2000

Economics 105

Anwar Shaikh PhD

ECON 105

Hist. Foundations II

New School University
Graduate Faculty of Political and Social Science
Department of Economics

Economics 105 — Professors Milberg and Shaikh
Historical Foundations of Political Economy II — Spring 2000

Course Outline and Readings

1. Positivism, Paradigm Shifts and Scientific Research Programs

Blaug, M. The Methodology of Economics, or How Economists Explain, Cambrdige University Press, 1980, Part I.
Meek, R., "Marginalism and Marxism" in Black, Coats and Goodwin, editors, The Marginal Revolution in Economics, Durham: Duke University Press, 1973.
Milberg, W. "Natural Order and Postmodernism in Economic Thought,"Social Research, 1993.

2. The Development of Utility Theory and the Marginalist Paradigm

Jevons, S. The Theory of Political Economy, Chapters 1-5, 7.
Mirowski, P. Physics and the "Marginalist Revolution" Cambridge Journal of Economics, 1984, V. 8, pp 361-379.
Black, Coats and Goodwin, editors, The Marginal Revolution in Economics, Durham: Duke University Press, 1973, chapters by De Marchi and Black.

3. The Neoclassical Theory of General Equilibrium

Walras, L., Elements of Pure Economics
Walsh, V. and H.Gram, Classical and Neoclassical Theories of General Equilibrium, Oxford Univ. Press, 1980, Ch 5.

4. Marshallian Marginalism and Partial Equilibrium Theory

Marshall, A., Principles of Economics, 8th Edition. Preface v-xvii Book I, Ch. 1, (Secs, 1,2); Chs. 2,3,4, (Secs. 3-4); Book 3, Chs. 3,4,5, (Secs. 1-3); Ch. 6; Book 4, Chs. 1,2, (Secs 3,4); Book 5, Chs. 2,3,4, (Secs 1,2), Ch. 5, (Secs 2,3,4), Ch. 15; Book 6, Ch. 1, (Secs. 7, 10); Ch. 2, (Sec, 6), Ch. 4 (Sec, 2). Ch. 5, (Sec, 2), Ch. 6, (Secs 3,7); Ch. 7 (Secs 1,6), Ch. 8, (Sec 10), Chs. 11, 12, (Secs 11, 12), Chs. 13, (Secs 2, 10, 11-15).
Mirowski, P. "Smooth operator: how Marshall's demand and supply curves made neoclassicism safe for public consumption but unfit for science." from R. Touberg, editor, Alfred Marshall in Retrospect, Edward Elgar Publishers, 1990.
Talcott Parsons, "Wants and Activities in Marshall", Quarterly Journal of Economics, November 1930.

5. Wicksell and Early Business Cycle Theory

Wicksell, Lectures on Political Economy, Vol. II, pp. 2-27, 190-215.
Schumpeter, J. History of Economic Analysis, pp. 1117-1122.
Medio, A. "Trade cycles", in The New Palgrave.
Uhr, C. "Knut Wicksell", Am. Ec. Rev., 1951.

6. Veblen and Early Institutionalism

Veblen, T. The Theory of the Leisure Class,
Veblen, T., "Why Is Economics Not an Evolutionary Science?" and "Preconceptions of the Classical Economists" reprinted in Lerner, M., editor, The Portable Veblen, New York: Viking.
Mirowski, P.,"The Philosophic Bases of Institutionalist Economics", Journal of Economic Issues, Sept. 1983.

7. Schumpeter on Technology, Politics and Long-Run Capitalist Dynamics

Schumpeter, J. Capitalism, Socialism, Democracy, New York: Harper, 1942.
Heilbroner, R. "Was Schumpeter Right After All?" Journal of Economic Perspectives, 1992.
Heilbroner, R. "Schumpeter's Vision" in Behind the Veil of Economics, New York: Norton.

8. The Theory of Monetary Production and the Keynesian Revolution

Keynes, J.M. The Treatise on Money, selected chapters.
Keynes, J.M. The General Theory of Employment, Interest and Money
Wells, P. "Keynes Disequilibrium Theory of Unemployment," in S.Weintraub, ed. Modern Economic Thought, U. Penn. Press, 1977.
Kregel, J. "Symposium on Market Institutions," Journal of Post Keynesian Economics, 1983.
Jensen, H. "J.M. Keynes as a Marshallian," Journal of Economic Issues, March 1983.

