Towards a new synthesis of economic growth theory

Title: Structural Dynamics and Economic Growth
Authors: Richard Arena and Pier Luigi Porta (eds)

Cristián GUTIÉRREZ ROJAS
Universidad Complutense de Madrid

The topic of economic growth is the subject of this excellent book published by Richard Arena and Pier Luigi Porta, professors at the Universities of Nice-Sophia Antipolis (France) and Milano-Bicocca (Italy) respectively. It is not treated however in a simple way, as the editors have compiled writings of important representatives of Keynesian Schools (and Post Keynesian) of Cambridge as; William Baumol, Geoffrey Harcourt and Luigi Pasinetti as well as authors framed in the neoclassical tradition of growth theory such as the Nobel Prize Robert Solow, thus describing the field of an ever-growing economic theory.

The comparative analysis of the theories based on the Solow’s neoclassical growth model along with those based on the structural dynamics of Luigi Pasinetti, make a strong analytical frame that combines the best analytical tools of economics, with economic history, and the history of economic thought. The contrast between the two analytical frameworks, starting from their own methodological intentions, reaches the points of convergence between the two settings and what would be the modern theory of economic growth.

The latter is understood in three main stages of theoretical development. The first is linked to the search of optimal growth models of neoclassical or "Solovian" tradition; the second phase is characterized by the breakdown of the assumption of diminishing returns to capital and the staging of endogenous growth models, to conclude with the stage marked by the inclusion of structural dynamics in the growth models. This last stage is mainly characterized by a breakdown with those “balanced” growth models from the "Solovian" framework, and the occurrence of the demand relevance, sectorial imbalances, innovation, human learning and the resulting imbalance between economic sectors as engines and drivers of growth. In this stage is where the work and influence of Luigi Pasinetti is suited, commonly known as the contribution of last century 50s and 60s Keynesian Cambridge School to the debate on economic growth.

Without putting into perspective the three stages of theoretical development of modern economic growth outlined above, it is very difficult to understand the new models that have emerged with the introduction of technology and structural change.
based on demand, which extend the notion of balanced economic growth ("Solovian").

Many of the writings incorporated in this edition are on the Pasinetti’s thinking about the structural dynamics of economic growth. Many of these with an historical point of view about Pasinetti’s ideas. For instance, Groenewegen and Pomini, delve into the historical roots of what is known as the dynamic economy, placing Pasinetti in the line of the classics, to understand the theory of output as a whole, or in its entirety, unlike the marginalist economics that only addresses this issue from the point of view of pure exchange. Pasinetti drifts away from the classical conception of understanding the process of economic development in a kind of critical stages and from Ricardo and Marshall’s approaches, which do not include the effects of long-term effective demand.

The temporal dimension that gives the dynamic emphasis to his theoretical framework is crucial in Pasinetti. For the same reason, his critics of models such as von Neumann, whose despite being a good attempt to include dynamic analysis outside the marginalist framework, do not explicitly include the role of time.

The central role of labour, the knowledge and the variables that affect the distribution of income and the rate of economic growth (the role of the rate of profit) regain new impetus in Pasinetti’s framework, returning his interest to the classics, those that were left out by the “Solovian scheme”. However, as Pomini remarks, while according to the vision of the classics the rate of profit determines economic growth, according to the structural dynamics vision, the relation is reversed, the "natural" rate of profit is imposed by the dynamic systems to be exogenously determined by the technological conditions.

While in the 60s the main discussion was focused on the problem of growth stability, and the evident contrast between the approaches of classical and neo-Keynesian schools, Pasinetti developed an original approach, completely covering the typical elements of the classical tradition starting with the central role of labour. To do this, Pasinetti developed new conceptual tools, such as the notion of vertically integrated sectors, which reduces the complex relations between sectors of production to a single factor, the labour. From this point of view, the model goes beyond the von Neumann and Leontief’s models, but not beyond the Harrod’s one, again within the framework of a dynamic linear approach in which the production side plays a dominant but not exclusive role.

The parallelisms are recurrent along the book: Kuznets versus Pasinetti to understand alternative approaches about structural change; Hicks versus Pasinetti to understand alternative approaches about "natural economic system". But also his contribution to Keynesian thought and the realization of Keynesian synthesis of Cambridge: the emphasis on short-term uncertainty of Keynes and the deterministic long-term Sraffa’s emphasis.

Even more interesting are the chapters on the applicability of the conceptual framework of change and structural dynamics, for example to understand the use of
new technologies; the analysis of consumption (and its relation with Sen's theory of capabilities); and the use of the concept of "natural economic system", as a tool for structural analysis and policy design.

The editors end with an epistolary exchange between the two most referred economists in the book: Pasinetti and Solow. Through this exchange reflects how fundamental analytical differences can lead to divergent views, and at the same time, common aspect of a same topic: the structural dynamics. While Solow stands by his criticism of the temporal focus of the Cambridge school and positioned in line with the "neoclassical synthesis", away from the extremes of libertarianism and radical Keynesianism, Pasinetti maintains his position to understand the structural dynamics as a field of analysis in development while ones does not find those paths which drive capitalist economies to full employment.