

ECON-711

Macro Political Economy

American University
Department of Economics
Fall 2005
Time: Tues. 8:10-10:40 p.m.
Room: Ward 113

Prof. Robert A. Blecker
Office: Roper 211
Phone: 202-885-3767
E-mail: blecker@american.edu
Office Hours: Mon. 2:30-5:00 pm
Thurs. 10 am-12 noon, 2:30-4:00 pm

Syllabus

This course will focus on alternative theories of long-run economic growth, technological change, and income distribution, including classical, neo-Marxian, and neo-Keynesian models, as well as short-run macro models in the structuralist, neo-Kaleckian, and post-Keynesian traditions. While most of the models covered are of a “closed economy” nature, “open economy” extensions will also be covered. Applications to current issues such as the causes of slow global growth and the effects of alternative fiscal policies will be discussed.

This is the second course in the “heterodox” theory track for doctoral students in economics, but all qualified graduate students who have the necessary prerequisites are welcome to take it (also, students entering the doctoral program in Fall 2005 and later will be required to do one extra micro or macro theory course depending on their concentration). The official prerequisite is one semester of graduate macro theory (ECON-501 or 702), although M.A. students should take this course *only* if they did very well in 501 (i.e., A- or better). Background in economic thought (ECON-620 [formerly 604]) is helpful; solid preparation in mathematical methods (ECON-505 or 705 [formerly 521]) is essential (and is in turn a prerequisite for 501 or 702).

Class Website

A class website will be created using Blackboard (<http://blackboard.american.edu>). The website will contain this syllabus (and any updates) plus announcements, assignments, and other useful information (e.g., links to some required readings and related websites). The website will also be used for sending e-mail messages to class participants; I will use this feature extensively for making announcements. **You are responsible for checking the class website (and your e-mail) regularly for announcements.** By default, Blackboard sends e-mail to your AU e-mail (@american.edu) address; you can use the my.american.edu web portal to have your AU e-mail forwarded to another e-mail address, or you may change your default e-mail address under your personal settings in Blackboard. It is *your* responsibility to configure and check your e-mail so that you receive messages regarding this course in a timely fashion.

Books and References

The following books have been ordered at the Campus Store:

Required:

- Duncan K. Foley & Thomas R. Michl, *Growth and Distribution*, Harvard University Press, 1999.
- Lance Taylor, *Reconstructing Macroeconomics: Structuralist Proposals and Critiques of the Mainstream*, Harvard University Press, 2004.

In addition, the following other books will also be placed **on reserve at the library**:

- Philip Arestis, *The Post-Keynesian Approach to Economics*, Edward Elgar, 1992.
- Johan Deprez & John T. Harvey (editors), *Foundations of International Economics: Post Keynesian Perspectives*, Routledge, 1999.
- Amitava K. Dutt, *Growth, Distribution, and Uneven Development*, Cambridge Univ. Press, 1990.
- Gary A. Dymski *et al.* (editors), *Transforming the U.S. Financial System*, M. E. Sharpe, Inc., Economic Policy Institute Series, 1993.
- Gerald A. Epstein & Herbert M. Gintis (editors), *Macroeconomic Policy After the Conservative Era*, Cambridge Univ. Press, 1995.
- Marc Lavoie, *Foundations of Post Keynesian Analysis*, Edward Elgar, 1992.
- Stephen A. Marglin, *Growth, Distribution, and Prices*, Harvard University Press, 1984.
- J. S. L. McCombie and A. P. Thirlwall, *Economic Growth and the Balance-of-Payments Constraint* (1994).
- J. S. L. McCombie & A. P. Thirlwall (editors), *Essays on Balance of Payments Constrained Growth: Theory and Evidence*, Routledge, 2004.
- Fred Moseley & Edward N. Wolff (editors), *International Perspectives on Profitability and Accumulation*, Edward Elgar, 1992.
- Thomas I. Palley, *Post Keynesian Economics: Debt, Distribution, and the Macro Economy*, St. Martin's Press, 1996.
- Robert Pollin (editor), *The Macroeconomics of Saving, Investment, and Finance*, Univ. of Michigan Press, 1997.
- Mark Setterfield (editor), *The Economics of Demand-Led Growth: Challenging the Supply-Side Vision of the Long Run*, Edward Elgar, 2002.
- Jim Stanford, Lance Taylor, and Ellen Houston (editors), *Power, Employment, and Accumulation*, Armonk, NY: M.E. Sharpe, 2001.
- Stockhammer, Engelbert, *The Rise of Unemployment in Europe: A Keynesian Approach*, Edward Elgar, 2004.
- Lance Taylor, *Income Distribution, Inflation, and Growth*, MIT Press, 1991.
- L. Randall Wray, *Understanding Money: The Key to Full Employment and Price Stability*, Edward Elgar, 1998.

