

ECON-711

Macro Political Economy

American University
Department of Economics
Fall 2007
Time: Wed. 5:30-8:00 p.m.
Room: Ward 303

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Office Hours: Mon. & Weds. 2-5 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—including critiques of (and contrasts with) mainstream neoclassical theories. This year, we will introduce the new “stock-flow consistent” (SFC) models of monetary economies now being used extensively by post-Keynesian economists. While most of the models covered are of a closed economy nature, some open economy extensions may be covered as time permits.

This is one of two courses 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 are 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, which may be taken concurrently) is essential.

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**:

Duncan K. Foley & Thomas R. Michl, *Growth and Distribution*, Harvard University Press, 1999.

Wynne Godley & Marc Lavoie, *Monetary Economics: An Integrated Approach to Credit, Money, Income, Production, and Wealth*, Palgrave Macmillan, 2007. [Note: This book will arrive late in the Campus Store, but is not needed until the second half of the semester.]

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 University Press, 1990.

Gary A. Dymnski *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*, St. Martin's, 1994.

J. S. L. McCombie & A. P. Thirlwall (editors), *Essays on Balance of Payments Constrained Growth: Theory and Evidence*, Routledge, 2004.

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.

Stockhammer, Engelbert, *The Rise of Unemployment in Europe: A Keynesian Approach*, Edward Elgar, 2004.

Lance Taylor, *Income Distribution, Inflation, and Growth*, MIT Press, 1991.

Lance Taylor, *Reconstructing Macroeconomics: Structuralist Proposals and Critiques of the Mainstream*, Harvard University Press, 2004.

Work Assignments

- Three take-home “problem sets” (tentatively due on October 4, November 1, and December 6); 15% of the grade *each*
- One oral presentation on an empirical article (mostly for topic II.3, date TBA); 15% of grade
- In-class final exam on **Monday, December 17, at 5:30-8:00 p.m. (No exceptions)**; 40% of grade.

Reading List

*Denotes minimum required readings (all of these should be available either in a required book, a book on reserve **R**, an E-reserve (in Blackboard) **E**, or a Blackboard Course Document **B**.)

+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>IRAE</i>	<i>International Review of Applied 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. **R**

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

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

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

*+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. **E**

*+Simon Mohun and Roberto Veneziani, "Goodwin Cycles and the U.S. Economy, 1948-2004," working paper, Queen Mary University of London, April 2007. **B**

+Simon Mohun, "Distributive Shares in the US Economy, 1964-2001," *CJE*, vol. 30, no. 3 (May 2006), pp. 347-70.

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

Carlo Casarosa, "A New Formulation of the Ricardian System," *Oxford Economic Papers*, vol. 30 (1978), pp. 38-63. **B**

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, "Accumulation of Capital and the Rate of Profit in Marxian Theory," *CJE*, vol. 7 (Sept. 1983), pp. 311-30. **B**

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.
 +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: This topic was covered extensively in ECON-702 in Spring 2007 and will therefore be covered only briefly in this course.

*Foley & Michl, *Growth and Distribution*, chaps. 8-9, 13 [required sections TBA; chaps. 15-16 are *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. **E**
 *+J. Felipe & John McCombie, "The Tyranny of the Identity: Growth Accounting Revisited," *IRAE*, vol. 20, no. 3 (July 2006), pp. 283-99. **E**
 Paul M. Romer, "Endogenous Technological Change," *Journal of Political Economy*, vol. 98 (1990), pp. S71-102 [note "S" means the supplement issue].
 +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.
 Robert J. Barro and Xavier Sala-I-Martin, *Economic Growth* (2nd edition, 2004).
 Philippe Aghion and Peter Howitt, *Endogenous Growth Theory* (1998).

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

*Foley & Michl, *Growth and Distribution*, chap. 10.
 *Amitava Krishna Dutt, "Aggregate Demand, Aggregate Supply and Economic Growth," *IRAE*, vol. 30, no. 3 (July 2006), pp. 319-36. **E**
 Amit Bhaduri, "Endogenous Economic Growth: A New Approach," *CJE*, vol. 30, no. 1 (January 2006), pp. 69-83. **E**
 Stephen A. Marglin, *Growth, Distribution, and Prices*, chaps. 4-6, 15, 20. **R**
 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.

