
Employment Cycles, Low Income Work and the Dynamic Impact of Minimum Wages. A Macro Perspective

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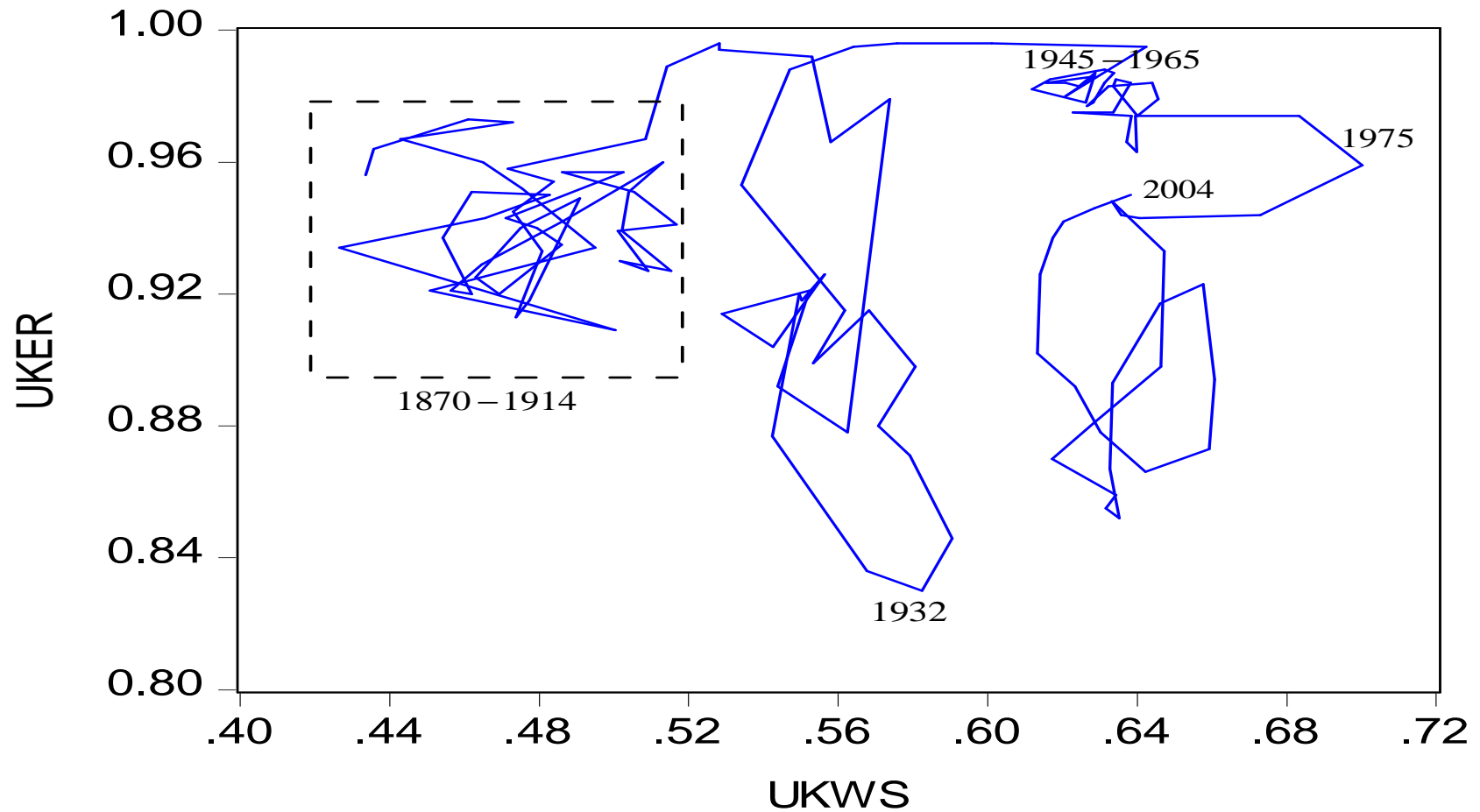
Camille Logeay

Christian Proaño

Macroeconomic Policy Institute (IMK)
at the Hans-Böckler Foundation, Germany

11th AHE Conference , July 10, 2009

Wage share v – Employment Rate e Phase Plot (UK)