Work Assignments

There will be three take-home “problem sets” (tentatively due on October 4, November 1, and December 6), plus an in-class final exam at the regularly scheduled time (**Tuesday, December 20, at 8:10-10:40 p.m.**). Each problem set will count for 20% of the grade and the final will count for the remaining 40%.

Reading List

*Denotes minimum required readings.

+Denotes empirical study (role models for dissertations?!)

NOTE: Required readings are *subject to change*.

Abbreviations for frequently cited journals:

<i>AER</i>	<i>American Economic Review</i>
<i>CJE</i>	<i>Cambridge Journal of Economics</i>
<i>JPKE</i>	<i>Journal of Post Keynesian Economics</i>
<i>RRPE</i>	<i>Review of Radical Political Economics</i>

Part I – Long-Run Growth, Technological Change, and Income Distribution

1. Introduction to Modeling Growth, Technology, and Distribution

*Foley & Michl, *Growth and Distribution*, chaps. 1-5.

Stephen A. Marglin, *Growth, Distribution, and Prices*, chap. 1.

Amitava K. Dutt, *Growth, Distribution, and Uneven Development*, chaps. 2-3, 6.

2. Classical and Neo-Marxian Theories: Resource Constraints and Technological Change

*Foley & Michl, *Growth and Distribution*, chaps. 6-7 [11-12 are *optional*].

*Carlo Casarosa, “A New Formulation of the Ricardian System,” *Oxford Economic Papers*, vol. 30 (1978), pp. 38-63. [*only pages 38-53 are required*]

*Donald J. Harris, “Accumulation of Capital and the Rate of Profit in Marxian Theory,” *CJE*, vol. 7 (Sept. 1983), pp. 311-30.

*+Edward N. Wolff, “What’s Behind the Rise in Profitability in the US in the 1980s and 1990s?” *CJE*, vol. 27 (July 2003), pp. 479-99.

Luigi L. Pasinetti, *Lectures on the Theory of Production* (1977), chap. 1, *OR*

Luigi L. Pasinetti, “A Mathematical Formulation of the Ricardian System,” *Review of Economic Studies*, vol. 27 (1960), pp. 78-98.

Paul M. Sweezy, *Four Lectures on Marxism* (1980), Appendix A, pp. 46-54.

A. K. Dutt, *Growth, Distribution, and Uneven Development*, section 5.2, pp. 92-98.

Stephen A. Marglin, *Growth, Distribution, and Prices*, chap. 3.

Duncan Foley, *Understanding Capital: Marx’s Economic Theory* (1986), chaps. 8-9.

- Donald J. Harris and R. E. (Bob) Rowthorn, "The Organic Composition of Capital and Capitalist Development," in *Rethinking Marxism*, ed. S. Resnick and R. Wolff (1985).
- John Roemer, *Analytical Foundations of Marxian Economic Theory* (1981), chaps. 4-6, 9.
- Frank Thompson, "Technical Change, Accumulation, and the Rate of Profit," *RRPE*, vol. 27 (March 1995), pp. 97-126.
- David Laibman, "Technical Change, Accumulation, and the Rate of Profit Revisited," *RRPE*, vol. 28 (June 1996), pp. 33-53.
- +Samuel Bowles, David M. Gordon, and Thomas E. Weisskopf, "Power and Profits: The Social Structure of Accumulation and the Profitability of the Postwar U.S. Economy," *RRPE*, vol. 18 (1-2) (Spring-Summer 1986), pp. 132-67.
- +Edward N. Wolff, "The Productivity Slowdown and the U.S. Rate of Profit," *RRPE*, vol. 18 (1-2) (Spring-Summer 1986), pp. 87-109.
- +Andrew Henley, *Wages and Profits in the Capitalist Economy* (1990).
- +Fred Moseley and Edward N. Wolff, eds., *International Perspectives on Profitability and Accumulation* (1992), chaps. 2-5.

3. Neoclassical Growth Models: Critical Perspectives

NOTE: Topic 3 was covered extensively in ECON-702 in Spring 2005 and will therefore be covered only briefly in this course.