5. Export-led Growth, Cumulative Causation, and the Balance-of-Payments Constraint

- *M. Setterfield (ed.), *The Economics of Demand-Led Growth*, chapter 5 by Setterfield & Cornwall (chapter 12 by Setterfield is recommended). **R**
- *J.S. Metcalfe, J. Foster, & R. Ramlogan, "Adaptive Economic Growth," *CJE*, vol. 30, no. 1 (January 2006), pp. 7-32. **E**
- +*Miguel A. León-Ledesma, "Accumulation, Innovation and Catching-Up: An Extended Cumulative Growth Model," *CJE*, vol. 26, no. 2 (March 2002), pp. 201-16. **E**
- *J. S. L. McCombie & A. P. Thirlwall (editors), *Essays on Balance of Payments Constrained Growth* (2004), chapters 1-2, 6, 11 (other chapters are recommended). **R** [Note: these are reprinted articles by A. P. Thirlwall, R. A. Blecker, and J. A. Alonso & C. Garcimartín; the original articles are available on-line (**B/E**)]
- +*A. Razmi, "Balance-of-Payments-Constrained Growth Model: The Case of India," *JPKE*, vol. 27, no. 4 (Summer 2005), pp. 655-87. **E**
- +R. Blecker & A. Razmi, "The Fallacy of Composition and Contractionary Devaluations: The Output Impact of Real Exchange Rate Shocks in Developing Countries that Export Manufactures," American University, Department of Economics, Working Paper No. 2007-02, January 2007. **B**
- John Cornwall, *Modern Capitalism: Its Growth and Transformation* (1977).
- J. S. L. McCombie and A. P. Thirlwall, *Economic Growth and the Balance-of-Payments Constraint* (1994), chaps. 1-3, 5-9. **R**
- M. Setterfield (ed.), *The Economics of Demand-Led Growth*, chapters by McCombie & Roberts (6), Palley (7). **R**

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

1. Methodology and Critiques of Standard Models

- *Read *one* of the following:
 - L. Taylor, *Income Distribution, Inflation, and Growth*, chap. 1. **R**
 - M. Lavoie, *Foundations of Post-Keynesian Economic Analysis*, pp. 1-61. **R**
 - T. Palley, *Post Keynesian Economics*, chaps.1-2. **R**
 - P. Arestis, *The Post-Keynesian Approach to Economics*, chap. 4. **R**
- *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. **E**
- 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. **B**
- Alfonso Palacio-Vera, "The 'Modern' View of Macroeconomics: Some Critical Reflections," *CJE*, vol. 29, no. 5 (September 2005), pp. 747-68. **B or E**

2. Mark-up Pricing, Profitability, and Effective Demand (Neo-Kaleckian Models)

- *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*. **R**
- 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. **R**
- 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. **R**
- Robert A. Blecker, "International Competition, Income Distribution, and Economic Growth," *CJE*, vol. 13 (September 1989), pp. 395-412.
- Marc Lavoie, *Foundations of Post-Keynesian Economic Analysis*, chap. 6. **R**
- 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).
- 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.
- +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). **R**

3. Investment, Saving, Consumption, and the Current Account

- *+Steven M. Fazzari, "Monetary Policy, Financial Structure, and Investment," chap. 3 in G. A. Dymski, et al., eds., *Transforming the U.S. Financial System* (1993). **R**
- *+Engelbert Stockhammer, "Financialization and the Slowdown of Accumulation," *CJE*, vol. 28, no. 5 (September 2004), pp. 719-41. **E** (or look at his book on reserve **R**)
- +*Robert A. Blecker, "The Economic Consequences of Dollar Appreciation for U.S. Manufacturing Investment: A Time-Series Analysis," *IRAE*, vol. 21, no. 4 (September 2007), pp. 491-517. **E**
- 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.
- David Romer, *Advanced Macroeconomics*, 2nd edition, chap. 8 [investment] (*Required for anyone who did not read this in ECON-702).
- Hyman Minsky, *Stabilizing an Unstable Economy* (1986), chap. 8.
- +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.
- +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).

