Wage-led versus Profit-led Demand: What Have we Learned? A Kalecki-Minsky View

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The Bhaduri-Marglin model has become a widely used workhorse model in heterodox macroeconomics and it has given rise to a dozen or so empirical studies, which at times have given conflicting results. Neo-Kaleckians and neo-Goodwinians have applied different estimation strategies, with the former typically estimating behavioural equations, while the latter have often used reduced-form demand equations. Further differences include the lag structure, the output measure, the control variables and the sample. The paper, firstly, tries to clarify the terms of the debate. While neo-Kaleckians interpret the model as medium term, partial-equilibrium goods market model, neo-Goodwinians are interested in the interaction of demand and distribution and regard the model as a long-run model with short-run cycles. Second, we elaborate a Kalecki-Minsky view of the economy as characterised by a wage-led demand regime and cycles driven by financial fragility. Many of the reported results may suffer from omitted variable bias as they do not include financial control variables. At least in the recent past, financial effects on demand have been much larger in size than distribution effects. A wage-led Minsky model with reserve army distribution function gives rise to pseudo-Goodwin cycles.