

ECON-711

Macro Political Economy

American University
Department of Economics
Fall 2010
Time: Thurs. 8:10-10:40 p.m.
Room: Watkins G02

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Office Hours: M 2-4 pm, Th 3-5 pm
and by appointment

Syllabus

This course will cover alternative theories of long-run economic growth, technological change, and income distribution, including classical-Marxian, neo-Keynesian, and neoclassical models, as well as short-run macro models in the structuralist, neo-Kaleckian, and post-Keynesian traditions. This is an advanced doctoral theory course, which is required for the advanced macroeconomics or advanced heterodox economics tracks in the Ph.D. program (and the corresponding comprehensive exams). It may also be taken as the “extra” theory course for students in the advanced microeconomics track. The prerequisites are ECON-702 and 705, which may be waived *only* by permission of the professor.

Class Website

The class website is on Blackboard (<http://blackboard.american.edu>). It will contain this syllabus (and any updates) plus announcements, assignments, and other useful information (e.g., links to 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. By default, Blackboard sends e-mail to your @student.american.edu address; you can change your e-mail address under your personal settings in Blackboard, or use my.american.edu to have your AU e-mail forwarded to another address. It is *your* responsibility to configure and check your e-mail so that you receive messages about this course in a timely fashion.

Books and References

The following books have been ordered **at the Campus Store** (ISBN numbers are provided for those of you ordering them elsewhere to make sure you get the right books):

Philippe Aghion & Peter Howitt, *The Economics of Growth*, MIT Press, 2009. ISBN13: 978-0-262-01263-8

Duncan K. Foley & Thomas R. Michl, *Growth and Distribution*, Harvard University Press, 1999. ISBN10: 0-674-36420-1

Eckhard Hein, *Money, Distribution Conflict and Capital Accumulation: Contributions to 'Monetary Analysis'*, Palgrave Macmillan, 2008. ISBN13: 978-0-230-52157-5

These three *and* the following *other* books will be placed **on reserve at the library**:

- 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.
- Wynne Godley & Marc Lavoie, *Monetary Economics: An Integrated Approach to Credit, Money, Income, Production, and Wealth*, Palgrave Macmillan, 2007.
- Marc Lavoie, *Foundations of Post Keynesian Analysis*, Edward Elgar, 1992.
- J. S. L. McCombie & A. P. Thirlwall (editors), *Essays on Balance of Payments Constrained Growth: Theory and Evidence*, Routledge, 2004.
- Hyman Minsky, *Stabilizing an Unstable Economy*, Yale University Press, 1986.
- Fred Moseley & Edward N. Wolff (Eds), *International Perspectives on Profitability and Accumulation*, Edward Elgar, 1992.
- 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.
- Mark Setterfield (editor), *The Handbook of Alternative Theories of Economic Growth*, Cheltenham, UK, and Northampton, MA: Edward Elgar Publishing Ltd., 2010.*
- Engelbert Stockhammer, *The Rise of Unemployment in Europe: A Keynesian Approach*, Edward Elgar, 2004.
- Lance Taylor, *Reconstructing Macroeconomics: Structuralist Proposals and Critiques of the Mainstream*, Harvard University Press, 2004.
- Erinc Yeldan, *The Economics of Growth and Distribution*, Eflatun Publishing House (Ankara), 2009.*

*Indicates on order, may arrive late.

Work Assignments

- Take-home Midterm Exam (due date TBA; mid-late October); 30% of grade
- One critical review of an empirical article (due in late November); 20% of grade
- In-class Final Exam, **Thursday, December 9 (No exceptions)**; 40% of grade.
- Problem sets, graded for effort and completeness (10% of grade)

Reading List **NOTE: Required readings are subject to change.**

Abbreviations for frequently cited journals:

<i>BPEA</i>	<i>Brookings Papers on Economic Activity</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>

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

Part I – Alternative Visions of Long-Run Growth

1. Classical and Neo-Marxian Models: Income Distribution and Capital Accumulation

*Foley & Michl, *Growth and Distribution*, chaps. 1-7 (11-12 recommended).

