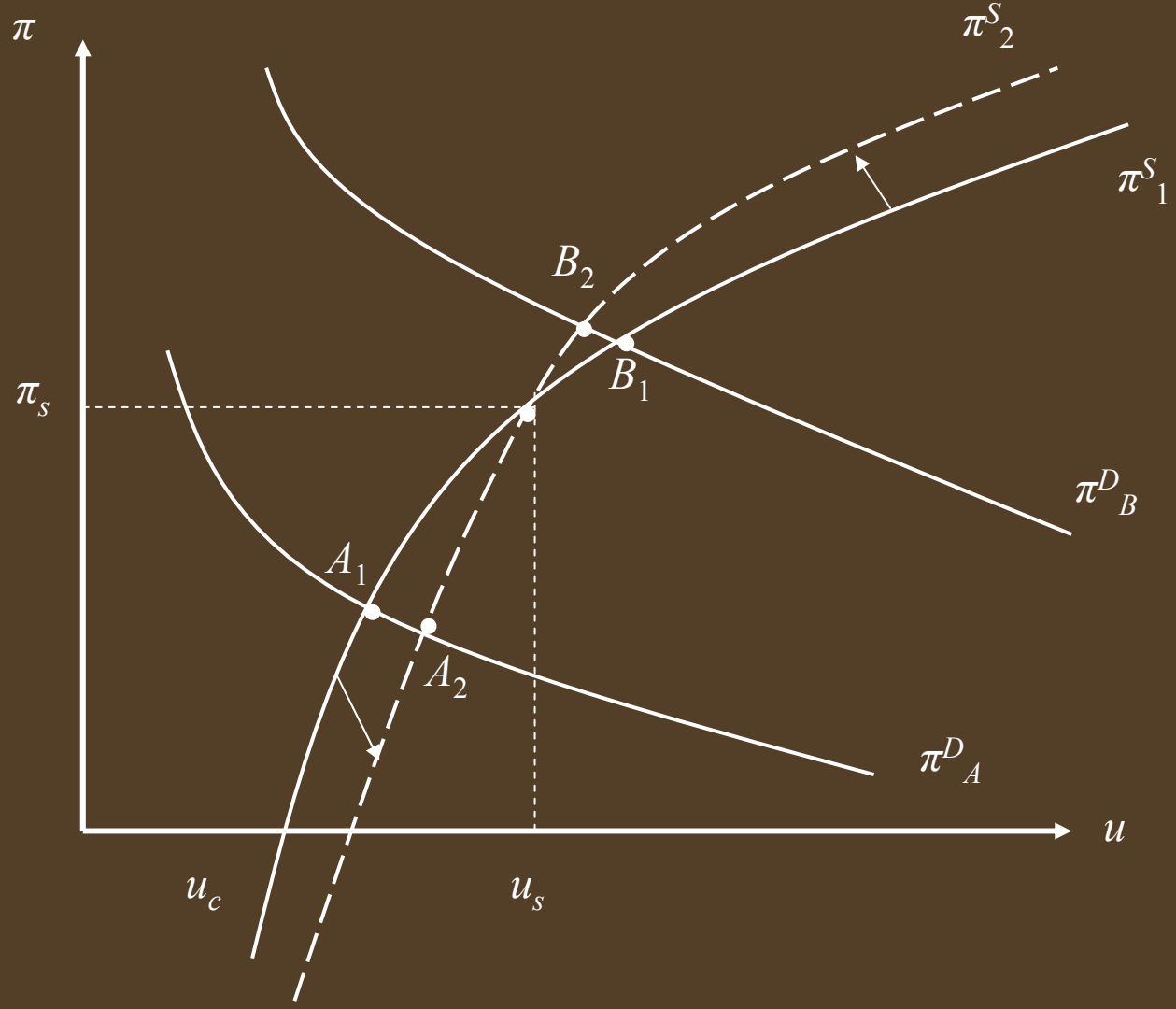


Figure 5
Impact of an increase in managerial costs on the net profit share, with target return pricing, when the investment constant is negative

