

## **ECON 797K: Modeling growth and distribution**

Tu-Th, 10:30 am - 11:45 am in Crotty 114

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Office hours: W 10am - 12 noon

This course explores

- (i) selected contributions to the mainstream literature on economic growth in greater detail than could be done in Macro1
- (ii) some of the debates within the (post-) Keynesian and (neo-) Marxian traditions in greater detail than could be done in Macro 3
- (iii) themes from traditional development economics, including theories of
  - a. uneven development
  - b. coordination problems and the need for a 'big push'
  - c. balance of payments constrained growth
  - d. the role of industrial policy, aggregate demand and the real exchange rate in the structural transformation of dual economies

Evaluation will be based on (i) 4 assignments, (ii) in-class presentations, and (iii) a term paper. The weights will be 40%, 20%, and 40%, respectively.

### **Outline:**

The readings below are preliminary. We'll only read a subset of these, the precise choice depending on participants' interests.

### **I Introduction**

Stylized facts and key questions

### **Readings:**

Rodrik, D. (2014) The Past, Present, and Future of Economic Growth, Challenge, 57:3, pp. 5-39.

## II "New growth" (3-4 weeks)

- a) Ramsey-Solow and AK growth model recap
- b) R&D based models
- c) Human-capital based models
- d) Institutions and social infrastructure

### Readings:

Acemoglu, D., Johnson, S. and Robinson, J.A. (2005) "Institutions as a Fundamental Cause of Long-Run Growth". In: Handbook of Economic Growth, ed. by Philippe Aghion and Stephen Durlauf, Elsevier, Amsterdam.

Acemoglu, D. and Robinson, J.A. (2000) "Political Losers as a Barrier to Economic Development". *The American Economic Review*, Vol. 90, No. 2, *Papers and Proceedings* (May), pp. 126-130.

Galor, O. and Zeira, J. (1993) "Income Distribution and Macroeconomics". *Review of Economic Studies*, Vol. 60, No. 1. (Jan., 1993), pp. 35-52. Jones, C. I. (1999). "Growth: With or without Scale Effects?" *AER Papers and Proceedings* 89, 139-144.

Jones, C. I., and P. M. Romer, 2010, The new Kaldor facts: Ideas, institutions, population, and human capital, *American Economic Journal: Macroeconomics*, vol. 2 (1), 224-245.

Lucas, R.E. (1988) "On the Mechanics of Economic Development". *Journal of Monetary Economics*, pp. 3-42.

Nelson, R.N. (1992) "What Is 'Commercial' and what Is 'Public' About Technology, and what should be?". In N. Rosenberg, R. Landau and D. Mowery (eds) *Technology and the Wealth of Nations* (Stanford University Press).

Nelson, R. and Wright, G. (1992) "The Rise and Fall of American Technological Leadership". *Journal of Economic Literature*, pp. 1931-64.

Rodrik, D. (1997) "The 'Paradoxes' of the Successful State". *European Economic Review*, 411-442.

Rodrik, D., A. Subramanian and F. Trebbi (2004) "Institutions Rule: The Primacy of Institutions Over Geography and Integration in Economic Development" *Journal of Economic Growth*, 9(2), 131-165, 06.

Romer, P. (1990) "Endogenous Technological Change". *Journal of Political Economy*, pp. S71-S102.

Teece, D.J. (1992) "Strategies for Capturing the Financial Benefits from Technological Innovation". In N. Rosenberg, R. Landau and D. Mowery (eds). *Technology and the Wealth of Nations* (Stanford University Press).

### III Post-Keynesian and neo-Marxian debates (3-4 weeks)

- a) Utilization rates and the specification of accumulation
- b) Distribution-led growth and the supply side
- c) Autonomous demand and Sraffian supermultipliers

#### Readings:

Allain, O. (2015), 'Tackling the instability of growth: a Kaleckian-Harrodian model with an autonomous expenditure component', *Cambridge Journal of Economics*, 39(5), 1351--1371.

Dutt, A.K. (2006) "Aggregate Demand, Aggregate Supply and Economic Growth". *International Review of Applied Economics*, Vol. 20, No. 3, 319–336

Freitas, F. and Serrano, F. (2015) “Growth Rate and Level Effects, the Stability of the Adjustment of Capacity to Demand and the Sraffian Supermultiplier”. *Review of Political Economy*, Vol. 27, No. 3, 258–281,

Girardi, D. and Pariboni, R. (2018) “Normal utilization as the adjusting variable in Neo-Kaleckian growth models: a critique”. UMass Working Paper 2018-11

Hein, E., Lavoie, M. , van Treeck, T. (2011): ‘Some instability puzzles in Kaleckian models of growth and distribution: a critical survey’, *Metroeconomica*, 2012.

Lavoie, M. (2016): 'Convergence towards the normal rate of capacity utilization in neo-Kaleckian models: the role of non-capacity generating autonomous expenditures'. *Metroeconomica*, 67(1), pp. 172-201.

Lavoie, M. (2017): 'Prototypes, reality and the growth rate of autonomous consumption expenditures: a rejoinder'. *Metroeconomica*, 68(1), pp. 194-199.

Lavoie, M. and E. Stockhammer (2013), ‘Wage-led growth: concept, theories and policies,’ in M. Lavoie and E. Stockhammer (eds), *Wage-Led Growth: An Equitable Strategy for Economic Recovery*, ILO and Palgrave Macmillan

Nakatani, T. and Skott, P. (2007) "Japanese growth and stagnation: A Keynesian perspective". *Structural Change and Economic Dynamics*, 2007, Vol. 18, Iss. 3, pp. 306-332.

