

# Development from PK and Institutionalist Perspectives

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# Outline

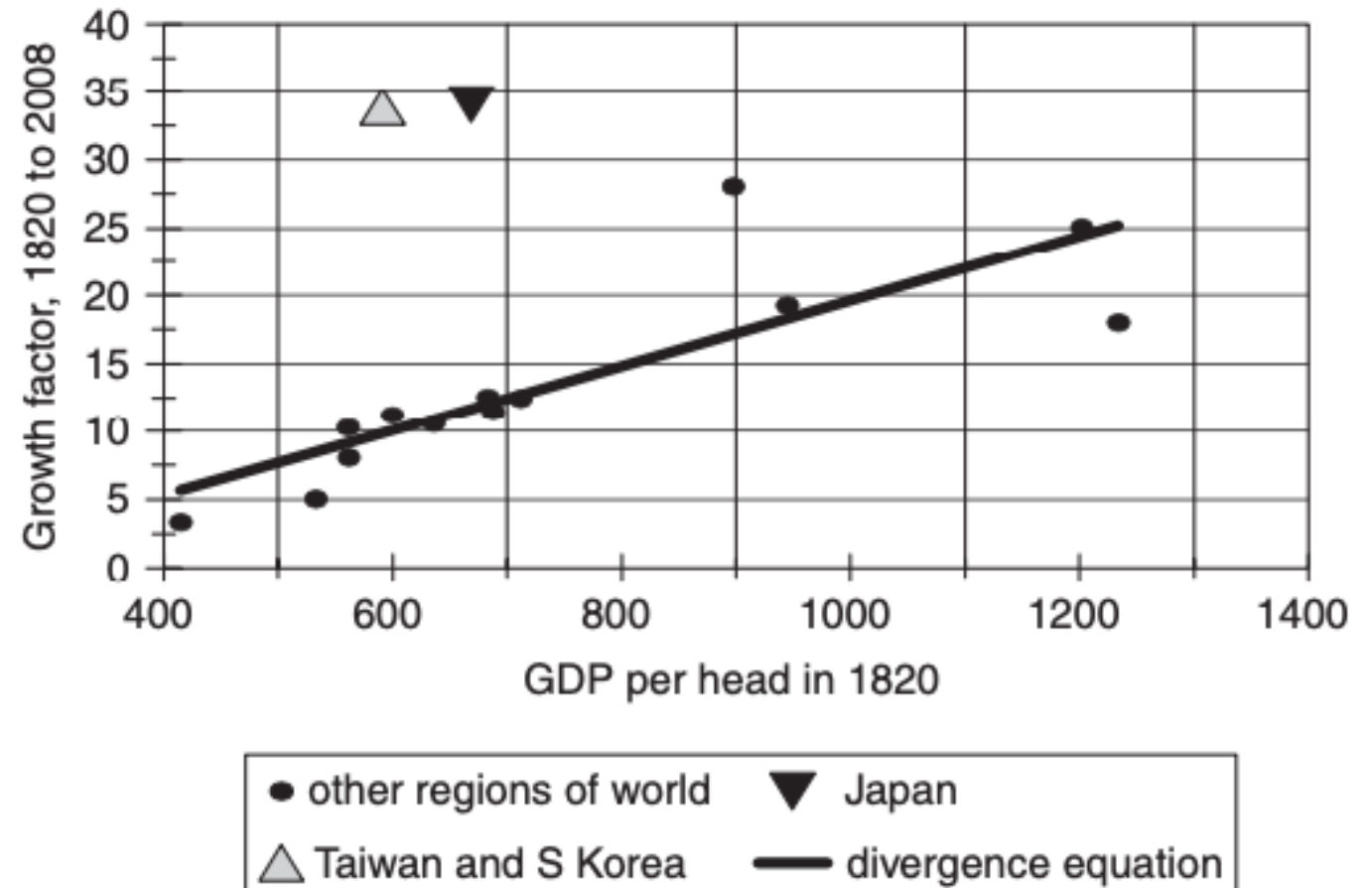
- 1) The nature of development
- 2) Some stylised facts
- 3) Micro- vs. macro-development
- 4) The Lewis model
- 5) The Harrod-Domar model
- 6) Post-Keynesian perspectives

