INEQUALITY IN A MONETARY DYNAMIC MACROECONOMIC MODEL - SORTING OUT PIKETTY'S VIEW ON CAPITAL

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Abstract

Piketty's neo-classical exposition of the link between the rental rate of capital, growth and inequality has been subject to various criticisms from both mainstreams and heterodox economists. This motivates the search for an alternative standpoint incorporating heterodox insights such as endogenous money and the lessons from the Cambridge capital controversies. We argue that the Goodwin-Keen approach paves the road towards such an alternative. We first consider a modified Goodwin-Keen model driven by consumption by households, instead of investment by firms, leading to the same qualitative features of the original Keen 1995 model, namely the existence of an undesirable equilibrium characterized by infinite private debt ratio and zero employment, in addition to a desirable one with finite debt and non-zero employment. By introducing a stock market and further subdividing the household sector into workers and investors, we are able to investigate their relative income and wealth ratios for in the context of these two long-run equilibria, providing a testable link between asymptotic inequality and private debt accumulation.