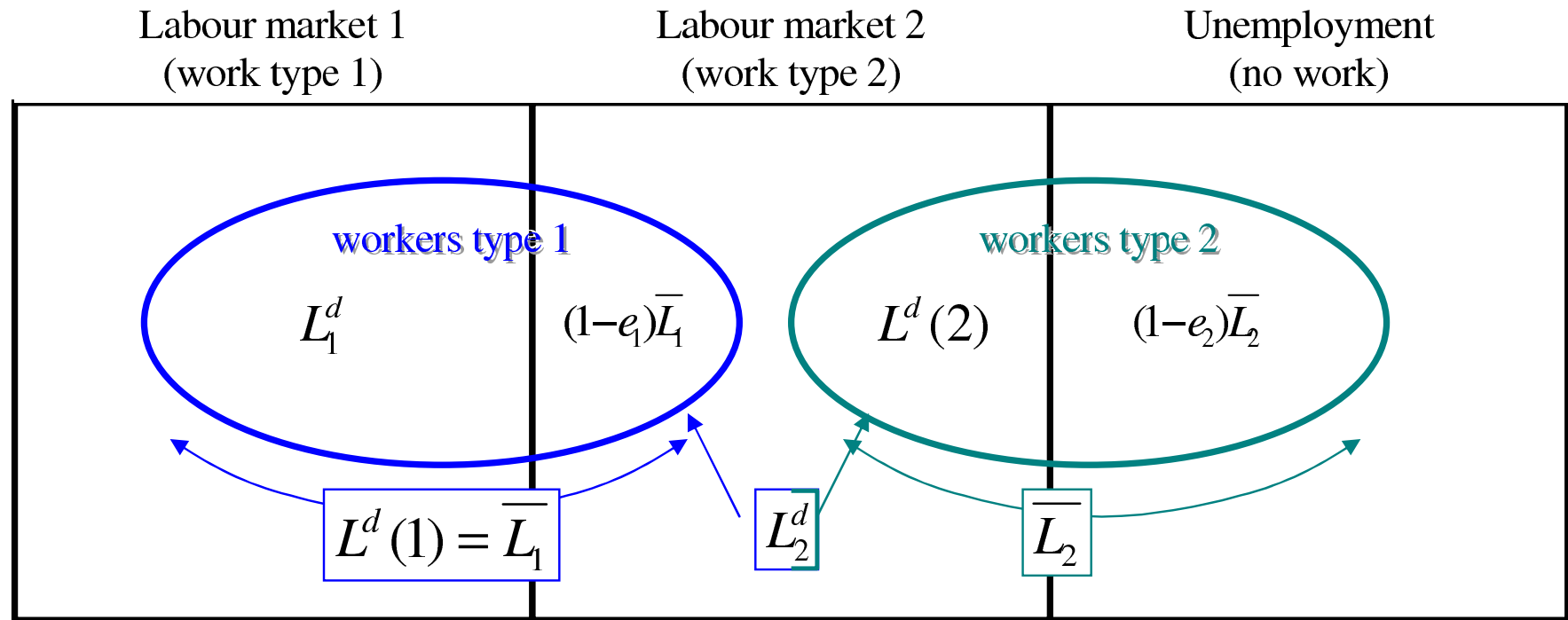


Goodwin growth cycle dynamics:

ω_i real wages, e_i employment rate of type i, \hat{e}_i growth rate

$$\hat{\omega}_1 = \beta_{we}(e_1 - \bar{e}_1) + \beta_{w\omega}(\omega_2 - \bar{\omega}_2)$$