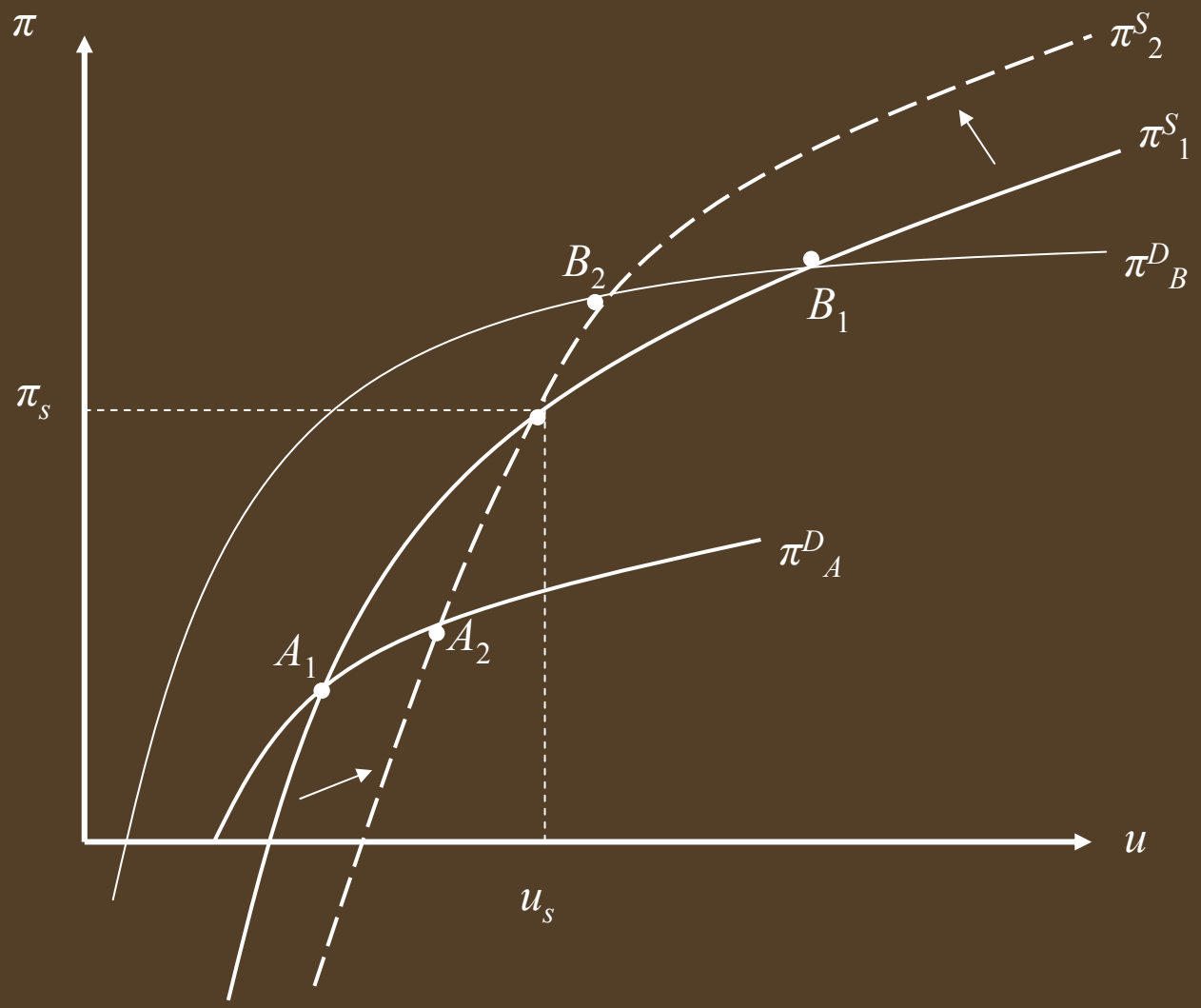


Figure 6: Impact of an increase in the target rate of return on the actual profit rate is always *negative*

