THE THEORY OF ECONOMIC GROWTH

The Theory of Economic Growth

An Introduction

GRAHAM HACCHE

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Macmillan Education

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To my parents

Contents

<i>Preface and Acknowledgements</i>	xiii
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PART I INTRODUCTION

1	THE EMERGENCE OF MODERN GROWTH THEORY - THE HARROD-DOMAR MODELS	3
1.1	<i>Harrod, Domar and Keynes</i>	3
1.2	<i>Harrod's model in outline</i>	4
1.3	<i>The implications of Harrod's model: equilibrium growth as an unlikely and unstable coincidence</i>	8
1.4	<i>Harrod and the theory of the business cycle</i>	13
1.5	<i>Domar's model, and a summary of Harrod-Domar Further reading</i>	16 18
2	THE DEVELOPMENT OF MODERN GROWTH THEORY - A PREVIEW	20
2.1	<i>What is 'growth theory' about?</i>	20
2.2	<i>The steady state as a device of dynamic theory</i>	22
2.3	<i>The empirical relevance of steady states Further reading</i>	25 28

PART II NEO-CLASSICAL GROWTH THEORY

3	FIXED VERSUS VARIABLE COEFFICIENTS - THE NEO-CLASSICAL APPROACH	31
3.1	<i>Harrod-Domar again</i>	31
3.2	<i>The neo-classical reaction</i>	34

4	THE ONE-GOOD MODEL WITHOUT TECHNICAL PROGRESS - THE SIMPLEST CASE	37
4.1	<i>The model</i>	37
4.2	<i>The existence and uniqueness of steady-state equilibrium</i>	41
4.3	<i>Comparing steady states</i>	44
4.4	<i>The stability of the steady state: equilibrium dynamics</i>	51
4.5	<i>Summary</i>	53
	<i>Further reading</i>	54
5	THE ONE-GOOD MODEL WITHOUT TECHNICAL PROGRESS - ALTERING SOME ASSUMPTIONS	55
5.1	<i>Introduction</i>	55
5.2	<i>The saving function</i>	55
5.3	<i>The labour force</i>	62
5.4	<i>The production function</i>	63
5.5	<i>A monetary asset</i>	69
5.6	<i>Depreciation</i>	78
	<i>Further reading</i>	79
6	THE TWO-SECTOR MODEL WITHOUT TECHNICAL PROGRESS	80
6.1	<i>Introduction: relaxing the one-good assumption</i>	80
6.2	<i>The model</i>	82
6.3	<i>Momentary equilibrium</i>	83
6.4	<i>The existence and uniqueness of steady-state equilibrium</i>	89
6.5	<i>The stability of steady-state equilibrium</i>	92
6.6	<i>Conclusion</i>	96
	<i>Further reading</i>	97
7	TECHNICAL PROGRESS, PRODUCTIVITY GROWTH AND STEADY STATES	99
7.1	<i>Technical progress and modern economic growth</i>	99
7.2	<i>Disembodied technical progress at an exogenous rate</i>	100
7.3	<i>Requirements for steady growth</i>	101
7.4	<i>Steady growth with technical progress</i>	105
7.5	<i>Alternative notions of neutrality and bias</i>	107

7.6	<i>Embodied technical progress at an exogenous rate: vintage models</i>	110
7.7	<i>The importance of technical progress: accounting for growth</i>	114
	<i>Further reading</i>	119
8	TECHNICAL PROGRESS - THEORIES OF BIAS AND NEUTRALITY	120
8.1	<i>Introduction</i>	120
8.2	<i>The Hicks-Ahmad theory of induced Hicks-bias</i>	120
8.3	<i>The Kennedy theory of Harrod-neutrality</i>	128
8.4	<i>The neo-classical one-sector model with endogenous Harrod-neutrality</i>	133
8.5	<i>Summary and conclusions</i>	138
9	TECHNICAL PROGRESS AT AN ENDOGENOUS RATE	140
9.1	<i>The stages and sources of technical progress</i>	140
9.2	<i>Learning by doing</i>	142
9.3	<i>Kaldor's technical progress function</i>	147
9.4	<i>The frontiers of steady-state equilibrium analysis and beyond</i>	153
	<i>Further reading</i>	157
	PART III NEO-KEYNESIAN GROWTH THEORY	
10	NEO-KEYNESIAN CRITICISMS OF NEO-CLASSICAL THEORY	161
10.1	<i>The neo-Keynesian heritage: Keynes and the classics</i>	161
10.2	<i>Keynes</i>	165
10.3	<i>Competition, markets and prices</i>	171
10.4	<i>Saving: Kalecki and the classics</i>	173
10.5	<i>Capital: malleability</i>	173
10.6	<i>Capital: homogeneity</i>	178
10.7	<i>Summary</i>	181
	<i>Further reading</i>	183