$$\omega_2 = a\omega_1 + b(e_1 - \bar{e}_1)$$



Classical Labor Market System

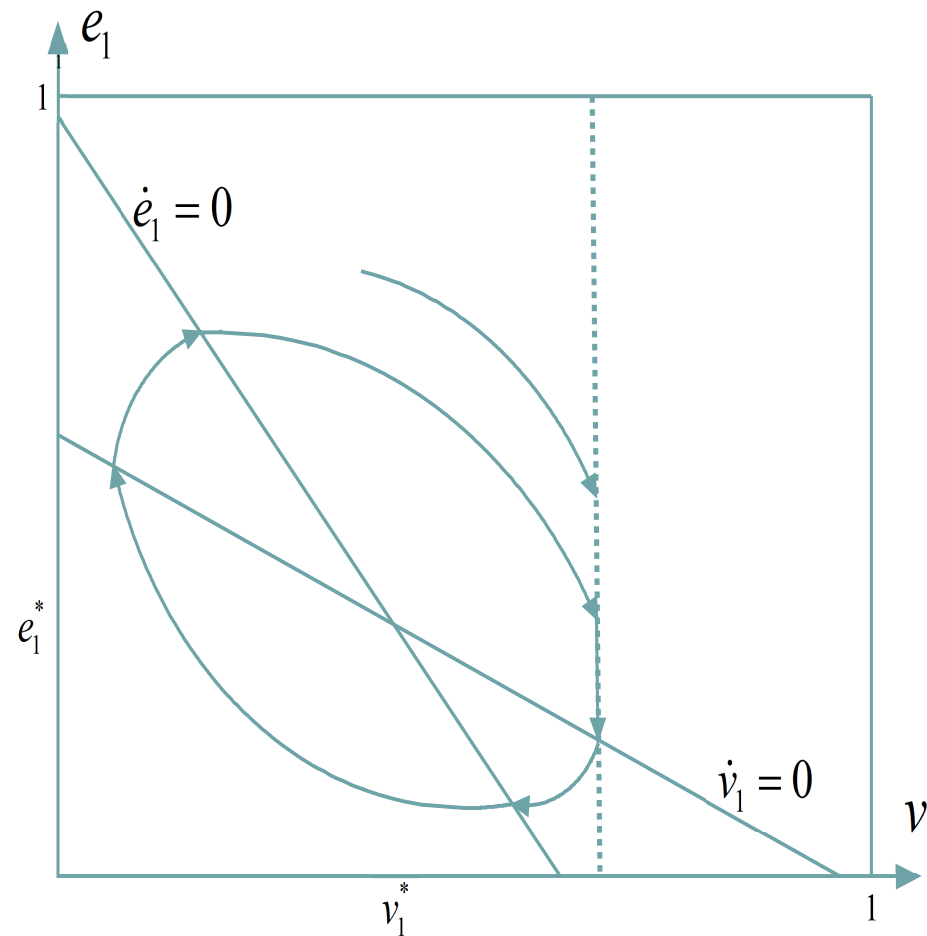
$$\hat{K} = \frac{Y - \delta K - \omega_1 L_1^d - \omega_2 L_2^d}{K}$$

Proposition:

1. *The determinant of the Jacobian matrix of the dynamics is positive.*
2. *At the parameter values*

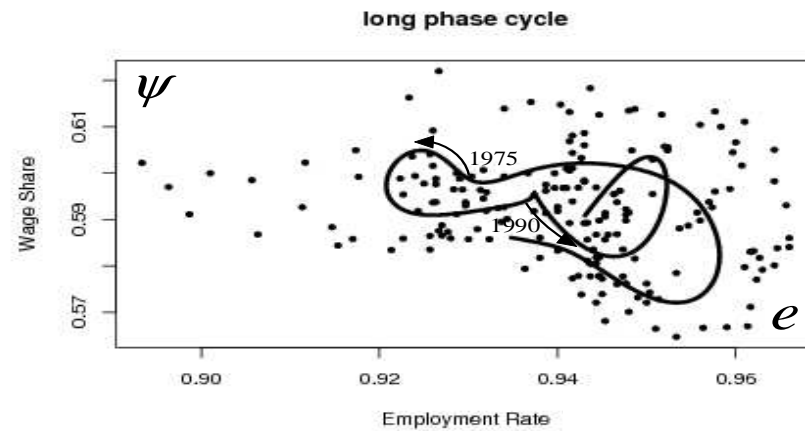
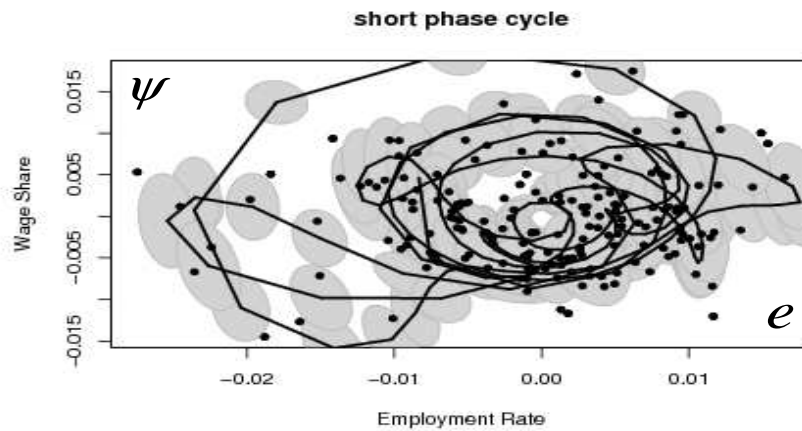
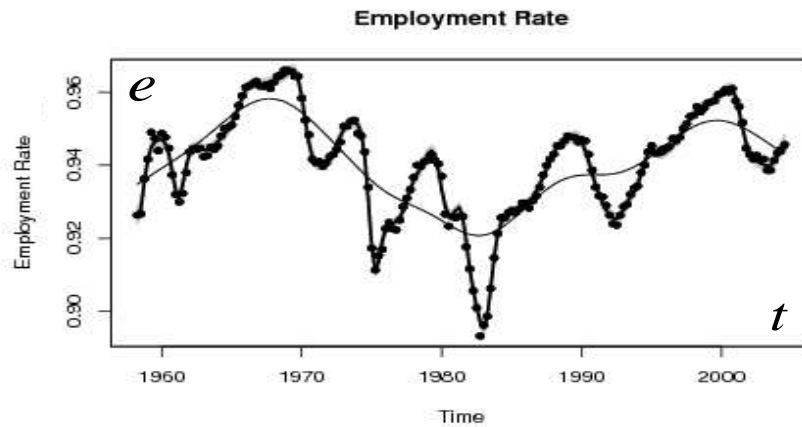
$$\beta_{w\omega}^H = \frac{b e_1^* \bar{x} / \bar{y}_2}{a \omega_1^*}, \quad b^H = \frac{\beta_{w\omega} a \omega_1^*}{e_1^* \bar{x} / \bar{y}_2}$$