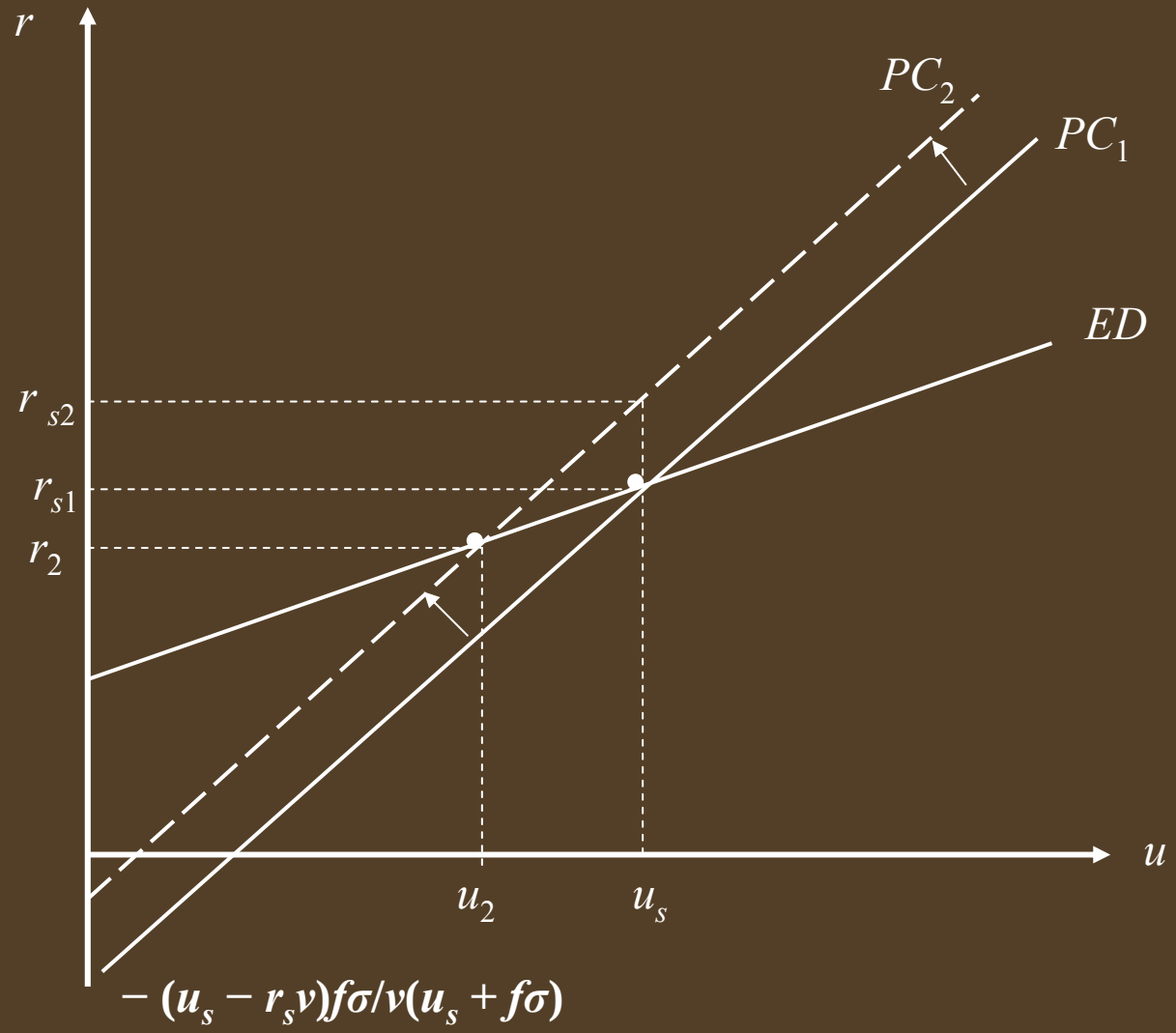


Figure 7 Impact of an increase in the target rate of return on the net profit share, when the investment constant is positive (with target return pricing)

