KEYNESIAN THEORIES OF GROWTH

By Pasquale Commendatore, Salvatore D'Acunto, Carlo Panico, Antonio Pinto[*]

ABSTRACT

Notwithstanding the current post Keynesian literature presents a large mixture of growth models, which are dissimilar and even contrasting, it is possible to identify a coherent Keynesian approach to growth build on three basic principles: the economic system may not tend to full employment; investment decisions are independent of saving decisions; the autonomous components of demand may affect the rate of growth of the economy. Moving from the analyses of Roy Harrod, the founder of the modern growth theory, this paper reconstructs a Keynesian theory of growth, by describing the different lines of development which have historically emerged. Contrary to a widespread belief, Harrod's was not mainly concerned on the cyclical instability of market economies, but wanted to develop a theory of growth following Keynes' perspective. According to Harrod, centrifugal forces, which tend to widen the gap between the "actual" and the "warranted" rates of growth, are countervailed by centripetal forces, which are activated as the "warranted" approximates to the "natural" growth path. There are, however, no overriding market forces to drive the former towards the latter.

Effective demand plays a crucial role in affecting the growth path of the economy and therefore in pushing the economic system close to full employment. The paper proceeds reviewing the diverse post Keynesian analyses, which have a common root in the works of Harrod, concerning the three autonomous components of aggregate demand presented in unified analytical frameworks. In particular, some recent contributions inspired to J. Robinson and Kalecki related to the private sector investment decisions are summarised in a general model. Similarly, a post Keynesian model of growth and distribution with government deficits summarises some reconciling views on distribution between the classical and the Keynesian approach that have emerged in a recent debate on the role of government deficits in the post Keynesian theory of growth and distribution. Moreover, as far as the external sector is concerned, the paper presents the development of the Keynesian line of research on growth in an open economy. These analyses, put forward mainly by Thirwall, take into account the effects of the balance of payment constraint on economic growth, extending to a dynamic context Harrod's foreign trade multiplier.

[*] Dipartimento di Teoria Economica e Applicazioni, Università 'Federico II', Via Rodinò 22, 80138, Napoli, Italy. Corresponding author Carlo Panico panico@unina.it

The paper concludes with a brief assessment of a further, less formalised, group of Keynesian growth analyses, which have a strong classical flavour. These theories, based mainly on the works of Kaldor on cumulative causation, underline the connection between demand, externalities, increasing returns and productivity growth. The role of these factors on growth is relevant in the "evolutionary" approach to growth and it is now generally recognised. In fact, "endogenous growth theory" represents the attempt of mainstream economics to introduce them in formal analyses. In this sense, the Keynesian approach to endogenous growth could be extremely enriching, assigning also to the demand side a crucial role in favouring economic growth.