

Contents

<i>Acknowledgements</i>	xiv
<i>Introduction</i>	xv
1 Alternative Theories of Growth Performance: I	
The Supply Orientated and Neoclassical Approaches	1
Introduction	1
The Postwar Economic Performance of the Advanced Countries	5
The Long Boom: 1950–73	5
The Climacteric: 1973 to the Present	15
The Neoclassical Growth Accounting Approach	20
The Sources of Growth: 1950–73	26
The Adjustment to the Growth of the Labour Input	27
The Contribution of Increasing Returns to Scale	33
The Contribution of the Inter-Sectoral Transfer of Labour	35
The Contribution of Technical Progress and Research and Development	37
The Contribution of the Diffusion of Innovations and Technological ‘Catch-Up’	44
The Post-1973 Slowdown in Total Factor Productivity Growth	52
The Growth Accounting Approach and the Slowdown	59
Proximate versus Fundamental Causes	62
Criticisms of the Neoclassical Growth Accounting and Production Function Approaches	68
Limitations of the Empirical Relevance of the Neoclassical Approach	69
The Contribution of Education and Training to Economic Growth: A Reappraisal	72
The Olson Thesis and the Role of Special Interest Groups	78
Trade Unionism in the United Kingdom	90
British Unions and the Delay in the Introduction of New Technology	92

Theoretical Criticisms of the Neoclassical Approach:	
The Simon/Shaiikh Critique	93
The Aggregate Production Function and the Accounting Identity	95
A Generalisation of the Simon/Shaiikh Critique	99
The Growth Accounting Methodology Revisited	102
The Bacon and Eltis Thesis of the Causes of the UK's Slow Rate of Economic Growth	103
Cause and Effect	107
Empirical Evidence	110
A Concluding Assessment of the Bacon and Eltis Thesis	117
Inter-Country Growth and Balance-of-Payments Experience	120
Neoclassical Balance-of-Payments Adjustment Theory	122
Recent Exchange Rate and Balance-of-Payments Experience	125
Appendix: Maurice Scott's <i>New View of Economic Growth</i>	129
Orthodox measures of gross and net capital stocks	130
Depreciation and maintenance and the measurement of the growth of the capital stock	134
The growth accounting approach in the light of Scott's critique	142
Denison on Scott	145
Empirical estimation of the <i>New View</i> model	146
The <i>New View</i> and the 'old' and 'new' growth theory	148
Scott's critique: a concluding comment	153
2 Alternative Theories of Growth Performance: II	
The Demand Orientated Approach	155
Introduction	155
The Dual Nature of the Advanced Countries	156
The Kaldorian View of the Economic Growth Process	163
The Verdoorn Law and Increasing Returns to Scale	167
Kaldor's Interpretation of the Verdoorn Law	173
Introducing the Contribution of Capital	175
'What Remains of Kaldor's Law?' – Rowthorn's Critique	181

The Diffusion of Innovations and the Spurious Verdoorn Law	184
The Verdoorn Coefficient and Sources of Bias	185
Measurement Errors and the Verdoorn Law	190
Parikh's Simultaneous Equation Model	192
Time-Series Estimation of the Verdoorn Law	197
Scott's <i>New View</i> and the Verdoorn Law	200
The Regional Verdoorn Law	203
The Static-Dynamic Verdoorn Law Paradox	209
Verdoorn's Original Model	211
The Verdoorn Law and the Accounting Identity	212
The Quantitative Importance of Increasing Returns and the Intersectoral Transfer of Labour in Explaining Productivity Growth	216
The Results: The Long Boom	222
Explaining the Slowdown: The Results for 1973-85	226
3 The Balance-of-Payments Constraint as an Explanation of International Growth Rate Differences	232
The Theory	232
The Determination of the Balance-of-Payments Equilibrium Growth Rate	234
The Harrod Foreign Trade Multiplier	237
Empirical Evidence for the Developed Countries	239
Implications of the Model	243
Application to Developing Countries	244
Capital Flows and the Balance-of-Payments Constrained Growth Rate	246
Empirical Evidence for the Developing Countries	250
Centre-Periphery Models of Growth and Development	256
The Prebisch model	256
The Seers model	259
4 Non-Price Competition, Trade and the Balance of Payments	262
Introduction	262
Non-Price Competitiveness	264
The Neoclassical 'Law of One Price' and Non-Price Competition	267

