Models of Balance of Payments Constrained Growth

Also by Elias Soukiazis and Pedro A. Cerqueira

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AND DEVELOPING COUNTRIES (*edited with H. Marques*)

Models of Balance of Payments Constrained Growth

History, Theory and Empirical Evidence

Edited by

Elias Soukiazis and Pedro A. Cerqueira

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Preface

This volume takes the post-Keynesian view that balance of payments can be a serious constraint to growth when external deficits are unsustainable. It also stresses that growth is demand-led and not supply-led as the neoclassical theory advocates, although supply characteristics are assumed to be important for increasing competitiveness. This volume is inspired by Thirlwall's Law and the balance of payments equilibrium growth rate, first published in 1979 as an alternative theory to the neo-classical paradigm, explaining in a more convincing manner differences in growth rates between countries. Its main message that in the long term no country can grow beyond its balance of payments equilibrium growth rate became an important policy issue. And the simple rule that an economy's actual growth rate can accurately be predicted by the ratio of export growth relatively to the income elasticity of demand for imports became a great challenge for theorists and practitioners over time. The purpose of this volume is to reconsider this law, offering a historical overview of the evolution of the balance of payments constrained growth hypothesis, explaining its remarkable resistance and updating the law to the new economic conditions. Important contributions are made by authors who believed the validity of Thirlwall's Law and worked continuously with the aim to improve, adapt and support the main ideas of the balance of payments constrained growth hypothesis.

The contributions in this volume result from the workshop held at the Faculty of Economics of the University of Coimbra in June 2011, organized to commemorate the over 30 years' existence of Thirlwall's Law. Naturally, [Chapter 1](#) contains a historical overview of the law written by Professor Thirlwall himself, explaining the genesis and evolution of his theory over time. The two subsequent chapters analyse in a detail manner the controversy and main criticism on Thirlwall's Law providing theoretical and empirical approaches that support the validity of the balance of payments constrained growth hypothesis. The rest of the book accommodates new studies that adapt, update and improve the law showing how flexible and coherent this theory is in explaining growth performance of different countries. The volume will be of particular interest to researchers and policymakers working in the field of economic growth and international trade.

We are grateful to all participants in the workshop on Thirlwall's Law who contributed decisively to organize this volume. We acknowledge the financial support from the research centre Group for Monetary and Financial Studies (GEMF) and the Faculty of Economics at the University of Coimbra for providing all the conditions for the realization of the workshop. In particular we wish to thank the Palgrave editor for deciding to publish this volume and providing all the assistance throughout the editing process. We also thank Alessandro Roncaglia, the editor of the *SPL Quarterly Review*, for his permission to reproduce some parts which first appeared in his journal. Finally, we acknowledge the effort of the contributing authors for following the editorial guidelines and tight deadlines.

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