# The development challenge

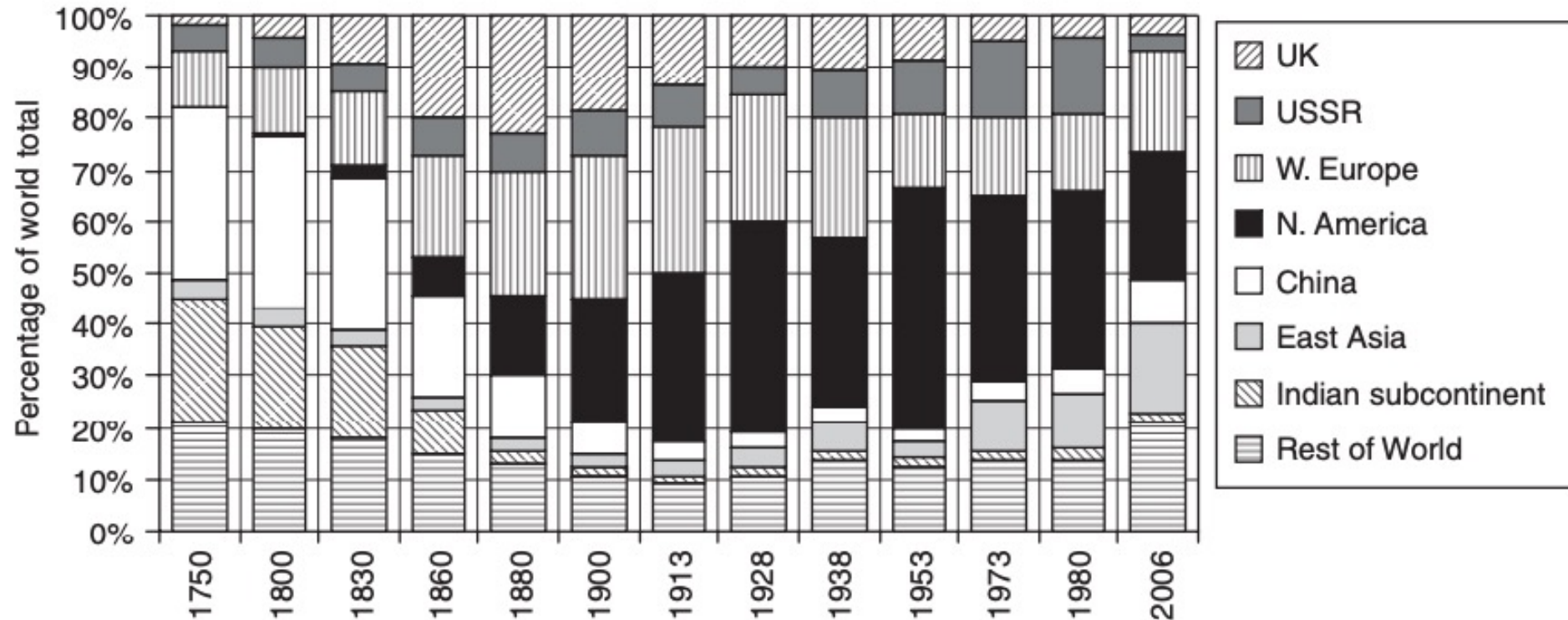
- Long-run growth
  - Growth over several decades
  - But also: the time horizon where the capital stock & agents can adjust
- Structural transformation (sectoral changes)
- 'Unlimited' supplies of labour/hidden unemployment
- Income distribution as an outcome

# Stylised facts/some economic history

- In 1820, Europe per capita income ~ 2x ROW
- Over next 200 years: Europe grew by factor of ~20 while most of Asia ~10 and South Asia/Middle East/SSA grew by factor of ~3-6
- 'The great divergence' → growing *between country* inequality
- Summary: initial conditions matter! Important outliers



# Stylised facts/structural transformation



2. Distribution of world manufacturing

# Micro- and macro-development

- Development research fields increasingly split
- Macro development:
  - Growth, trade, fiscal/monetary policy
- Micro-development
  - Microfinance, education, health, cash transfers
  - Against ex ante knowledge
  - 'Non-ideological'
  - Methods focused (randomisation)

# Lewis model: Significance

- Originates contemporary development economics
- Sectorally unbalanced growth
- Interesting paper from history of thought perspective
- Two key messages:
  - Unlimited labour at subsistence wages;
  - Centrality of capital accumulation
- Criticism of the Keynesian schema
  - GT → Unlimited labour assumption *but also* unlimited capital stock