9. The Theory of Endogenously Generated Unemployment

*Marx, K. Capital, Vol. I, Ch. XXV.
*Shaikh, A. (1983). Reserve Army of Labor, in Bottomore, T. Et. Al. (Eds.). A Dictionary of Marxist Thought.
*Rowthorn, B. (1980). Marx's theory of wages, in Capitalism, Conflict, and Inflation, Lawrence and Wishart: London.
Goodwin, R.M. (1972). A Growth Cycle, in Hunt, E.K. and Schwartz, J.G. (Eds.). A Critique of Economic Theory, Penguin: New York. pp. 442-449.

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10. Keynesianism and its Demise

Hicks, J. "Mr. Keynes and the Classics: A Suggested Reinterpretation," Economic Journal, 1937.
Weintraub, S. "Hicksian Keynesian:Dominance and Decline," in S.Weintraub, ed. Modern Economic Thought, U. Penn. Press, 1977.
Heilbroner, R. and W. Milberg, The Crisis of Vision in Modern Economic Thought, Chapters 3-5.

11. Neoclassical and Post Keynesian Theories of Growth

Foley, D. and T. Michl, Growth and Distribution, Harvard University Press, 1999, Chapters 1, 8.
Shapiro, N. "The Revolutionary Character of Post Keynesian Economics," Journal of Economic Issues, 1977.

12. Classical vs. Neoclassical Theories of Production and Distribution

Pasinetti, L. Structural Change and Economic Growth, Cambridge University Press, 1981, Chapter 1.
Harcourt, G.C., 1969. 'Some Cambridge Controversies in the Theory of Capital', Journal of Economic Literature, July
Shaikh, A. 1973, Theories of Value and Theories of Distribution, unpublished Ph.D dissertation, Columbia University: Introduction, Ch II-III.

13. Reproduction and Growth

Marx, K. Capital Vol. II. Ch. 17 (section 1&2), 18, 20 (sections 1-12), 21.
Bleaney, M. 1976. Underconsumption Theories: A History and Critical Analysis, NY: International Publishers, 1976, Ch. 6 and 9.
Luxemburg, Rosa. 1968. The Accumulation of Capital, NY: Monthly Review Press, Ch. 4-9.
Luxemburg, Rosa, 1972. The Accumulation of Capital - An Anti-Critique, NY: Monthly Review Press, pg. 47-89.
Mandel, Ernest, 1975. Late Capitalism, London: Verso, Ch. 1.
Sweezy, Paul 1942, The Theory of Capitalist Development, NY: Monthly Review Press, Ch.10.
Kenway, Peter, 1980. "Marx, Keynes and the Possibility of Crisis", Cambridge Journal of Economics, 4 (1).Marx, K.

14. Profitability, Growth, and Recurrent Economic Crises

Marx, K. Capital, Vol. III, Part III.
Shaikh, Anwar. "An Introduction to the History of Crisis Theories", in U.S. Capitalism in Crisis, URPE, New York, 1977.
Shaikh, Anwar. "Falling Rate of Profit" and "Economic Crisis" in T. Bottomore et al, A Dictionary of Marxist Thought, Oxford: Basil Blackwell, 1983.

Shaikh, Anwar. "Organic Composition of Capital" in J. Eatwell et al, The New Palgrave: Marxian Economics, London: Macmilllan, 1990.
Dobb, Maurice. " The Falling Rate of Profit", Science and Society, 23(2), Summer 1959.
Rosdolsky, Roman. The Making of Marx's Capital, Ch. 26.
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A. Shaikh
W Milberg

Lectures on Growth Theory

1. Basic issues:

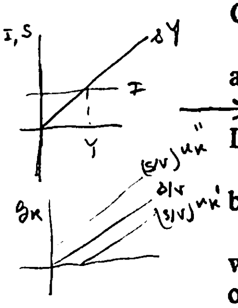
- Statics versus dynamics (conventional neoclassical and Keynesian formulations tend to be static)
- Data: note the strong growth dynamics of advanced economies, and the turbulence

2. Growth implications of the short run equilibrium condition

i. Short run equilibrium: aggregate demand = aggregate supply ➔ Cd + Id = Y, where Y = output, Cd = consumption demand, Id = investment demand.
Sectoral demand = sectoral supply ➔ Cd = C , Id = I.
Aggregate savings: S = Y - C = sY

Combining all of these, we can write

Cd + Id = C + I = Y ➔ I = Y - C = S



a. I = sY (convention form of the short run equilibrium condition)

$I/K = g_K = s(Y/K) = s(Y/Yc)/(K/Yc)$ ➔

b. $g_K = (s/v)\ u_K$ (growth form of the short run equilibrium condition)

where Yc = capacity output, u_K = Y/Yc = capacity utilization rate, v = K/Yc = capital stock to capacity output ratio

ii. The preceding growth form of the short run equilibrium condition allows us to consider the growth implications of short run equilibrium. For example, in the conventional Keynesian formulation, output Y is taken to be *given* in the short run. But since there is investment going on, the capital stock is growing, so that capacity Yc is generally growing. This means that *capacity utilization u_K = Y/Yc will generally be falling continuously if output Y was indeed 'given' over time*. This is clearly unsustainable, since then investment would not be sustained (there being no point in investing to expand capacity if the rate of capacity utilization was falling).