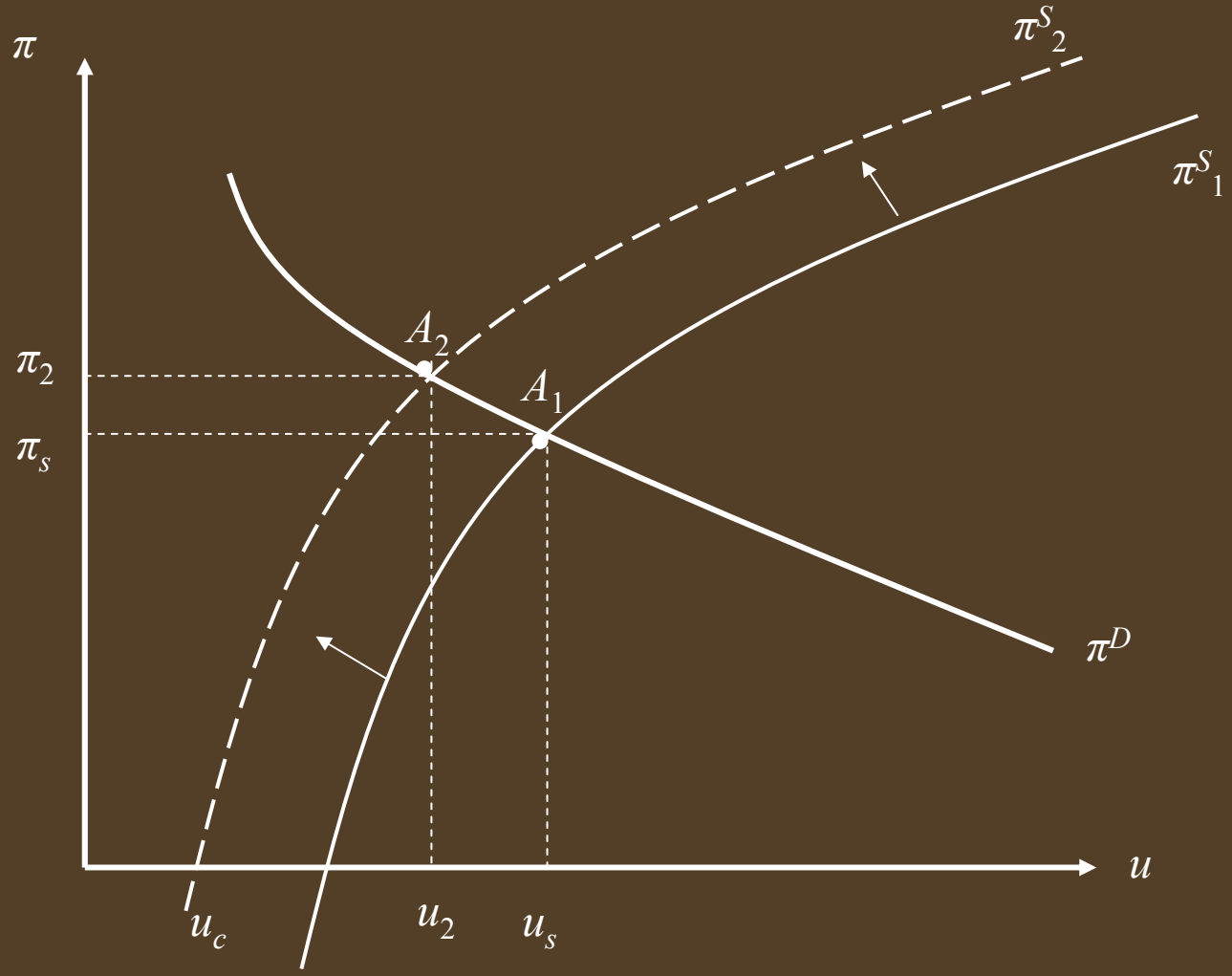
