The Theory of Economic Growth: a 'Classical' Perspective

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Introduction

Neri Salvadori

Interest in the study of economic growth has experienced remarkable ups and downs in the history of economics. It was central in Classical political economy from Adam Smith to David Ricardo, and then in its 'critique' by Karl Marx, but moved to the periphery during the so-called 'marginal revolution'. John von Neumann's growth model and Roy Harrod's attempt to generalise Keynes's principle of effective demand to the long run re-ignited interest in growth theory. Following the publication of papers by Robert Solow and Nicholas Kaldor in the mid 1950s, growth theory became one of the central topics of the economics profession until the early 1970s. After a decade of dormancy, since the mid 1980s, economic growth has once again become a central topic in economic theorising. The recent theory is called 'endogenous growth theory', since according to it the growth rate is determined from within the model and is not given as an exogenous variable.

This book is the main product of a research group on the theory of growth and the relation between modern growth theory and 'Classical' growth theory. The scholars involved were motivated to this task not only by the emergence at the end of the 1980s and the rapid development of the literature on economic growth, but also by the contributions of Kurz and Salvadori (1998b, 1999) who have shown that the logical structure underlying most of the early models of endogenous growth is very similar to the logical structure of 'Classical' growth models. Put schematically, in the latter a given real wage rate determines (together with the technological data) the rate of profits and thus, through the saving-investment mechanism, the rate of growth; in the modern literature, 'human capital' or 'knowledge' works in the same way since there is a 'technology' producing them, exactly like the real wage rate 'produced' labour in the analyses of the Classical economists. The scholars involved have also investigated the connection between the Classical economists and the modern theories of growth in the analysis of competition, technical change, economic cycles, and financial intermediation.

The readers may ask themselves whether classifying economic ideas in distinct analytical approaches to certain economic problems and even in different schools of economic thought is a futile enterprise. The title of this