EFFECTIVE DEMAND, KEYNESIAN AND POST-KEYNESIAN GROWTH THEORY, AND NEW GROWTH THEORY

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ABSTRACT

This paper is about the future of Keynesian and post-Keynesian growth theory, and in particular of its stress on effective demand, in understanding growth processes in advanced economics. Because of the current popularity of what is called new growth theory, the material is presented in terms of an analysis of the relation between new growth theory and effective demand.

The first section of the paper provides a brief analytical history of what can be called old growth theory and compares it to the history that is provided by proponents of new growth theory. This comparison reveals clearly how new growth theory takes a narrow view of the determinants of growth as seen in earlier growth theory, in major part because it excludes considerations of effective demand.

The second section provides a brief review of the central features of new growth theory, to assess the extent to which it adds to, and leaves out, issues emphasized in earlier growth theory. It then takes up three main issues. One, it shows that with the exception of a few contributions - which are only tangentially related to mainstream developments in new growth theory - recent developments in new growth theory neglect the role of effective demand and its relation to income distribution. Two, it takes up the issue of why effective demand may have been neglected in new growth theory and argues that this neglect is unwarranted. Three, tries to locate what is new and useful in new growth theory as compared to old growth theory, especially in the realm of technological change involving between changes in techniques and product innovation.

The third section provides a brief overview of Keynesian and post-Keynesian growth theory which gives a central role to effective demand and to the relation between income distribution and effective demand. Reviewing recent developments in this approach, it compares this theory to new growth theory.

The fourth section examines how Keynesian and post-Keynesian theory can made more relevant for the analysis of the dynamics of advanced capitalist economies, incorporating some elements which are examined in new growth theory, but also elements which are ignored in it. In particular, it provides an overview of two types of models - one which analyzes the interaction between technological change and effective demand, and another which examines the role of consumer debt in the growth process.

The concluding section concludes about the future role of Keynesian and post-Keynesian theory. It argues that this theory is more general than other theories including new growth theory in the same sense that Keynes argued that his theory of effective demand is more general than what he called classical theory, and for this reason it has an important role to play in the analysis of economic dynamics. But this theory should keep up with the times, both in terms of developments in growth theory, and in terms of developments in real economies. In terms of the former, it argues that the cross fertilization of ideas from new growth theory and Keynesian and post-Keynesian growth theory can help us to better understand the dynamics of advanced capitalist economies. In terms of the latter it argues that the theory should also incorporate factors which have not been examined in new growth theory, arguably due to its neglect of aggregate demand issues. The paper concludes with some remarks on the role of Keynesian and post-Keynesian theory on the analysis of global effective demand problems.