- *Foley & Michl, *Growth and Distribution*, sections 9.3-9.4 (pp. 160-165 *only*) are required [chaps. 8-9, 13, 15-16 are all *optional*]
- *J.S.L. McCombie, "The Solow Residual, Technical Change, and Aggregate Production Functions," *JPKE*, vol. 23, no. 2 (Winter 2000-01), pp. 267-97.
- Paul M. Romer, "Endogenous Technological Change," *Journal of Political Economy*, vol. 98 (1990), pp. S71-102 [note "S" means the supplement issue].
- Robert J. Barro and Xavier Sala-I-Martin, *Economic Growth* (1995), chaps. 1-2, 4-7.
- Stephen A. Marglin, *Growth, Distribution, and Prices*, chaps. 2, 8-10.
- +Thomas R. Michl, "Biased Technical Change and the Aggregate Production Function," *International Review of Applied Economics*, vol. 13, no. 2 (May 1999), pp. 193-206.
- Philippe Aghion and Peter Howitt, *Endogenous Growth Theory* (1998).
- Symposium on the New Growth Theory, *Journal of Economic Perspectives* (Winter 1994), pp. 3-72 (articles by Romer, Grossman & Helpman)

4. Neo-Keynesian Models: Aggregate Demand and Investment-Constrained Growth

- *Foley & Michl, *Growth and Distribution*, chap. 10.
- Stephen A. Marglin, *Growth, Distribution, and Prices*, chaps. 4-6, 15, 20.
- Stephen A. Marglin, "Growth, Distribution and Inflation: A Centennial Synthesis," *CJE*, vol. 8, no. 2 (June 1984), pp. 115-44.
- Edward J. Nell, "Jean Baptiste Marglin: A Comment on 'Growth, Distribution and Inflation,'" *CJE*, vol. 9, no. 2 (June 1985), pp. 173-78.
- Amitava K. Dutt, "Alternative Closures Again: A Comment on 'Growth, Distribution and Inflation,'" *CJE*, vol. 11, no. 1 (March 1987), pp. 75-82.

Amitava Krishna Dutt, "Aggregate Demand, Aggregate Supply and Economic Growth," unpublished, University of Notre Dame, Department of Economics and Policy Studies, Working Paper, February 2005.

Part II – Alternative Short-Run Macro Models: Structuralist, Neo-Kaleckian, and Post-Keynesian Approaches

1. Methodology, Critiques, and Accounting Fundamentals

*Lance Taylor, *Reconstructing Macroeconomics*, chap. 1.

*Also read *at least one* of the following (on reserve):

L. Taylor, *Income Distribution, Inflation, and Growth*, chap. 1.

Marc Lavoie, *Foundations of Post-Keynesian Economic Analysis*, pp. 1-61.

T. Palley, *Post Keynesian Economics*, chaps.1-2.

P. Arestis, *The Post-Keynesian Approach to Economics*, chap. 4.

Amitava Krishna Dutt and Peter Skott, "Keynesian Theory and the AD-AS Framework: A Reconsideration," University of Massachusetts, Department of Economics, Working Paper No. 2005-11 < <http://www.umass.edu/economics/publications/2005-11.pdf> >.

2. Mark-up Pricing, Profitability, Effective Demand, and Saving-Investment Behavior

*Lance Taylor, *Reconstructing Macroeconomics*, chaps. 4-5.

*R. Blecker, "Demand, Distribution and Growth in Neo-Kaleckian Macro Models," chap. 8 in M. Setterfield (ed.), *The Economics of Demand-Led Growth* (chap. 9 by T. Mott is recommended).

A. Asimakopulos, "A Kaleckian Theory of Income Distribution," *Canadian Journal of Economics*, vol. 8 (Aug. 1975), pp. 313-333.

Donald J. Harris, "The Price Policy of Firms, the Level of Employment and Distribution of Income in the Short Run," *Australian Economic Papers*, vol. 13 (June 1974), pp. 144-51.

Bob [Robert E.] Rowthorn, "Demand, Real Wages and Economic Growth," *Studi Economici*, no. 18 (1982).

Amitava K. Dutt, "Stagnation, Income Distribution and Monopoly Power," *CJE*, vol. 8 (March 1984), pp. 25-40.

Lance Taylor, "A Stagnationist Model of Economic Growth," *CJE*, vol. 9 (December 1985), pp. 383-403.

Amitava K. Dutt, *Growth, Distribution, and Uneven Development*, sections 3.4, 4.2-4.4.

Stephen A. Marglin and Amit Bhaduri, "Profit Squeeze and Keynesian Theory," chap. 4 in S. A. Marglin & J. B. Schor, eds. *The Golden Age of Capitalism* (1990). **OR**

Amit Bhaduri and Stephen A. Marglin, "Unemployment and the Real Wage: The Economic Basis for Contesting Political Ideologies," *CJE*, vol. 14 (December 1990), pp. 375-93.