*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**

Erinc Yeldan, *Economics of Growth and Distribution*, chaps. 1-2, 5. **R**

Mark Setterfield, ed., *Handbook*, chaps. 2 (Foley & Michl), 12 (Dumenil & Levy). **R**

Amitava K. Dutt, *Growth, Distribution, and Uneven Development*, chaps. 2-3, 5-6. **R**

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

Gerard Duménil & Dominique Lévy, “The Real and Financial Components of Profitability (USA 1948-2000),” *RRPE*, Vol. 36 (2004), pp. 82-110.

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

2. Neo-Keynesian Models: Aggregate Demand Constraints in the Long Run

A. Closed economy models (investment constrained)

*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**

Setterfield, ed., *Handbook*, chaps. 3 (Metcalf & Foster), 4 (Kurz & Salvadori), 5 (Skott), 6 (Lavoie), 10 (Léon-Ledesma & Lanzafame), 11 (Dutt). **R**

Amit Bhaduri, “Endogenous Economic Growth: A New Approach,” *CJE*, vol. 30, no. 1 (January 2006), pp. 69-83.

J. S. Metcalfe, J. Foster, & R. Ramlogan, “Adaptive Economic Growth,” *CJE*, vol. 30, no. 1 (January 2006), pp. 7-32.

Stephen A. Marglin, “Growth, Distribution and Inflation: A Centennial Synthesis,” *CJE*, vol. 8, no. 2 (June 1984), pp. 115-44.

Amitava K. Dutt, “Alternative Closures Again: A Comment on ‘Growth, Distribution and Inflation,’” *CJE*, vol. 11, no. 1 (March 1987), pp. 75-82.

B. Open Economy Models (export-led growth and balance-of-payments constraints)

*Robert A. Blecker, “Long-Run Growth in Open Economies: Export-Led Cumulative Causation or a Balance-of-Payments Constraint?” manuscript, AU, August 2009. **D**

*J. S. L. McCombie & A. P. Thirlwall (editors), *Essays on Balance of Payments Constrained Growth* (2004), chapters 1-2, 6, 11. **R** [Note: these are reprinted articles by A. P. Thirlwall, R. A. Blecker, and J. A. Alonso & C. Garcimartín; the originals are on-line (**D**)]

- *M. Setterfield (ed.), *The Economics of Demand-Led Growth*, chap. 5 (Setterfield & Cornwall). **R**
- *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**
- Mark Roberts, “The Conditional Convergence Properties of Simple Kaldorian Growth Models,” *IRAE*, Vol. 21, no. 5 (December 2007), pp. 619-32.
- John S. L. McCombie & Mark Roberts, “Effective-Demand-Constrained Growth in a Two-Sector Kaldorian model,” *JPKE*, vol. 31, no. 1 (Fall 2008), pp. 57-78.
- A. Razmi, “Balance-of-Payments-Constrained Growth Model: The Case of India,” *JPKE*, vol. 27, no. 4 (Summer 2005), pp. 655-87.
- M. Setterfield, ed., *Handbook*, chaps. 18 (Seguino & Setterfield), 19 (Blecker & Razmi), 20 (Moreno Brid & Pérez Caldentey), 21 (Roberts & Setterfield).

