**Does it make sense to get a cleaner? A simple Marshallian post Keynesian case of a pure service economy in the case of money-mediated exchange versus coordinated barter.**

The purpose of this paper is to consider the Marshallian Post-Keynesian model in a limited case: a pure service economy with no goods produced and two agents. We illustrate the incentives of agents at the underemployed workers 1 to work more at the Keynesian equilibrium, 2 to purchase more labour from others, and 3 to swap their labour for others.

We argue that at the underemployed equilibrium, there is an incentive for worker A to **swap** more labour with worker B (ie a double contract), but there is **not** an incentive for worker A to **pay** for more labour worker B at the equilibrium wage, or in parallel for worker B to **pay** worker A for more labour at the equilibrium wage. Thus at underemployment, money becomes less functional than at the full employment equilibrium at mediating mutually beneficial transactions. (We do not deal with the practical issues with coordinated credit-barter, merely this one economic effect).

Keynes considers that there are two postulates of classical economics: 1. The wage is equal to the marginal product of labour; 2. The utility of the wage when a given volume of labour is employed is equal to the marginal disutility of that amount of employment (ie there is no involuntary unemployment). His theory continues assumption (1) but disagrees with assumption 2. The basic reason is that employment is limited not by disutility of working but by a lack of *effective demand*.

For simplicity of example, consider that there’s we have two workers a cleaner and a tutor. Imagine the Marshallian Post Keynesian model as described in Figure 3 of the model in Lavoie (2014)[[1]](#footnote-1) Here, the level of employment is driven by effective demand in the economy – wages and autonomous expenditures of profit. Deficient autonomous expenditures can be driven by capitalists making profit and attempting to save them. Here, since there is no manufacturing and therefore no ‘good’ we measure the real wage in Utils. An Util could be a standard unit of service, for example one hour of professional cleaning.

Consider the characteristics at point K, which is the underemployment Keynesian equilibrium.

Notional Labour Demand (Marginal Product of Labour)

Real Wage in Utils

Notional Labour Supply (Disutility of Working)

K (Keynesian Equilibrium)

Wage greater than marginal disutility of working

Effective Labour Demand

*N (Neoclassical Equilibrium)*

Labour Supplied in Hours

If there is plenty of demand in the economy we will be at point N, the neoclassical equilibrium. Here the situation in terms of one barter transaction of labour for labour and in terms of two money based transactions are the same. The existence of money makes no difference.

However, if demand is insufficient (e.g. because of some parties making a profit but not spending it), we may be in a situation of insufficient demand, point K.

What are the incentives of a utility-maximising agent at point K, relative to the incentive at point N?

*1: let’s consider the incentives to working more hours*

At point K, the wage is greater than the marginal disutility of labour. What that means is that the workers are underemployed, they would take more work at the given wage rate if it were available, but that work is limited by (effective) demand. So we’d like to work more hours, but that work is not available. **So it always makes sense to work more hours, but those hours are not available.**

*2a, consider the incentive to spend more on cleaners in the monetary economy*

We can consider two cases; first the case where we have trade intermediated by money. In this case, one has to *give up* tangible wealth (money) in order to get the utility. The hope is that someone else will reciprocate. You spend, and then hope that in the future someone spends back (a second decision).

What are the incentives for a person to spend more on cleaners? The question now is what is the marginal utility of a cleaner relative to the wage paid?

Here, the decision appears to be marginal, since by definition, the wage is equal to the marginal product (utility) of labour at point K. So it is at equilibrium: an additional pound spent on cleaners would not be ‘worth it’. Thus K would be stable.

Now consider the economy using credit-barter. In this case a coordinated exchange of more labour is needed.

So it does not make sense to spend more money on someone else’s labour at K.

*2b Now consider the barter or credit-barter economy*

In a coordinated ‘barter’ of hours (or credit-barter, where there’s a time difference between the service provided and that received), *does make sense*. The difference here is that the swap is coordinated simultaneously. Rather than spend and hope that someone makes the decision to spend back, every act of spending implies a coordinated act of (promised) production. So barter economy would act at N, so long as that could be coordinated.

1. Lavoie (2014) Post Keynesian Economics; Section 5.2 page 280-283 Figure 5.1 [↑](#footnote-ref-1)