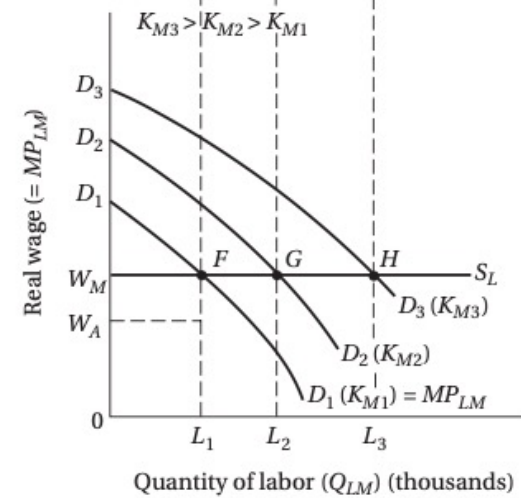
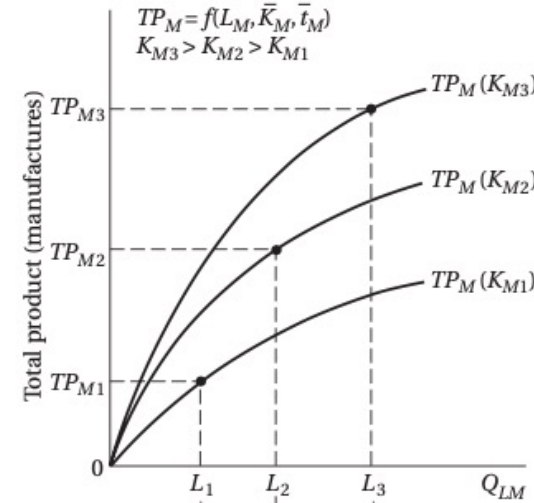
# Lewis model: Assumptions

- Unlimited labour supply → MPL is low, zero, or negative
- Wage determination → APL in traditional sector
  - Plus a premium in the modern sector
- Expansion driven by capital accumulation
  - Capital accumulation driven by profits
- Capital and labour are complements
- Conclusions regarding the saving rate
- Conclusions regarding income distribution

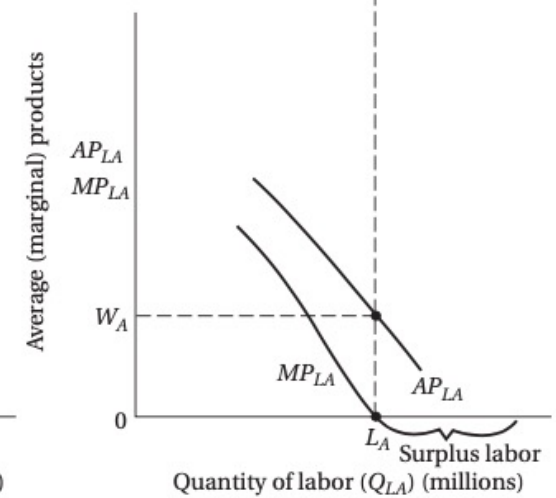
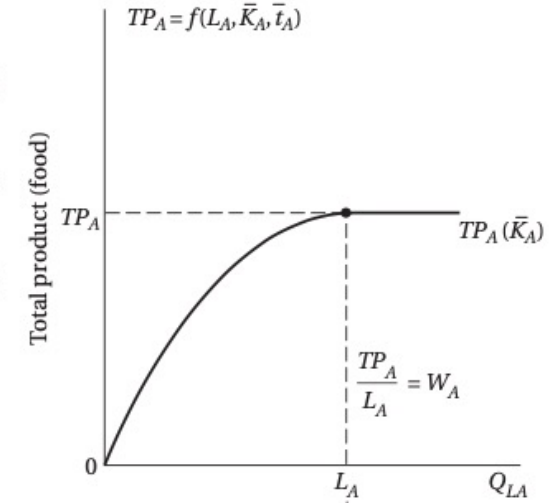


# Lewis model: graphically

- Surplus labour population
- Capital stock and modern sector production
- Profits and capital accumulation
- Elasticity of labour supply
- Reinvestment
- Lewisian turning point



(a) Modern (industrial) sector



(b) Traditional (agricultural) sector

# Lewis model: criticisms

- Capital accumulation and the choice of technique
  - Neoclassicism
  - Statics vs. dynamics
- Profits and capital accumulation
  - Capital flight
  - Luxury consumption
- Competitive labour market
  - Public sector wages
  - Unions

# Harrod-Domar

- Extending static Keynesian model to dynamic long-run. Particularly used for development planning.