there occurs a Hopf-bifurcation where explosive fluctuations are turned into damped ones for smaller $\beta_{w\omega}$ and larger b .



A “Nixon” type wage-price freeze and persistent fluctuations in employment and distribution

The US Distributive Cycle after World War II:



United Nations (1998, article 23): Universal Declaration of Human Rights, 1948 (<http://www.un.org/Overview/rights.html>):

- 1 Everyone has the right to work, to free choice of employment, to just and favorable conditions of work and to protection against unemployment.
- 2 Everyone, without any discrimination, has the right to equal pay for equal work.
- 3 Everyone who works has the right to just and favorable remuneration ensuring for himself and his family an existence worthy of human dignity, and supplemented, if necessary, by other means of social protection.
- 4 Everyone has the right to form and to join trade unions for the protection of his interests.

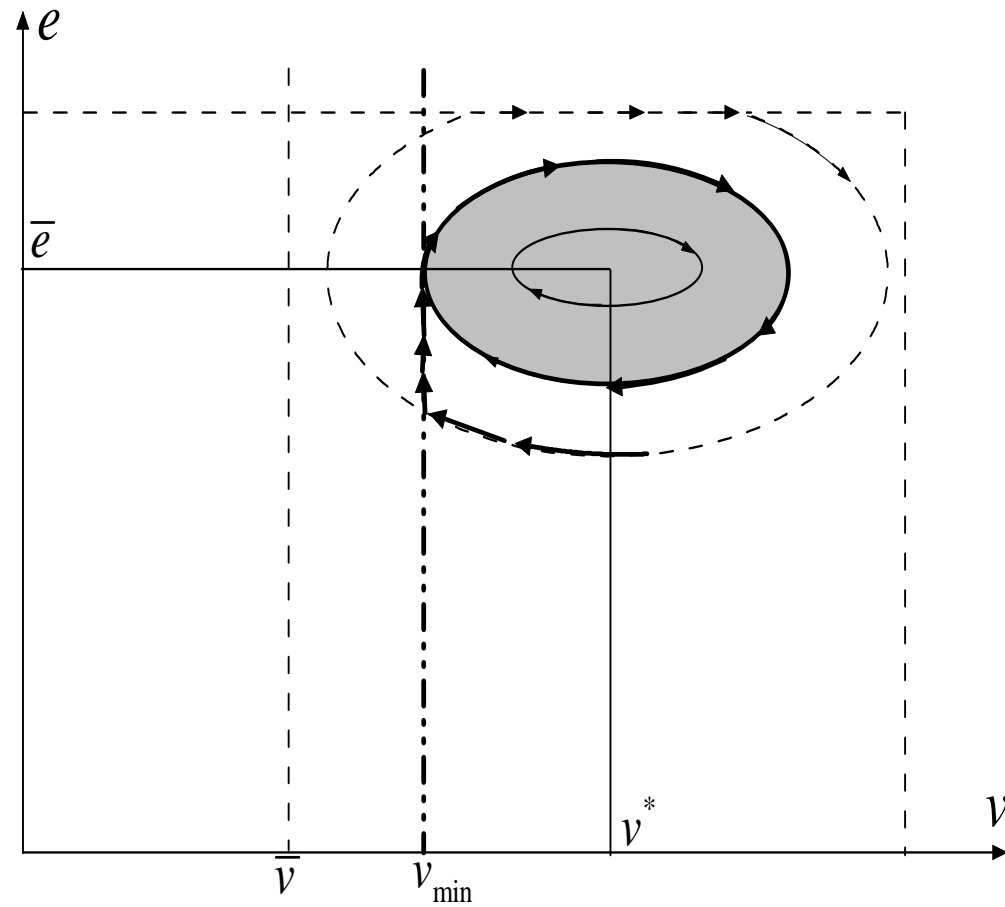
Minimum Wages and Basic Income Needs:

$$\hat{\omega} = \beta_{we}(e - \bar{e}) \quad (1)$$

$$\hat{e} = \bar{x}(1 - \omega/\bar{x}) - n \quad (2)$$

$$\dot{R} = \tau\omega eL - \bar{\omega}(1 - e)L \quad (3)$$

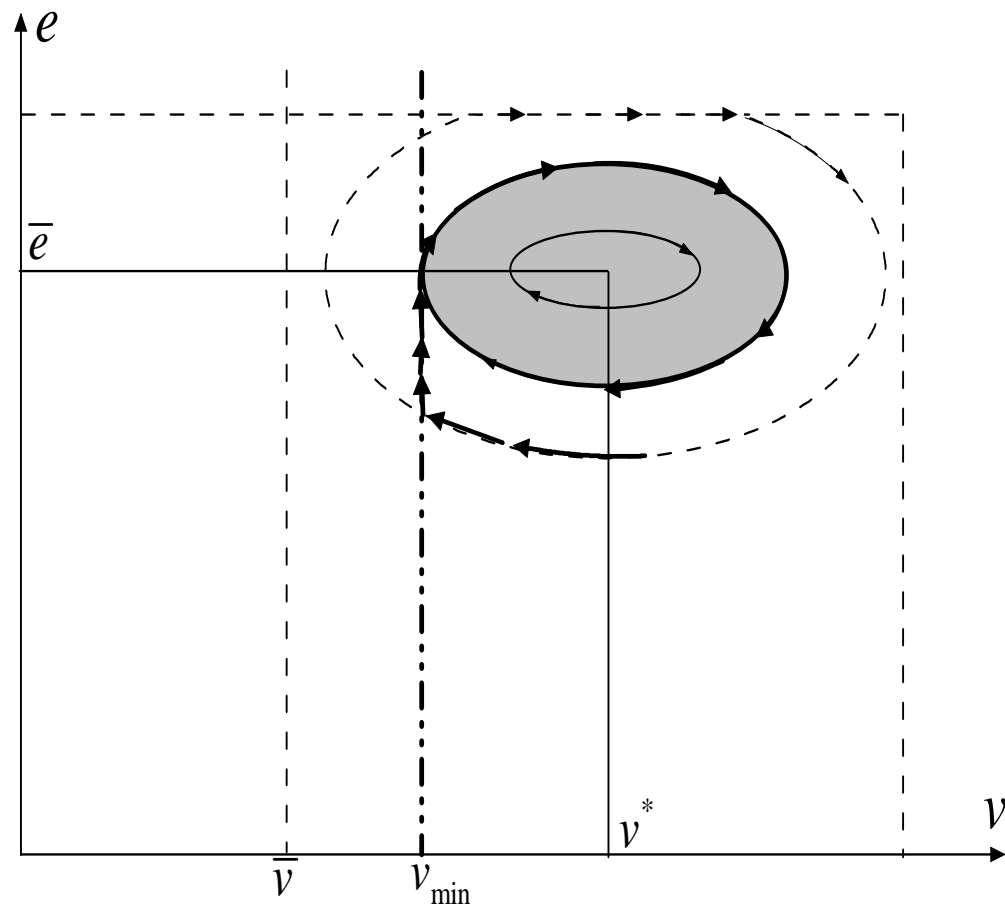
$$\left(\frac{R}{L}\right)^* = \frac{r^*}{l^*} = \frac{(\tau\omega^* + \bar{\omega})e - \bar{\omega}}{n} \quad (4)$$



