I am grateful to the comments of the referee and the invited reader.

The paper is not about bargaining nor, indeed, the orthodox conflict between capitalists and workers. Models that deal with the consumption of workers who are also capitalists are beginning to roll out (Taylor, 2014, is an example). However, the other comments of the referee have forced me to finesse my plan. *Given* that advanced capitalist regimes are profit-led, the conundrums identified in the paper beg explanation. In wage-led economies, "the derivative of the rate of capital accumulation with respect to the wage rate (or wage share)" is not a summary statistic. It is the combination of responses that illuminate and I hope the discussion surrounding my second Proposition below is satisfying.

This reply is lengthy so the elaboration of the introduction sought by the reader and the treatment of the "minor points" will have to await a rewrite. For the moment, I will only refer to a recent manuscript by Setterfield and Kim (2014) which develops the reference in my paper and from which my motivation was drawn. The classes are workers and rentiers. The latter consists of supervisory workers and capitalists. While they would naturally be interested in distributed profits, they cannot determine profits. In this micro-grounded macro framework, the juxtaposition of "aggregate consumption" and "own profits" is unclear. Profits are retained, or otherwise, ex post. Our interest lies in the consumption of rentiers. Qua workers, supervisors seek to maximize their wage income, entrepreneurs choose the wage bill to minimize their costs. As rentiers, supervisors are one with capitalists and entrepreneurs in desiring maximum profits. Consequently, I see no merit in tagging different discount rates to my players.

The point about the incompleteness of the solution of the dynamic optimization problem made by the referee is well taken and I proceed to make amends.

The discussion following equation 3 in section **2.2** is extended thus.

Combining equations 1 and 2, we get,

$$\dot{c}(t) = \frac{1}{\varphi(t)} [v(t) - \rho] c(t)$$

$$4$$

In like manner, we work out the state-invariant strategy of the entrepreneur, given the open-loop consumption plan, $c^{OL}(t)$, of the capitalist. The Hamiltonian (using the same symbol for convenience) this time with gamma as the costate variable is

$$\mathcal{H} = \pi(w(t)) + \gamma(\nu(t)k(t) + w(t) - c^{OL}(t))$$

The first-order conditions are

$$\frac{\partial \mathcal{H}}{\partial w(t)} = \pi'(w(t)) - \gamma(t) = 0$$
5

$$-\dot{\gamma}(t) + \rho\gamma(t) = \frac{\partial \mathcal{H}}{\partial k(t)} = \gamma(t)\nu(t)$$
6

$$\dot{k} = \frac{\partial \mathcal{H}}{\partial \gamma(t)} = \nu(t)k(t) + w(t) - c^{OL}(t)$$

$$7$$

Now, Hôtelling's lemma is $\pi'(w(t)) = -N(t)$. In that case, equations 5 and 6 give

$$\dot{N}(t) = [\rho - \nu(t)]N(t)$$
8

The OLNE, in sum, is the pair of functions (c^{OL}, w^{OL}) satisfying the differential equations 3, 4, and 8. The equations admit a steady-state solution $(\hat{k}, \hat{c}, \hat{N})$, where, it turns out, the discount rate equals the rate of profit and the following relationship holds

$$v\hat{k} = \hat{c}^{OL} - w^{OL}$$

With four elements in the expression, a set of permutations and combinations presents itself. Our opening remarks prompt the following reading. The high level of consumption below does not exclude the consumption of supervisory workers.

Proposition 1: Under open-loop strategies, a 'low' level of wages can exist with a 'high' level of consumption if the rate of profit or the discount rate is 'high' for a given level of investment.

We make an identical extension to section **2.3**. The correction below follows the proof of the lemma.

Hereafter, we denote the derivative by $\hat{o}(t)$. Combing equations as in the earlier case, we get the following differential equation in consumption

$$\dot{c}(t) = \frac{1}{\varphi(t)} \left[v(t) + \delta(t) - \rho \right] c(t) \tag{10}$$

We proceed to the optimization problem of the entrepreneur. In the familiar manner, we work out the plan of the entrepreneur, given the state-dependent strategy consumption plan, $c^{FB}(k(t))$, of the capitalist. The Hamiltonian is

$$\mathcal{H} = \pi(w(t)) + \gamma(v(t)k(t) + w(t) - c^{FB}(k(t)))$$

The first-order conditions are

$$\frac{\partial \mathcal{H}}{\partial w(t)} = \pi'(w(t)) - \gamma(t) = 0$$
11

$$-\dot{\gamma}(t) + \rho\gamma(t) = \frac{\partial \mathcal{H}}{\partial k(t)} = \gamma(t)\nu(t) - \gamma(t)\left(\frac{d\mathcal{L}^{FB}}{dk(t)}\right)$$
 12

$$\dot{k} = \frac{\partial \mathcal{H}}{\partial \gamma(t)} = \nu(t)k(t) + w(t) - c^{FB}(k(t))$$
13

In the present instance, denoting the derivative in equation 12 by $\beta(t)$, equations 11 and 12 deliver

$$\dot{N}(t) = \left[\rho - \nu(t) + \beta(t)\right]N(t)$$
14

The MPNE is the pair of functions (c^{FB}, w^{FB}) satisfying the differential equations 10, 13, and 14. The equations admit a steady-state solution $(\hat{k}, \hat{c}, \hat{N})$, which we represent in the following two equations.

$$\rho + \beta(t) = \nu(t) = \rho - \delta(t)$$
15

and

$$v\hat{k} = \hat{c}^{FB} - w^{FB} \tag{16}$$

From 15, we see that the derivatives introduce a wedge between the rate of profit and the rate of impatience. Also, the derivative of feedback consumption with respect to the level of capital can be signed. It is negative. Now, a 'low' wage bill can coexist with 'high' aggregate consumption at a 'low' rate of profit but at a 'lower' discount rate as long as the growth of wages (with respect to the capital stock) is 'sufficiently high' (Lavoie & Stockhammer, 2012). Correspondingly, the fall in consumption with respect to the capital stock must also be 'sufficiently high'. A heterodox translation of lowering horizons is "short termism". It is possible, then, for the rate of profit to be falling as snapshots of this economy are taken over time as long as "short termism" is increasing even faster. Proposition 1 is amended as follows.

Proposition 2: Under feedback rules, at a steady-state level of investment, a 'low' level of wages can exist with a 'high' level of consumption for a 'low' level of the rate of profit as long as the discount rate is even 'lower' and the responsiveness of wages or consumption to the accumulation of capital is sufficiently 'high'.

Reference

[1] Taylor L. The Triumph of the Rentier? Thomas Piketty vs Luigi Pasinetti and John Maynard Keynes. The New School of Social Research, Schwartz Center for Economic Policy Analysis Working Paper 2014-7

[2] Setterfield M. Kim, YK. Debt Servicing, Aggregate Consumption, and Growth. University of Massachusetts Boston Working Paper 2014-10