3. Neoclassical Growth Models: Technological Change and Growth Accounting

- *Aghion & Howitt, *Economics of Growth*, chaps. TBA.
- Erinc Yeldan, *Economics of Growth and Distribution*, 3-4, 6-7. **R**
- Foley & Michl, *Growth and Distribution*, chaps. 8-9, 13. [review of Solow, OLG]
- Robert J. Barro & Xavier Sala-i-Martin, *Economic Growth* (2nd ed., MIT Press, 2004).
- Daron Acemoglu, *Introduction to Modern Economic Growth*, Princeton University Press, 2009.
- *J. S. L. McCombie, “The Solow Residual, Technical Change, and Aggregate Production Functions,” *JPKE*, vol. 23, no. 2 (Winter 2000-1), pp. 267-97. **E** OR
- *M. Setterfield, ed., *Handbook*, chap. 9 (Felipe & McCombie). **R**
- Paul M. Romer, “Endogenous Technological Change,” *Journal of Political Economy*, vol. 98 (1990), pp. S71-102 [note: “S” means supplement issue].
- *Amitava K. Dutt, “What, If Anything, Can Heterodox Growth Theory Learn from Neoclassical Endogenous Growth Theory?” University of Notre Dame, manuscript, revised October 2009. **D**

Part II – Short-Run Macro: Inflation, Distribution, and Financial Instability

1. Methodology, Perspectives, and Critiques

- *Marc Lavoie, “History and Methods of Post-Keynesian Economics,” in E. Hein & E. Stockhammer, eds., *A Modern Guide to Keynesian Macroeconomics and Economic Policies*, forthcoming (Draft). **D**
- *Eckhard Hein, *Money, Distribution Conflict, and Capital Accumulation*, Part I (chaps. 1-7).
- *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**
- H. Minsky, *Stabilizing an Unstable Economy*, chaps. 1, 5-6.

2. Mark-up Pricing, Effective Demand, and Conflict Inflation

- *R. Blecker, "Lecture Notes on Neo-Kaleckian Macro Models." (class handout) **D**
- *R. Blecker, "Demand, Distribution and Growth in Neo-Kaleckian Macro Models," chap. 8 in M. Setterfield (ed.), *The Economics of Demand-Led Growth*. **R**
- *R. Blecker, "Open Economy Models of Distribution and Growth," in E. Hein & E. Stockhammer, eds., *A Modern Guide to Keynesian Macroeconomics and Economic Policies*, forthcoming (May 2010 draft). **D**
- Hyman Minsky, *Stabilizing an Unstable Economy*, chap. 7-8, 11. **R**
- Lance Taylor, *Reconstructing Macroeconomics*, chaps. 4-5, 7. **R**
- Marc Lavoie, *Foundations of Post-Keynesian Economic Analysis*, chap. 6-7. **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.
- Peter Skott, "Effective Demand, Class Struggle and Cyclical Growth," *International Economic Review*, vol. 30 (February 1989), pp. 231-47.
- Robert A. Blecker, "International Competition, Income Distribution, and Economic Growth," *CJE*, vol. 13 (September 1989), pp. 395-412.
- 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.
- 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.
- R. Blecker, "Kaleckian Macro Models for Open Economies," in J. Deprez & J. Harvey, eds., *Foundations of International Economics* (1999), pp. 116-49. **R**
- José Antonio Cordero, "A Model of Growth and Conflict Inflation for a Small Open Economy," *Metroeconomica*, vol. 53, no. 3 (2002), pp. 261-89.
- Philip Arestis & Malcolm Sawyer, "Aggregate Demand, Conflict and Capacity in the Inflationary Process," *CJE*, vol. 29, no. 6 (November 2005), pp. 959-74.

3. Empirical Estimates of Neo-Kaleckian/Structuralist Macro Models

NOTE: Required readings are 2 of the first 3 and 2 of the next 3.