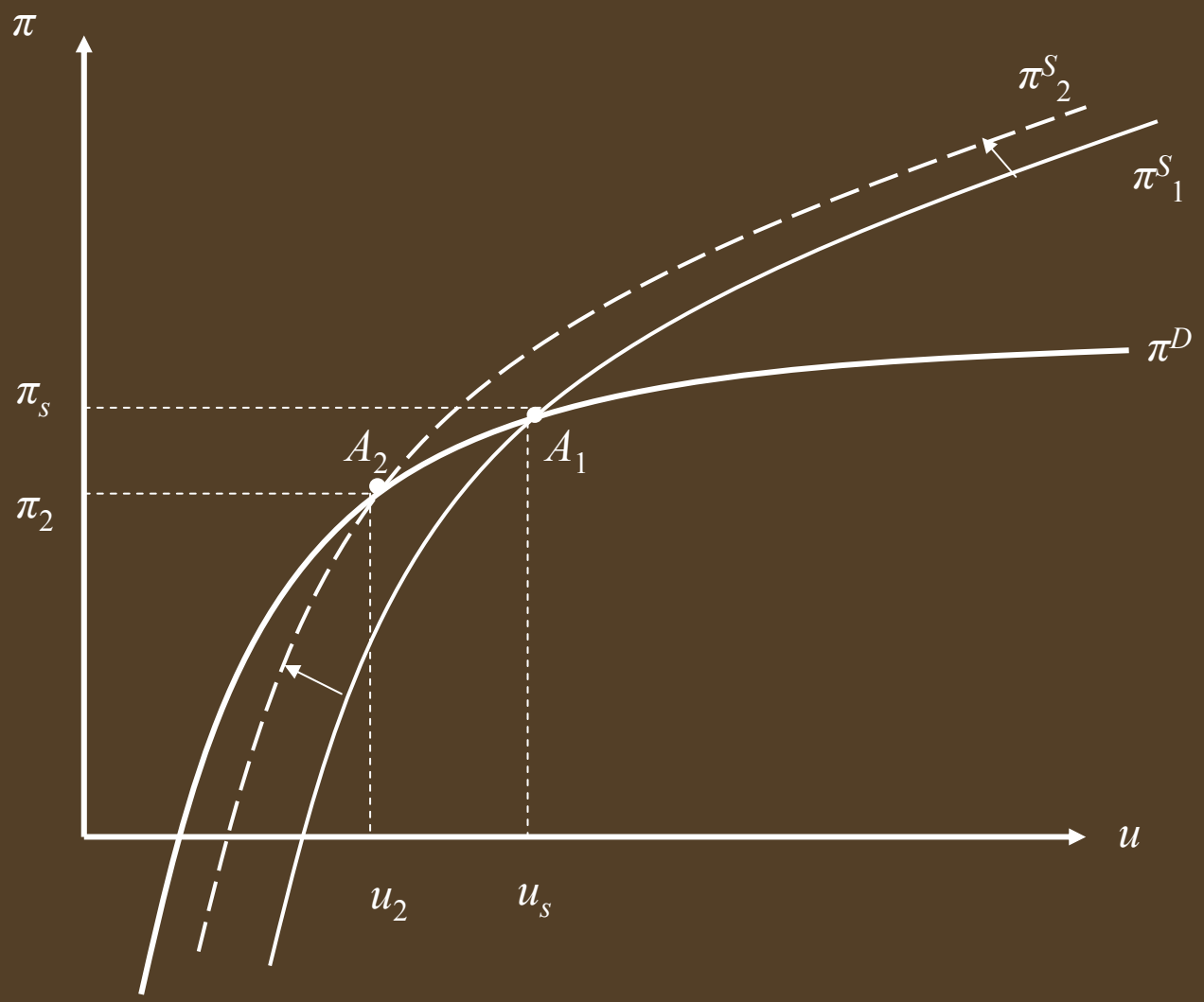