Peter Skott, "Effective Demand, Class Struggle and Cyclical Growth," *International Economic Review*, vol. 30 (February 1989), pp. 231-47.

Marc Lavoie, "Traverse, Hysteresis, and Normal Rates of Capacity Utilization in Kaleckian Models of Growth and Distribution," *RRPE*, vol. 28, no. 4 (Dec. 1996), pp. 113-47.

Marc Lavoie, *Foundations of Post-Keynesian Economic Analysis*, chap. 6.

Marc Lavoie & Wynne Godley, "Kaleckian Models of Growth in a Coherent Stock-Flow Monetary Framework: a Kaldorian View," *JPKE*, vo. 24, no. 2 (Winter 2001-02), pp. 277-311.

*David Romer, *Advanced Macroeconomics*, 2nd edition, chap. 8 [investment].

Hyman Minsky, *Stabilizing an Unstable Economy* (1986), chap. 8.

*+Steven M. Fazzari, "Monetary Policy, Financial Structure, and Investment," chap. 3 in G. A. Dymnski, et al., eds., *Transforming the U.S. Financial System* (1993).

+Steven M. Fazzari, R. Glen Hubbard, and Bruce C. Petersen. "Financing Constraints and Corporate Investment," *Brookings Papers on Economic Activity*, 1:1988, pp. 141-95.

+Stephen A. Marglin, *Growth, Distribution, and Prices* (1984), chaps. 17-18.

+James R. Crotty and Jonathan P. Goldstein, "A Marxian-Keynesian Theory of Investment Demand: Empirical Evidence," chap. 9 in F. Moseley and E. N. Wolff, eds., *International Perspectives on Profitability and Accumulation* (1992).

*+David M. Gordon, "Must We Save Our Way Out of Stagnation? The Investment-Savings Relationship Revisited," chap. 3 in Robert Pollin, ed., *The Macroeconomics of Saving, Investment, and Finance* (1997), pp. 95-159.

OR

*+David M. Gordon, "Putting the Horse (Back) Before the Cart: Disentangling the Macro Relationship Between Investment and Saving, chap. 3 in G. Epstein and H. Gintis, eds., *Macroeconomic Policy After the Conservative Era* (1995), pp. 57-108. (chap. 6 by Bhaskar and Glyn is recommended)

Steven M. Fazzari, Piero Ferri, and Edward Greenberg, "Aggregate Demand and Firm Behavior: A New Perspective on Keynesian Microfoundations," *JPKE*, vol. 20, no. 4 (Summer 1998), pp. 527-58.

T. Palley, "Keynesian Theory and AS/AD Analysis," *Eastern Economic Journal*, vol. 23, no. 4 (Fall 1997), pp. 459-68.

T. Palley, "General Disequilibrium Analysis with Inside Debt," *Journal of Macroeconomics*, vol. 21, no. 4 (Fall 1999), pp. 785-803.

P. Arestis, *The Post-Keynesian Approach to Economics*, chaps. 1-3.

T. Palley, *Post Keynesian Economics*, chaps. 3-6.

Victoria Chick, *Macroeconomics After Keynes: A Reconsideration of the General Theory* (1983).

Paul Davidson, *Post Keynesian Macroeconomic Theory* (1994), chaps. 1-11.

3. Income Distribution and Inflation Dynamics

*Lance Taylor, *Reconstructing Macroeconomics*, chap. 7.

*Marc Lavoie, *Foundations of Post-Keynesian Economic Analysis*, chap. 7.

Nelson H. Barbosa-Filho and Lance Taylor, "Distributive and Demand Cycles in the US Economy – A Structuralist Goodwin Model," unpublished manuscript, New School University, Center for Economic Policy Analysis, June 2003. <[download from Course Documents on Blackboard website](#)>

M. Setterfield (ed.), *The Economics of Demand-Led Growth*, chapters by Lavoie (10), Cassetti (11).

Dani Rodrik, "Democracies Pay Higher Wages," *Quarterly Journal of Economics*, vol. 114, no. 3 (August 1999), pp. 707-38.

Jose Antonio Cordero, "A Model of Growth and Conflict Inflation for a Small Open Economy," *Metroeconomica*, vol. 53, no. 3 (2002), pp. 261-89.

Amitava K. Dutt, *Growth, Distribution, and Uneven Development*, chap. 4.

P. Arestis, *The Post-Keynesian Approach to Economics*, chap. 7.

T. Palley, *Post Keynesian Economics*, chaps. 10-11.

Alan G. Isaac, "Money Supply Endogeneity in a Conflicting Claims Environment," *JPKE*, vol. 14 (Fall 1991), pp. 93-110.