- *E. Stockhammer, Ö. Onaran, & S. Ederer, "Functional income distribution and Aggregate Demand in the Euro Area," *CJE*, vol. 33, no. 1 (2009), pp. 139-59. **E**
- *E. Stockhammer, E. Hein, & L. Grafl, "Globalization and the Effects of Changes in the Functional Income Distribution on Aggregate Demand in Germany," *IRAE*, forthcoming. **D**
- *E. Hein & L. Vogel, "Distribution and Growth Reconsidered: Empirical Results for Six OECD Countries," *CJE*, vol. 32, no. 3 (2008), pp. 479-511. **E**
- *William Milberg & Deborah Winkler, "Economic Insecurity in the New Wave of Globalization: Offshoring and the Labor Share under Varieties of Capitalism," *IRAE*, vol. 24, no. 3 (May 2010), pp. 285-308. **E**

- *Özlem Onaran, “Wage Share, Globalization and Crisis: The Case of the Manufacturing Industry in Korea, Mexico and Turkey,” *IRAE*, vol. 23, no. 2 (2009), pp. 113-34. **E**
- *L. Josh Bivens, “Wages, Profits, and Rent-Sharing in an Open Economy,” *IRAE*, vol. 20, no. 1 (January 2006): 69-83. **E**
- Gerald Epstein and Herbert Gintis, eds., *Macroeconomic Policy After the Conservative Era*, chaps. 5 (Bowles and Boyer), and 12 (Gordon). **R**
- Nelson H. Barbosa-Filho & Lance Taylor, “Distributive and Demand Cycles in the US Economy: A Structuralist Goodwin Model,” *Metroeconomica*, vol. 57, no. 3 (2006), pp. 389-411.
- E. Stockhammer & R. Stehrer, “Goodwin or Kalecki in demand? Functional Income Distribution and Aggregate Demand in the Short Run,” Working Paper No. 203, Political Economy Research Institute, University of Massachusetts, Amherst (June 2009). **D**
- Özlem Onaran & Engelbert Stockhammer, “Two Different Export-Oriented Growth Strategies: Accumulation and Distribution in Turkey and South Korea,” *Emerging Markets Finance and Trade*, vol. 41, no. 1 (2005), pp. 65-89.

4. Money, Interest Rates, and Financial Instability

- *Marc Lavoie, “Money, Credit and Central Banks in Post-Keynesian Economics,” in E. Hein & E. Stockhammer, eds., *A Modern Guide to Keynesian Macroeconomics and Economic Policies*, forthcoming (Draft). **D**
- *E. Hein, *Money, Distribution Conflict, and Capital Accumulation*, Parts II-III (chaps. 8-18).
- *Setterfield, ed., *Handbook*, chaps. 13 (Hein & van Treeck), 14 (Palley). **R**
- *Mark Setterfield, “Is Inflation Targeting Compatible with Post Keynesian Economics?” *JPKE*, vol. 28, no. 4 (Summer 2006), pp. 653-71. **E**
- Lance Taylor, *Reconstructing Macroeconomics*, chaps. 1, 3, 6, 8-9. **R**
- Eckhard Hein, “Interest, Debt and Capital Accumulation—A Kaleckian Approach,” *IRAE*, vol. 20, no. 3 (July 2006), pp. 337-52.
- Hyman Minsky, *Stabilizing an Unstable Economy*, chaps. 2-4, 9-10, 12-13.
- Sébastien Charles, “Corporate debt, variable retention rate and the appearance of financial fragility,” *CJE*, vol. 32, no. 5 (September 2008), pp. 781-95.
- Peter Skott & Soon Ryoo, “Macroeconomic implications of financialisation,” *CJE*, vol. 32, no. 6 (November 2008), pp. 827-62.
- Wynne Godley & Marc Lavoie, *Monetary Economics: An Integrated Approach to Credit, Money, Income, Production, and Wealth*, Palgrave Macmillan, 2007. **R**
- Claudio H. Dos Santos & Gennaro Zezza, “A Simplified ‘Benchmark’ Stock-flow Consistent (SFC) Post-Keynesian Growth Model,” Levy Institute Working Paper No. 503 (2007). **D**
- Thomas R. Michl, “Tinbergen Rules the Taylor Rule,” *Eastern Economic Journal*, vol. 34, no. 3 (Summer 2008), pp. 293-309.

