

Wage as rent: A classical model with some neoclassical features

Topic: Input-output analysis for policy making III

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The classical core can be distinguished from the contemporary neoclassical type of models also by differences in the sets of data. It is demonstrated that a minor change in the data set of the classical model, i.e. substitution of given wage rates by the assumption of labour market clearing, brings about a completely different type of model with three manifestations (classical/Marxian-, neoclassical long run- and restraint inflation case) which depend on the relation between labour supply, productivity and final demand for products. Whereas the classical/Marxian case is characterized by persistent unemployment and subsistence wages the neoclassical long run case will result either in a stable position with full employment and wage rates above the subsistence level or, if the system is unstable, it will end up - like in the classical/Marxian case - with subsistence wages and persistent unemployment. A third case, restraint inflation, is characterized by permanent excess demand for labour and products.