4. Money, Debt, and Financial Crises

*Lance Taylor, *Reconstructing Macroeconomics*, chap. 8 (chaps. 3, 6, 9 recommended).

P. Arestis, *The Post-Keynesian Approach to Economics*, chap. 8.

T. Palley, *Post Keynesian Economics*, chap. 7-9, 12.

L. Taylor, *Income Distribution, Inflation, and Growth*, chaps. 5-6.

Hyman P. Minsky, *Stabilizing an Unstable Economy* (1986), chaps. 2-4, 9.

L. R. Wray, *Understanding Money: The Key to Full Employment and Price Stability*.

Stephanie Bell, "The Role of the State and the Hierarchy of Money," *CJE*, vol. 25, no. 2 (March 2001), pp. 149-64.

Marc Lavoie, *Foundations of Post-Keynesian Economic Analysis*, chap. 4.

Philip Arestis and Alfred S. Eichner, "The Post-Keynesian and Institutionalist Theory of Money and Credit," *Journal of Economic Issues*, vol. 22, no. 4 (December 1988), pp. 1003-21.

Basil J. Moore, *Horizontalists and Verticalists: The Macroeconomics of Credit Money* (1988).

+Robert Pollin, "Two Theories of Money Supply Endogeneity: Some Empirical Evidence," *Journal of Post Keynesian Economics*, vol. 13, no. 3 (Spring 1991), pp. 366-96; plus critiques by Thomas I. Palley and Basil J. Moore, pp. 397-413.

Part III – Open Economy Models

1. Neo-Kaleckian Models for Open Economies

+Samuel Bowles and Robert Boyer, "Wages, Aggregate Demand, and Employment in an Open Economy: An Empirical Investigation," chap. 5 in G. Epstein and H. Gintis, eds., *Macroeconomic Policy After the Conservative Era* (1995).

Robert A. Blecker, "International Competition, Income Distribution, and Economic Growth," *CJE*, vol. 13 (September 1989), pp. 395-412.

*Robert A. Blecker, "Kaleckian Macro Models for Open Economies," in J. Deprez & J. Harvey, eds., *Foundations of International Economics: Post Keynesian Perspectives* (1999), pp. 116-49. [See also Blecker's chapter 8 in the book edited by Setterfield for topic II.2.]

2. Saving-Investment Causality, Exchange Rates, and the Current Account

- +*Robert A. Blecker, "Policy Implications of the International Saving-Investment Correlation," in Robert Pollin, ed., *The Macroeconomics of Saving, Investment, and Finance* (1997), pp. 173-229.
- +Barry P. Bosworth, *Saving and Investment in a Global Economy* (1993), chap. 3.
- Lance Taylor, *Reconstructing Macroeconomics*, chap. 10.
- L. Taylor, "Capital Market Crises: Liberalization, Fixed Exchange Rates, and Market-Driven Destabilization," chap. 10 in J. Stanford, et al. (eds.), *Power, Employment, and Accumulation*.
- +*Robert A. Blecker, "The Economic Consequences of Dollar Appreciation for U.S. Manufacturing Investment: A Time-Series Analysis," unpublished manuscript, American University, Revised, August 2005. <[download from Course Documents on the Blackboard website, Professor Blecker's homepage, or the department Working Papers website](#)>

3. Balance of Payments Constrained Growth

- *J. S. L. McCombie & A. P. Thirlwall (editors), *Essays on Balance of Payments Constrained Growth* (2004), chapters 1-3, 6, 9, 11. [Note: this is a collection of articles by A.P. Thirlwall, J. S. L. McCombie, M. N. Hussain, R. A. Blecker, J. A. Alonso, and C. Garcimartín; the original articles may be substituted.]
- J. S. L. McCombie and A. P. Thirlwall, *Economic Growth and the Balance-of-Payments Constraint* (1994), chaps. 1-3, 5-9.
- M. Setterfield (ed.), *The Economics of Demand-Led Growth*, chapters by McCombie & Roberts (6), Palley (7).
- +*A. Razmi, "Balance-of-Payments-Constrained Growth Model: The Case of India," *JPKE*, vol. 27, no. 4 (Summer 2005), pp. 655-87.

4. Export-led Growth and Cumulative Causation

- *M. Setterfield (ed.), *The Economics of Demand-Led Growth*, chapters by Setterfield & Cornwall (5), Setterfield (12).
- +*Miguel A. León-Ledesma, "Accumulation, Innovation and Catching-Up: An Extended Cumulative Growth Model," *CJE*, vol. 26, no. 2 (March 2002), pp. 201-16.
- John Cornwall, *Modern Capitalism: Its Growth and Transformation* (1977).