The Wage as Rent: The Factor-Price Frontier revisited

Topic: Organized Session: Rents and Physical Resource Constraints in Input-Output Models
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The Sraffian concept of a factor-price frontier which provides a technological relation between the real wage rate and the rate of profits has been used by several economists (e.g. Hicks, Morishima, Samuelson, Leontief). The classical scholars tend to take the real wage rate as given and, therefore, determine the rate of profit endogenously. Sraffa, on the contrary, argues that the rate of profit is given (determined by the financial system) and the wage rate is endogenous. This paper prefers a different route. If one accepts the proposition, that the real wage rate is flexible and increases (decreases) if there is excess demand (supply) of labour then, in the long run, the wage rate is either at its minimum (subsistence) level (as in the classical case) or is determined as a rent for scarce, i.e. fully employed labour (as in the neoclassical case). In that case the real wage rate assumes either its maximum level or is determined at a switch point of coexisting methods of production. These switch points can be considered as long run equilibrium positions which may be stable or – in the presence of re-switching – unstable. In the latter case persistent unemployment at a minimal wage rate is possible.