- *+Christopher D. Carroll, "Why Do the Rich Save So Much?" in J. B. Slemrod, ed., *Does Atlas Shrug? The Economic Consequences of Taxing the Rich*, Harvard/Russell Sage, 2000, chap. 14.
- +Stephen P. Zeldes, "Consumption and Liquidity Constraints: An Empirical Investigation," *Journal of Political Economy*, vol. 97, no. 2 (1989), pp. 305-46.
- +Karen E. Dynan, Jonathan S. Skinner, and Stephen P. Zeldes, "Do the Rich Save More?" *Journal of Political Economy*, vol. 112, no. 2 (2004): 397-444. **B**
- +Andrew Somer, "Habit Formation and Aggregate Consumption Dynamics," *Berkeley Electronic Journal of Macroeconomics*, vol. 21, no. 1, article 21 (2007). **E**
- +Stephen A. Marglin, *Growth, Distribution, and Prices* (1984), chaps. 17-18.
- *+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. **R** **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. **R**
- +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. **R**
- +Barry P. Bosworth, *Saving and Investment in a Global Economy* (1993).

4. Inflation, Unemployment, and the Phillips Curve

- *Lance Taylor, *Reconstructing Macroeconomics*, chap. 7 (pages TBA). **R**
- *Marc Lavoie, *Foundations of Post-Keynesian Economic Analysis*, chap. 7. **R**
- *G. Akerlof, W. Dickens, and G. Perry, "Near-Rational Wage and Price Setting and the Long-Run Phillips Curve," *Brookings Papers on Economic Activity*, 1:2000, pp. 1-60. **E**
- *+Robert Pollin and Andong Zhu, "Inflation and Economic Growth: A Cross-Country Nonlinear Analysis," *JPKE*, vol. 28, no. 4 (Summer 2006), pp. 593 -614. **E**
- *Mark Setterfield, "Is Inflation Targeting Compatible with Post Keynesian Economics?" *JPKE*, vol. 28, no. 4 (Summer 2006), pp. 653-671. **E**
- *Engelbert Stockhammer, "Is the NAIRU Theory a Monetarist, New Keynesian, Post Keynesian or a Marxist Theory?" unpublished manuscript, Wirtschaftsuniversität Wien, 2007. **B**
- Philip Arestis & Malcolm Sawyer, "Aggregate Demand, Conflict and Capacity in the Inflationary Process," *CJE*, vol. 29, no. 6 (November 2005), pp. 959-74. **E**
- Tom Michl, "Tinbergen Rules the Taylor Rule," *Eastern Economic Journal*, forthcoming. **B**
- +Mark Setterfield and Kristen Leblond, "The Phillips Curve and U.S. Macroeconomic Performance During the 1990s," *International Review of Applied Economics*, vol. 17, no. 4 (October 2003), pp. 361-376.
- Nelson H. Barbosa-Filho and Lance Taylor, "Distributive and Demand Cycles in the US Economy – A Structuralist Goodwin Model," working paper, New School University, Schwartz Center for Economic Policy Analysis, June 2003.
- M. Setterfield (ed.), *The Economics of Demand-Led Growth*, chapters by Lavoie (10), Cassetti (11). **R**

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. **R**

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

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

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

5. Money, Finance, and "Stock-Flow Consistent" Macro Models

NOTE: This topic may be moved earlier to prepare you for computer simulations exercises.

*Marc Lavoie & Wynne Godley, *Monetary Economics* (required chapters TBA).

*Claudio H. Dos Santos & Gennaro Zezza, "A Simplified 'Benchmark' Stock-flow Consistent (SFC) Post-Keynesian Growth Model," Levy Institute Working Paper No. 503, June 2007, **B**

Lance Taylor, *Reconstructing Macroeconomics*, chaps. 1, 3, 6, 8-9. **R**

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

Claudio H. Dos Santos, "A Stock-Flow Consistent General Framework for Formal Minskyan Analyses of Closed Economies," *JPKE*, vol. 27, no. 4 (Summer 2004), pp. 711-35.

Claudio H. Dos Santos, "Keynesian Theorising During Hard Times: Stock-Flow Consistent Models as an Unexplored 'Frontier' of Keynesian Macroeconomics," *CJE*, vol. 30, no. 4 (July 2006), pp. 541-65. **E**

Eckhard Hein, "Interest, Debt and Capital Accumulation—A Kaleckian Approach," *IRAE*, vol. 20, no. 3 (July 2006), pp. 337-52.

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

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

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

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*.

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

Philip Arestis and Alfred S. Eichner, "The Post-Keynesian and Institutional 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.