11	INCOME DISTRIBUTION AND EFFECTIVE DEMAND	185
11.1	<i>Introduction</i>	185
11.2	<i>Distribution determined by the degree of monopoly (Kalecki)</i>	186
11.3	<i>Distribution determined by investment and saving (Kaldor)</i>	193
11.4	<i>Investment and external constraints on distribution</i>	198
11.5	<i>Distribution as a determinant of output</i>	201
12	FULL EMPLOYMENT, SAVING AND THE FLEXIBILITY OF PROFIT MARGINS	204
12.1	<i>The stability of full employment in neo-Keynesian theory</i>	204
12.2	<i>The neo-Keynesian saving function</i>	214
12.3	<i>The rate of profit and the Pasinetti Paradox</i>	220
12.4	<i>The flexibility of profit margins</i>	224
13	INVESTMENT AND GROWTH - KALDOR'S GROWTH MODEL	
13.1	<i>Introduction</i>	228
13.2	<i>Period analysis: steady-state solution</i>	228
13.3	<i>Period analysis: stability of steady growth</i>	235
13.4	<i>Continuous analysis</i>	240
13.5	<i>Vintage capital and the pay-off period</i>	245
13.6	<i>Conclusion</i>	247
	PART IV STEADY GROWTH AND ECONOMIC HISTORY	
14	STYLISTED FACTS, STEADY GROWTH AND STRUCTURAL CHANGE	251
14.1	<i>Kaldor's stylised facts and steady growth</i>	251
14.2	<i>Structural change and a missing stylised fact</i>	255
15	STYLISTED FACTS AND HISTORICAL STATISTICS	260
15.1	<i>Introduction</i>	260
15.2	<i>Capital statistics: problems and methods</i>	260

<i>Contents</i>	xi
15.3 <i>Output, capital and employment</i>	270
15.4 <i>Distributive shares and the rate of profit</i>	281
15.5 <i>Conclusions</i>	298
<i>Notes and References</i>	301
<i>Bibliography</i>	326
<i>Index</i>	341

Preface

The purpose of this book is to provide an introductory but fairly comprehensive account of the modern theory of economic growth. The exposition assumes no prior knowledge of growth theory, but it does assume that the reader is acquainted with the principles of macro- and micro-economics; it is intended mainly for undergraduates, beyond their first year, and graduate students. Elementary differential calculus is used extensively, and integral calculus occasionally; it will therefore be helpful, to say the least, if the reader is familiar with these branches of mathematics. (The usual introductory mathematics course for university economics students, for example, should have equipped him with most of the tools he will need.) But I have tried generally to supplement the mathematics with verbal explanation, and I hope that the non-mathematician will not feel shut out.

The book is concerned with the descriptive aggregative growth theory which has stemmed from the work of Harrod and Domar; for treatments of both multi-sector (or non-aggregative) and optimal growth theory (which may be traced back to the work of von Neumann and Ramsey, respectively) the reader is referred to more advanced texts – for example the second half of Burmeister and Dobell (1970). This book attempts to provide a fairly comprehensive account of the field thus defined, and it is hoped that it will be found useful as such by the reader who lacks the time to benefit from much study of the original sources. The more serious specialist will not trust or be satisfied with my exposition alone; for him, it is hoped that what follows will assist and guide the reading of the literature. (Some chapters – particularly those in which certain subjects are treated only briefly – are accompanied by supplementary lists of references suggesting possibilities for further reading.)

There are two particular respects in which the content of this book differs from that of most other texts on the subject. First, it provides a fuller account of the 'neo-Keynesian' approach to growth theory. Most textbooks allocate by far the greater part of their space to the 'neo-classical' approach, and provide at most one or two chapters – sometimes even only one or two pages – for a discussion of neo-Keynesian theory. I have attempted to provide a more balanced treatment of the differences between the two schools, and in so doing have included a fuller account than usual of the constructive (as opposed to the critical) efforts of neo-Keynesian theorists. Their critique of neo-classical theory is discussed partly in Chapter 9 but mainly in Chapter 10; together these two chapters may be regarded as forming a bridge between the neo-classical analysis of Chapters 4–8 and the neo-Keynesian theory of Chapters 11–13. Second, whereas most other textbooks have negligible empirical content, I have attempted, in Chapters 14 and 15, to provide an introduction to applied analysis by considering the empirical interpretation of the theory and some of the problems involved in confronting the theory with data. How is growth theory related to growth in real economies? What does growth theory tell us about economic history and vice versa? These questions are worthy of consideration. They are, indeed, worthy of more consideration than I have managed to give them: despite Part IV this book does no more than scratch the surface of empirical growth analysis.

As a student at Cambridge in the late 1960s, I would have found it difficult to ignore the theory of economic growth. More specifically, I owe my original interest in the subject to the lectures and teaching of Professor Kaldor and David Newbery. The book began to develop when I was a graduate student at Oxford, and it owes a considerable debt to the advice of my supervisor, Nicholas Stern; it would have foundered at a very early stage without his encouragement. David Newbery, Roger Pownall, Maurice Scott, Susan Symes and Tony Thirlwall provided valuable comments on parts or the whole of the draft at various stages. My debt to the written work of, in particular, Professors Hicks, Kaldor, Meade, Robinson and Solow will be obvious from the bibliography and also, I hope, from the text. Last, but not least, I am grateful to my employers, the Bank of England, and in particular to Leslie Dicks-Mireaux and Tony Carlisle, for their co-operation, and for their toleration of the distraction which this project has formed at various times while I have been with them. The charts were drawn, under the supervision of Amy Crosby, mainly by Gill Fitzgerald, Amanda Waldie, and Susan

Taylor; the typing of the final manuscript, organised by Jenny Bunkall, was done mainly by Hilary Abbott, Diane Coombs, Christine Hale, Glenys Harris and Lynne Ross. I am very grateful for their help.

It goes without saying that no part of the book – not even those parts which are right – necessarily reflects any Bank of England view, and that I alone am responsible for the final product.

July 1978

GRAHAM HACCHE