FIGURE 8:
Impact of an increase in the target rate of return on the net profit share, when the investment constant is negative



Taking into account savings out of retained earnings and out of the dividends and salaries of managers, as well as saving out of capital gains

$$g^s = s_c r + s_{fr}(1 - s_c)r + \frac{s_{fw}\sigma f(u_s - r_s v)}{(u_s + f\sigma)v} - (1 - s_{cg})r_{cg}$$

Figure 9
The impact of a reduction in the retention ratio of corporations on the profit rate and the rate of capacity utilization

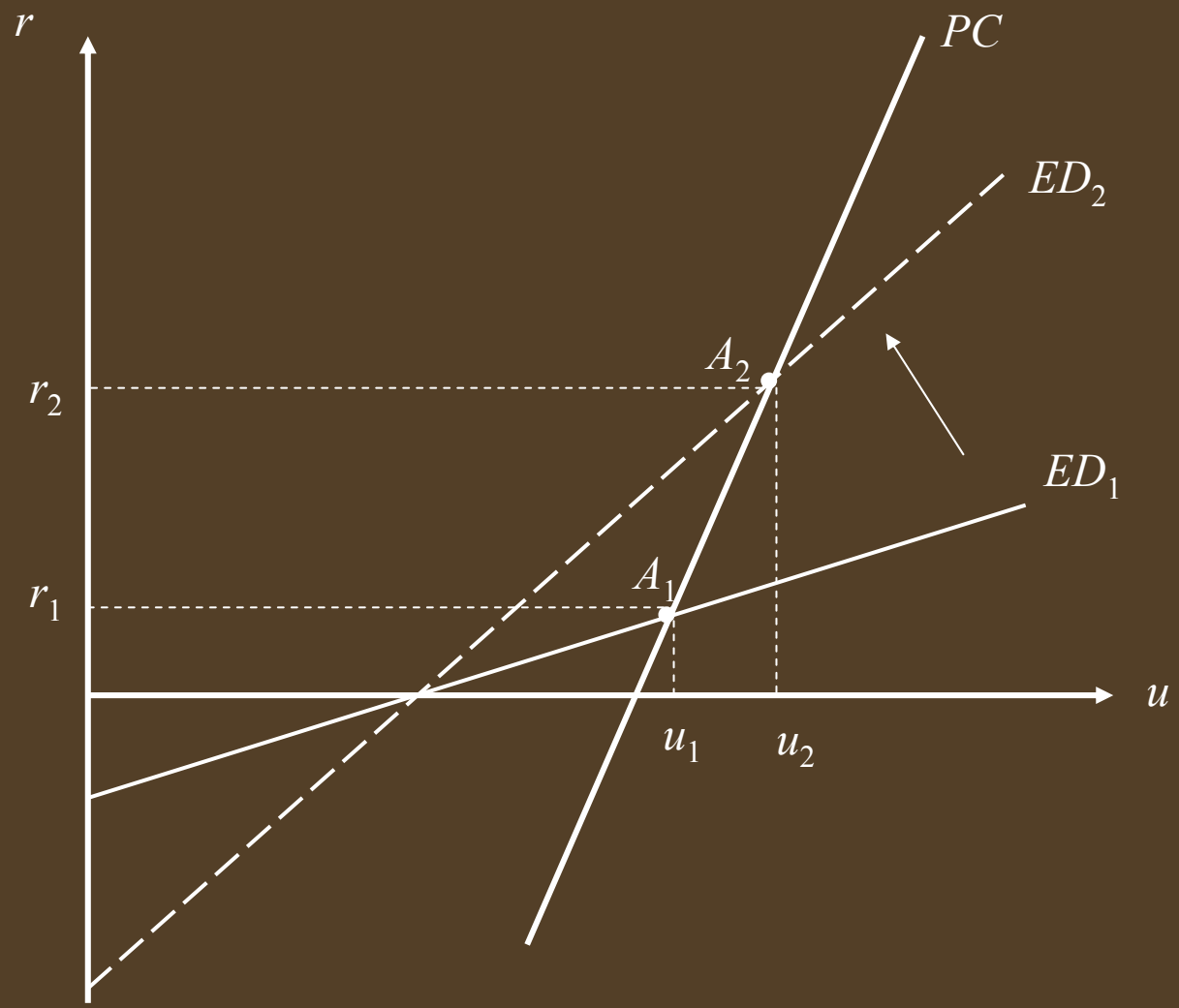
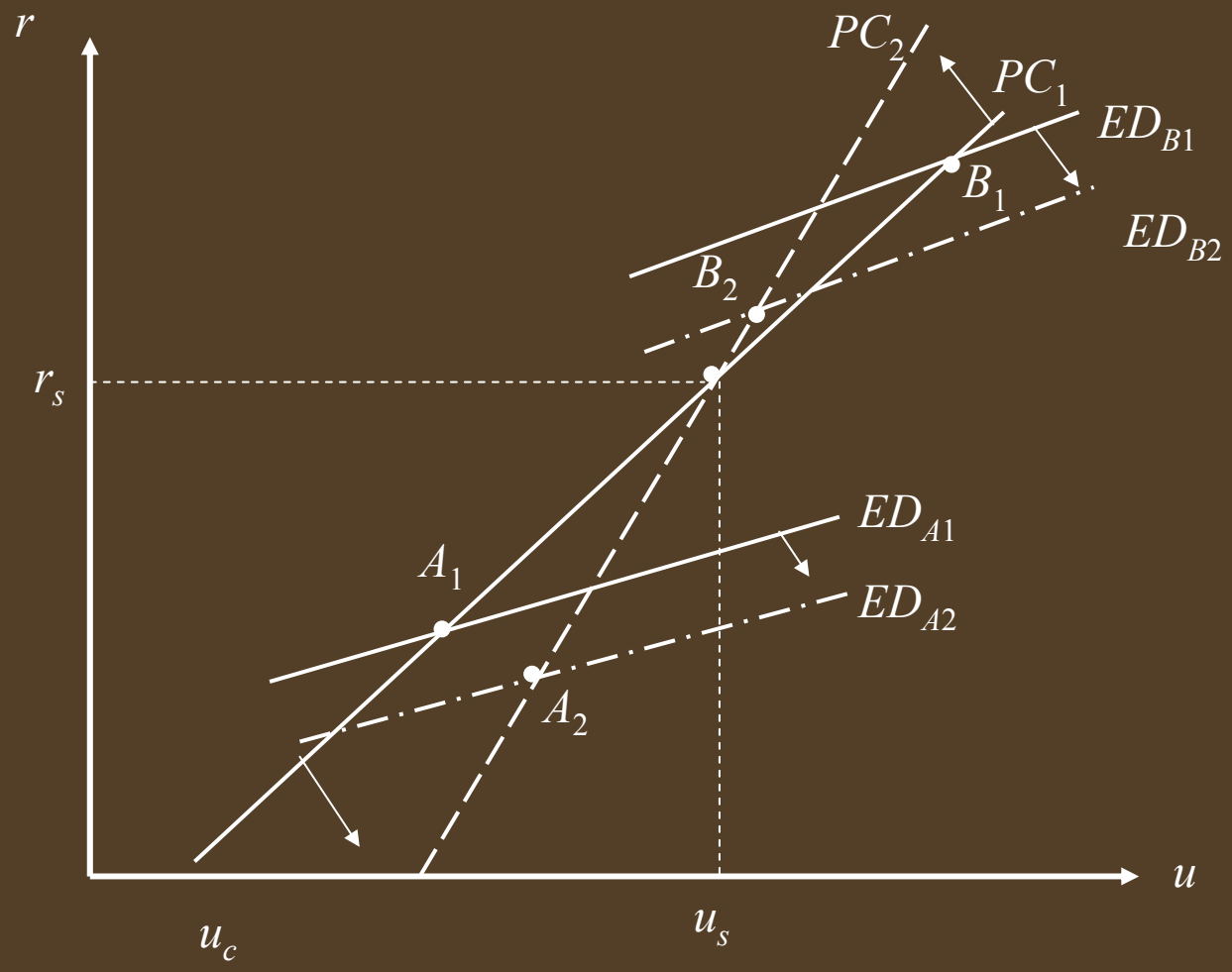


Figure 10

The impact of an increase in managerial costs, with target return pricing and a positive propensity to save out of managerial salaries



Conclusions

- It was argued by Nichols and Norton (1991, p. 53) that “stagnationist models can be easily generalized to include a third class of overhead workers, a class important in modern capitalism”.
- This is what we have done in this paper, taking up the challenge offered by both Kaldor (1964) and Palley (2005), showing, as Nichols and Norton (1991, p. 53) further claim, that “a stagnationist model so generalized is capable of yielding a broader range of capitalist dynamics than the traditional stagnationist framework allowed”.

Conclusions (2)

- Increases in managerial costs may have either positive or negative effects on rates of capacity utilization, profit rates, growth rates and net profit shares, even when there is no saving out of wages and salaries.
- Furthermore, increases in target rates of return may lead to reductions or reductions in profit shares.
- Thus, in contrast to what seems to be implicit assumption of a large number of empirical studies, the evolution of wage shares or profit shares is unlikely to be an appropriate indicator of the bargaining power of labour or of capitalists, unless one succeeds in taking adequate care of cyclical effects.