3. Harrod picks up the issue at this point by asking: what *paths* of Y, I are self-consistent?

i. Warranted Path, when capital is fully utilized (u_K = 1) ➔ **Warranted accumulation rate $(g_K)^w = s/v$**

-- Stability issue: Warranted Path appears to be Knife-Edge unstable

ii. Natural Path, when labor supply is fully utilized (Ld = Ls) ➔ **Natural accumulation rate $(g_K)^n = g_n$**
where g_n = the natural growth rate = the labor supply growth rate + the rate of growth of productivitiy

-- What happens if the actual growth rate is below the Natural? ➔ unemployment rises → wages fall? Is there any mechanism which will lead the two back into line with each other?

iii. Issue of apparent lack of correspondence between Warranted and Natural accumulation rates: there appears to be no reason why the two should be equal, since s/v and g_n are determined by quite different factors ➔ this gives rise to the subsequent attempts by Solow (neoclassical), Kaldor (Keynesian), and Goodwin (classical) to link the warranted and natural rates of growth.

4. Implications of Government Spending and Taxation for the Warranted Path

i. Short run equilibrium with government:

Aggregate demand = Cd + Id + Gd = Aggregate supply = Ys. Consumption demand = supply of consumption goods (Cd = C), Investment demand = supply of investment goods (Id = I), and Government demand = supply of goods and services to the government (Gd = G)

Aggregate Supply = Ys = Disposable Income + Taxes = Y + T, where now Y = disposable income

As before S = Aggregate Savings = sY, and now we also assume that T = tY. Combining all of these

$C + I + G = Y + T \rightarrow I + G = (Y - C) + T = S + T$

a. $I + G = (s + t)\, Y$ (conventional form of the short run equilibrium condition with government)

ii. The conventional Keynesian/Kaleckian story begin by taking both I and G as exogenous in the short run, so that we can use the preceding expression to figure out the level of output consistent with these exogenous elements.

$Y = (I + G)/(s + t)$

From this K/K perspective, a rise in government spending (G) will raise the level of output and hence the level of employment, just as a rise in investment would. Alternately, a fall in the tax *rate* (t) will also raise the level of output, just as a fall in the savings rate (s) would. Thus conventional K/K policies to raise employment would include raising government spending and/or lowering tax rates -- i.e. *increase government deficits.*

iii. We can also write the short run equilibrium relation in a growth form. Let $g = G/Y$ = the *rate* of government spending (note that in this case 'g ' does not refer to a growth rate, unlike say g_K which stands for the growth rate of capital, i.e. the rate of accumulation)

Rewriting equation a above, $I = [s - (g - t)]Y$, so that $I/K = g_K = [s-(g-t)](Y/K) = [s-(g-t)](Y/Yc)/(K/Yc)$

b. $g_K = \{[s - (g-t)]/v\}\, u_K$ (growth form of the short run equilibrium condition with government)

where Yc = capacity output, $u_K = Y/Yc$ = capacity utilization rate, $v = K/Yc$ = capital stock to capacity output ratio, and now s = private savings ratio (i.e. savings out of post tax income Y)

Once again, if we consider the warranted path, along with investment is self-consistent, then $u_K = 1$, and we get

c. $g_K^{w} = \{[s - (g-t)]/v\}$

Now we find that from a Classical/Harrodian perspective, a rise in the rate of government spending (g) and/or a fall in the tax rate (t), *both of which will raise the relative government deficit g-t = (G-T)/Y*, will actually *lower* the long run warranted accumulation (and hence output growth) rate.

iv. The conventional K/K perspective and the Classical/Harrodian perspectives are not necessarily contradictory. The K/K perspective looks at the short run, and here a rise in government deficit spending may well pump up the economy *in the short run*. This would raise the economy above the warranted path. But since the warranted path itself would decay, the subsequent return to long run equilibrium growth would be at a lower long run growth rate. *The overall effect would therefore to make current employment higher than it would have been otherwise, but at the expense of future employment being lower than it would have been otherwise.*