5. Critical Perspectives on the Phillips Curve (required readings TBA)

- G. Akerlof, W. Dickens, and G. Perry, “Near-Rational Wage and Price Setting and the Long-Run Phillips Curve,” *BPEA*, 1:2000, pp. 1-60.
- Engelbert Stockhammer, “Is the NAIRU Theory a Monetarist, New Keynesian, Post Keynesian or a Marxist Theory?” unpublished manuscript, Wirtschaftsuniversität Wien, 2007. **D**

- Mark Setterfield and Kristen Leblond, "The Phillips Curve and U.S. Macroeconomic Performance During the 1990s," *IRAE*, vol. 17, no. 4 (October 2003), pp. 361-76.
- Mark Setterfield and Ted Lovejoy. "Aspirations, Bargaining Power, and Macroeconomic Performance," *JPKE*, vol. 29, no. 1 (2006), pp. 117-48.
- Aaron N. Pacitti, *Inflation in the United States: Bargaining Power, Labor Market Institutions, and the Phillips Curve*, PhD dissertation, AU, 2010, chaps. 5-6.

6. Investment, Saving, Consumption, and the Current Account (required readings TBA)

- Steven M. Fazzari, R. Glen Hubbard, & Bruce C. Petersen. "Financing Constraints and Corporate Investment," *BPEA*, 1:1988, pp. 141-95. **D**
- J. R. Crotty & J. P. Goldstein, "A Marxian-Keynesian Theory of Investment Demand: Empirical Evidence," in F. Moseley & E. N. Wolff, eds., *International Perspectives on Profitability and Accumulation*. **R**
- Steven M. Fazzari, "Monetary Policy, Financial Structure, and Investment," chap. 3 in G. A. Dymski, et al., eds., *Transforming the U.S. Financial System*. **R**
- R. S. Chirinko & H. Schaller, "Why Does Liquidity Matter in Investment Equations?" *Journal of Money, Credit and Banking*, vol. 27, no. 2 (1995), pp. 527-48.
- Paula R. Worthington, "Investment, Cash Flow, and Sunk Costs," *Journal of Industrial Economics*, vol. 43, no. 1 (1995), pp. 49-61.
- R. S. Chirinko, S. M. Fazzari, & A. P. Meyer, "How Responsive is Business Capital Formation to Its User Cost?" *Journal of Public Economics*, vol. 74 (1999), pp. 53-80.
- Engelbert Stockhammer, "Financialization and the Slowdown of Accumulation," *CJE*, vol. 28, no. 5 (September 2004), pp. 719-41.
- M. Lavoie, G. Rodriguez, & M. Seccareccia, "Similitudes and Discrepancies in Post-Keynesian and Marxist Theories of Investment," *IRAE*, vol. 18, no. 2 (2004), pp. 127-49.
- Robert A. Blecker, "The Economic Consequences of Dollar Appreciation for U.S. Manufacturing Investment," *IRAE*, vol. 21, no. 4 (September 2007), pp. 491-517.
- Özgür Orhangazi, "Financialisation and Capital Accumulation in the Non-Financial Corporate Sector: A Theoretical and Empirical Investigation on the US economy, 1973-2003," *CJE*, vol. 32, no. 6 (November 2008), pp. 863-86.
- Stephen P. Zeldes, "Consumption and Liquidity Constraints: An Empirical Investigation," *Journal of Political Economy*, vol. 97, no. 2 (1989), pp. 305-46.
- 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.
- 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.
- 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*. **R** OR
- David M. Gordon, "Must We Save Our Way Out of Stagnation? The Investment-Savings Relationship Revisited," in Robert Pollin, ed., *The Macroeconomics of Saving, Investment, and Finance*. **R**
- Robert A. Blecker, "Policy Implications of the International Saving-Investment Correlation," in Robert Pollin, ed., *The Macroeconomics of Saving, Investment, and Finance*. **R**