Non-Price Factors in Trade	268
Other Studies of Non-Price Competition	278
Research and Development Effort	280
The 'New' Trade Theories	283
The Schott Model	285
Some Implications of the Model	288
The 'Kaldor Paradox'	289
Conclusions	299
5 Critiques and Defences of the Balance-of-Payments Constrained Growth Model	301
The McGregor–Swales Critique	301
Introduction	301
Theory	303
Criticisms of the theory	304
Empirical testing	309
The direction of causation	316
Conclusions	319
A Response to McGregor and Swales by Thirlwall	319
Introduction	319
Relative prices in international trade	320
Empirical evidence	321
What is cause and what is effect?	323
McGregor and Swales's Rejoinder	324
Theory	325
Empirical evidence	331
Methodology	335
Conclusions	335
Appendix to McGregor and Swales	335
A Reply to McGregor and Swales by McCombie	336
The direction of causality and the 'law of one price'	337
The statistical testing of the model	339
Non-price competition and international trade	342
Thirlwall's law and the dynamic Harrod foreign trade multiplier	352
The Debate Continued: A Rejoinder from McCombie	356
The evidence	359
McGregor and Swales's suppression of the price term	364

McGregor and Swales's regression analysis revisited	368
The income elasticities of demand for imports and exports and non-price competitiveness	372
Some methodological issues	380
A concluding comment on McGregor and Swales's critiques	383
Crafts' Critique	385
Krugman's 45-degree Rule	388
6 Economic Growth, the Harrod Foreign Trade Multiplier and the Hicks Super-Multiplier	392
Introduction	392
Export-Led Growth and the Foreign Trade Multiplier	394
The Direct Impact of the Foreign Trade Multiplier	401
Export-Led Growth and the Hicks Super-Multiplier	406
The Impact of an Increase in Autonomous Import Expenditure	410
Growth in Open Economies	411
Conclusion	417
Appendix: The Level of Income, the Foreign Trade Multiplier and the Super-Multiplier: A Numerical Example	418
7 Export-led Growth and the Balance-of-Payments Constraint	421
Introduction	421
The Importance of Export-Led Growth	423
Models of Export-Led Growth	425
The Kaldor Model of Export-Led Growth	429
The Balance-of-Payments Equilibrium Condition	431
Export-Led Growth in a Two-Country Model	434
Resource Constrained, Policy Constrained and Balance-of-Payments Constrained Growth	437
The Impact of a Devaluation	444
The Imposition of Import Controls	448
The Post-1973 Slowdown in Economic Growth	452
Financial Interlinkages	454
Conclusion	455

8	Export-Led Growth, Regional Problems and Cumulative Causation	457
	Introduction	457
	The Kaldor Model	458
	Divergent or Convergent Growth?	461
	Regional Structure as a Determinant of Growth	463
	Regional Competitiveness	465
	Kaldor's Model and the Dynamic Foreign Trade Multiplier	467
	Balance-of-Payments Constrained Growth in a Two-Region Model	469
	Regional Problems are Balance-of-Payments Problems	477
	Growth and Unemployment in the Regional Economy	478
9	Applications of the Balance-of-Payments Constrained Growth Model	482
	Introduction	482
	The Effects on Growth of the Removal of Tariff Barriers in Customs Unions	482
	Growth Effects	484
	Capital and Financial Transfers	491
	The Regional Effects of Factor Market Integration	495
	The Equilibrium Level of Industrial Output in a Two-Sector Closed Economy Model	504
	Agriculture	506
	Industry	507
	Equilibrium	509
	Using the Model for Forecasting	512
10	Two Case Studies of Balance-of-Payments Constrained Growth: The UK and Australia	515
	Introduction	515
	The Case of the United Kingdom	516
	The UK's Balance-of-Payments Equilibrium Growth Rate	517
	Introducing the Effects of a Depreciation of Sterling	520
	Has There Been a Marked Improvement in the UK's Export Performance since 1979?	525
	Deindustrialisation and the Balance of Payments	529

The Case of Australia	534
Australia's Balance-of-Payments Crises	538
The Growth of the Foreign Debt	539
The Ineffectiveness of Exchange Rate Adjustment	543
The Price Elasticity of Demand for Australia's Exports	543
The Elasticity of Supply of Exports	547
The Price Elasticity of Demand and Supply for Imports	548
Australia's Balance-of-Payments Constraint	548
Conclusions	550
<i>Notes</i>	552
<i>References</i>	574
<i>Name Index</i>	596
<i>Subject Index</i>	601