Nikiforos, M. (2016) “On the ‘utilization controversy’: A theoretical and empirical discussion of the Kaleckian model of growth and distribution”. *Cambridge Journal of Economics*, 40(2), 437–467.

Onaran, Ö. and G. Galanis (2013), ‘Is aggregate demand wage-led or profit-led? National and global effects,’ in M. Lavoie and E. Stockhammer (eds), *Wage-Led Growth: An Equitable Strategy for Economic Recovery*, ILO and Palgrave Macmillan.

Setterfield, M. (2017) “Long-run variation in capacity utilization in the presence of a fixed normal rate”. NSSR Working Paper 042017.

Skott, P. (2012) "Theoretical and empirical shortcomings of the Kaleckian investment function". *Metroeconomica*, Feb. 2012, pp. 109-138.

Skott, P. (2017a), 'Weaknesses of 'wage-led growth', *Review of Keynesian Economics*, 5(3), 336--359.

Skott, P. (2017b), 'Autonomous Demand and the Harrodian Criticisms of the Kaleckian Model'. *Metroeconomica*, 68(1), 185-193.

Skott, P. (2019), 'Autonomous demand, instability and the supply side', *Metroeconomica*, 70(2), 2019, pp. 233-246.

Skott, P. (2019) "Challenges for post-Keynesian macroeconomics: a behavioral and structuralist perspective". In Finn Olesen and Jesper Jespersen (eds) *Progressive Post-Keynesian Economics: Dealing with Reality*, Elgar.

Stockhammer, E. and Michell, J. (2017) "Pseudo-Goodwin cycles in a Minsky model". *Cambridge Journal of Economics*, 41, pp. 105-125.

#### **IV Economic development and structural transformation (5-6 weeks)**

- a) Cumulative causation; Kaldorian models with learning by doing
- b) 'Big push' in closed and open economies
- c) Industrial policy, aggregate demand and the real exchange rates in dual economies

#### Readings:

Bresser-Pereira and Rugitsky, F. (2018) "Industrial policy and exchange rate skepticism". *Cambridge Journal of Economics*, 42, pp. 617-632.

Dixon, R.J. and A.P. Thirlwall (1975) 'A Model of Regional Growth Rate Differences on Kaldorian Lines', *Oxford Economic Papers*, July.

Krugman, P. (1987) "The Narrow Moving Band, the Dutch Disease, and the Competitive Consequences of Mrs. Thatcher". *Journal of Development Economics*, pp. 41-55.

Krugman, P. (1995) "The fall and rise of development economics". In Krugman, P., *Development, Geography and Economic Theory*, MIT Press.

La Porta, R. and Shleifer, A. (2018) "Informality and development". *Journal of Economic Perspectives*, 28(3), pp. 109–126.

McCombie, J.S.L. (2019) Why Thirlwall's law is not a tautology". *Review of Keynesian Economics*, 7(4), pp. 429-443.

Murphy, K.M., Shleifer, A. and Vishny, R.W. (1989) "Industrialization and the Big Push". *Journal of Political Economy*, 1003-1026.

Razmi, A. (2016) "Correctly analysing the balance-of-payments constraint on growth". *Cambridge Journal of Economics*, 40, pp. 1581–1608.

Razmi, A., Rapetti, M and Skott, P. (2012) "The real exchange rate and economic development". *Structural Change and Economic Development*, 23, 151-169.

- Ribeiro, R.S.M., McCombie, J.S.L. and Lima, G.T. (2016) "Exchange Rate, Income Distribution and Technical Change in a Balance-of-Payments Constrained Growth Model". *Review of Political Economy*, 28(4), pp. 545-565.
- Ribeiro, R.S.M., McCombie, J.S.L. and Lima, G.T. (2019) "Does real exchange rate undervaluation really promote economic growth?". *Structural Change and Economic Dynamics*,
- Rodrik, D. (2004) "Industrial Policy for the Twenty-First Century." CEPR Discussion Papers 4767, C.E.P.R. Discussion Papers.
- Rodrik, Dani. 2008. The real exchange rate and economic growth. *Brookings Papers on Economic Activity*, Vol. 2, pp. 365-412.
- Rodrik, D. (2010) "Making room for China in the world economy". *AER P&P*, 100, pp. 89-91.
- Rodrik, D. (2016) "Premature deindustrialization". *Journal of Economic Growth*, 21(1), pp. 1-33.
- Ros, J. and Skott, P. (1998) "Dynamic effects of trade liberalization and currency overvaluation under conditions of increasing returns". *Manchester School*, 466-489.
- Rosenstein-Rodan, P. (1943) Problems of industrialization in Eastern and South-Eastern Europe. *Economic Journal*, 202-211.
- Skott, P. (2020) "Aggregate demand and structural transformation in a dual economy". Working paper.
- Skott, P. and Larudee, M. (1998) "Uneven Development and the Liberalization of Trade and Capital Flows", *Cambridge Journal of Economics*, 277-295.
- Skott, P. and Ros, J. (1997) "The 'big push' in an open economy with non-tradable inputs". *Journal of Post Keynesian Economics*, 149-162.
- Thirlwall, A. (2011) "Balance of payments constrained growth models: history and overview". *PSL Quarterly Review*, 64, pp. 307-351,
- Westphal, L.E. (1990) "Industrial Policy in an Export-Propelled Economy: Lessons from South Korea's Experience". *Journal of Economic Perspectives*, pp. 41-59.

## **V Conclusions: what have we learned? (1 week)**