Old and New Growth Theories: An Assessment

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Taxation and Economic Growth: Kalecki's Contribution

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Even in the hey day of Keynesianism, the principal macroeconomic role perceived for fiscal policy was stabilisation. With the demise of Keynesianism, even that limited role for fiscal policy has largely disappeared. A major enigma of Kalecki's contribution to the development of macroeconomics, and growth theory in particular, was his recognition as early as 1937 that with the publication of Keynes's *General Theory* there came the need to develop a whole new approach to taxation which would have 'quite unexpected results' of 'practical importance' (Kalecki, 1937). Surprisingly, apart from this essentially short period analysis of 1937, Kalecki never formally integrated taxation into his theories of the business cycle and economic growth.

The doyen of public finance, Richard Musgrave, has recognised that the role of fiscal policy depends on both the macro as well as the micro functioning of the economy. But, while micro analysis has moved along what he calls 'a steady path', macro models have remained in a 'state of flux', as have perceptions of the macro role of fiscal policy (Musgrave, 1997). Much of the thrust of public finance has been the development of the theory of optimal taxation, but as Stern (1992) has observed 'the theory of optimal taxation has not had a great deal to say about dynamics and the theory of growth has been reticent on taxation'.

There is a need to incorporate study of the effects of taxation on growth in a way that properly links the micro and macro elements within a genuinely dynamic framework. This can be achieved by integrating taxation into Kalecki's theories of the business cycle and economic growth (Laramie and Mair, 1996, 2000). The incorporation of taxation into Kalecki's growth theory is not straightforward because of the unsatisfactory state in which he left it at the time of his death. Gomulka, Ostaszewski and Davies (1990) have produced a

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corrected version of Kalecki's growth model which gives equal weight to both 'cautious' and 'rash' capitalism.

Within this corrected Kaleckian growth model, it is then possible to study the effects of revenue-neutral changes in the taxation of wages and profits on stability, growth and unemployment. A Kaleckian approach requires integration of his theories of taxation, income distribution and income determination with his theory of investment. The impact of changes in the structure of taxation on investment will be through either or both of two channels – the level of profits and/or the rate of depreciation. The impact on the level of profits will depend on the extent of tax shifting which will be determined by what happens to income distribution which, in turn, depends on the degree of monopoly. The impact on the rate of depreciation depends on the rate of technical progress.

In Kalecki's corrected growth model, it is possible to specify the effects of changes in the structure of taxation on the conditions for economic stability under alternative shifting assumptions. Similarly, the impact of taxation on the balanced rate of growth and long period unemployment can also be identified. The results are sensitive to tax shifting (i.e. changes in income distribution) and to the stability of the trend growth rate.

The principal conclusion that follows from the integration of taxation into Kalecki's growth model is that far from being peripheral or ineffectual as modern theory would have us believe, it can have two profound sets of implications. First, taxation and fiscal policy can modify the very nature of capitalism itself; and, second, the incidence and effects of changes in tax structures can have a major impact on the structure of the business cycle, the balanced rate of growth and long term unemployment.

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