$$Y = uK \quad (1)$$

$$\dot{K} = I \quad (2)$$

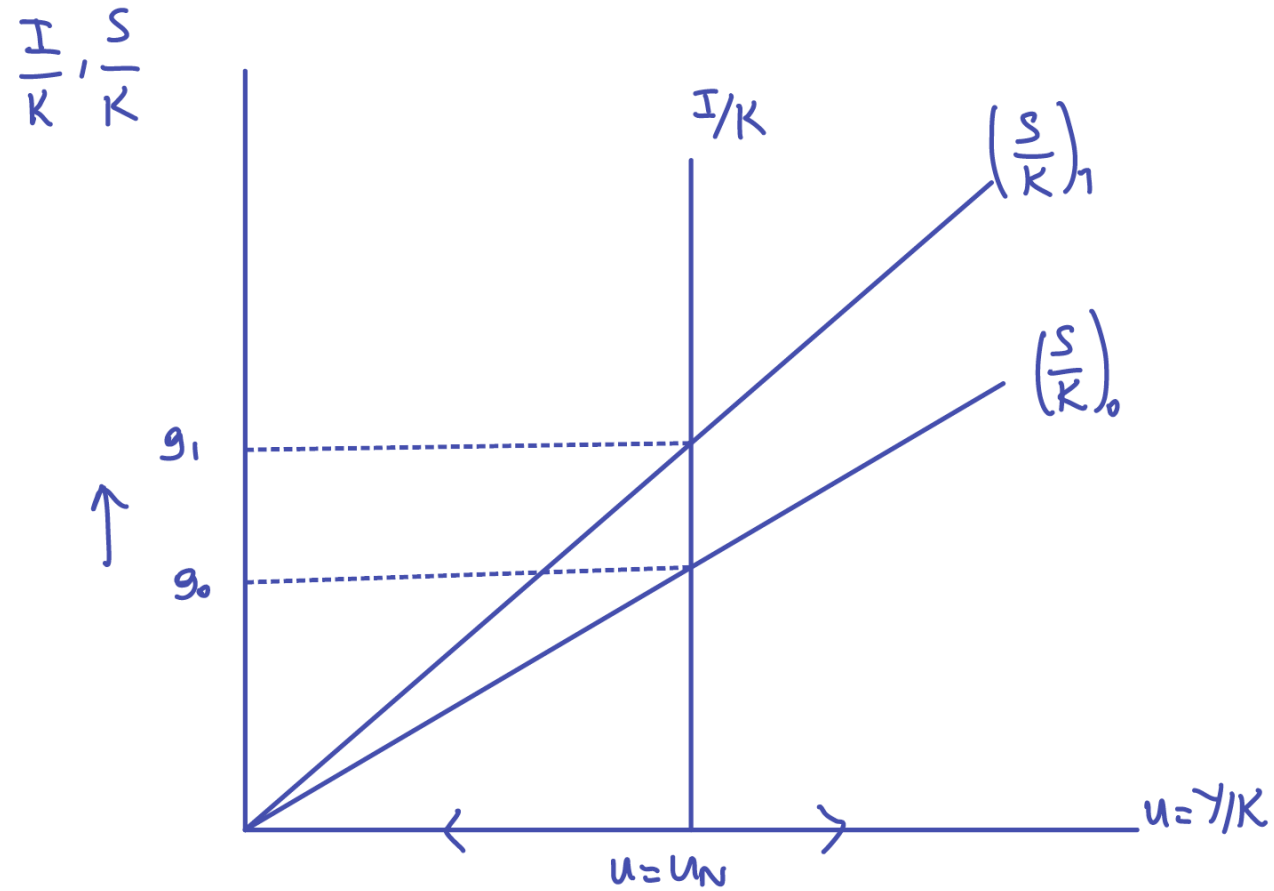
$$S = sY \quad (3)$$

$$I/K = S/K \quad (4)$$

$$\hat{Y} = \hat{K} = \frac{\dot{K}}{K} = su \quad (5)$$

- A higher 'warranted growth rate' (the growth rate corresponding to goods market equilibrium) requires a higher saving rate
- If your structural unemployment requires raising the rate of investment, you need a higher saving rate? Development problems are more classical than Keynesian?

# Graphic representation





“The problem of unemployment in underdeveloped countries differs fundamentally from that in developed economies. In the latter, unemployment arises on account of inadequacy of effective demand. During periods of depression unemployed labor coexists with underutilized equipment. The situation may, therefore, be tackled by measures designed to stimulate effective demand, such as loan financed government expenditure. Unemployment and underemployment in underdeveloped countries are of an entirely different nature. They result from the shortage of capital equipment rather than from deficiency of effective demand.”

(Kalecki 1960: 3)



“Keynesian remedies can be effective as a solution to a problem of under-utilization of capacity, but it is evident that they cannot create a capacity that doesn’t already exist”

(Joan Robinson, quoted from Lavoie 2014: 278)

[See Aboobaker & Ugurlu 2023; Aboobaker & Michell 2022 for longer discussions]

# Concluding thoughts

- Is development a one-size fits all Keynesian aggregate demand problem?
  - Insights for policy from a PK perspective/differences from mainstream
- Is income distribution predominantly the cause or effect of growth in the development process?
  - What role does surplus labour play in determining distributive outcomes?
- How does the consumption-investment trade-off relate to development?
- Unanswered question: What role for the state in development?

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