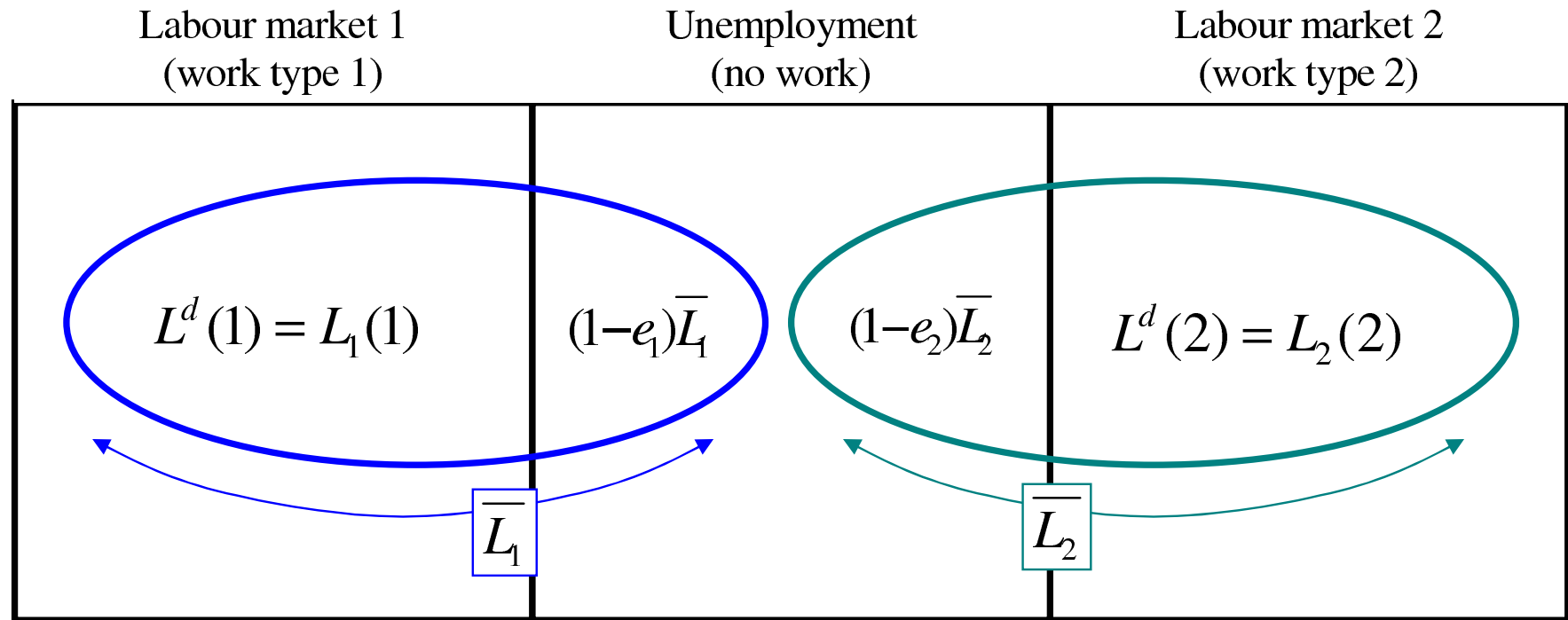
The distributive cycle with a minimum wage restriction

Combined Wages: The Better Way?

$$\begin{aligned}\dot{R} &= \tau\omega eL - \bar{\omega}(1 - e)L \\ &\quad - \phi(1 - \tau)(\omega_{min} - \omega)eL \\ \left(\frac{R}{L}\right)^* &= \frac{(\tau\omega^* + \bar{\omega})e - \bar{\omega}}{n}\end{aligned}$$



The distributive cycle under combined wages?



Reformed Labor Market System

$$\hat{\omega}_1 = \beta_{we}(e_1 - \bar{e}_1)$$

$$\omega_2 = a\omega_1$$

$$\dot{r} = \tau_1 v_1 \bar{x} + \tau_2 v_2 \bar{x}$$

$$- \omega_{1u}(1 - e_1)l_1 - \omega_{2u}(1 - e_2)l_2, \quad r = \frac{R}{K}$$

From Dissent-Driven Welfare Capitalism to Flexicurity Capitalism?

